



Dialogue among Outside Directors |

Realizing the Ideal Picture of the DyDo Group by 2030

DyDo's three independent outside directors—Shinji Mori and Masataka Inoue, joined by Michiaki Kurihara, who came on board in April 2021—held a dialogue concerning what is needed to realize the ideal picture of the DyDo Group as envisioned in its Group Mission 2030. Their interchange covered the challenges of the current situation as seen from an outside-director perspective, with three themes: competitive advantage in the vending machine business, governance to establish a second major source of revenue, and fostering the development of a next generation of workers.

Achieving Smart Operations with a Sense of Urgency

Inoue With the vending machine market itself becoming saturated, how the overall industry will utilize limited energy efficiently is important from an SDG standpoint as well. To achieve that will mean promoting change in the vending machine business. One of the DyDo Group's strengths is the quality of its operations. I believe it will be necessary to go a step beyond that and further enhance the quality of our operations, with an eye to changes in the vending machine business that go beyond the existing framework.

Mori As you say, the key to overwhelming competitive advantage is to establish a system that can serve as the basis for vending machine operation. There is a pressing need to enhance the smart operation functions that the DyDo Group is promoting, invest in them intensively, and complete the structure as soon as possible—one that will exceed the competition's.

Inoue I also believe that greater urgency is essential. It is necessary to identify when the smart operation structure must be completed, and make investments in line with that. The approach would not be to "improve" the current situation, but to have a vision of a changed vending machine business, determine first a timeline for implementation, and then based on that, to implement it all at once—in other words, a Vision Driven way of thinking. The first consideration is to adopt this approach to expand cash flow from the Domestic Beverage Business in a big way.

Kurihara I strongly sympathize on the point that time and speed are critical. In the late 1980s, the US did a thorough examination of Toyota, which was displaying conspicuous growth. The result was a report stating that the concept of time occupied an important position in Toyota's management strategy. Reading that report inspired Jeff Bezos to found Amazon. In addition, at the time, Dell Computer was facing a management crisis caused by excess PC inventory, but they studied the report and achieved

success by switching to a business model of manufacturing to order and delivering to the customer within five days. One of the factors behind these successes was that the US learned from Japanese companies that the concept of time occupies an extremely important position in management strategy. I think that today, its importance is increasing.

Inoue It is also important to gather opinions directly from employees regarding the effectiveness of the smart operation structure, and incorporate those opinions into management. I hear employees say that customer intimacy—the idea of building and strengthening close relationships with customers to meet their every need, and achieve strategic advantage from long-term, stable relationships—is one of their strengths, but I would also like to reinforce their awareness of the importance of aiming for operational excellence (that is, excelling in terms of frontline capabilities and establishing a position of competitive superiority through thorough refinement). And by fully employing the smart operation structure, I think DyDo can be a change leader in the vending machine business.

Mori In the post-COVID-19 era, vending machines will surely have a role to play as social infrastructure, by offering functions that are automated, non-contact, and not dependent on retail outlets. The DyDo Group has one of the industry's largest installed bases of vending machines, and is well positioned to leverage smart operation structure functions. It should expand its vision of vending machine business operations to include the post-COVID-19 world, and consider what strategies it should follow.

Investment Standards Should Be More Detailed

Mori To date, investment has been made on the basis of clear standards and the best judgment possible at the time. However, closer analysis is needed with respect to how successful each investment has been, in what form return is being realized, and how each investment is likely to perform in the future. Each investment should be tracked continuously from an efficiency standpoint, and the findings applied to the next investment.

Inoue I also feel there is a need to consider investment significance and return. Standards for the strategic significance of an investment and its expected return are also necessary. After an investment is made, regular reviews are required to verify that the business is proceeding as planned. In addition, when withdrawing from an investment, the company must do so with deliberation, and apply lessons learned to the next investment decision. I believe that formulating investment "stories" that include comprehensive standards, including those relating to withdrawing from the investment, is a challenge that needs to be addressed.

Mori I would agree that there is scope for improving the standards for withdrawing from an investment. It is necessary to have a comprehensive view of the business and establish detailed standards. For example, there should be "triggers" for withdrawal from an investment if certain conditions are not met by certain dates.

Enhancing Corporate Value through the Medical-use Pharmaceuticals Business as a Second Major Source of Revenue

Kurihara What is innovation? For example, in the early 20th century, the Wright brothers achieved the world's first manned, powered flight. At that point, they were inventors. In the years that followed, airports were built and equipped, pilots and flight attendants were trained, and furthermore, the concept of going on journeys via airplanes emerged. In 1933, an airline company carried customers between continents for the first time. This is the point where we finally get to innovation. In other words, the essence of innovation is "creation of new value for the customer", but sometimes this takes time. An example is the pharmaceuticals business. With new drug development in particular, there's no guarantee that things will go smoothly as planned from official approval to product commercialization. The process involves a wide range of uncertainties, but it is important that each step be carried out meticulously. It goes without saying that in the pharmaceutical business, the effectiveness and safety of products to be used by patients is of paramount importance, but we need to listen sincerely to the doctors who use the products, their treatment philosophy and problems. This is very important. It's therefore especially necessary for us to acquire the process knowhow needed for our business scheme—that is, delivering DyDo Pharma branded products to physicians, and ultimately having patients use them. Fortunately there are many individuals in DyDo Pharma with proven track records in pharmaceutical companies. When the knowhow possessed by each of these individuals is combined, we can look forward to DyDo establishing solid expertise in the orphan drug business. DyDo Pharma must contribute to society through



its business, but since an enterprise is a going concern, it goes without saying that the basic premise of an enterprise is to enhance value. We need to think of the pharmaceuticals business not in isolation, but always as part of the overall group.

Mori From a sustainable management standpoint, the DyDo Group needs a major source of revenue outside its core vending machine business to ensure its continuity beyond 2030. The orphan drug business was chosen as this source of revenue, and I think we can anticipate good results from this decision with eyes on the aging society. Going forward, we will need to accumulate expertise to develop our pharmaceuticals business into a second major revenue source, but the Board of Directors will have to exercise full oversight at each key step of the way. I invite Director Kurihara to share his expertise regarding the path that DyDo Pharma should take going forward. And with the company working in unison, I hope we can develop this into a second major source of revenue.

Inoue DyDo Pharma incurs fixed costs, though they are low, and these must be considered from the standpoint of the group as a whole. While we would like to accurately evaluate its business potential, compared to specialists we have insufficient knowledge of the pharmaceutical market, making such evaluation difficult in some instances. I hope Director Kurihara will fully apply his knowledge of the pharmaceutical industry, and provide appropriate input in areas that to date have been uncertain.

Encouraging the New Generation of Workers to Expand Their Horizons

Mori In September of 2020, the company launched a program to allow our employees to pursue second jobs. DyDo Group employees are very serious and sober. While they work diligently in their respective roles and fulfill their responsibilities reliably, it's my impression that even if they have a desire to try something new, many of them are not fully able to do so in practice. We felt it was important to create a scheme that would enable them to gain new

experience through second jobs, apply the knowledge and skills they acquire to their principal jobs, and contribute to the growth of the DyDo Group.

Inoue Indeed, DyDo Group employees give a strong impression of being diligent, sober, and serious, and of working sincerely to master their jobs. Going forward, I would like to see them look to the future, move toward the ideal picture of the DyDo Group, and create a timeline for realizing it. To that end, each employee should have his or her personal version of the ideal picture, one linked to the company's version. In particular, I believe it will be important for employees to have a first-hand experience of management. In that



sense, it may be that young employees will work effectively if they are allowed to manage a small business at an early stage. I think that when it comes to business management, planning and control are of the essence, and I'd like to see young employees have their own scenario based on analyzing the company's and their own organization's visions, with a timeline and plan for how much needs to be done to realize that goal. If they can link these visions, the result will be something they can feed into their PDCA cycle, which in turn will facilitate their professional growth.

Kurihara I feel that the DyDo Group has an excellent corporate culture of transparency when it comes to disclosure. Solid progress is being made toward increasing women's participation in the workforce, and employee diversity is progressing steadily as well. In addition, while there are various opinions relating to employee development, based on my personal experience, the more challenges and pressure employees take on and experience, the more they grow. The people whom the DyDo Group has developed, amid the corporate culture that has evolved since its founding, have great potential. Because of this, I look forward to significant growth in the future.



Corporate Governance

Basic Approach to Corporate Governance

"Creating happiness and prosperity, together with people and with society. To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way." Our corporate philosophy inspires us in our ongoing quest to ensure proper, upstanding business practices and rigid compliance with relevant laws and regulations. It motivates us to constantly improve management efficiency and transparency, and to promote the group's mutual benefits with all of our stakeholders, including our customers, our employees, our business partners, our communities, and our shareholders. It is the very cornerstone of our corporate governance, which is geared toward generating sustainable growth and improving corporate value over the medium to long term.

The core business of the DyDo Group is the Domestic Beverage Business, and considering the fact that 80% or more of our sales for this segment come from vending machines in the local community, it is fair to say that our soft drink products are a familiar part of consumers' everyday lives. Moreover, our operations are conducted under a "fabless management" system,

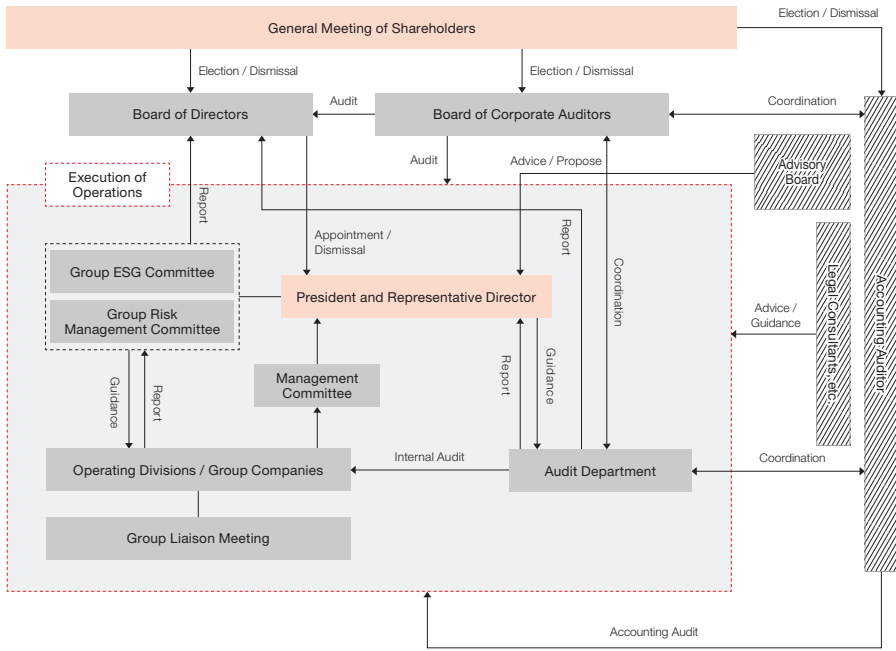
which means we have no plants of our own and instead work in close cooperation with producers and distributors nationwide, to whom we outsource the manufacture and delivery of our products. We concentrate our resources on more specific roles, such as product planning and development, and vending machine operations. We have one of the industry's most extensive networks of vending machines, which are maintained by DyDo Group employees and the "Kyoekai" (special operators that handle DyDo DRINCO's vending machines).

It is a rather unique business model that depends on the trust of our stakeholders. As such, we believe "happiness and prosperity, together with people and with society" is more than just a nice phrase for a corporate philosophy—it is our duty, and the overriding objective of our business activities. To that end, our tackling of "new challenges in a dynamic way" is founded on a bedrock of corporate governance, a steadfast platform of transparent, fair, swift, and bold decision-making. Moreover, we continually work to improve that foundation in order to contribute to the benefit of our shareholders.

Ongoing Improvements to Corporate Governance

	June, Tarami became a subsidiary									
Business expansion		December, Started Russian vending machine business								
					December, Entered the Malaysian beverage market				October, Withdrawal from Malaysia	
						February, Entered the Turkish beverage market				
								March, Announced entry into the orphan drug business ➡ Signed licensing agreement in January, 2021		
	Pre-2012	2012	2013	2014	2015	2016	2017	2018	2019	2020
President				Appointment of Tomiya Takamatsu as President						
Group structure							Transition to holding company structure			
										Established the Group ESG Committee
Revitalizing the Board of Directors and strengthening its functions	Introduction of an corporate officer system									
						Review of the scope of authority	Transfer of authority to group companies			
	Number of members on the Board of Directors as determined in the Articles of Incorporation: 9 or fewer					Number of members on the Board of Directors as determined in the Articles of Incorporation: 7 or fewer				
Improving the effectiveness of the Board of Directors								Establishment of the Advisory Board		
						Evaluation of the effectiveness of the Board of Directors	Introduction of a performance-based incentive program			
Outside directors							Disclosure of a summary of the evaluation results			
				Appointment of two outside directors						
						Over one-third of all directors are outside directors				
Corporate philosophy	1984: Formulation of DyDo DRINCO Corporate Mind (company philosophy)				Formulation of a new Group Philosophy, Vision, and Slogan					
						Formulation of the Basic Approach to Corporate Governance				
									Formulation of the Group Code of Conduct	

Outline of Our Corporate Governance System



(As of June 15, 2021)

Organizational structure	Company with Board of Corporate Auditors	Corporate officer system	Yes
Number of directors as defined in the Articles of Incorporation	7 or fewer	Number of auditors as defined in the Articles of Incorporation	4 or fewer
Term of directors as defined in the Articles of Incorporation	1 year	Term of auditors as defined in the Articles of Incorporation	4 years
Number of directors	6 (of which 3 are independent outside directors)	Number of auditors	4 (of which 3 are outside auditors)

	Directors	Auditors	Corporate Officers	Presidents of Major Subsidiaries ¹⁾	Roles
Board of Directors	●	●	(● ²⁾)		<ul style="list-style-type: none"> Discusses/decides management strategy and other important matters Oversees execution of the duties of directors, and execution of the operations of each group company
Board of Corporate Auditors		●			<ul style="list-style-type: none"> Receives reports, discusses, and makes decisions on important matters relating to auditing Audits execution of the duties of directors
Management Committee	○	○	●		<ul style="list-style-type: none"> Formulates policy and plans for overall execution of management, and carries out tasks including investigations, research, planning, management, communication, and coordination
Group Liaison Meeting	○	○	●	●	<ul style="list-style-type: none"> Shares important matters in the group Carries out tasks such as reporting the management situation from each subsidiary
Group Risk Management Committee	○	○	●	●	<ul style="list-style-type: none"> Identifies and evaluates company-wide risks, and formulates countermeasures Conducts checks and improvement of overall risk management
Group ESG Committee	○	○	●	●	<ul style="list-style-type: none"> Investigates and approves the group's overall ESG management Decides on, and directs improvements to, the group-wide ESG program
Advisory Board					<ul style="list-style-type: none"> Formed the Advisory Board (established as a discretionary measure), which includes outside experts and will advise the president, giving evaluations and suggestions for matters requiring a high level of expertise

¹⁾ DyDo DRINCO, DAIDO Yakuhin, Tarami

²⁾ Corporate officers who are not also directors participate as observers

● All persons concerned attended ○ Only full-time members attended

Evaluation of the Effectiveness of the Board of Directors

To verify that the Board of Directors is carrying out its duties effectively, and to strengthen its functioning, we appraise the Board of Directors using the following analysis and evaluation method.

Analysis/Evaluation Method

In order to analyze and evaluate the effectiveness of the Board of Directors, during the period between December 2020 and February 2021, all directors and auditors carried out a self-evaluation survey, and individual interviews were carried out by the Secretariat of the Board of Directors.

After that, at a meeting of the Board of Directors that was held on March 4, 2021, in addition to analyzing the results of the self-evaluation surveys, and in an attempt to enhance awareness regarding present issues, constructive discussions were held regarding these matters and future efforts to realize a higher level of effectiveness for the Board of Directors.

Evaluation Items

The self-evaluation form used the following headings to facilitate a review of the nature of discussions held by the Board as well as how the body dealt with issues over the last year.

- (1) Agenda and operations of the Board of Directors
- (2) Operations of the Board of Directors over the medium and long term in light of the Group Mission 2030
- (3) Other (issues related to the strengthening of governance structures, etc.)

Overview of Analysis/Evaluation Results

A discussion based on our analysis of the self-evaluation results concluded that the Board of Directors is functioning effectively.

Reference: Evaluation results last fiscal year

Future issues to address in order to boost the effectiveness of the Board of Directors

1. Concerning the composition of the Board over the medium and long term, it will be necessary to continue considering appointing an even more diverse group of directors in response to the development of the company's business strategy and changes in society.
2. Concerning materials provided to the Board, there remains room to improve the resources offered to directors, for example by better clarifying key issues in order to further stimulate discussion.
3. Concerning the operation of the Board, it will be necessary to enhance opportunities for reporting to, and deliberation by, the Board with regard to important management issues as we seek to increase our corporate value over the medium and long term, including in the hiring, retention, and training of human resources, the strengthening of the foundation of our Domestic Beverage Business, and the expansion of our operations in the healthcare domain.
4. Concerning deliberation of important issues, it will be necessary to enhance opportunities for directors, operating officers, and outside officers to communicate about operations apart from regular meetings of the Board, which are necessarily subject to time constraints.
5. We will also study how to strengthen management structures to reflect the growing importance of international businesses for future growth.

Improvements in Board of Directors operations during FY2020

The Board of Directors sought to improve materials provided to directors in a number of ways, for example by including supplemental explanations of progress in important KPIs in our Domestic Beverage Business, which is one of the Group's core businesses, and of points of discussion at the Management Committee and other bodies. It also worked to expand availability of information that contributes to ongoing monitoring of our approach to key management issues, for example by creating regular opportunities for reporting on progress in implementing our human resources strategy, and it held a series of discussions on criteria for exiting certain businesses.

With regard to deliberation of important matters, the Board sought to stimulate discussions, for example by convening meetings to facilitate the exchange of views in advance of Board meetings so that outside directors and auditors can better communicate with the directors who execute the company's operations.

With regard to discussions related to more highly specialized business domains, directors affirmed the need to provide sufficient and thorough explanations in advance of meetings and to appoint outside executives with extensive experience and expertise in specialized domains in the future.

The Board also identified the following issues, which will need to be overcome in order to further strengthen its function and effectiveness going forward:

- (1) The Board needs to create new opportunities for communication and further deepen discussions on the nature of the company's business portfolio and on the direction of its investment strategy as the company prepares to formulate the next mid-term business plan.
- (2) The Board needs to ensure appropriate oversight of the status of initiatives related to the hiring, retention, and training of human resources with the skills necessary to implement the succession plan that will orchestrate the transition to a new generation of executive leadership and the company's international business strategy.
- (3) In addition to working to strengthen management and auditing structures to accommodate the expansion of our international businesses, the Board needs to develop more sophisticated management techniques, for example by establishing KPIs that accommodate growth in our business domains.
- (4) With regard to the composition of the Board of Directors over the medium and long term, we need to continue to study how to appoint even more diverse human resources in response to progress in our management strategy and changes in society.

Future Efforts

In an effort to further strengthen its oversight function, the company proposed a resolution appointing new directors that includes an outside director candidate with extensive experience and expertise in the pharmaceuticals industry to the 46th General Meeting of Shareholders, which was held on April 16, 2021. Going forward, we will work to increase the company's value over the medium and long term by pursuing ongoing improvements in corporate governance structures that facilitate transparent, fair, swift, and bold decision-making.

Policy for Determining Director Compensation

1. Basic policy

To promote realization of sustainable growth and medium- to long-term enhancement of corporate value, director compensation should be competitive, as an incentive for securing superior management talent. To this end, we consider generally prevailing levels of compensation as well as the management environment, management content, and balance relative to employee bonuses, and perform periodic reviews. With respect to compensation determinations for individual directors, the company's basic policy is to set compensation at an appropriate level based on each director's management responsibilities, taking into account such factors as percentage fulfillment of medium- to long-term strategies, degree of importance, and expected value. Executive director compensation consists of base compensation as fixed compensation, performance-based bonus, and stock-based compensation. In view of their job responsibilities, outside directors, who exercise supervisory functions, receive base compensation only.

2. Policy for determining base compensation (monetary compensation) for individual directors (including the policy for determining the timing of compensation payment and terms relating thereto)

Base compensation for directors is fixed monthly compensation, determined based on a comprehensive consideration of factors including title, job responsibility, level of compensation at other companies for an individual with the same years of service, the company's business performance, and the amount of compensation paid to employees.

3. Policy for determining the content and amount, or number of shares, of performance-based and non-monetary compensation, as well as methods for calculation (including the policy for determining the timing of compensation payment and terms relating thereto)

Individual director bonuses are to be paid on a fixed date each year as a percentage of base compensation, calculated according to a coefficient of business performance fulfillment (projected consolidated sales and operating profit at the beginning of each fiscal year, as disclosed in the Consolidated Financial Report). The relevant calculation method will apply to bonuses paid during the fiscal year beginning January 21, 2022.

(1) Actual/target ratio, consolidated sales for the previous fiscal year

Actual/ target ratio	89% or less	90% – 94%	95% – 99%	100% – 104%	105% – 109%	110% or more
Coefficient	0	0.05	0.1	0.15	0.2	0.25

(2) Actual/target ratio, consolidated operating income for the previous fiscal year

Actual/ target ratio	89% or less	90% – 94%	95% – 99%	100% – 104%	105% – 109%	110% or more
Coefficient	0	0.05	0.1	0.15	0.2	0.25

In addition, non-monetary compensation is paid as performance-based stock compensation. Stock is that of the company, with points calculated according to a coefficient determined by basic points attributable to the individual's title as of the relevant fiscal year and the percentage of business performance fulfillment, with the number of shares paid corresponding to the total of points when the individual steps down as director.

4. Policy for determining the allocation of monetary compensation, performance-based compensation, and non-monetary compensation for individual directors

Allocation of executive director compensation by category will be based on consideration of industry standards and the company's business scale, management environment, and management strategy, and determined at a meeting of the Board of Directors that is attended by the independent outside directors.

5. Items relating to determination of individual director compensation content

With respect to the amount of individual compensation, the specific content shall be approved by the president and representative director based on the decision of the Board of Directors, with authority over the amount of individual directors' base compensation and bonus.

The individual director bonus to be paid starting with the fiscal year beginning January 21, 2022, will be determined according to a coefficient calculated from business performance fulfillment (projected consolidated sales and operating profit at the beginning of each fiscal year, as disclosed in the Consolidated Financial Report) and applied to base compensation.

Strengthening the oversight functions of the Board of Directors

The role of outside officers, particularly that of outside directors, is becoming increasingly important. While these individuals are "outside" the company, in today's world they are called upon to consider the company's management deeply with an eye to its future. I believe they should promote the evolution of the Board of Directors into an even more effective body, by creating opportunities to closely review specific measures relating to business management and policies under consideration by the president and their management team, and by carrying out positive discussion.

I believe that our Board of Directors is a forum where members can easily express their opinions, but with respect to new businesses, for example, I think there are matters that should receive more time for careful discussion. As an auditor, I hope to observe the process of discussion and execute my responsibilities firmly.

When entering into business areas outside the Domestic Beverage Business, we must consider inviting director-class individuals from outside the company. I hope they will understand DyDo's history and character, because to realize the three basic policies of our Group Mission 2030 (innovation in the Domestic Beverage Business; expansion of our business overseas; and development of a second major source of revenue in non-beverage businesses), I think the Board of Directors must be capable of appropriately managing, overseeing, and guiding each aspect of the businesses that relate to those policies.

Moreover, I believe the question of how the company should develop senior management candidates will be a major challenge going forward. Securing quality human resources will be critical to the company's development. I hope we will allocate the time necessary for a fully adequate exchange of views.



Sachie Kato
Independent Outside
Corporate Auditor

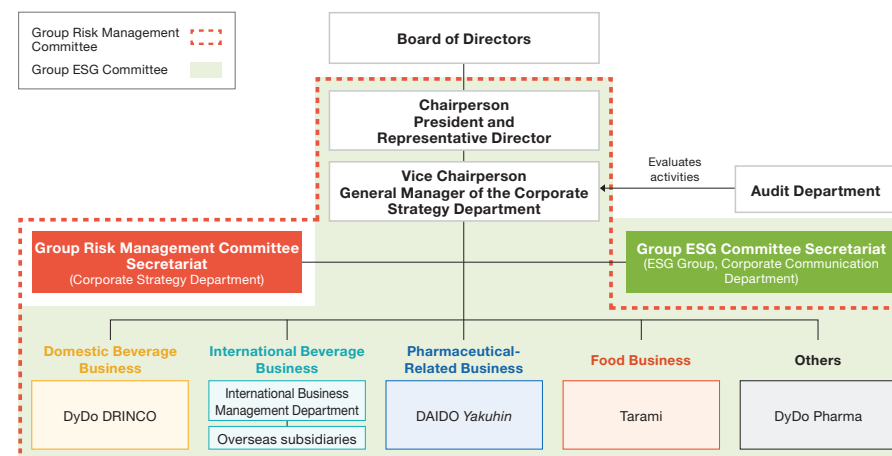
Risk and Opportunity Management

Promoting Risk Management and the ESG Program

To achieve sustainable growth for our businesses, the group needs to appropriately grasp changes in society and the environment, and strive to minimize business risks while maximizing opportunities. As such, in order for the DyDo Group to bring together its risk management and ESG program (which manages the progress of ESG management promotion), we established the Group Risk Management Committee and the

Group ESG Committee, both of which are chaired by the president, and we are linking together various initiatives centered on those two committees as part of our management of the group. We will investigate countermeasures to the changes in our business environment from a medium- to long-term perspective to reduce risk as we strengthen our efforts toward sustainable growth.

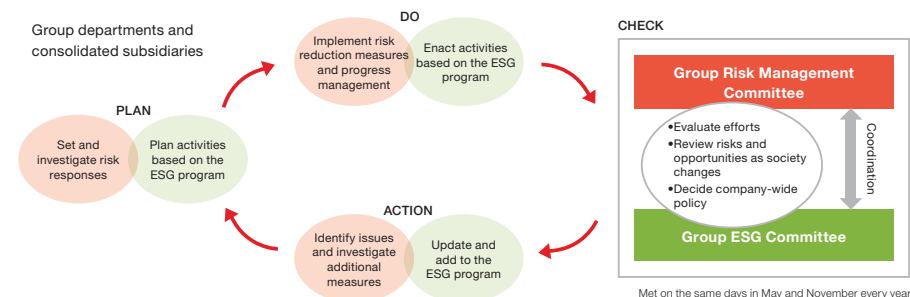
Structure of the Group Risk Management Committee and Group ESG Committee



Management Process

For the purpose of risk management and the ESG program, we have put in place a PDCA cycle-based system that revolves around our Group Risk Management Committee and Group ESG Committee. Risk management involves identifying risks that may have a serious impact on the group and assessing the adequacy of the countermeasures in place for those. It also requires that the form our efforts take are updated. The ESG program lays out the

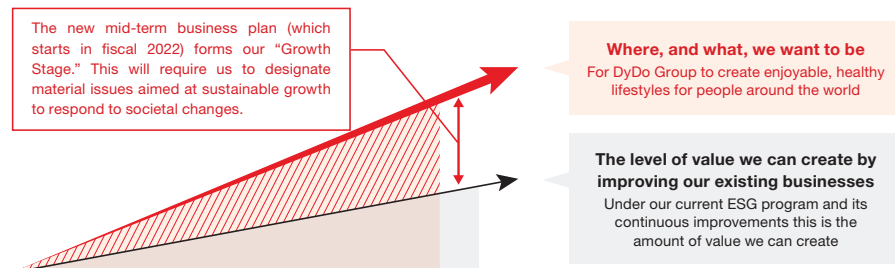
activities we will take to respond to the societal issues we must tackle to achieve the goals of Group Mission 2030, and which are carried out by group departments and consolidated subsidiaries. We report on our progress at the committee meetings, which are held biannually, and we are reviewing our activities and key performance indicators (KPI) to meet changes in society.



Improving ESG Program Implementation by Designating Material Issues

To advance our ESG management, it is important to identify and designate priority (material) issues that impact on the group's sustainable growth. We are currently sorting through various activities that we have previously implemented, and are confirming their progress and reviewing their targets. It is by designating

effective material issues that are integrated into management strategies as part of the new mid-term business plan, though, that we will make a real contribution to sustainable business growth and a sustainable society.

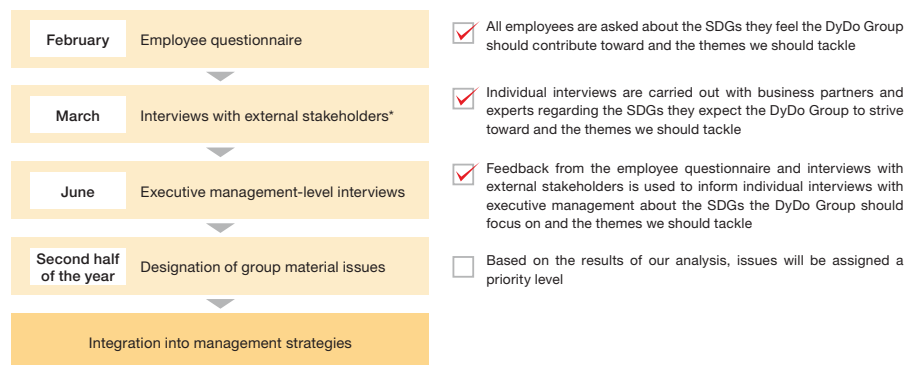


In order to effectively designate material issues, we must first ask ourselves the following questions: What are the group's strengths that support its business growth, and what kind of value should we provide society in the future using those strengths? It is vital that we clarify the answers to those questions through dialogue with employees and other stakeholders. The results can be tied

into the formulation process for the next mid-term business plan, which will allow us to appropriately grasp employee expectations and demands from society so we can become the company we should be in the future.

In fiscal 2021, we will identify and designate material issues by following the steps below.

Material issue selection process



*Interviews are conducted primarily with vending machine location owners, the local DyDo vending partner association ("Kyoekai"), beverage partner production plants (packers), distribution companies, food wholesalers, retail companies, pharmaceutical manufacturers, cosmetics manufacturers, institutional investors, local governments, non-profit organizations, experts, etc.

We believe that future ESG programs will require us to set KPIs and prioritize initiatives based on the material issues we designate. Rather than stick to the targets and improvements we have previously achieved, we will use the backcasting planning method

to identify the issues from where we want to be and by tackling those issues, we will aim to both achieve sustainable business growth and contribute to making society more sustainable, as well as enhancing our corporate value in the medium to long term.

Response to COVID-19

With population demographics and the state of society changing, and technology evolving, the transformation of our external environment continues ever faster. Amid those trends, though, the spread of COVID-19 has had an unprecedented impact on society and the economy. The DyDo Group has always tried to strengthen its risk management system and running of the group

in response to business expansion. Even in a post-pandemic era, what some call the "new normal," we should continue to aim for the sustainable growth of our businesses and promoting more effective risk management. At the same time, we are working to grasp the opportunities offered up by societal changes resulting from the pandemic in order to create new value.

Risk Management during the Pandemic

With no end in sight to COVID-19, we have taken providing safe products and services that offer peace of mind and safeguarding our employees—aspects of the mission demanded of us by

society that we should fulfill—as themes as we promote activities to minimize the risks that threaten our business continuity.

<Major initiatives>

Providing products that are safe and offer peace of mind

We carry out thorough cleaning and disinfecting of our vending machines, and have developed vending machines with anti-viral capabilities



Taking measures to prevent infection at production facilities*

At the entrance to our facilities, we are conducting temperature checks and ensuring employees and visitors wear masks and wash their hands. Once inside, we make sure to disinfect and avoid the 3Cs (closed spaces, crowds, and close contact).



*Manufacturing plants belonging to DAIDO Yakuin and Tarami

Promoting remote working

Regardless of the pandemic situation, we are actively implementing remote working, and promoting both greater work productivity and infection prevention.



Other activities to safeguard employees

- We are installing plastic curtains to prevent droplet infections at sales sites, etc.
- Ensuring space between diners at employee cafeterias and installing plastic sheeting to prevent droplet infections
- Thoroughly enforcing masks, temperature checks, hand washing, and disinfecting with alcohol when employees come to work
- Moving major meetings, such as management meetings, online
- Proactively applying staggered working hours

Initiatives That Take Opportunities Presented by Societal Change to Create Value

The spread of COVID-19 has had a pronounced effect on consumer behavior and economic activities. We believe that understanding and rapidly responding to the chances offered by

dramatic changes in society presents new business opportunities. Now, by throwing off the shackles of conventional thinking, we are coming together to create new value.

<Major initiatives>

Strengthening remote sales

We established a remote sales team that specializes in online business negotiations, and are strengthening our ability to hold efficient sales activities even without meeting face to face. (For more details, see [P21](#))



Reforming vending machine operations

We are making progress with the creation of a system that will allow our vending machine operations to flexibly and efficiently meet changes in the business environment. (For more details, see [P22](#))



Selling health and sanitary supplies

We have started selling health and sanitary products like face masks, which help prevent infections, at our vending machines. (For more details, see [P23](#))



Risks Facing Our Growth Strategies, and Our Countermeasures

The DyDo Group periodically evaluates the level of impact and risk of occurrence of a number of factors that have the potential to exert a large, adverse effect on the group's results and financial position. Furthermore, we review the countermeasures we have in place to mitigate those risks and when needed.

Here, we take a deeper look at the risks and countermeasures

Risks affecting international business expansion

Business development

The Turkish beverage business makes up a large proportion of our International Beverage Business. Its leading brand, "Saka" mineral water, continues to grow steadily as consumers become more concerned with their health, and we expect further growth in the medium to long term.

Major business risks and impacts

The greatest risk to the Turkish beverage business is that the cost of importing raw materials could skyrocket due to depreciation of the Turkish lira. In Turkey, the materials used to make plastic bottles must be procured from abroad, which means that the effect of a depreciating lira can have a major impact on the cost of sales. Since 2020, the spread of COVID-19 has caused urban areas to lockdown; these and other factors have had a pronounced effect on consumer behavior and economic activities. We will need to keep a close eye on future changes to society.

Risk countermeasures and future issues

As a strategy to mitigate the risk posed by the depreciation of the lira, we will strengthen our exports to the UK and other European countries. An advantage of products exported from Turkey is their low manufacturing costs, and as such we are expanding the business. Should, hypothetically, the depreciation of the lira continue, this advantage could become an even greater boon. We are aiming for a business portfolio for which we can expect stable profits under such conditions, and that is why we will increase the proportion of our business that is made up of exports. We will also further bolster our HOD (Home/Office Delivery) business, which

relating to two growth strategies—the expansion of our business overseas and entry into the orphan drug business—which we have formulated as a step toward creating a new management structure that will allow us to achieve Group Mission 2030. The newly added risk item "Entry into the orphan drug business" will be subject to evaluation from fiscal 2021 onward.

should help us minimize the effects of lockdowns within Turkey.

Risk and countermeasures for the entire international business, including China and Russia

There are many risks associated with international business development, including national variations—in law or regulations, systems, politics, economies, states of society, cultures, religions, or business practices—and changes in exchange rates. The DyDo Group's policy is to work to expand its business overseas and so, to minimize those risks, it develops its business under a system where the holding company's International Business Management Department manages and supervises overseas subsidiaries. Based on third-party evaluation feedback on the holding company's Audit Department, we will establish an order of priority for countermeasures and strengthen our auditing system as we make progress reformulating our international business strategies and work toward making the entire international business segment profitable.



Mineral water "Saka" exported to the UK

Entry into the orphan drug business

Business development

We have designated the healthcare-related market as our next growth area, including life science fields, which have high growth potential. Of those, we have focused on medications for challenging diseases that have fewer than 50,000 sufferers in the whole of Japan, so-called "orphan drugs." In January 2019, we established DyDo Pharma, Inc. to handle our orphan drug business, which represents the business segment "Other."

Major business risks and impacts

During the period of investment needed to construct our business foundation, negative cash flows will continue and this may have an effect on the group's business performance, etc. Other risks are that the development of medical-use pharmaceuticals during domestic clinical development could be halted due to unforeseen circumstances, or there could be a sizable drop in standard prices for medicines in the Japanese medical insurance system

that goes beyond our predictions. In either case, it would become difficult to recoup our investment costs, and this could have a significant impact on the DyDo Group's management results, etc.

Risk countermeasures and future issues

A high degree of expertise is required to conduct business in the medical-use pharmaceuticals industry. Recognizing the need to strengthen the Board of Directors' oversight functions, at the General Meeting of Shareholders in April 2021, independent outside directors in possession of a wealth of knowledge and experience in the pharmaceuticals industry were appointed. (For details on independent outside directors, see [P46](#)). Looking ahead, in addition to assembling expert personnel with prolonged experience in the pharmaceutical industry, we will take on board the assistance and support of outside experts, institutions and corporations, in order to boost internal understanding of pharmaceuticals as we move forward managing the business.

Evaluating risks that may impact our business

The DyDo Group's Group Risk Management Committee periodically evaluates the level of impact and risk of occurrence of each of the risks that may impact our business. We also add new risks to our list as and when required by changes to our business

portfolio, or similar. By appropriately grasping the current risk situation as it pertains to changes in the external environment, and by regularly reviewing effective countermeasures, we aim to achieve sustainable business growth.

	Impact of revealed risks on business performance, etc.	
	Management strategy issues	Impact
Securing and developing personnel	<ul style="list-style-type: none"> Securing personnel to operate vending machines and production plants for each business Securing personnel with specialist expertise and experience in growth areas 	<ul style="list-style-type: none"> If continuous employment is hindered, sales and growth strategies for existing businesses will be negatively impacted
Management and control of overseas subsidiaries	<ul style="list-style-type: none"> Prompt response to problems and phenomena that cannot not be anticipated, including changes in laws, systems, and business environments in international territories we have entered and to which we are exporting, differences in commercial culture, and the risk of foreign exchange rate fluctuations 	<ul style="list-style-type: none"> Losses arising from impairment or business withdrawal Medium- to long-term impact on international business strategies
Corporate takeovers and business/capital alliances	<ul style="list-style-type: none"> Development of a second major source of revenue in non-beverage businesses through investment strategies including corporate takeovers and business/capital alliances Specific risks associated with new business areas and markets 	<ul style="list-style-type: none"> Inability to identify investment opportunities, inability to realize initial expectations of investment performance After investment, impairment loss realized when plan does not progress as expected
Focus and reliance on the vending machine channel	<ul style="list-style-type: none"> Sales ratio of the vending machine channel for the Domestic Beverage Business is significantly higher than the industry average and fixed management costs are high Declining number of vending machines, etc. due to shortages of operations personnel and other factors 	<ul style="list-style-type: none"> Reduced income from Domestic Beverage Business, which accounts for a large proportion of sales, can easily affect overall group operating profit
Market competition	<ul style="list-style-type: none"> Apparently limited medium- to long-term growth prospects for the Domestic Beverage Business market Increasing number of players: spread of e-commerce, accelerating increase in drug store outlets 	<ul style="list-style-type: none"> Drop in prevailing market prices, increase in sales promotion costs
Procurement of ingredients and materials	<ul style="list-style-type: none"> Coffee beans, a major production input, are impacted by market changes and foreign exchange rate fluctuations Unstable exchange rate and high risk of changes in procurement costs in Turkey, a major international business territory 	<ul style="list-style-type: none"> Market environment may not allow recovery of costs through sales prices
Production and distribution system	<ul style="list-style-type: none"> Flexible response in production and distribution made possible by diversified production among partner production plants nationwide and diversified distribution and other factors 	<ul style="list-style-type: none"> Number of production lines may fall subject to partner facilities investment plan Pressure on distribution due to personnel shortage, risk of steep distribution cost increase
Quality control system	<ul style="list-style-type: none"> Product responsibility for beverages and food that customers consume 	<ul style="list-style-type: none"> A major distribution or other type of accident, including product contamination with foreign objects or substances, quality problems, or labeling problems, could cause an extremely serious problem, however unlikely
Environmental compliance	<ul style="list-style-type: none"> Investigation of containers and packaging that address the global problem posed by plastic waste in the ocean Rationalization of energy use and strengthening of laws and regulations to combat global warming, etc. 	<ul style="list-style-type: none"> Increase in costs to cope with tightened regulations or tightened container and packaging standards Loss of water resources caused by climate changes, impact on coffee beans and other ingredients and materials Emergence of heightened physical risk, including damage to production plants by large-scale natural disasters
Entry into the orphan drug business*	<ul style="list-style-type: none"> Stop to development of medical-use pharmaceuticals during domestic clinical development due to unforeseen circumstances Sizable drop in standard prices for medicines in the medical insurance system that goes beyond our predictions 	<ul style="list-style-type: none"> Commercialization could be halted, or drawn out over a longer period than predicted, which could make it difficult to recoup investment costs
Other risks	<ul style="list-style-type: none"> Changes in economic conditions, changes in external factors including laws and regulations Issues relating to management of customer data and to compliance 	-

*New risks that could affect businesses, etc.

The risks detailed above are organized by two indices—level of impact and risk of occurrence—by the Group Risk Management Committee. We periodically evaluate these risks, taking into account societal changes or changes in our business environment.

The results of our risk evaluation for fiscal 2020 are detailed below. The newly added risk "Entry into the orphan drug business" will be subject to evaluation from fiscal 2021 onward.

Impact					
	Quality control system	Management and control of overseas subsidiaries	Procurement of ingredients and materials	Securing and developing personnel	
5 Extreme impact			Focus and reliance on the vending machine channel	Production and distribution systems	
4 Significant impact				Market competition	
3 Moderate impact			Environmental compliance	Corporate takeovers and business/capital alliances	
2 Minor impact					
1 Non-material impact					
	1 Extremely rare	2 Unlikely	3 Moderate	4 Frequent	5 Daily
	Likelihood				

Management

Board of Directors



President and Representative Director

Tomiya Takamatsu

Born 26 June, 1976

Profile

Apr. 2004 Joined the Company
Apr. 2008 Director, the Company
Apr. 2009 Managing Director, the Company
Mar. 2010 Executive Director, the Company
Apr. 2012 Vice President and Director, the Company
Apr. 2014 President and Representative Director, the Company (incumbent)



Director and Corporate Officer

Naoki Tonokatsu

Born 4 November, 1963

Profile

Mar. 1986 Joined the Company
Jan. 2011 General Manager of the Financial Affairs Department, the Company
Mar. 2013 Corporate Officer and Division Director of the Administrative Division, the Company
Jan. 2014 Corporate Officer and Division Director of the Finance Division, the Company
Jan. 2017 Corporate Officer and General Manager of the Finance Department, the Company Director, Corporate Officer, Division Director of the Finance Division, DyDo DRW20, Inc. (incumbent)
Apr. 2017 Director, Corporate Officer, and General Manager of the Finance Department (incumbent)



Director and Corporate Officer

Naoyuki Nishiyama

Born 30 July, 1965

Profile

Mar. 1988 Joined the Company
Jan. 2014 General Manager of the Corporate Strategy Department, the Company
Feb. 2014 General Manager of the Corporate Strategy Department and General Manager of the International Business Department, the Company
Mar. 2015 Corporate Officer, General Manager of the Corporate Strategy Department, and General Manager of the International Business Department, the Company
Jan. 2016 Corporate Officer, General Manager of the Corporate Strategy Department, and General Manager of the Strategic Investment Department, the Company
Jan. 2017 Corporate Officer and General Manager of the Corporate Strategy Department, the Company
Apr. 2017 Director, Corporate Officer, and General Manager of the Corporate Strategy Department (incumbent)



Independent Outside Director

Shinji Mori

Born 22 May, 1954

Profile

Apr. 1972 Joined the Legal Training and Research Institute of Japan
Apr. 1974 Appointed as a judge, Yokohama District Court
Apr. 1986 Appointed as a judge, Kyoto District Court
May 1989 Registered as a member of the Osaka Bar Association
May 1989 Joined Chuo Sogo Law Office (currently Chuo Sogo Law Office, P.C.)
Apr. 2001 Corporate Auditor, the Company
Sep. 2003 Senior Partner, Chuo Sogo Law Office, P.C. (incumbent)
Apr. 2014 Director, the Company (incumbent)

Significant Concurrent Posts

Outside Corporate Auditor at Osaka Soda Co., Ltd.
Auditor at Credit Guarantee Corporation of Osaka

Reason for Appointment and expected roles

Mr. Mori has extensive experience and an advanced level of specialized knowledge as an attorney, and he has served the Company for 13 years as an Outside Corporate Auditor and for seven years as an Outside Director. Based on that experience, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting on the Company-wide approach to risk management, and otherwise offering advice and suggestions as to the Company's management from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors as an Outside Director.

Although Mr. Mori has not been involved in corporate management in a manner other than that of being an outside director/corporate auditor of the Company and other companies in the past, the Company has judged that he will be able to appropriately carry out his duties as Outside Director for the above reasons.



Independent Outside Director

Masataka Inoue

Born 12 October, 1954

Profile

Apr. 1978 Joined Nakano Sumire Co., Ltd.
Jul. 2005 Director at Mikkan Group Corporation
May 2007 Managing Director at Mikkan Group Corporation
Oct. 2009 Full-time Corporate Auditor, Mikkan Group Corporation
Mar. 2011 Divisional Manager in charge of the Management Auditing Office at Mikkan Group Corporation
Mar. 2014 Divisional Manager in charge of the Business Planning Division, Mikkan Holdings Co., Ltd.
Mar. 2016 Retired from Mikkan Holdings Co., Ltd.
Apr. 2016 Director, the Company (incumbent)

Reason for Appointment and expected roles

Mr. Inoue has a wealth of knowledge and overseas experience in the food industry. Based on his auditing experience in areas such as business development through overseas M&As and overseas subsidiaries, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting with respect to his viewpoint on risk and returns in the course of deliberations concerning such management issues of the Company as accelerated development of the Company's business overseas and expanding into new business domains, and otherwise offering advice and suggestions from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors as an Outside Director.



Independent Outside Director

Michiaki Kurihara

Born 1 October, 1953

Profile

Apr. 1982 Joined Fujisawa Pharmaceutical Co., Ltd. (currently Astellas Pharma Inc.)
Oct. 2004 Deputy Division Director of Sales Division, Fujisawa Pharmaceutical Co., Ltd.
General Manager, Asia Business Planning, Corporate Strategy Division, Astellas Pharma Inc. (concurrently served as President and CEO of Astellas Pharma Hong Kong Co., Ltd., Director of Astellas Pharma China, Inc., Director of Astellas Pharma Korea, Inc. and Director of Astellas Pharma (Thailand) Co., Ltd.)
General Manager of Sales Promotion Department, Asia Business Division, Santen Pharmaceutical Co., Ltd.
Jun. 2010 Director and Vice President, Santen Pharmaceutical Korea Co., Ltd.
Nov. 2013 General Manager of Planning External Affairs Department, IMS Japan K.K. (currently IQVIA Solutions Japan K.K.) (incumbent)
Apr. 2021 Director, the Company (incumbent)

Reason for Appointment and expected roles

Mr. Kurihara has a wealth of knowledge and experience in the pharmaceutical industry. Based on his experience in the pharmaceutical industry in Japan and management experience at overseas subsidiaries, the Company has judged that he will be able to further strengthen the oversight function of the Board of Directors by offering advice and suggestions from an independent perspective on the Company's management issues, such as overseas business development and the establishment of a second pillar in the healthcare field.

Corporate Auditors



Standing Corporate Auditor

Kazuyoshi Hasegawa

Born 30 November, 1959

Profile

Mar. 1980 Joined the Company
Mar. 1996 Manager of the Chiba Office, the Company
Jan. 2006 Head of the General Affairs Department, the Company
Mar. 2010 Head of the Wide-area Distribution Department, the Company
Mar. 2012 Head of the Corporate Sales Daisan Department, the Company
Jan. 2015 Chief Manager of the Corporate Sales Department, the Company
Apr. 2015 Full-time Corporate Auditor, the Company (incumbent)



Independent Outside Corporate Auditor

Sachie Kato

Born 11 November, 1946

Profile

Apr. 1969 Joined the Legal Training and Research Institute of Japan
Apr. 1971 Public Prosecutor at the Tokyo District Public Prosecutors Office
May 1974 Registered as a member of the Osaka Bar Association
Mar. 1983 Joined Chuo Sogo Law Office (currently Chuo Sogo Law Office, P.C.)
Apr. 2014 Corporate Auditor, the Company (incumbent)

Significant Concurrent Posts

Outside Director of Yamazen Corporation (Audit and Supervisory Committee Member)



Independent Outside Corporate Auditor

Shigeyuki Moriuchi

Born 26 February, 1957

Profile

Oct. 1982 Joined Price Waterhouse Certified Public Accountants Office
Jul. 1998 Senior Partner at Aoyama Audit Corporation
Oct. 2005 Director and Senior Partner at ChuoAoyama Audit Corporation
May 2007 Senior Partner at Kasumigaseki Audit Corporation (currently Grant Thornton Taiyo LLC)
Jan. 2010 Managing Partner at Kasumigaseki Audit Corporation
Oct. 2013 Partner, Grant Thornton Taiyo LLC (incumbent)
Apr. 2019 Corporate Auditor, the Company (incumbent)

Significant Concurrent Posts

Outside Director (member of Audit and Supervisory Committee) at Koshidaika Holdings Co., Ltd.
Outside Corporate Auditor at KATO SANGYO CO., LTD.



Independent Outside Corporate Auditor

Kiyoshi Watanabe

Born 14 November, 1967

Profile

Feb. 1997 Registered as a certified tax accountant
Jul. 1997 Established Kiyoshi Watanabe Certified Tax Accountant Office (incumbent)
Apr. 2019 Corporate Auditor of the company (incumbent)

Corporate Officers

Corporate Officer and General Manager of the Corporate Communication Department

Naokazu Hasegawa

Corporate Officer and General Manager of the HR & General Affairs Department

Akikazu Hamanaka

Corporate Officer and General Manager of the International Business Management Department

Mamoru Mitamura

(As of 15 June, 2021)

Our Directors' knowledge, experience and expertise

	Tomiya Takamatsu	Naoki Tonokatsu	Naoyuki Nishiyama	Independent/Outside Shinji Mori	Independent/Outside Masataka Inoue	Independent/Outside Michiaki Kurihara
Experience as President	○					○ (Overseas subsidiary)
Beverage industry/ welding machines	○	○	○			
Food products industry					○	
Pharmaceutical industry						○
International business			○		○	○
Finance and accounting		○				
Law				○		
Digitalization			○			
M&A			○		○	
Internal regulation and auditing				○	○	