Segment-Specific Initiative

In the case of revisions stemming from changes in segments and accounting standards, the effects of those changes are applied retroactively only to the figures for the year immediately preceding the year in which the change took place.

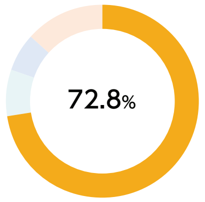
Domestic Beverage Business

The Domestic Beverage Business comprises DyDo DRINCO and other group companies under its umbrella. We are focused on vending machines as our principal sales channel, while outsourcing the production of drinks and logistics as we concentrate our resources on product development and vending machine operations—areas of direct contact with customers. We are committed to consolidating our competitive advantage in the vending machines market to ensure that this remains a core business generating funds to support the future growth of the group overall.

Related Companies

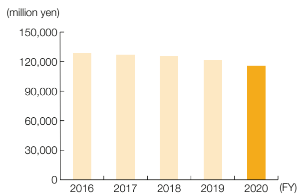
DyDo DRINCO, Inc.
DyDo Beverage Services, Inc.
Others

Breakdown of Net Sales

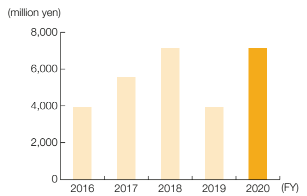


(Breakdown of sales to external customers)

Net Sales



Segment Profit

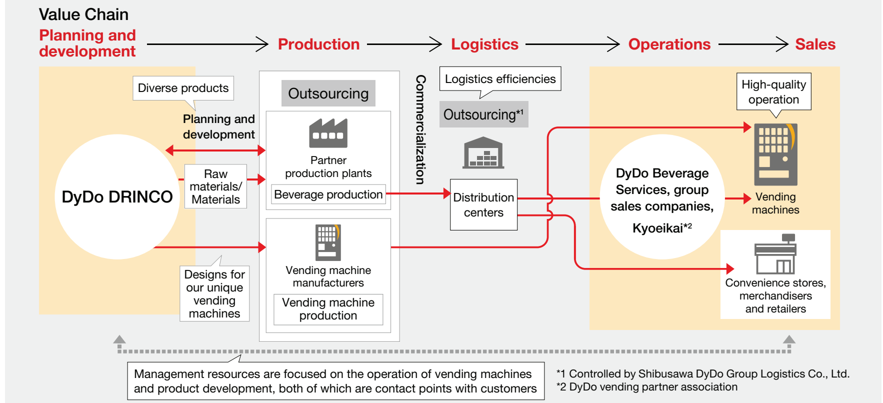


(Millions of yen)

Fiscal year	2014	2015	2016	2017	2018	2019	2020
Net sales	124,597	124,192	128,278	126,712	124,879	121,203	115,536
Segment profit	3,839	3,745	3,958	5,542	7,106	3,948	7,110
Segment profit margin (%)	3.1%	3.0%	3.1%	4.4%	5.7%	3.3%	6.2%
Segment assets	130,485	145,737	110,241	52,219	50,117	50,148	51,152
Capital expenditure	11,500	9,788	7,017	6,505	6,712	6,853	5,949
Depreciation	11,287	10,657	10,643	9,246	8,062	7,148	3,548
ROA (%)	3.0%	2.7%	3.1%	10.3%	13.9%	7.9%	14.0%

The fiscal year for each business runs from January 21 to January 20 of the following year
*Results from fiscal 2017 and after take into account the effect of the transition to a holding company structure

Value Chain



*1 Controlled by Shibusawa DyDo Group Logistics Co., Ltd.
*2 DyDo vending partner association

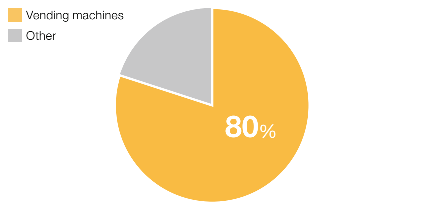
Strength and Characteristics 1

New Value Creation Based on Retail Business Ideas

Although the Domestic Beverage Business develops its own brands in-house, its business model is similar to that of a retailer. For typical drinks manufacturers, whose business model is to make their profit through mass production and sales of proprietary brands, vending machines are just another sales channel, along with convenience stores, supermarkets, and drug stores. We, however, first install our retail outlets—vending machines—and optimize the product line-up to the individual location. This way, we generate revenue growth by improving sales per unit.

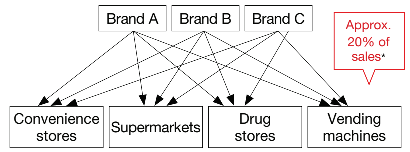
At the heart of this business model is the concept of "being there"—selling products that customers want in surroundings that are familiar to them. This concept has been passed down since the time of the company's founding when we first established the "use first, pay later" medicine business. This approach is something that we are fully committed to preserving amid the backdrop of significant flux in the business environment. It is a strength that enables to us to continue to create new value even if the lines of business we operate in change.

Proportion of sales via the vending machine channel (in FY2020)



How typical drinks manufacturers operate

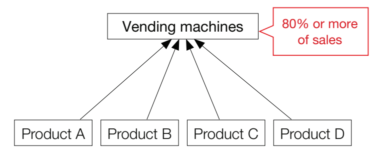
Develop a brand, promote sales



*According to soft drink statistics from the Japan Soft Drink Association

How we operate

Create sales channels and fill vending machines with products optimized to the location



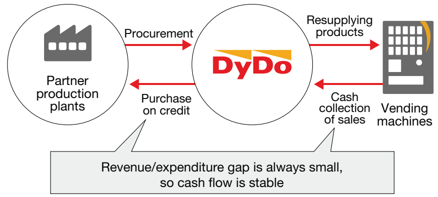
Strength and Characteristics 2

Fabless Management Generates Strong Cash Flows

In order to expand sales in the Domestic Beverage Business, our vending machines need to be attractive to customers, and one of the key criteria for that is a generous range of products. But our machines typically hold upward of 30 different product types, and making all of them in-house would require gargantuan capital investments. To avoid those investment risks, we outsource production to partner production plants across the country. In recent years, our product line-ups have met the needs of individual locations with non-beverage items, selling goods such as face masks and diapers; this highlights the flexibility inherent in the fabless business model.

This model also enables us to reduce logistics costs and gives us an advantage in terms of business continuity planning (BCP). Products manufactured all over the country are delivered to regional distribution centers by local logistics companies. We can reduce our distribution costs, and minimize risks associated with potential disruption to transportation, due for example to disasters, that would impact our nationwide vending machine sales. In terms of funding, products are purchased on credit from partner production plants, and sales are primarily collected in cash from vending machines. Therefore, while vending machine sales remain stable, the revenue/expenditure gap is small, and we generate a stable cash flow. This solid financial base is the Domestic Beverage Business's core strength, and maintaining and growing it provides momentum for new growth groupwide.

Cash-in first business model

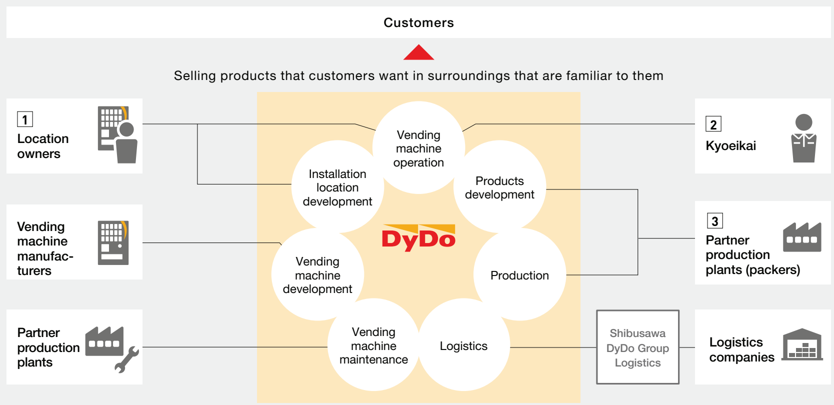


Strength and Characteristics 3

Working in Close Partnership with Stakeholders

In the Domestic Beverage Business, our resources are concentrated on areas of direct involvement with customers (products or locations), specifically the planning and development of products, the development of vending machine locations, and post-installation vending machine operations. Production and distribution are outsourced to cooperating suppliers, as are some non-direct sales. Thus, the group's business is built on happiness and prosperity together with a variety of stakeholders.

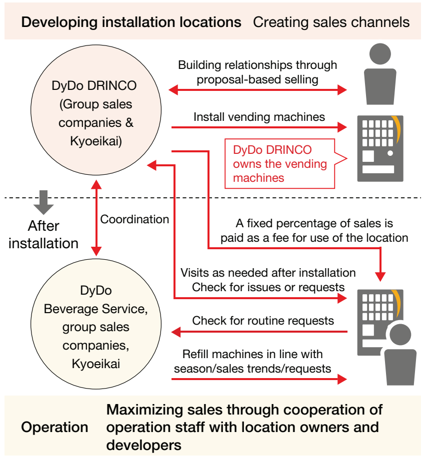
Domestic Beverage Business Stakeholders



Close Partnership with Stakeholders 1 Aiming for Optimized Product Line-ups with Vending Machine Location Owners

The DyDo Group's business begins by securing locations to install vending machines; this is our core sales channel and locations are key. The development staff in our Domestic Beverage Business are tasked with approaching owners of places predicted to yield high sales and negotiating to install our vending machines.

Having installed a vending machine, the location owners are paid a fee as a fixed percentage of sales. In other words, maximizing sales doesn't benefit DyDo alone; it also benefits location owners. Through proactive communication with location owners, development staff and the operations staff that are responsible on a daily basis for stocking vending machines and maintaining the surrounding area, both ensure an optimized product line-up that meets the needs of each machine's users.

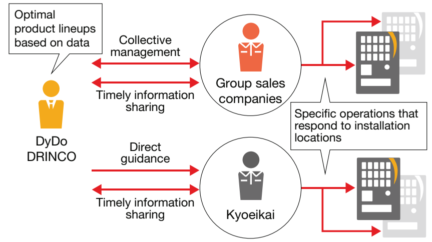


Close Partnership with Stakeholders 2 Robust Sales System through Working with the Kyoeikai

The Domestic Beverage Business' revenue is made up of the accumulated sales of each individual vending machine. We work hard to maximize the sales of each unit through measures such as product line-ups optimized to the installation location, and we also visit the vending machines when necessary to stock them up to appropriate levels to ensure no sales are lost through stock-outs, switching between hot and cold drinks sales depending on changes in the seasons, and add point-of-purchase decorations such as those tied in with our TV commercials. Our vending machine operation also includes activities to clean and tidy our vending machines and the areas around them, and to maintain them as attractive, well-presented retail outlets.

The operation of the vending machines is handled by our sales company and by special contract operators who are responsible for the maintenance and expansion of our network, referred to by us as the Kyoeikai. The Kyoeikai are important partners to us; their role goes beyond just supplying vending machines with our products. We share not only our overall business strategies with them, but also region-specific policies and expertise (such as examples of successful sales activities or measures to improve productivity). Through our strong partnership, we have aligned our vending machine operations. This robust sales framework of group companies and the Kyoeikai naturally means we have high-quality integrated operations across all our vending machines nationwide, but also means that we can rapidly disseminate and implement new strategies and initiatives. This is the key strength of the Domestic Beverages Business.

Measures to maintain high-quality operations



In order to achieve sustainability-focused management for the DyDo Group, we are once again investigating what the group's material issues are. To improve the effectiveness of that investigation, we held dialogues with business partners and other stakeholders between February and April 2021 on the topics of what they can expect from the DyDo Group in the future, and what role the DyDo Group must play. We will introduce the points they identified in these Stakeholders' Voices columns.

Stakeholders' Voices

Working together to create vending machines that revitalize local communities

Atsushi Konishi
President
Konishi Vending Co., Ltd.

Konishi Vending handles vending machine operations for DyDo in the main, but also for some other manufacturers, and we have been one of DyDo DRINCO's business partners for many years. A DyDo DRINCO representative often comes to visit and supports us by providing information and through other means. That said, I am slightly worried that the increased emphasis on advancing efficiency at operations sites will negatively affect one of DyDo's strengths—its closeness with Kyoeikai members like ourselves. While DyDo has been increasing the amount of information it provides recently, through the media or its websites, I would like to see it go even further than before in sharing information with us directly. As we are involved with developing new vending machine functions and products, as well as SDGs-related initiatives, among other things, I believe there is a lot that we can do to help. What makes DyDo so special is its roots in local communities; I would like to communicate more with one another to together get to the heart of that special quality.

The issue that DyDo should be working to address through its business is, I think, the problem of plastic waste. Due to their convenience, customer demand for plastic bottles is—as it has always been—high. That is why DyDo must work to raise awareness of the primary reason for the recycle boxes that sit alongside its vending machines, and to further expand its recycling efforts. These boxes are not intended for waste; they are for recycling. I also feel that the company can respond to the needs of some customers for resealable bottles, where they do not want to drink the contents in one go, by increasing the number of bottle cans used. Another example that comes to mind is food loss reduction. Working to extend sell-by dates can both reduce food loss and make managing sell-by dates for vending machines easier. This would then lead to greater operational efficiency, so it's an initiative I would definitely like to see DyDo implement. Likewise, to extend the useful life span of the vending machines themselves, I'd like to see DyDo look into doing maintenance on-site, rather than transporting them to one of their sites to do so.

I think DyDo's recent efforts to add more non-beverage products to its vending machine line-ups and the new challenges it is taking on are very positive. I think Japanese people are currently feeling a bit down in the dumps. I'd like to see DyDo use its vending machines, which are close to the communities, to give them a bit of a boost. Through our vending machines, I'd like us to spread a little happiness. Let's work together to create the sort of DyDo vending machines that put smiles on the faces of those who visit them.

Close Partnership with Stakeholders 3 Working in Tandem with Packers to Achieve the Best Blends

The Domestic Beverage Business could never have grown to become the group's core business without quality coffees well suited to the vending machine format. What is more, we have always insisted since the very first days of DyDo DRINCO that DyDo Blend—our flagship product—and our other coffee products must be free of additives so that customers can always enjoy the true flavor of the coffee. In recent years, increased coffee consumption has seen a diversification in customer's preferences. Our mission is to meet those needs with a line-up of coffees suited to today's diverse coffee-drinking scenarios without compromising our devotion to quality, additive-free coffee. Thus, our traditional canned products have been joined by those in bottle cans and plastic bottles. There are endless varieties of coffee beans, from many different locations around the world, and all taste different depending on the roast. Amid all these many variables, the authentic flavors of our coffees are achieved by carefully blending at least five bean varieties to best represent each product's distinctive concept.

But while these products are developed in-house, from initial concept to deciding on the final recipe, production is outsourced to packers. To ensure the final flavor profile is just right, it is vital to work in tandem with packers. They are involved from the development stage prototyping, testing and fine-tuning the production lines, and going through repeated trial-and-error to make sure the finished product is perfect.

Making additive-free products that bring out the authentic, original taste of coffee beans

Stakeholders' Voices

Solving societal issues together through products

Hiroshi Yamasaki
Section Manager
Sales Department 1
Sales Division
NIHON CANPACK CO.,LTD.

My company, NIHON CANPACK, works together with DyDo DRINCO to develop some of DyDo's products, which we also handle manufacturing for. Ways in which we can cooperate to create a more sustainable society include giving greater consideration to the environment and working to tackle food loss.

So far, we have made serious efforts to this end, such as minimizing the amount of resources we use in our cans and reducing the amount of water used in their manufacturing process and we've done the same for plastic bottles and bottle caps. While the entire industry is searching for technologies to better allow us to recycle plastic bottles, I think this is something we should be putting more effort into and as such, we will do our best to help with initiatives aimed at using those recycled containers. As we move from introducing recycled containers to growth in their use, I feel that we have to further advance the evolution of technology that's going on in the field. These initiatives would also have a knock-on effect on the recent trend for environmental measures, such as reducing CO_2 emissions and waste or saving resources. Therefore, this is an area where we would like to collaborate with DyDO, involved as we both are in the beverage industry.

It is also vital that we try to tackle food loss, one of our duties as drinks manufacturers. During production tests, some of the coffee or juice we make for the tests will go to waste. I think that we would be able to look into how to utilize this, such as using it for sales samples or similar. Another consideration should be flexibility vis-à-vis standards. Of course, ensuring product safety and quality is of absolute importance, and this may prove tricky, but if we can reduce the total amount that is rejected, that could minimize food loss and lead to lower costs. This is another area I would like us to work on together.

That 80% of DyDo's sales come via vending machines is one of its characteristics, but also one of its strengths. By taking advantage of properties that are unique to the sales channel, which convenience stores and other in-store environments somewhat lack, we can reduce our environmental load by cutting down and simplifying labels. I also expect DyDo to make efforts in other areas, such as creating systems that allow customers to easily find allergy information at vending machines.

In the last few years, the number of health-conscious products that DyDo creates, such as the "Calorie Limit for the Mature Aged" tea series and in its supplement business, is increasing. Going forward, as a drinks manufacturer, we will endeavor to collaborate with DyDo and create products that benefit society.

Distribution channel — DyDo's approach of remaining close to its customers is a welcome constant and sets it apart

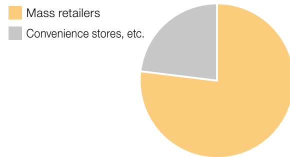
In recent years, the distribution channel has seen go-to products solidify their position. In particular, convenience stores have narrowed down the variety of stock keeping units to national brands. We are still in a challenging situation where in each category only the top brand will see business, even if other manufacturers have major brands. The increased competition in and outside the industry also applies to supermarkets and drug stores. How we can also convey our individual strengths to the different store chains is a pressing challenge. In this kind of business environment, as a maker that is relatively new to the distribution channel, we cannot get our products chosen purely on manufacturer or brand value.

Our vision, therefore, is to contribute to solving our retailers' issues as a "second opinion manufacturer," as we call it. This involves not just proposing products, but suggesting products or sales methods adapted to the issues they face and promoting issue solution-focused sales. To give retailers this second opinion requires certain ways of thinking that overlap a lot with our individual location-focused vending machine business, namely approaching customers as distinct individuals, ensuring original perspectives, and giving ideas physical form. By working with retailers to solve their issues, we wish to cement our position as a company more and more retailers can turn to for opinions when they face difficulties.

In fiscal 2020, we produced a product in collaboration with the popular anime *Demon Slayer* (*Kimetsu no Yaiba*). This project increased the breadth and depth of the range of retailers we work with. Also, through our collaborative product with FANCL Corporation, the "Calorie Limit for the Mature Aged" tea series, and other items, we are creating brands with recognition value. Using those experiences as a base, we will aim to achieve a position as a company that uses our unique strengths to contribute to retailers' sales, profits, and customer retention.

Yoshihiro Kobayashi
Corporate Officer
Division Director, Retail Sales Division
DyDo DRINCO, Inc.

Breakdown of sales in the distribution channel



Home shopping channel — Supporting healthy customer lifestyles with a home shopping channel for supplements

Since 2012, the DyDo Group has been offering home shopping for supplements and health foods. Customers used to enjoying DyDo DRINCO products from vending machines have fewer opportunities to do so after retirement. We therefore decided to explore the potential of a home shopping channel to continue to supply customers with that value.

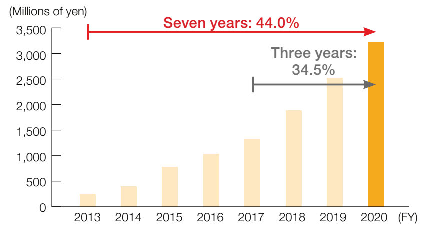
The vision of our home shopping business is to create a society where everyone can aspire to a fulfilling life after retirement by providing innovative value unique to the DyDo Group. Through advertising, in newspapers and on TV, and close communication with customers, we are steadily acquiring an established customer base. Of course, to acquire customers requires attractive products that they will support. With "Locomo Pro" (proteoglycan formulation) as the channel's flagship product, we are maintaining sales and profit alongside a high rate of growth, and we achieved full-year profitability in fiscal 2018, earlier than planned.

Due to extensive growth in the supplements home shopping market in fiscal 2020, competition has intensified; despite this, we are still producing results.

Going forward, we will continue to provide new products and services to support healthy lifestyles, aimed at fans of "Locomo Pro."

Akito Nakai
Corporate Officer
Deputy Division Director, Marketing Division
General Manager, Marketing Department
General Manager, Healthcare Business Department
DyDo DRINCO, Inc.

Trends in sales and CAGR in the home shopping channel



Mid-term Business Plan 2021 Progress

FY2020 Achievements and Next Steps

Achievements	Articulation of a path toward improved cash flows
Next steps	Strengthening development of vending machines in order to establish solid advantages in the vending machine market Executing our company-wide rollout of smart operations (DyDo Beverage Service)

Takanori Nakashima
President and Representative Director
DyDo DRINCO, Inc.

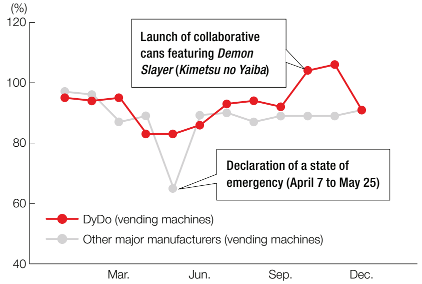
FY2020 in summary

With the spread of COVID-19, the domestic beverage market as a whole shrank 7% in fiscal 2020 compared to the previous year. This was due to a major reduction in sales from vending machines and convenience stores as people worked from home or avoided going out unnecessarily. While there were aspects of our market environment that were challenging, even during the pandemic we were able to make steady progress with implementing activities to maintain and expand the vending machine network, which has a proven record of success, and runs tests aimed at establishing smart operations. This has resulted in clear change. Sales of canned coffee produced as a limited-edition item in collaboration with the popular anime *Demon Slayer* (*Kimetsu no Yaiba*) were positive and ensured the second half of the fiscal year saw increased revenue and increased profits.

On the profit front, changing the useful life span of our vending machines from five years to ten meant greater profit in our accounting, and an increase in profit overall. Vending machines form most of the Domestic Beverage Business' capital investment, and so this increase is largely due to a change to depreciation expenses as a result of changing their useful life span from the statutory five years to the actual length of time they are used—ten years.

Over the next five years, we forecast that depreciation expenses will return to their prior levels.

Monthly sales trends in the beverage industry (vending machine channel, FY2020)



Source: Food Products Marketing Research

Strengthen vending machine deployment to establish a solid advantage in the vending machine market

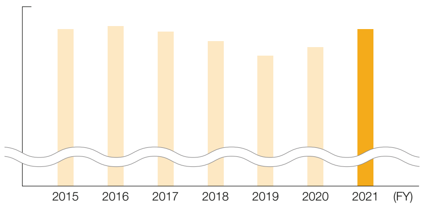
With population growth in Japan unlikely, the entire industry believes market growth will be difficult. To survive in such an environment, increasing the number of vending machines we control to a certain amount, and maintaining market share, is paramount. That is not to say that merely increasing the number of machines is enough, though. As well as working to remove less profitable machines, we will install more machines in new sites that show promise for greater sales. We will scrap and build, to maintain, and expand, our vending machine network.

Since fiscal 2019, we have increased the number of sales personnel, in order to bolster our efforts to open up new installation locations. Furthermore, to improve the skills of the individuals responsible for sales, we have been striving for the past several years to improve our system for sharing sales expertise. Our efforts, both quantitative and qualitative, have gradually shown results, and even under the restrictions imposed on sales activities by COVID-19, the number of installed vending machines at the end of fiscal 2020 was higher than at the end of the previous fiscal year. The sales reps have responded to these circumstances, conducting online business negotiations without the need to go anywhere, and in September 2020, we set up a team geared toward remote sales. In these ways, we are working hard to increase efficiency of the sales teams when securing installation locations.

One of the reasons for the increase in vending machine numbers is the success of measures to curb the number of machines being removed. Of course that doesn't mean we're letting unprofitable machines just sit there. Rather, we aren't too quick to remove vending machines that can maintain a certain level of profit, or vending machines that have the potential to improve; instead, we protect them for their locations as an important intangible asset.

In the future, too, we will continue to resist the removal of vending machines from sites where sales are being made. At the same time, though, we will bolster our efforts to open up new, profitable locations and expand the vending machine network that is the foundation of our cash flows.

Trends in vending machine numbers



Implementation of company-wide deployment of smart operations

One of the main factors behind the decline in vending machine numbers in the industry in recent years is the shortage of people to fill post-installation operational positions. Arresting this decline means boosting the number of staff responsible for operations, but in an era of medium- to long-term decrease in the working-age population overall, this alone will not solve the underlying issues. We are making progress with the reforms needed for a smart operation* structure, in which the IT technologies that are driving the evolution of technology are harnessed to enable each staff member to handle a larger number of machines, thus ensuring that we can maintain the same or larger vending machine numbers with fewer people.

Specifically, this means installing communication devices on vending machines and hooking them up to the Internet of Things (IoT). This will provide real-time stock levels and other information that would normally remain unknown until a staff member visited each machine. As a result, we can prepare the appropriate varieties and volumes of products for restocking and optimize the frequency of visits to machines. Moreover, receiving data from machines in this way allows for effective division of labor; whereas each operations staff member has traditionally been responsible for both product preparation and restocking, this can now be split for more efficient operations. This system was subjected to tests in fiscal 2019 across three sales bases in locations and areas with different characteristics to assess its effectiveness.

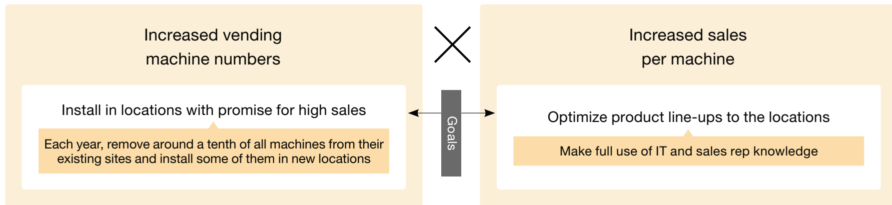
By trialing the system at actual sales sites, a variety of issues came to light. We carefully investigated each of these, and made repeated improvements. Rather than head office forcing their flow concept on operations sites, our efforts have focused on maximizing productivity by combining the actions of actual employees on the ground with digital technologies. In fiscal 2020, we added additional sales bases to the trial, and we smoothly transferred the new operational system to those sales bases. We are making preparations that will allow us to expand it company-wide, something we will do in one fell swoop in the first quarter of fiscal 2022.

Since progress is being gradually made to reallocate personnel, quantitative results will not be forthcoming until fiscal 2024. By rolling out smart operations fully, the present vending machine network could be handled even with 30% fewer staff. We would be able to increase the number of vending machines we have through strengthening our development of installation locations, and the current staffing levels would still be able to manage them—the maintenance costs per machine would drop. This, in turn, would reduce the burden of each employee for labor-intensive operations, making jobs easier and raising employee work conditions to some of the best in the industry.

(For details about our smart operating structures, see P22)

*Coined by DyDo; refers to an efficient operational structure

Source of Domestic Beverage Business sales



Enhancing our strengths to be chosen for our distinctiveness

Since DyDo DRINCO was established in 1975, members of the founding family have always taken on the role of president. In April 2021, though, the founder's baton was passed to me. While the person at the top of the company may change, what needs to be done does not. DyDo DRINCO's mission is to dramatically advance the company's business model of offering the products customers want at the closest and most convenient location.

We are not the top organization in the beverage industry. That is precisely why I would like us to be a company that may not be the biggest but one that can create value in the vending machine and distribution channels as well as the healthcare business and that customers choose over other companies.

By taking our unique stance, we have developed certain strengths over the years. For instance, our vending machine network stretches to every corner of the country; that network, and the areas in which we have a dominant market share, are a valuable asset. Two aspects that have also improved greatly are our ability to create value—by developing new products by incorporating other companies' expertise or planning and developing new functions for vending machines—and our sales ability across the entire company. Other examples of our strengths include the Kyoeikai network, with whom we have a strong relationship of trust built on the spirit of mutual happiness and prosperity, and an unrivaled operational ability for direct sales via vending machines throughout Japan.

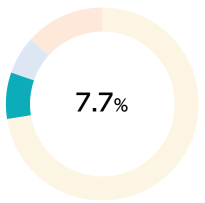
We must take those current strengths and bolster and enhance them to match the changing times. The result we should be aiming for is to be a unique company that customers continue to choose, and for our business to become stronger than ever.

International Beverage Business

Since fiscal 2013, the DyDo Group has advanced its international expansion in earnest, so that we are now developing operations in Turkey, and in Russia and the UK under the umbrella of the Turkish business, as well as in China, in accordance with the market characteristics of each region. The Turkish beverage business, which was launched through acquiring a local company in 2016, manufactures and sells local brands and plays a central role in the group's International Beverage Business.

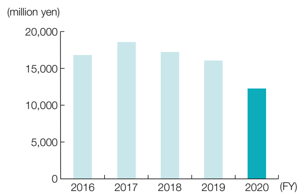
Related Companies
DyDo DRINCO TURKEY
İçecek Satış ve Pazarlama A.Ş.
Others

Breakdown of Net Sales

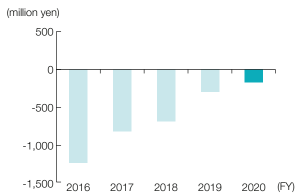


(Breakdown of sales to external customers)

Net Sales



Segment Loss



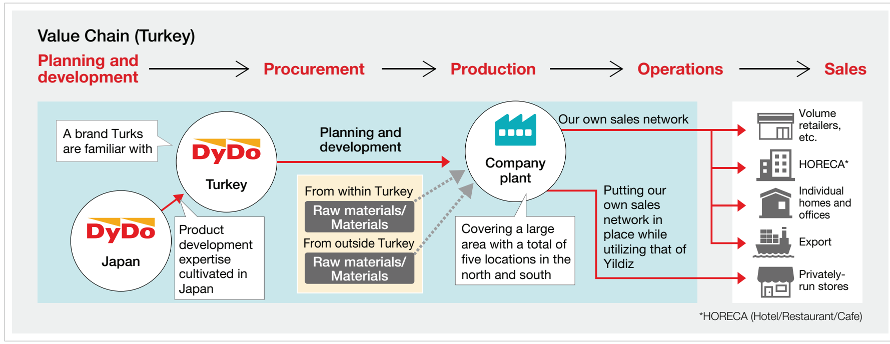
(Millions of yen)

Fiscal year	2014	2015	2016	2017	2018	2019	2020
Net sales	–	–	16,735	18,547	17,154	16,004	12,191
Segment profit	–	–	(1,266)	(838)	(704)	(306)	(175)
Segment profit margin (%)	–	–	(7.6%)	(4.5%)	(4.1%)	(1.9%)	(1.4%)
Segment assets	–	–	21,744	20,717	15,186	14,266	10,532
Capital expenditure	–	–	1,882	842	539	434	1,009
Depreciation	–	–	907	918	675	628	517
Goodwill amortization costs	–	–	359	356	255	210	165
ROA (%)	–	–	–	(4.0%)	(3.9%)	(2.1%)	(1.4%)

The fiscal year for each business runs from January 1 to December 31

Overview of International Beverage Business

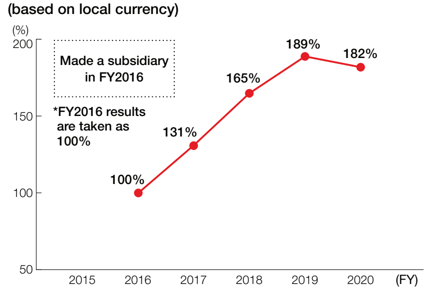
		Established or market entered	Format	Summary
Turkey		February 2016	M&A	Acquired through M&A companies that have their own brands and plants. This makes up most of our international business segment sales and secures profit, even after goodwill amortization.
	Russia	December 2013	Own company	Originally entered with the aim of expanding our vending machines business, some of which still remains, but now active as an export base for our Turkish products.
	UK	September 2019	Own company	Established as an export base because of an export record for Turkish products of over 15 years, in order to further expand their distribution.
China		December 2008	Own company	Originally entered with the aim of expanding our vending machines business, in 2016 we sold that business to a local company. Now, they import Japanese products and distribute them via the distribution channel.
Malaysia		December 2015	M&A	All shares were sold off in November 2020



Our Turkish Business: Background

When expanding overseas, our targeting of the Muslim community was deliberate as this global population is predicted to grow. Of the various Muslim countries, we chose Turkey because it has a large younger demographic, its beverage market is forecast to grow, buoyed by an expanding population, and for its excellent access to the countries of Europe. Currently most of the International Beverage Business' sales come from our Turkish beverage business. Although more recently they have been affected by the COVID-19 pandemic, our Turkish operations have achieved strong sales and operating income in local currency, and growth in excess of the market itself, following reforms in sales and production after the M&A. In the future, we will incorporate this growth within Turkey to bolster our exports to Europe and the Middle East.

Trends in sales in the Turkish beverage business (based on local currency)



Strength and Characteristics 1

Known and Loved Locally as "a Turkish Brand"

Our Turkish beverage business inherited brands from Yildiz Holdings A.S. when we acquired a stake in that company. Sales of one of our best-selling products, "Saka" mineral water, delivered in large-bottle format to offices and other business places, are robust and have contributed to overall sales growth. In addition, we are developing new core brands such as "Çamlica," a carbonated beverage that is very popular among the Turkish people, and more recently, "Maltana," a carbonated malt-flavored drink made with hops. Like other emerging nations, the major global drink companies have the lion's share of the Turkish market. The brands held by our Turkish beverage business have long been known and loved by the local people, and by concentrating our resources on those core brands since the M&A, we have worked to steadily increase brand recognition and grow their market share.

The mineral water "Saka," which has driven positive growth in the Turkish market

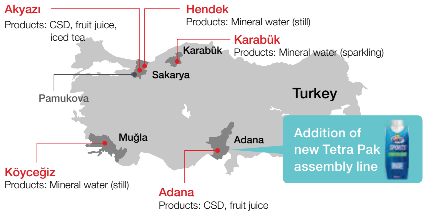
The 19-liter bottle for delivery to homes and offices has been selling well

Business Model for Creating Corporate Value

Strength and Characteristics 2
Five Plants to Cover a Vast Country

Unlike the Domestic Beverage Business, where vending machines are the main sales channel and we operate on a fabless basis, our Turkish beverage business has a more conventional model, in which drinks are produced at our own plants for distribution via supermarkets and other such chains. We carried out some integrations and new builds after the M&A, and so we currently have plants in five locations throughout Turkey that are able to cover the wide territory. In the meantime, we are adding a new Tetra Pak assembly line to our plant in Adana, in the south of the country, and are looking into securing new water sources capable of handling voracious new demand for "Saka" mineral water and other products.

Manufacturing sites and products



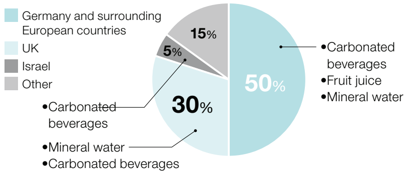
Strength and Characteristics 3
Potential for Growth in the Export Business to Europe

The quality of our water resources and plants in Turkey show great potential not only for national growth, but also for catering to demand on a global scale.

The export business has a track record that stretches back more than fifteen years, to before our initial investments. That has led to the "Saka" mineral water being known as a healthy, delicious drink due to its abundant mineral content and comparatively high pH level, rather than specifically as a Turkish product, in the UK market, where we set up a local subsidiary in fiscal 2019 to strengthen our export business. We have also acquired halal certification, which reassures Muslim customers that they can drink our products with peace of mind, and so we can meet the needs of the market presented by Muslims who have emigrated to the UK, or elsewhere in Europe, from Turkey, the Middle East, or Africa. Products exported from Turkey have advantageously low manufacturing costs; between this and the depreciation of the Turkish lira in recent years, the business has the potential to grow even further.

Through the expansion of our exports, we are cultivating brands that originate in Turkey into global brands, and at the same time acquiring stable currencies, such as euros and sterling—we will tie these in to stable growth of our Turkish beverage business.

Export destinations from Turkey (approx.) and main product lines



Stakeholders' Voices

Making the world a better place along with consumers and supply chains

Takeshi Watanabe
Corporate/Quality Staff
Konoike Transport Co., Ltd.

In the Domestic Beverage Business, specific numbers have been assigned to three environmental targets, and management, all the way up to the president, have spoken of the importance of the SDGs. In these and other ways, I've felt that DyDo is taking the idea of our mutually beneficial relationship seriously. In developed countries, particularly in Europe, the number of consumers and business partners who are becoming concerned about issues like the environmental impact of plastic bottles is increasing, and so I think that DyDo's development of products that focus on environmental targets is an important issue for its international expansion.

Because the DyDo Group began life in the "use first, pay later" medicine business, I imagine that its members are very aware of their own health and that of those around them. Surely DyDo should incorporate that history and corporate culture into its products and services even more, and should be proclaiming that. Awareness of health in Southeast Asia and other areas is not yet at the same level as in more developed countries—there's room for greater education. If DyDo can expand its business in that space to raise awareness of its unique approach to better health, it can demonstrate the strengths of its brand value in terms of quality and health. I think this is a way in which it can contribute to society through its business.

We at Konoike Transport handle logistics for DyDo's Japanese export business, which the DyDo Group is expanding through the Chinese beverage business and other activities. In order to meet the partnership conditions that apply to all suppliers like us, we are required to join the White Logistics Movement and acquire G Mark certification. We would like all suppliers to help pull each other forward, to use this partnership to improve the entire supply chain.

Mid-term Business Plan 2021 Progress

FY2020 Achievements and Next Steps

Achievements	International Beverage Business segment is on track for overall profitability
Next steps	Turnaround of the beverage business in China Rebuilding our international business strategy to facilitate the next phase of growth

Mamoru Mitamura
Corporate Officer
General Manager, International Business Management Department
DyDo Group Holdings, Inc.

Effect of COVID-19 on the Turkish beverage business

Similarly to Japan, COVID-19 infections in Turkey have repeatedly waxed and waned, and although there are more cases there than in Japan, in a straight comparison, the situation is little different. That said, in terms of business, we must keep an eye on the slowing of the economy resulting from COVID-19, or for spiking raw materials prices brought about by rapid changes in the exchange rate for Turkish lira.

Compared to the Japanese yen, the depreciation of the lira has caused its value to drop considerably. While sales in the local currency were affected by COVID-19 and we saw reduced revenue, increased sales of "Saka"—which has a high profit margin—in the HOD* channel led to an increase in profit overall.

Since the Turkish lira is still an unstable currency, we are creating policies and systems to stabilize revenue by increasing our dealings in exports since fiscal 2020, while aiming for steady growth in the Turkish market. While more time is required to implement the planned export dealings with the UK and Russia due to the spread of COVID-19, we are making steady progress creating business systems in those countries.

*Home/Office Delivery

Withdrawal from Malaysia and future international business strategies

In October 2020, in line with the policy of selection and concentration for our international business set forth in our Mid-term Business Plan 2021, we transferred all shares and withdrew from the Malaysian beverage business. In 2015, we had entered the Malaysian market by merging with a local company; in 2019, we dissolved that merger relationship. Following that, we had planned on reconstructing the business by reclassifying our product portfolio into our own brands and through other means, but the global scale of the COVID-19 pandemic meant that we could not forecast future sales, and we abandoned plans to continue the business within the Group.

Comparing those markets with the booming Turkish beverage business, which we started at the same time, you can see the difference in the brand power, sales power in the countries we have entered, and investment ratio for the companies we acquired through the progress of our post-merger integrations. We learned a lot about international beverage sales from the Malaysian beverage business: about brand power; how to develop unique products that cater to consumer preferences in different countries; how to sell those products; attitudes toward profit margins based on sales channel characteristics and commercial practices; and about acquiring expertise around halal certification, one of our first plans. We will apply these learnings to our future international strategies, and they are already being used to improve our management of our Turkish and Chinese beverage businesses.

By withdrawing from the unprofitable Malaysian business, and through strong sales trends in Turkey, we have set ourselves the goal of returning the entire international business segment to profitability. The next step is to review our international business strategy as we look to formulate our next Mid-term Business Plan, which begins in fiscal 2022.

Future strategy for the Chinese beverage business

The next issue we must tackle in the International Beverage Business is the turnaround of the beverage business in China.

While in 2008 the DyDo Group entered China with the establishment of a wholly owned local subsidiary, and at first expanded its business as a vending machine operator, in 2012 it sold off that business. Now, we are working to construct a business model that involves importing Japanese products, or some products produced in Japan for the Chinese market, and to distribute them through retail stores. We have also heightened brand recognition for our strengths in uniquely Japanese quality, and increased sales volumes. To raise profitability, though, we believe local production to be essential and this is something we have been investigating. We have conducted repeated tests at local manufacturing companies established by Japanese businesses, and have put in place a system to guarantee taste and quality meet the necessary standards. This allowed us to begin local production of Chinese top-selling barley tea in February 2021. That was the first step, but as we go forward, we plan to make progress with the same strategy for other products, and in that way determine how sustainable the Chinese beverage business is.

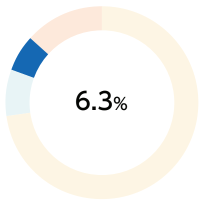
Pharmaceutical-Related Business

The core of our Pharmaceutical-related Business is DAIDO *Yakuhin*, which specializes in OEM manufacturing of nutritional drinks, which are classified as pharmaceuticals or quasi-drugs, and beauty tonics. DAIDO *Yakuhin*'s industry-beating production capacity and uncompromising quality standards has earned the trust of major manufacturers throughout Japan, and the company boasts a top-in-the-industry track record of OEM production.

Related Companies

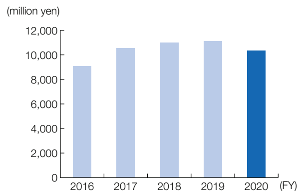
DAIDO *Yakuhin* K.K.

Breakdown of Net Sales

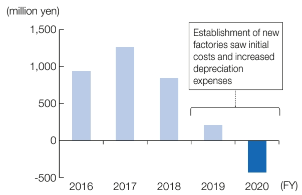


(Breakdown of sales to external customers)

Net Sales



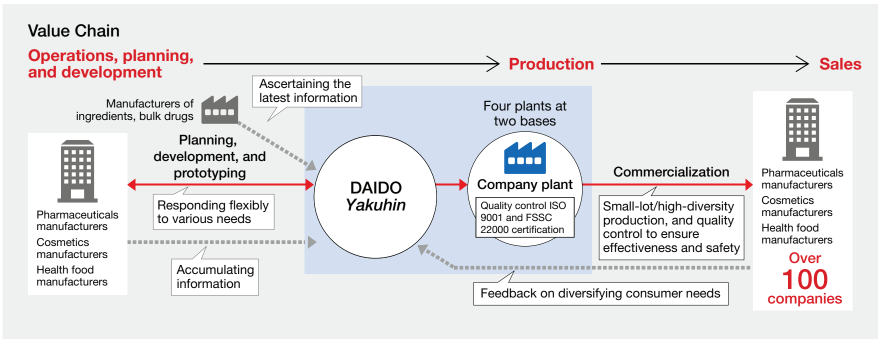
Segment Profit



(Millions of yen)

Fiscal year	2014	2015	2016	2017	2018	2019	2020
Net sales	10,220	9,126	9,068	10,536	10,964	11,097	10,324
Segment profit	1,135	979	944	1,271	847	210	(425)
Segment profit margin (%)	11.1%	10.7%	10.4%	12.1%	7.7%	1.9%	(4.1%)
Segment assets	13,684	13,568	14,962	17,001	17,803	22,587	20,124
Capital expenditure	291	298	423	1,248	3,953	7,466	439
Depreciation	483	459	430	517	624	696	1,122
ROA (%)	8.3%	7.2%	6.6%	8.0%	4.9%	1.0%	(2.0%)

The fiscal year for each business runs from January 21 to January 20 of the following year

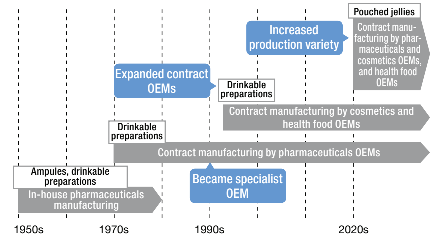


Strength and Characteristics 1

Building a Solid Client Base for Specialist OEM Solutions

Today's Pharmaceutical-related Business is the modern iteration of the group's founding activity. From our "use first, pay later" medicine business grew DAIDO *Yakuhin*'s drinkable preparations business. Initially the company made products in-house, but gradually switched to providing OEM solutions for other companies as this afforded more efficient use of production lines. With the relocation in 1991 of plant facilities to group headquarters in the city of Katsuragi, Nara, DAIDO *Yakuhin* discontinued in-house production and became a specialist OEM company, thus establishing a business model that continues to this day. At first, products were made in accordance with pharmaceutical manufacturers' specifications, but as drinkable preparations came to be sold by health food and cosmetic companies, that expansion gradually led to more opportunities for DAIDO *Yakuhin* to design its own solutions to suit each client's concepts. Over that time, our efforts to make products in accordance with clients' demands helped improve our product development abilities and drove the expansion of our equipment to include lines dedicated to production of small-lot-high-variety orders, lines designed to handle large lots with maximum efficiency, and assembly lines for drink-from-the-pouch products. It also enabled us to strengthen our quality control and assurance framework. Our hard-won ability to respond to clients' requirements, our broad customer base, which covers pharmaceuticals manufacturers as well as cosmetics and health food manufacturers, and our steadfast relations with clients, built on mutual trust, are our chief assets in the Pharmaceutical-related Business.

The History of DAIDO *Yakuhin*



Strength and Characteristics 2

Officially Permitted to Operate in Segments with High Barriers to Entry

The size of the Japanese drinkable preparations market is estimated at around two billion units manufactured per year and, within, the DyDo Group's ability to produce more than 300 million units of OEM products puts it in roughly the same class as major pharmaceutical companies who manufacture in-house. Perhaps our largest point of difference here is DAIDO *Yakuhin*'s official permits to manufacture pharmaceuticals and quasi-drugs. Barriers to entry into this segment are high, and include the need for official permits and the niche nature of the OEM industry itself. Moreover, the time taken to bring a product in this segment to market, from development to beginning of product sales, is considerable because of all the testing and government permits required. If our OEM clients were to switch to another producer it would involve a huge burden of cost and effort, so there is little risk of that. Still, we endeavor to maintain their trust in us by constantly improving our product planning capabilities, production quality, and quality assurance structures.

DAIDO *Yakuhin* is licensed for:
(1) Pharmaceutical manufacturing
(2) Second-class pharmaceutical manufacturing and sales
(3) Quasi-drug manufacturing
(4) Quasi-drug manufacturing and sales
(5) Beverage manufacturing

Strength and Characteristics 3

Expanded Production Capabilities through Four Plants at Two Bases to Meet Business Partners' Needs

DAIDO *Yakuhin* possesses drinkable preparation lines and a pouch packaging line at its head office site in Katsuragi, Nara, and a drinkable preparation line at its Kanto Plant in Tatebayashi, Gunma.

With the start of full-scale operations at the Kanto Plant in 2020, the plant not only boosts our production capacity, but will also reduce distribution costs. Moreover, greater automation of the production process has improved our cost-competitiveness. In addition, having a plant in another part of the country disperses risks to production and contributes to our own BCP and that of our clients.

Also in 2020, while the drink-from-the-pouch products created at our newly built line at the Nara Plant saw a slight decrease in production volume due to the pandemic, the market is displaying growth, particularly for various food-standard products such as konjac-based jellies and fruit jellies. Believing that consumers are supportive of this handy, easy-to-consume format, interest in drink-from-the-pouch products among pharmaceutical and cosmetics manufacturers is growing. As one of only a very few companies in Japan with facilities to manufacture drink-from-the-pouch products to pharmaceutical and quasi-drug specifications, we have received a lot of inquiries and hope this advantage will translate into increased sales and profits.

DAIDO *Yakuhin*'s Plants

	Nara			Kanto
Location	Katsuragi, Nara Prefecture			Tatebayashi, Gunma Prefecture
Site area	Approx. 32,000 m²			Approx. 27,000 m²
Yearly production capacity	Approx. 350 million units		30 million units	Approx. 150 million units
	Plant 1	Plant 2	Plant 3	–
Construction completed	1991	1999	2019	2019
Fully operational	–	–	February 2020	July 2020
Product format capabilities	Bottles	Bottles	Pouches	Bottles
Number of assembly lines	3	1	1	1
Product size capabilities	20 ml/30 ml/50 ml/ 75 ml/100 ml/120 ml	80 ml/100 ml/150 ml	100-200 g	50 ml/100 ml
Capital investment	–	–	Approx. 2 billion yen	Approx. 6 billion yen

*All plants are able of producing pharmaceutical and quasi-drug products
*DAIDO *Yakuhin* is licensed for: Pharmaceutical manufacturing, Second-class pharmaceutical manufacturing and sales, Quasi-drug manufacturing, Quasi-drug manufacturing and sales, Beverage manufacturing

Stakeholders' Voices

Aiming to go further than the SDGs together

Kenji Ohashi
Senior Specialist
Sustainable Environmental Department
Social Value Creation Division
Shiseido Company, Limited

The SDGs were established as a series of targets that primarily focus on solving environmental issues (such as climate change and biodiversity) and societal issues (including poverty in developing nations and other problems where life or human rights are at stake). In developed nations like Japan, though, we are also required to make a contribution to help people live better, richer lives. The DyDo Group develop products that allow such lives and bring joy to people's everyday existence. For example, consumers not only turn to DyDo products as necessary nutritional supplements or because they are good for health, rather they buy them because the products taste delicious and make them happy. Continuing to create value like this is paramount, and I think that DyDo needs to consider the importance of going beyond the limited goals of the SDGs to help provide better lives for everyone.

When it comes to the environment, I think that for DyDo DRINCO, which is involved in the vending machine business, the problems of climate change and plastics are of primary concern. DAIDO *Yakuhin* comes across as a company that is conscientiously working to combat environmental issues—its efforts on lightweight glass bottles, which are easy to recycle, and on removable labels are good examples of this. With each passing day the importance of tackling climate change or promoting a circular economy is rising; these kinds of initiatives, as well as actions like reducing resource consumption or improving transport efficiency to reduce environmental footprints, are refreshing for consumers. Making proposals to BtoB customers is difficult. However, in addition to striking a balance between mutual profit and added-value for stakeholders (including quality and environmental considerations) and carving out a role for itself as a contract manufacturer, if it can actively promote its efforts toward solving environmental issues, I expect DAIDO *Yakuhin* to make a valuable contribution to solving such issues in conjunction with those of us that contract production with them.

Mid-term Business Plan 2021 Progress

FY2020 Achievements and Next Steps

Achievements	Starting operation of the Daido *Yakuhin* pouch packaging line and the Kanto Plant
Next steps	Creating an efficient system for our four plants at two bases Expanding orders for our pouch packaging line

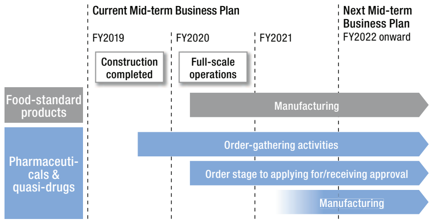
Makoto Miyachi
President and Representative Director
DAIDO *Yakuhin*

Completed investment for the next stage of growth

Under Mid-term Business Plan 2021, which positioned this period as a platform-strengthening and investment stage, we have invested in a new Kanto Plant and in a new pouch packaging line at Nara Plant. In 2020, these began full-scale operations. We expected the new Kanto Plant to alleviate issues at the Nara Plant, which despite working at full capacity wasn't able to handle all orders. Unfortunately though, the spread of COVID-19 caused the number of orders to decrease considerably. Between fewer orders for beauty drinks for the Chinese market and business partners' continued stock adjustments seeing orders for products aimed at the domestic market drop off, the effects of COVID-19 are likely to be more prolonged for us than any other DyDo Group business. With our investment in equipment, fixed costs such as depreciation expenses increased, and segment profit was reduced, but we are moving forward with our internal system that will achieve efficient production through the use of four plants at two bases.

Expectations for the pouch packaging line from pharmaceutical and cosmetics manufacturers are high, and business negotiations are going well. For pharmaceuticals and quasi-drugs, a great deal of time is required to apply for and receive permits, conduct tests, and other aspects of the process from receiving an order to development, manufacturing, and lastly sales. As a result, most of our current manufacturing is focused on products that meet food standards. The number of products able to meet pharmaceutical or quasi-drug standards that are in the development or manufacturing stages is increasing, however, and from fiscal 2022 onward, we plan to start contributing fully to profits.

Operations at Plant 3 (pouch packaging line)



Medium- to long-term forecasts

Until fiscal 2019, DAIDO *Yakuhin* saw bullish sales and maintained a high profit margin, yet as a result of COVID-19, recent performance has been poor.

As a specialized contract manufacturer, it is difficult for us to bring about a dramatic recovery in sales by ourselves. The increase in annual production capacity we forecast with the start of full-scale operations at the Kanto Plant is, unfortunately, still a little while off. However, the need for our plants to work at full capacity for the last few years has lessened, which has given us an opportunity to improve our processes, review our quality management system, and take another hard look at how we set out our internal structure.

An issue that must be considered before making investments is changes in the drinkable preparations market, which is shrinking as the average age of its core users increases. Contract manufacturers like ourselves still believe that this presents an opportunity, and in fact that this change will accelerate. Even for large manufacturers, the value placed on updating existing equipment or investing in new equipment will lessen, yet as companies maintain their brand line-ups, a certain level of demand for drinkable preparations will remain. Furthermore, a revision to the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices removed the rule that made it necessary for companies that sell pharmaceuticals to own their own manufacturing plants. As a result, pharmaceutical manufacturers are moving forward with contracting manufacturing to outside organizations, which means that the contract manufacturing market has real growth potential.

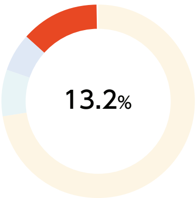
Awareness of health and beauty is growing, with forecasts for medium- to long-term growth for the healthcare market. We have plans for new drinkable preparations in bottles and drink-from-the-pouch products. Also, while the barriers to entry on the product sales side are not particularly high, it is in manufacturing, which requires investment in equipment, that companies like ours can demonstrate their worth. We have excellent product development capabilities from working with our business partners, our flexible manufacturing ability means we can produce small-lot-high-variety items, and we have a finely honed quality management system from manufacturing many products—these have enabled us to build a formidable customer base. I believe that we can turn this into a strength to steadily increase our share for drinkable preparations in the contract manufacturing market.

Food Business

The core company in our Food Business is Tarami, which has the top share of the dry jelly market. Since being consolidated into the DyDo Group in 2012, Tarami, which boasts a wealth of expertise in making delicious jellies, has made a significant contribution to the group's performance.

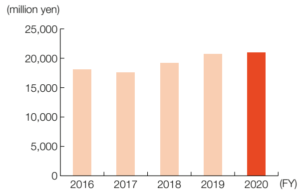
Related Companies
Tarami Corporation
Shunnotoki Inc.

Breakdown of Net Sales

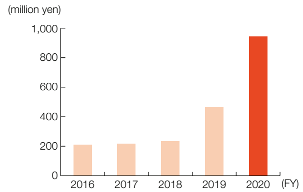


(Breakdown of sales to external customers)

Net Sales



Segment Profit

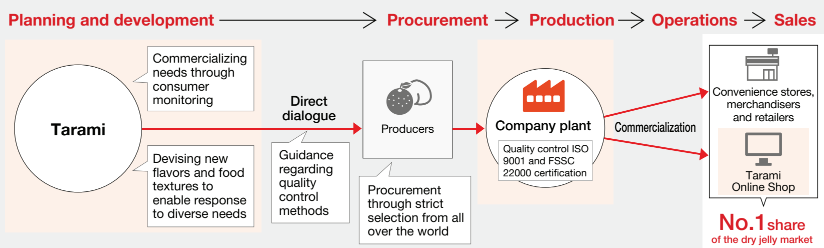


(Millions of yen)

Fiscal year	2014	2015	2016	2017	2018	2019	2020
Net sales	15,360	17,155	18,013	17,560	19,114	20,643	20,900
Segment profit	198	259	212	219	235	464	946
Segment profit margin (%)	1.3%	1.5%	1.2%	1.2%	1.2%	2.3%	4.5%
Segment assets	17,166	17,537	17,395	17,791	17,459	18,595	19,404
Capital expenditure	470	595	742	465	941	1,252	864
Depreciation	572	587	632	656	683	765	810
Goodwill amortization costs	306	306	352	352	352	352	352
ROA (%)	1.2%	1.5%	1.2%	1.2%	1.3%	2.6%	5.0%

The fiscal year for each business runs from January 1 to December 31

Value Chain



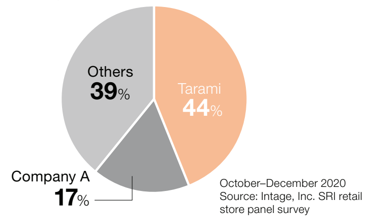
Strength and Characteristics 1
Development Capabilities to Create Jelly with Delicious Taste and Texture for Each Demographic

Tarami began as a greengrocer in 1969, and is named for its home town in Nagasaki. In 1988, it began producing and selling jelly as a convenient way for people to enjoy natural fruit wherever and whenever they wanted. Aiming to deliver consumers value beyond mere fruit, Tarami identifies target demographics and establishes concepts for each of the product brands it develops.

There are three main factors to fruit jelly—the jelly, the fruit, and the flavor—the last of which can be broken down into its component factors: aroma, taste, and texture. Combining the infinite possibilities into a three-dimensional expression of tastiness means that even a basic mandarin jelly can be tailored to provide different varieties of deliciousness to satisfy a diverse range of consumer needs and expectations. We take pride in the fact that Tarami products must be as healthy as they are tasty, and that the true significance of Tarami's fruit jellies lies in their role as a vehicle for delivering new values by providing new expressions of deliciousness.

In recent years, Tarami has sought to expand its customer base by developing and launching jellies for people who enjoy more of a dessert taste and jellies for health-conscious people in addition to their regular fruit jelly lines. It is impossible to put a numeric value on the pleasure derived from delicious jellies that appeal to all five senses, but the fact that sales growth is high at a time when market growth is stagnant is a clear indication of the level of support we have earned from our customers.

Share of the dry jelly market



October–December 2020
Source: Intage, Inc. SRI retail store panel survey

Strength and Characteristics 2
Tarami's Delicious Taste Comes from the World's Farms

The fruit used in Tarami's jellies is mostly sourced from wholesale importers, but not without Tarami's experts traveling regularly to the farms and primary processing plants and checking on cultivation and processing practices. Indeed, we seek to constantly raise awareness throughout the entire value chain of our dedication to making safe, delicious products. An example of this is the point top executives make of visiting those early-stage processing plants to deliver final products as a sign of gratitude, whether they are directly contracted plants or not.

Some of the farms that we work with are "partnership farms." These are farms with whom we have signed agreements, and where we are moving forward with measures to ensure they produce a stable supply of high-quality ingredients. For example, at a Chinese partnership farm that produces satsumas, we have introduced advanced Japanese cultivation techniques, and are aiming to improve quality, raise yields, and enhance productivity. We also have designated, trustworthy inspection organizations carrying out checks—orchard soil tests, water quality tests, and pesticide residue tests, among others—to ensure that the fruit we produce is fruit you can trust.

Strength and Characteristics 3
One of the World's Largest Jelly Production Plants with a Heritage of Technological Secrets for Delicious Jelly

Tarami not only strives to produce good taste, it also looks at how it can provide that with added-value and at an affordable price. Our production facility in Nagasaki is one of the world's largest dry jelly plants, and we have acquired FSSC 22000 and international ISO 9001 certification for our food safety management systems and quality control systems respectively. The plant is equipped with production lines and systems able to make a diverse range of safe, secure products efficiently, all under the watchful eye of our strict quality control system.

For food manufacturers, the adjustments needed to take a prototype that their development office has created to the point where it can be made en masse on assembly lines can be challenging. Tarami faces a tall hurdle in that its main raw material is fruit, which as agricultural produce varies by production region or harvest season. Our expertise in how to produce consistently delicious jelly is something we have accumulated not only through scientific data and analysis at our plant, but is also based on a wealth of experience formed over many years and the technological capabilities to easily make minute adjustments to produce textures customers want. This expertise is something we are committed to passing down.

We are making sure that our mission—to uphold our responsibility as the company with the industry's top share to create new value—is spread not only among the development departments, but the production departments too, and we are also working to improve the technologies we use to create delicious jelly.

Mid-term Business Plan 2021 Progress

FY2020 Achievements and Next Steps

Achievements	Improved earning ability
Next steps	Create demand in slack periods, further strengthen earning ability

Yutaka Wada
Representative Director
Tarami Corporation

Awareness of the importance of productivity bears fruit among individual employees

Like other food and beverage manufacturers, our performance in the Food Business during the pandemic has been lower than usual at convenience stores, yet, because we firmly grasped the shift by consumers to mass retailers, we have been able to get some good results despite COVID-19 and a slowdown in the dry jelly market.

For many years, we have had the industry's top market share, yet our investors repeatedly pointed out our low profit margin as a food manufacturer. Since fiscal 2019, though, we have been steadily improving. This is proof that for several years our employees have all been working hard, and are well aware of activities made by each department toward issue resolution, and that this effort has led to results and a buildup of real ability. In order to further improve our profitability, we will continue to strive for greater value for the Tarami brand, and will push forward with improvements to development, procurement, production, distribution, and to work processes at head office.

Challenging ourselves to stimulate new demand as a top-class brand

It is forecast that the drop in the number of customers visiting convenience stores due to COVID-19, and the changes in consumer lifestyles, are set to continue. As such, there continues to be a high risk that the range of products convenience stores carry, including top brands, could be reduced. Even at mass retailers, which drove our performance in 2020, competition has intensified. On the cost front, there are multiple issues presented by spiraling materials and distribution costs that must be addressed. These factors mean that we predict the current challenging market environment will continue.

Now, as part of the plans we established to raise profitability, our next task is to expand sales at mass retailers all year round. While the peak for sales of jelly is in summer, we must stimulate year-round demand for jelly, regardless of the season. We believe this is our mission as a top brand. In addition to using our strengths—excellent product development capabilities and advanced manufacturing technologies—to drive further growth in existing businesses, we must proactively challenge ourselves to create new business models that go beyond traditional boundaries of country, business line, or category.

Stakeholders' Voices

Working together to take on the challenges thrown up by societal change

Yuko Koyama
General Manager
CSR · SDGs Management
Committee Department
Ito-Yokado Co., Ltd.

I know that Tarami's technological capabilities and quality are superlative, and it stands apart from other companies when it comes to safety and reliability too. Its manufacturing ability is also evident in the extremely low rate of defective products that make it to shops. Day by day, they are striving to create with better sell-by dates, and I think in that way they are helping the problem we have with food loss.

In the future, I think Tarami will need to take even greater responsibility for such things as ensuring there is no wastage in the procurement of resources, and protecting human rights throughout the supply chain, including checking working conditions at the farms where Tarami procure their ingredients. Tarami also has a duty as a leading company in the industry to take the lead in reducing the environmental impact of plastic containers in the future. Another issue is the aging of society. Elderly people face daily problems like struggling to swallow certain foods. I believe that jelly products, which can provide supplemental nutrition, can help with this. We would like to join with Tarami in tackling these issues that have resulted from changes in society.

Other (orphan drug business)

To enter the orphan drug business, the DyDo Group established DyDo Pharma, Inc., which commenced activity in August 2019. Since so-called orphan diseases have few suitable treatment protocols, the field represents a challenge for society. Drug distribution was our founding business, and it is our firm desire to return to that business once more to help patients and customers.

This will be a new challenge, but outsourcing is now advanced in every facet of the drug field, including development and manufacturing. We will therefore build relationships with outsourced providers at each stage of the process, and work to solve the social challenges these diseases present.

Orphan drugs and DyDo's target

There are approximately 7,000 orphan diseases worldwide. Only around 5% of drugs approved for use on a global basis are suitable to treat these diseases, many of which are serious. Several are progressive and life-threatening. Pharmaceutical companies and others around the world are working to create candidate drugs, including an increasing number of pharmaceutical companies in Japan. However, given the typically limited number of patients for these drugs, development efforts have so far been insufficient. DyDo Pharma's goal is to identify new candidate drugs under development by biotechnology companies globally, continue their development in Japan, and obtain regulatory approval so they can reach patients as soon as possible.

Managing the business through external contractors

We are first of all aiming to invest in candidate drugs produced by pharmaceutical companies around the world, especially where we can obtain exclusive rights to develop, manufacture and market them in Japan. We will then develop them and obtain regulatory approval. Delivering a pharmaceutical to the market requires a wide range of expertise. We will utilize external organizations, such as Contract Research Organizations (CRO) for clinical development and Contract Manufacturing Organizations (CMO) for pharmaceutical manufacturing. We will structure our own sales organization, but in conformance with patient situations. We will also explore other arrangements, including joint sales structures with pharmaceutical manufacturing partners as well as sales outsourcing. Also, as required, we will consider collaborating with external experts, entities, and companies. This approach is aimed at facilitating possible lean management that does not require DyDo Pharma itself to bear considerable fixed expenses.

In January 2021, we signed our first licensing agreement

While the DyDo Group's business activities are closely related to pharmaceuticals, we are not specialists in the field. After announcing our intention to enter the field in March 2018, we took on external specialists and began a range of business activities in August 2019. We are currently securing personnel with extensive experience in every medical industry field, including business development, new drug development, pharmaceutical affairs, and reliability assurance. In January 2021, we signed our first licensing agreement. This is the first fully fledged step into entering the business, and in order to strengthen the Board of Directors' oversight functions, in April 2021 we welcomed a new board member: an outside director with a wealth of experience and knowledge regarding the pharmaceutical industry.

This is a business that will require time and expense up front to create a stable business foundation, but we will steadily work toward this aim, with an eye on the future.

The DyDo Pharma business model