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September 1, 2021  
DyDo Group Holdings, Inc.

## Questions and Answers at Financial Results Briefing

**Analyst:** I have three questions.

First, I want to ask you about the supplement business. In the second quarter, increase in gross profit contributed to the increase in operating profit by roughly JPY2.2 billion. I guess that the contribution of the supplements was large. I would like to know the breakdown of the increase in gross profit dividing into domestic beverages and supplements.

In addition, the growth of the supplement business seems to be accelerating in the first half of this fiscal year, but was it possible to expand sales to this extent only with Locomo Pro? Please tell us about the future strategy of the supplement business.

Also, the number of vending machines continues to increase, which I think is a great achievement for your company. It would be great if you could also tell us about the competition to acquire vending machines.

**Takamatsu(President and Representative Director):** Thank you for your question.

First, I would like to talk about the supplement business. As you mentioned, sales continued to grow significantly in the first half of this year, and it is making a significant contribution to the breakdown of the increase in gross profit, which Hasegawa will comment on in detail later.

Basically, sales of our mainstay product, Locomo Pro, account for almost all the sales. We have been able to achieve continuous sales growth with just 1 product, Locomo Pro.

We expect to be able to expand our customer base for some time to come by focusing on Locomo Pro. We are confident that we will be able to increase sales by focusing on Locomo Pro for several years to come.

However, with only 1 product, it will peak at a certain point. I think it will be difficult to achieve sales of more than JPY10 billion with just Locomo Pro, so in order to make further progress, we will need to develop products that can be added to Locomo Pro and become the second pillar of the business. Of course, we are studying this matter, but we are not at the stage where we can announce the details at this time.

**Hasegawa (Corporate Officer, General Manager of Corporate Communication Department):** The factors behind the increase in gross profit of the domestic beverage business (approximately 3 billion yen) planned for fiscal 2021 are not only the contribution to profits of the supplement mail-order business, but most of them are expected to increase the sales volume of beverages due to an increase in the number of vending machines.

**Analyst:** I understand. The supplement business has operating profit margin of over 20%. Can I understand that the operating profit composition is already at the level of 20% to 30%? I think the supplement business is getting really big.

**Takamatsu:** As for the business model, the amount of money spent on sales promotion, or rather advertising and publicity, to acquire customers greatly affects profits, so it is important how we control advertising and publicity expenses while keeping an eye on customer acquisition efficiency. At the same time, we are working to expand our customer base while securing a certain level of profit by efficiently increasing prices.

The profit level increases and decreases depending on the advertising investment figures, but compared to the beverage business, we have been able to maintain a very high profit margin and continue to grow.

**Analyst:** I understand very well. Thank you very much.

The second question is about the vending machine business. Looking at the financial results of competitors, it seems that the price level has not come full circle in the vending machine channel, and that the price level has fallen further. What is your company's view on price competition in the vending machine market?

Also, if you cut out just the second quarter, the unit price seems to be increasing. Please tell us your company's price strategy for vending machines.

**Takamatsu:** As for the situation of the unit price of vending machines, I think you pointed out that there has been a slight increase in discount sales, including by competitors.

At present, we are not seeing as much discounting as we did at 1 time, or perhaps price competition has subsided a bit, and we are not seeing any significant movement at the moment.

In this context, we have not changed our existing policy of maintaining prices calmly rather than following the movements of other companies and selling at a discount. I hope you will understand that there were no major changes in the first half of this year.

There will be no major changes to our policy in the future. We will focus on expanding our sales channels while firmly maintaining our unit prices. As for the competition for locations to install vending machines to expand sales channels, I would like to mention that the situation has changed a little since the COVID-19 pandemic.

First of all, the top 3 companies, including our company, continue to be proactive in acquiring new quality locations. The total number of units may not have increased significantly, but we are actively investing sales promotion money to acquire good locations.

On the other hand, the other companies have been restraining their investment in new vending machines, and competition for locations and activities themselves have been stagnant. In a sense, I understand that there is a slight movement in the direction of oligopoly by the top companies.

**Analyst:** Understood. Thank you very much.

Lastly, I would like to ask you to reiterate your thoughts on the new medium-term business plan for the next fiscal year. In the current medium-term plan, you made upfront investments. As for the mid-term plan for the next fiscal year and beyond, will you finally enter a phase where you will be able to recover profits? Once again, what is your stance and approach toward the next medium-term plan?

**Takamatsu:** In order to achieve the Group Mission 2030, in the current mid-term plan, as a platform-strengthening and investment stage, we have been able to invest in smart operations in the vending machine business and in new plants and lines at DyDo *yakuhin*, Pharmaceutical-related Business.

We are planning a 5-year mid-term business plan that will start in the next fiscal year, which we consider to be the growth stage, in which we will produce the results of the investments we have made over the past 3 years. However, the investment in vending machines is slightly affected by COVID-19 and the investment in smart operations will continue until the next fiscal year, so we cannot expect to see a significant improvement in profits immediately from the next fiscal year.

Through this next stage of growth, we will be able to achieve at least steady top-line growth, and as we continue to achieve growth, we would like to set our plan so that the contribution to profits will be achieved during the 5-year period.

At the moment, we are aiming to achieve at least organic growth of the top line of existing businesses again, and at the same time, we would like to produce the benefits of the investments during the next mid-term business plan. Does that answer you?

**Analyst:** I understand. As for the third point, I understand about the existing businesses. I think you have considered M&A for new businesses. What are your thoughts on these areas in the new medium-term plan?

**Takamatsu:** We will consider such issues in the future, but basically, we are going to review the current medium-term management plan and our approach to new businesses.

In the next medium-term business plan, we would like to focus on the growth of our existing businesses first and foremost and produce solid results from the investments we have made so far. From there, we would like to continue to consider new businesses while monitoring the effect of profit improvement. We would like to make investment decisions while monitoring profits.

**Analyst:** I understand. Thanks.

**Analyst:** Will the Pharmaceutical business be focused solely on orphan drugs? Are there any other initiatives in other areas such as diagnosis, testing, et cetera?"

**Takamatsu:** Thank you for your question. As for the pharmaceutical business, we will first focus on the category of orphan drugs. As I mentioned in my explanation earlier, we are considering starting the business with ultra-orphan drugs, which has a further limited number of patients, and gradually expanding the number of target diseases. For the time being, we would like to launch our business within the framework of rare diseases. After that, once we have accumulated knowledge in the Group, we will decide whether to expand into new areas or to launch new businesses by utilizing such knowledge, which is a topic for the future.

First of all, over the next few years, we would like to focus on establishing a solid business in the orphan drug category. That is all.

#### Disclaimer

These materials were prepared by DyDo Group Holdings Inc. as questions asked and answers provided at financial results briefing concerning the Group's financial performance in the FY2021 (Year Ending January 20, 2022) 2<sup>nd</sup> Quarter from the standpoint of fair disclosure.

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