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DyDo Group Holdings, Inc.

Questions and Answers at Management Policy Briefing

Analyst: Now, let me ask you 3 questions.

First of all, I would like to ask you what you think is the most important point in the Mid-term Plan 2026. I fully understand the need to raise ROIC as a KPI in the midst of prior investment, but in the end, unless you disclose the invested capital and other information for each business, I feel it is very difficult to monitor from the outside.

I can understand the detailed business strategies and directions, but to be honest, it's very difficult to grasp the overall feeling of this Mid-term plan. I would like you to tell us what point you want the stock market to pay attention the most to, in order to express that your company is investing in growth and planting the seeds for solid returns.

The second question is a bit more detailed. I am looking at slide 26. I think the assumption is that the ROIC of the Domestic Beverage business will drop from 2021 to 2026, and then return to normal in 2029. Why does the ROIC have to go down once you are moving in the direction of increasing the ROIC of the Domestic Beverage business?

Thirdly, I'm looking at page 34, financial discipline. I believe that the essential bottleneck of your company's stock price is a low ROE.

I really understand the direction of increasing ROIC and improving asset efficiency. However, you also mentioned that you are going to maintain a capital adequacy ratio of around 50%, and you have probably lowered the strategic investment limit for M&A compared to the previous mid-term plan. I feel it is difficult to see how you are going to drastically raise ROE. The third question I would like to ask is how important ROE is in your company's management.

Takamatsu(President and Representative Director of DyDo Group Holdings, Inc.): Thank you for your question.

As for the main focus of the Mid-term Business Plan 2026, I would like to reiterate that the most important point is to achieve renewed growth in the Domestic Beverage business, especially in the vending machine business.

As we move toward the growth stage, the current Mid-term Business Plan calls for strengthening the foundation and investing in the Domestic Beverage business and the vending machine channel. We are currently building a foundation for renewed growth. Due to the impact of COVID-19 and other factors, the development plan for the smart operations (a term we coined to describe the new, high-productivity work flow we created after undertaking a radical review of our conventional operations) will be delayed a little bit in the next Mid-term plan, and we plan that the re-growth of profits will be realized in the latter half of the next Mid-term Business Plan. However, at the very least, we would like to proceed with our efforts with the most important goal of continuing to increase sales every year for the next 5 years, which is the basic premise of the plan.

I think the most important point of the Mid-term Business Plan 2026 is to ensure that the investments made in the domestic beverage, especially the vending machine channel, continue to produce positive results in the second half of the plan, which may overlap with the second question.

As for the second question, while we will continue to grow the top line in particular, it will take a little more time to expand investments in smart operations company-wide and to Kyo-eikai (Vending machine operators in whom we have no capital investment and who are responsible for some DyDo vending machine operations, particularly in more rural areas), and the investments will pay off a little later than initially planned. I think the most important point is that we would like to achieve a return to growth in terms of profits during this growth stage.

Lastly, the third point is why ROIC instead of ROE. Basically, we should focus on how to efficiently generate returns on invested capital, and I believe that this will have a positive effect on ROE. If we include the surplus funds, ROE does not directly reflect what we have been working on in our business, so we would like to proceed with ROIC as the KPI.

With regard to surplus funds, we will of course continue to consider M&A and other measures to prepare for further growth in the future, and we will keep surplus funds on hand for such a time. Also, in the future, the domestic beverage industry, especially the vending machine channel, is changing its stance after the COVID-19 pandemic, so there is a possibility that the industry will be reorganized, as has been said in the past. Therefore, we would like to secure surplus funds as a reserve for such an event, so please understand that we would like to proceed with ROIC as a business-related KPI for the time being.

Analyst: I understand. Will you continue to improve the disclosure of the ROIC for each business so that they can be monitored externally? I don't think it's good if we can't see anything.

Takamatsu: We have set KPIs for the Group as a whole, so of course we will be able to explain our progress, at least for our major businesses, to everyone at appropriate times.

Analyst: I understand very well. That's all from me. Thank you.

Analyst: I would like to ask you about your thoughts on sales per machine. Could you tell us how you envision the future of sales per machine for the industry as a whole?

Also, your plan is based on the assumption that sales per machine of your company will increase by 8%, but I would like to know a little more about how this will work. Also, if you have any quantitative breakdowns, I would appreciate it if you could provide them as well.

Takamatsu: Thank you for your question. First of all, I would like to talk about the future trend of vending machine in the industry as a whole. We plan to increase sales per machine by 8%. However, as for the industry as a whole, we believe that the growth of sales per machine will be sluggish.

As a result of the impact of the COVID-19 pandemic, sales of vending machines were greatly affected last year and the year before, and per-machine sales have also declined. It will return to some extent in the future; however, we believe that it will be difficult for the number of vending machines, including those at public transportation facilities, to return to the previous levels.

Basically, one of the first things we need to do is to increase the ratio of good locations to the total number of machines in operation. The quality of the location is a major factor, so it is important to target good locations for new vending machines to increase not only the volume but also the quality.

In addition, of course, we will improve the performance of each existing vending machine, by strengthening our product lineup, developing an appropriate product lineup for each location, and actively considering introducing products that meet local needs, not only beverages, but also merchandise sales, etc. We will also work to make vending machines more attractive as stores, and we will work to improve existing machines as well as new ones, to increase sales per machine by 8%.

Analyst: Thank you very much.

Analyst: M&A investment is equivalent to 2 years of operating cash flow. What is the degree of priority you give to each of the following business areas: vending machines, food, overseas, and orphan drugs?

Takamatsu: Thank you for your question. In terms of M&A, we have been considering the establishment of a second pillar in the healthcare field as a major objective, but we have not been able to achieve this goal, so we have decided to broaden our scope and aim for profit growth that is not M&A-driven. This is the framework of the Mid-term Business Plan 2026. We will be looking for opportunities to achieve the next stage of growth toward the achievement stage in each of our businesses.

It is difficult to say in a few words what the priorities are, but we will continue to examine the healthcare field, which we have been studying continuously for a long time, and if there are any good projects or good partners, we will continue to study them. In addition to that, we are also looking at overseas.

As for other existing domestic businesses, I'd like to talk about Tarami. In the Food Business, Tarami has the overwhelmingly largest market share in the industry, but the category itself is not expected to grow dramatically in the future. We would like to consider expanding the category while taking advantage of Tarami's current strengths.

I would like you to understand that our stance is not to focus on M&A as in the past, but rather to consider opportunities as they arise in line with our actual business strategy.

Analyst: We have received an anonymous question. You are actively recruiting mid-career workers. I would like to know the specific effects that have been seen.

Takamatsu: Thank you very much. We have been hiring a high percentage of mid-career workers since 2014 when I was appointed president.

This is because we are aiming for new growth, and it is difficult for our existing employees to take the next step on their own, so we have been hiring mid-career professionals who are highly specialized, have a variety of experiences, and have a diverse background. We have been continuously increasing the ratio of mid-career hires in the hope that by utilizing their backgrounds and playing an active role in our company, our existing employees will also be stimulated and be able to come up with new ideas.

One thing that is clear is that we have already hired specialists from outside the company to work on medical drugs, etcetera, and employees with outside knowledge from the start of the healthcare business and the mail-order supplement business. The health care business has grown to this level through the integration of our employees.

We are seeing the results of our efforts. Our employees had tended to think inwardly, or maintain the status quo, or be satisfied with the status quo, even though our company philosophy has always been to take on challenges. However, this has been slightly changing over time. This is also due to the fact that we, the management, have taken the initiative to change the corporate culture, and we have also received new stimulation from outside. We have seen such effects, and I hope we can continue to do so in the future.

This is a bit of a long explanation, but that is all.

Disclaimer

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