



President Masahiro Miyamoto

## PICKLES CORPORATION (2925)

We deliver the vitality of vegetables.



## Corporate Information

Stock Exchange	TSE 1st Section
Industry	Food products (manufacturing)
Representative	Masahiro Miyamoto
Address	3-18-3, Kusunoki-dai, Tokorozawa-shi, Saitama
Accounting term	February
URL	<a href="http://www.pickles.co.jp/">http://www.pickles.co.jp/</a>

## Stock Information

Share Price	Shares Outstanding (Excluding Treasury Shares)		Total Market Cap	ROE (Actual)	Trading Unit
¥2,039	6,397,743 shares		¥13,044 million	8.0%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥28.00	1.33%	¥162.59	12.5 times	¥1,849.88	1.1 times

\*Share price is as of closing on April 19. Number of shares outstanding is as of the end of the most recent quarter, and does not include treasury shares. ROE and BPS are the values as of the end of the previous term.

## Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	EPS	DPS
Feb. 2016 (Actual)	30,152	931	975	692	139.35	17.00
Feb. 2017 (Actual)	35,801	780	867	548	105.63	22.00
Feb. 2018 (Actual)	37,616	1,131	1,233	872	144.81	25.00
Feb. 2019 (Actual)	40,670	1,409	1,561	920	143.88	28.00
Feb. 2020 (Estimate)	42,513	1,580	1,739	1,040	162.59	28.00

\*The estimated values were provided by the company. Unit: Million yen, yen.

This Bridge Report presents PICKLES CORPORATION's overview of the financial results for Fiscal Year ended February 2019 and outlook for Fiscal Year ending February 2020.

## Table of Contents

### [Key Points](#)

#### [1. Company Overview](#)

#### [2. Fiscal Year February 2019 Earnings Results](#)

#### [3. Fiscal Year February 2020 Earnings Estimates](#)

#### [4. Future Strategy](#)

#### [5. Medium-Term Management Plan](#)

#### [6. Conclusions](#)

[<Reference: Regarding Corporate Governance>](#)

## Key Points

- In the term ended February 2019, sales and operating income rose 8.1% and 24.6%, respectively, year on year. Sales increased owing to the growing sales of kimchi products and other purchased products, and the contributions by Tegara Foods Co., Ltd., which the company acquired as a subsidiary. The stable price of the ingredients helped the company improve the profitability, allowing both sales and profit to hit record highs. Saga Factory operated by PICKLES CORPORATION West Japan started operation in April 2018. As for the heavy rain in western Japan and Hokkaido Eastern Iburi earthquake, the company did not sustain any damage to its workers or property. The dividend is to be 28 yen/share by increasing the ordinary dividend by 6 yen/share while cutting the commemorative dividend of 3 yen/share.
- For the term ending February 2020, it is projected that both sales and operating income will grow by 4.5% and 12.1%, respectively year on year. Sales from asazuke lightly pickled vegetable and kimchi products are expected to increase 4.7% year on year, owing chiefly to the product line of “Gohan ga Susumu Kimchi (kimchi that goes well with rice),” for which the company plans a campaign commemorating the 10th year of its release. Sales from delicatessen will grow by 13.9% year on year thanks to the full-year contributions by “7 Hinmoku no Pickles (7 kinds of pickled vegetables)” that the company released in the second half of the previous term. As for profit, it is expected that the company will offset the financial impact of establishing a factory for products associated with the Pn-12 lactic acid bacteria (lactic acid bacteria that were discovered by PICKLES CORPORATION and reach the intestine alive), by sales increases and the improved productivity at Saga Factory and Tegara Foods which factory has been renovated.
- The company plans to reinforce the B to C business toward further business growth of its corporate group. It set up a subsidiary, OH Co., Ltd., in Hanno City, Saitama Prefecture in March 2019 as part of the business reinforcement strategy. OH Co., Ltd. will start a restaurant business (operation of a restaurant and a cafe) that uses the products developed by PICKLES’ group and a retail business (sale of Japanese-style pickles, amazake rice drinks, and seasonings) in Hanno City in the spring of 2020. In addition, it will contribute to revitalizing the local industries by selling fresh foods and processed products produced in Saitama Prefecture and hosting events at the facility. We would like to keep an eye on the new business that serves both as enlightenment activities of fermented foods and regional contributory activities.

## 1. Company Overview

PICKLES CORPORATION engages in production and sale of asazuke lightly pickled vegetables, kimchi, and delicatessen, and procurement and sale of Japanese-style pickles through a nationwide production and sales network that it has built up in cooperation with its 16 consolidated subsidiaries, including PICKLES CORPORATION Sapporo, PICKLES CORPORATION Kansai, and Food Label Co., Ltd., and 4 affiliated companies accounted for by the equity method. The theme color of the company, green, represents freshness under a slogan of “We deliver the vitality of vegetables.” The company’s own products are produced using vegetables grown and harvested mainly in Japan by contracted farmers so that their traceability is ensured (about 70% of the vegetables used are supplied by contracted farmers), and no preservatives or synthesized food colorings are used. Furthermore, the company has displayed “an absolute commitment to food safety” at its production sites as demonstrated by such endeavors as thorough temperature control at the factories, checkups of the clothes and health of all the employees before they enter the factories, devotion to the 5S activities (5S represents sorting, setting-in-order, shining, standardizing, and sustaining the discipline), adoption of Hazard Analysis and Critical Control Point (HACCP), and acquisition of the certification of ISO9001 and FSSC22000.

By product, sales from the products (produced at the company’s own factories) accounted for 60.6% (40.4% from asazuke lightly pickled vegetables and kimchi products, 18.1% from delicatessen, and 2.1% from old pickled vegetables), and those from products such as Japanese-style pickles, including the products of a consolidated subsidiary, Food Label, made up 39.4% (produced at factories other than the company’s own ones) in the term ended February 2019. By sales channel, sales at mass retailers and wholesalers made up 76.5%, those at convenience stores accounted for 13.0%, and those through other distributors accounted for 10.5%.

### 【Corporate Philosophy】

PICKLES CORPORATION’s philosophy is “We deliver tasty and safe foods to consumers and aim at eco-conscious corporate management.” Under the corporate philosophy, it is pursuing the following management policies: (1) quality control for producing safe and delicious food products, (2) environmentally friendly corporate management, and (3) arrangement of a working environment that puts instillation of morals and the principle of safety and health first. Following these policies, the company is working on international standards for quality control, including ISO9001, HACCP, and FSSC22000, and international standards for environmental control such as ISO14001. In addition, it focuses on training and education of its employees through various approaches, such as enrichment of the personnel system and education programs. PICKLES CORPORATION would like to maintain its fundamental attitude as a food company, which is provision of “safe and quality” foods, in order to earn trust of consumers and contribute to society by being devoted to corporate activities on the basis of these policies.

### 【Strength】

PICKLES CORPORATION’s strengths are the capability of developing products that enables it to release new products seamlessly, such as the product line of “Gohan ga Susumu Kimchi (kimchi that goes well with rice)” that has been a big hit and various other delicatessen, and the sales, production, and logistics network covering all the regions of Japan.

There is a multitude of methods and flavorings for making kimchi products. The company has been continuing to increase sales by enriching the lineup of its kimchi products with its product development capability, which is one of its strong points, and it achieved their sales of over 7 billion yen in the term ended February 2019. This capability of product development has been utilized also in the delicatessen business that is thriving as a business pillar next to the business of asazuke lightly pickled vegetables and kimchi. Utilizing combination with the enrichment of the lineup of deli items and the continuous improvement of the existing products, it allows the company to prospect for sales floors at a number of distributors such as supermarkets. Furthermore, the corporate group is the only company in the pickles industry that has built a nationwide network. This has enabled it to supply the same kind of pickles product and delicatessen item to each store of the company’s clients that have branch stores all across Japan, which is one of the company’s selling points on business.

**【Environment, Society, and Governance (ESG) Activity】**

**Social contribution activities**

The company has made donations on the basis of an idea to “return some of the revenue of PICKLES CORPORATION to society as part of the social contribution activity.” It continuously plans to donate roughly 1% of the net income in total each year to a host of organizations, including ones that support orphans who lost their parents in disaster and ones that conserve the environment.

Major organizations to which PICKLES CORPORATION made donations in the term ended February 2019

KOTSUJI IKUEIKAI, Ashinaga Foundation, Foundation for Children’s Dreams, Saitama Inochi no Denwa, Saitama Greenery Trust Association, Saitama Adapted Sports Association

**Environmental preservation activities**

PICKLES CORPORATION is the first company in the food industry that obtained the certification of ISO14001 collectively for all of its offices in August 1999. Based on the environmental policies formulated by the management, it is aiming to become a more environmentally friendly corporate group through multifarious approaches, including efforts to reduce resource and energy waste, cut down on industrial wastes, comply with environment-related laws and regulations, educate the employees, and support environmental preservation organizations.



(Taken from the reference material of the company)

## 2. Fiscal Year February 2019 Earnings Results

Unit: Million yen	FY2/18	Ratio to sales	FY2/19	Ratio to sales	YOY	Initial estimate	Initial estimate comparison
Net Sales	37,616	100.0%	40,670	100.0%	+8.1%	40,386	+0.7%
Gross profit	8,653	23.0%	9,612	23.6%	+11.1%	9,461	+1.6%
SG&A expenses	7,521	20.0%	8,202	20.1%	+9.1%	8,160	+0.5%
Operating income	1,131	3.0%	1,409	3.5%	+24.6%	1,301	+8.3%
Ordinary income	1,233	3.3%	1,561	3.8%	+26.6%	1,413	+10.5%
Profit attributable to owners of parent	872	2.3%	920	2.3%	+5.5%	841	+9.4%

**Sales and operating income rose 8.1% and 24.6%, respectively, year on year. Both sales and profit exceeded the initial estimates, hitting record highs.**

Sales were 40,670 million yen, up by 8.1% year on year, owing to the sales increases of the kimchi products and purchased items, and the contributions by Tegara Foods Co., Ltd., the company acquired as a subsidiary. The rise in sales and the stable prices of ingredients improved the gross profit margin (from 23.0% to 23.6%), which offset the growth of selling, general and administrative (SG&A) expenses, including logistics and personnel costs, and raised operating income 24.6% year on year to 1,409 million yen.

### Trend by food item

Sales from products of asazuke lightly pickled vegetables and kimchi increased by 4.0% year on year with the product line of “Gohan ga Susumu Kimchi,” whose sales rose 14.2% year on year to 7,280 million yen, serving as a driving force, and sales from delicatessen grew 15.6% year on year mainly at convenience stores, thanks to the steady sales growth of the new product, “7 Hinmoku no Pickles (7 kinds of pickled vegetables).” Products sales also showed a rise thanks not only to such contributions by Food Label Co., Ltd. as rising sales from its products but also to the temporary special demand for umeboshi salted plums after they were featured on television programs as a food item used to take in salt as a countermeasure against heatstroke.

### Price of vegetable

The price of Chinese cabbages soared at the beginning of this term in the main producing prefecture of Ibaraki due to the decrease in the amount shipped and poor growth (smaller size) caused by the low temperatures and snow; however, the price became stable afterward and stayed lower than the price in the previous year after December 2018. The price of cucumbers jumped in the main producing areas such as Fukushima Prefecture in the summer (around July) owing to the low temperatures and cloudy weather in June and the high temperatures and light rainfall in July, which resulted in a smaller amount of shipment, but afterward the price stayed almost the same as that of the average year in general. The ingredients that the company uses are cucumbers, Chinese cabbages, Japanese radishes, turnips, carrots, cabbages, and others, and each of them accounts for 37%, 31%, 6%, 3%, 2%, 2%, and 19%, respectively.

### SG&A expenses

The company successfully kept the ratio of logistics cost to sales at 10.0%, which is almost the same as that of the previous term, through the improved delivery efficiency in western Japan following the start of the operation of Saga Factory, and creative delivery approaches all across the company.

## BRIDGE REPORT



## Sales by Food Item

Unit: Million yen		FY2/18	Composition ratio	FY2/19	Composition ratio	YOY	Initial estimate	Initial estimate comparison
Product	Asazuke pickles /kimchi	15,792	42.0%	16,420	40.4%	+4.0%	17,239	-4.8%
	Delicatessen	6,384	17.0%	7,382	18.1%	+15.6%	6,979	+5.8%
	Furuzuke pickles	921	2.4%	854	2.1%	-7.2%	957	-10.8%
Product (pickles, seasonings, etc.)		14,517	38.6%	16,012	39.4%	+10.3%	15,210	+5.3%
Total		37,616	100.0%	40,670	100.0%	+8.1%	40,386	+0.7%

## Sales by Sales Channel

Unit: Million yen		FY2/18	Composition ratio	FY2/19	Composition ratio	YOY	Initial estimate	Initial estimate comparison
Mass retailers/wholesalers		28,775	76.5%	31,132	76.5%	+8.2%	29,200	+6.6%
Convenience stores		4,751	12.6%	5,288	13.0%	+11.3%	5,203	+1.6%
Restaurants/others		4,089	10.9%	4,250	10.5%	+4.0%	5,982	-29.0%
Total		37,616	100.0%	40,670	100.0%	+8.1%	40,386	+0.7%

## Changes in Vegetable Price (compared to 100 yen in FY2/15) and Gross Profit Margin

Unit: Million yen	FY2/15	FY2/16	FY2/17	FY2/18	FY2/19
Chinese cabbages	100	113	121	126	112
Cucumbers	100	127	134	127	139
Gross profit margin	23.7%	22.5%	21.8%	23.0%	23.6%

## Breakdown of SG&amp;A Expenses

Unit: Million yen	FY2/18	Ratio to sales	FY2/19	Ratio to sales	YOY	Initial estimate	Initial estimate comparison
Logistics cost	3,758	10.0%	4,078	10.0%	+8.5%	4,073	+0.1%
Personnel cost	2,188	5.8%	2,422	5.9%	+10.7%	2,351	+3.0%
Advertising cost	307	0.8%	280	0.7%	-9.0%	299	-6.6%
Others	1,267	3.4%	1,421	3.5%	+12.2%	1,434	-0.9%
Total SG&A expenses	7,521	20.0%	8,202	20.1%	+9.1%	8,160	+0.5%



## Financial Conditions and Cash Flow

### Financial conditions

Unit: Million yen	FY2/18	FY2/19		FY2/18	FY2/19
Cash and deposits	3,806	2,835	Notes and accounts payable - trade	3,290	2,905
<b>Total current assets</b>	<b>8,482</b>	<b>7,573</b>	Income taxes payable, etc.	189	393
Property, plant and equipment	11,031	12,931	Interest-bearing liabilities	3,758	4,000
Intangible assets	879	796	<b>Total liabilities</b>	<b>9,993</b>	<b>10,230</b>
Investments and other assets	730	833	<b>Total net assets</b>	<b>11,129</b>	<b>11,904</b>
<b>Total non-current assets</b>	<b>12,641</b>	<b>14,561</b>	<b>Total liabilities and net assets</b>	<b>21,123</b>	<b>22,134</b>

Total assets at the end of the term rose by 1,011 million yen from the end of the previous term to 22,134 million yen following the capital investment and fundraising for capital investment. Capital-to-asset ratio was 53.5% (52.5% at the end of the previous term). The company made capital investment amounting to 2,681 million yen (783 million yen in the term ended February 2018) in the establishment of a new factory in Saga Prefecture for PICKLES CORPORATION West Japan, expansion and renovation of the existing factories (Tegara Foods, Miyagi Factory, and Chiba Factory), and equipment upgrade, posting a depreciation expense of 690 million yen (525 million yen in the term ended February 2018).

### Cash flows (CF)

Unit: Million yen	FY2/18	FY2/19	YOY	
Operating cash flow (A)	1,685	1,577	-108	-6.4%
Investing cash flow (B)	-933	-2,630	-1,696	-
Financing cash flow	241	81	-159	-66.0%
<b>Cash, equivalents at term end</b>	<b>3,806</b>	<b>2,835</b>	<b>-970</b>	<b>-25.5%</b>

### Variation in ROE

	FY2/15	FY2/16	FY2/17	FY2/18	FY2/19
<b>ROE</b>	<b>7.26%</b>	<b>9.79%</b>	<b>6.50%</b>	<b>8.57%</b>	<b>8.03%</b>
Net income to sales ratio	1.88%	2.30%	1.53%	2.32%	2.26%
Total asset turnover ratio	1.78	1.85	2.02	1.90	1.88
Leverage	2.17	2.31	2.10	1.95	1.89

\*ROE = Net income to sales ratio × Total asset turnover ratio × Leverage

\*The calculation is made using the average of total assets and equity capital in the current term (average balance at the end of the previous term and the end of the current term).

### 3. Fiscal Year February 2020 Earnings Estimates

Unit: Million yen	Results for FY2/19	Ratio to sales	Estimate for FY2/20	Ratio to sales	YOY
Net sales	40,670	100.0%	42,513	100.0%	+4.5%
Gross profit	9,612	23.6%	10,038	23.6%	+4.4%
SG&A expenses	8,202	20.1%	8,458	19.9%	+3.1%
Operating income	1,409	3.5%	1,580	3.7%	+12.1%
Ordinary income	1,561	3.8%	1,739	4.1%	+11.4%
Net income	920	2.3%	1,040	2.4%	+13.0%

#### Sales and operating income are estimated to grow 4.5% and 12.1%, respectively, year on year.

Sales are estimated to stand at 42,513 million yen, up by 4.5% year on year. It is projected that sales from asazuke lightly pickled vegetable and kimchi products will rise 4.7% year on year thanks mainly to the product line of “Gohan ga Susumu Kimchi” for which the company plans a campaign celebrating the 10th year of its release. Sales from delicatessen will grow by 13.9% year on year through the full-year contributions of “7 Hinmoku no Pickles” that the company released in the second half of the previous term. Meanwhile, as for the purchased products, the company is expected to maintain the trend of sales increases by offsetting the shrinking sales of umeboshi salted plums, transient demand for which declined, with the rise in sales from the product of its subsidiaries.

Operating income is estimated at 1,580 million yen, up 12.1% year on year. The financial impact of the start of the operation of a factory related to the Pne-12 lactic acid bacteria will be offset by sales increases and the improved profitability through the enhanced productivity at Saga Factory and Tegara Foods. Although the company has made a conservative estimate for gross profit margin, which will be unchanged from that of the same period of the previous year, SG&A expenses are expected to show a year-on-year increase of only 3.1%. Regarding SG&A expenses, while advertising costs are projected to rise by 25.9% year on year to 352 million yen for the campaign scheduled to honor the 10th year of the release of “Gohan ga Susumu Kimchi,” contributions by Saga Factory and Tegara Foods will improve the delivery efficiency, allowing logistics costs to grow by 4.0% year on year, which comes short of the sales rise.

The company plans to make capital investment of 1,444 million yen in a factory for products related to the Pne-12 lactic acid bacteria and equipment upgrade at other factories, and therefore has taken a depreciation expense of 652 million yen into account.

#### Sales by Food Item

Unit: Million yen		Results for FY2/19	Composition ratio	Estimate for FY2/20	Composition ratio	YOY
Product	Asazuke pickles/kimchi	16,420	40.4%	17,194	40.5%	+4.7%
	Delicatessen	7,382	18.1%	8,409	19.8%	+13.9%
	Furuzuke pickles	854	2.1%	821	1.9%	-3.9%
Product (pickles, fruits and vegetables, etc.)		16,012	39.4%	16,087	37.8%	+0.5%

#### Sales by Sales Channel

Unit: Million yen	Results for FY2/19	Composition ratio	Estimate for FY2/20	Composition ratio	YOY
Mass retailers/wholesalers	31,132	76.5%	32,300	76.0%	+3.8%
Convenience stores	5,288	13.0%	5,800	13.6%	+9.7%
Restaurants/others	4,250	10.5%	4,413	10.4%	+3.8%



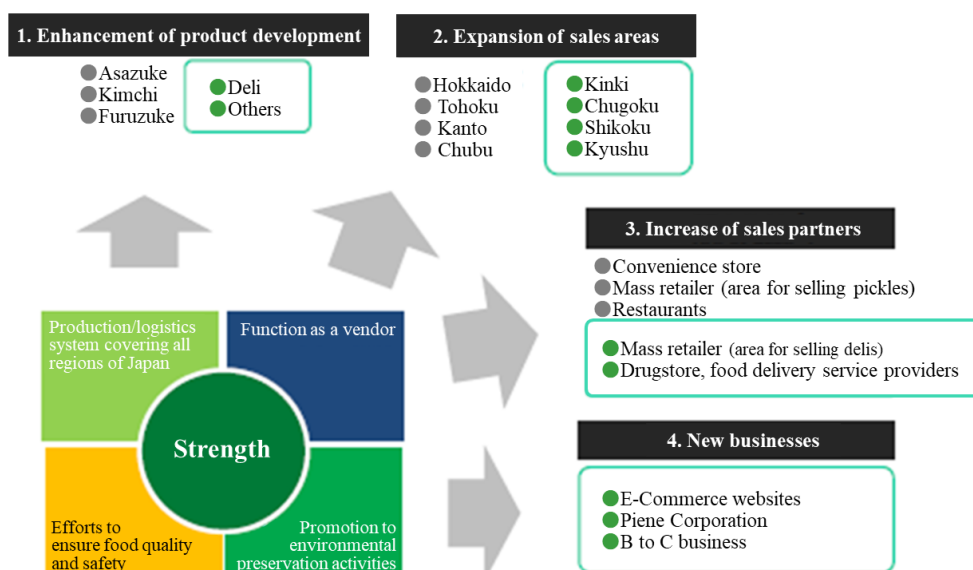
**Breakdown of SG&A Expenses**

Unit: Million yen	Results for FY2/19	Ratio to sales	Estimate for FY2/20	Ratio to sales	YOY
Logistics cost	4,078	10.0%	4,243	10.0%	+4.0%
Personnel cost	2,422	5.9%	2,520	5.9%	+4.1%
Advertising cost	280	0.7%	352	0.8%	+25.9%
Others	1,421	3.5%	1,341	3.2%	-5.7%

**4. Future Strategy**

The company will expand business fields through enhancement of product development, expansion of sales areas, increase of sales partners, and the launch of new businesses. For product development, it will reinforce development of new delicatessen products with diversifying needs, such as “eating alone” and “ready-made meals” and forge ahead with development of new core food items, including products related to the Pne-12 lactic acid bacteria. It will also continue developing new asazuke lightly pickled vegetable and kimchi products and redeveloping the existing product lines of them. In order to expand sales areas, the company will increase a market share in such regions as Kinki, Chugoku and Shikoku, and Kyushu where their share are small. Specifically, it will propel forward business development in the Kyushu region with Saga Factory of PICKLES CORPORATION West Japan as a base, and enhance sales in the Kinki, Chugoku and Shikoku regions by making the most of the supply capability of Hiroshima Factory of PICKLES CORPORATION Kansai, which now has capacity enough to spare for production thanks to Saga Factory that has been in operation and Tegara Foods whose factory has been renovated. For increasing sales partners, the company will focus on taking a bigger share at the section of delicatessen in mass retailers, and prospect for drugstores that have been expanding the selling floor for food items and food delivery service providers mainly for aged people whose demands are expected to grow due to the graying population. Concerning new businesses, the company operates 2 e-commerce websites, which are “Piene Online Shop” (selling products developed using the lactic acid bacteria) and “YAWATAYA Online Shop” (selling authentic Japanese-style pickles), and will begin a restaurant and retail business (operation of a theme park promoting fermentation and health, “OH!!! Magic of Fermentation, Health, and Food”) in the spring of 2020 primarily by OH Co., Ltd, which the company established as a subsidiary in March 2019.

In addition, it will implement business strategies by utilizing its nationwide network, which is the only network built up in Japan by a pickles manufacturer, and focus on advertising activities, including not only the conventional ones such as television commercials, ad-wrapped buses, and outdoor signage, but also advertisements via social media.



(Taken from the reference material of the company)

## Product development

### Asazuke lightly pickled vegetable/kimchi product

The scale of the pickles market was 320 billion yen in 2017 (according to the estimate by PICKLES CORPORATION). The shrinking amount of rice consumption due to diversifying eating habits, and the aging society decrease the scale of the pickles market from 500 billion yen in 1998 to 380 billion yen in 2008, and even to 320 billion yen in 2017. With that being said, amid the declining market scale for takuwan pickled radishes, suzuke vinegar pickles, and kizamizuke chopped pickles, the market of asazuke lightly pickled vegetables and kimchi, which are the mainstays of the company, is seemingly stable. The markets of asazuke lightly pickled vegetables and kimchi are bullish in the pickles industry, and THE JAPAN FOOD NEWS reported that the share of each pickles product in the market (the estimated ratio of shipment by item in 2017) was as follows: asazuke lightly pickled vegetables and kimchi accounted for 27% and 21%, respectively, followed by umeboshi salted plums making up 14%, takuwan pickled radishes accounting for 13%, suzuke vinegar pickles that made up 11%, kizamizuke chopped pickles which accounted for 6%, and others accounting for 8%. Asazuke lightly pickled vegetables and kimchi together made up 48%.

According to the rankings of sales prepared by PICKLES CORPORATION based on an article published by THE JAPAN FOOD NEWS, the company is the top with consolidated sales of 40.6 billion yen, followed by Tokai Pickling Co., Ltd. of 19.5 billion yen, AKIMOTO FOODS Co., Ltd. of 12.3 billion yen, and Bingo Tsukemono Co., Ltd. of 11 billion yen. These 4 companies are the only ones that have achieved sales of over 10 billion yen; however, even PICKLES CORPORATION that has pulled far ahead of the other 3 companies in terms of sales has taken only 12.7% of the market share, and the market share held by the top 10 companies, including PICKLES CORPORATION, has made up merely 41.5%. Many of the pickling companies are small- and medium-sized companies. These small pickling businesses are being sifted and reorganized in the wake of not only the difficulty in securing a successor but also a required capability to develop products based on such keywords as health consciousness, capacity to provide delicatessen, and appealing functionality. The company has set a goal of having a market share of 15% for the time being and will endeavor to increase the share through myriad approaches, including M&A.

In the term ending February 2020, it will expand sales from “Gohan ga Susumu Kimchi” which will mark the 10th anniversary in October 2019 and raise sales from the product line by 7.1% year on year namely 7.8 billion yen. As for asazuke lightly pickled vegetables, it will focus on developing regular items available through the year and new seasonal products, and redeveloping the existing items and low-salt products.

### Delicatessen

According to the material prepared by the company (surveyed by Japan Chain Stores Association), the scale of the delicatessen market (Japanese-, Western-, and Chinese-style delicatessen, bento box meals, delicatessen such as sandwiches) stood at 1,035,700 million yen in 2018 (1,012,600 million yen in 2017). It continues expanding on the background of the rising number of one-person households, the graying population, the growing number of working women, the increasing interest in food such as health and nutritional balance, and the rising needs for simpler household chores and time saving. In this field, PICKLES CORPORATION will have to vie with such listed companies as Fujicco Co., Ltd. (sales of 62.9 billion yen, net income of 4,020 million yen), KENKO Mayonnaise Co., Ltd. (sales of 72.7 billion yen, net income of 2,870 million yen), and Ebara Foods Industry, Inc. (sales of 50.3 billion yen, net income of 1,170 million yen), and subsidiaries of listed companies, including Deria Foods Co., Ltd. (subsidiary of Kewpie Corporation) and Initio Foods Inc. (subsidiary of Nissin Food Products Co., Ltd.).

Although PICKLES CORPORATION is a new comer in the industry, it increased sales of delicatessen from 5,756 million yen in fiscal year 2017 to 6,384 million yen in fiscal year 2018 and further to 7,382 million yen in fiscal year 2019 by focusing on mindful sales activities unique to a company that sells products directly and on delicatessen cooked mainly using vegetables that satisfy health-conscious people. The company has estimated sales for fiscal year 2020 at 8,409 million yen, with weight attached to salads (such as Japanese-style salads and salad appetizers), appetizer products, and new products (warm food items).

## BRIDGE REPORT



Ajillo of shrimp and broccoli



Kimchi pot dish



Brightly colored vegetables tossed with bagna cauda sauce



Boiled and seasoned okura



Tomato marinade



Japchae



Bang bang chicken salad



7 kinds of pickled vegetables



Namul of various vegetables

(Taken from the reference material of the company)

### Furuzuke pickled vegetables and others

The company will release new core products in an attempt to revitalize the market. As part of the approach, Toyo Food Co., Ltd., a subsidiary that manufactures menma seasoned bamboo shoots, released “Kamadaki Menma (pot-cooked bamboo shoots)” under supervision of “Ganja”, a famous restaurant with a long waiting line, and another subsidiary that manufactures fukujinzuke pickles, YAWATAYA Co., Ltd., released “Shikkari Shokkan Shiso Hijiki (Japanese herb and hijiki edible seaweed with crunchy texture)” and “Shikkari Shokkan Miso Daikon (Miso and Japanese radish with crunchy texture).” “Kamadaki Menma” is characterized with rich flavoring achieved through simmering of bamboo shoots in a pot and produced under the supervision of “Ganja” that is renowned for its tsukemen noodles. “Shikkari Shokkan Shiso Hijiki” and “Shikkari Shokkan Miso Daikon” have a “tender and crunchy texture” as represented by their names. They are cut into small pieces, which allows consumers to use them in a wide range of meals. The package of each of the products has the color and design that match the image of each of them, including the approachable illustration.

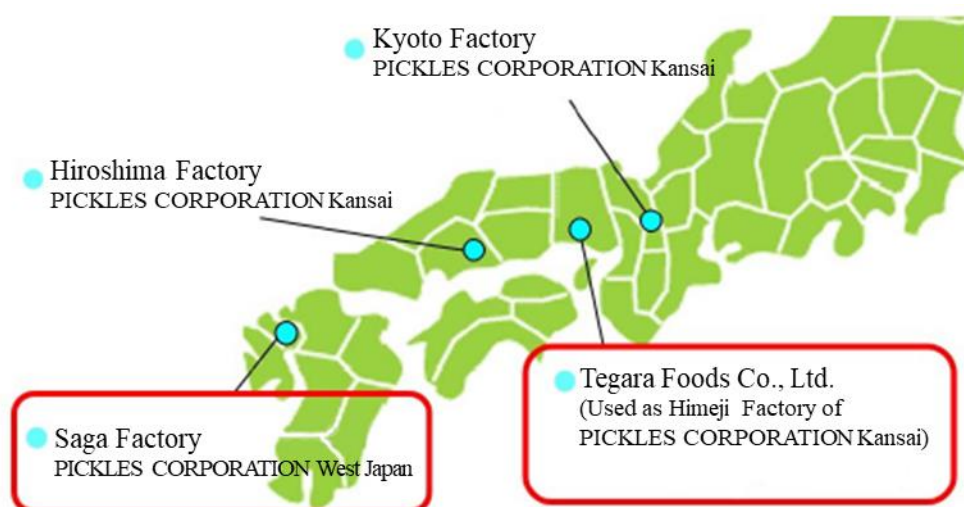
### Dried product

The company will prospect for selling floors at the grocery section of supermarkets with the dried products of Food Label Co.,Ltd, including “IKINARI Sauce of IKINARI STEAK” and “IKINARI Onion Sauce of IKINARI STEAK.” “IKINARI Sauce of IKINARI STEAK” is a soy sauce-based steak sauce that has a flavor of garlic for bringing out the taste of meat. “IKINARI Onion Sauce of IKINARI STEAK” is a sauce for hamburg steaks based on the original sauce for “Wild Hamburg Steak” that is one of the most popular menus at IKINARI STEAK.

**Expansion of sales areas**

Sales in the Kanto region, which accounts for 34% of the total population, make up 52% of the total sales. Meanwhile, sales in the Chugoku and Shikoku region with the population making up 9% and those in the Kyushu and Okinawa region with the population accounting for 11% remain at 4% and 5%, respectively, of the total sales. Including the Kinki region (with the population ratio of 16%) whose sales make up 16% of the total sales, the company aims to earn sales of over 30% of the total sales in western Japan (Kinki, Chugoku and Shikoku, and Kyushu regions).

Saga Factory of PICKLES CORPORATION West Japan started operation in April 2018, and the renovation of the factory of Tegara Foods, the company acquired as a subsidiary in December 2017, was completed. Both of the factories will contribute not only to supply of products but also improvement of the delivery efficiency through elimination of the need for long-distance delivery as well.



(Taken from the reference material of the company)

	Saga Factory	Tegara Foods Co., Ltd.
Address	Miyaki-cho, Miyaki-gun, Saga	Himeji-shi, Hyogo
Sales Area	Kyushu region	Kinki region

**Increase of sales partners**

The company will strive to increase a share at delicatessen section of mass retailers by making the most of the sales channels that it has opened up for asazuke lightly pickled vegetables and kimchi. In addition, it will focus on prospecting for drugstores that are attaching weight to sale of food items and food delivery service providers targeting mainly aged people.



**New businesses**

The company opened 2 e-commerce websites in April 2018, which are “Piene Online Shop” and “YAWATAYA Online Shop” as new businesses. It sells products developed using the company’s own Pne-12 lactic acid bacteria via “Piene Online Shop” and offers authentic Japanese-style pickles, which are produced based on an absolute commitment to using ingredients cultivated in Japan and not adding synthetic seasonings, on “YAWATAYA Online Shop.” The company completed the construction of a factory for products related to the Pne-12 lactic acid bacteria in April 2019 and will begin shipment of products in June of the same year.

**Piene Corporation (e-commerce website)**

**YAWATAYA Co., Ltd. (e-commerce website)**



Yasai Koji Amazake  
Murasakiimo  
(Vegetable fermented  
drink of malted rice with  
a flavor of purple yam)



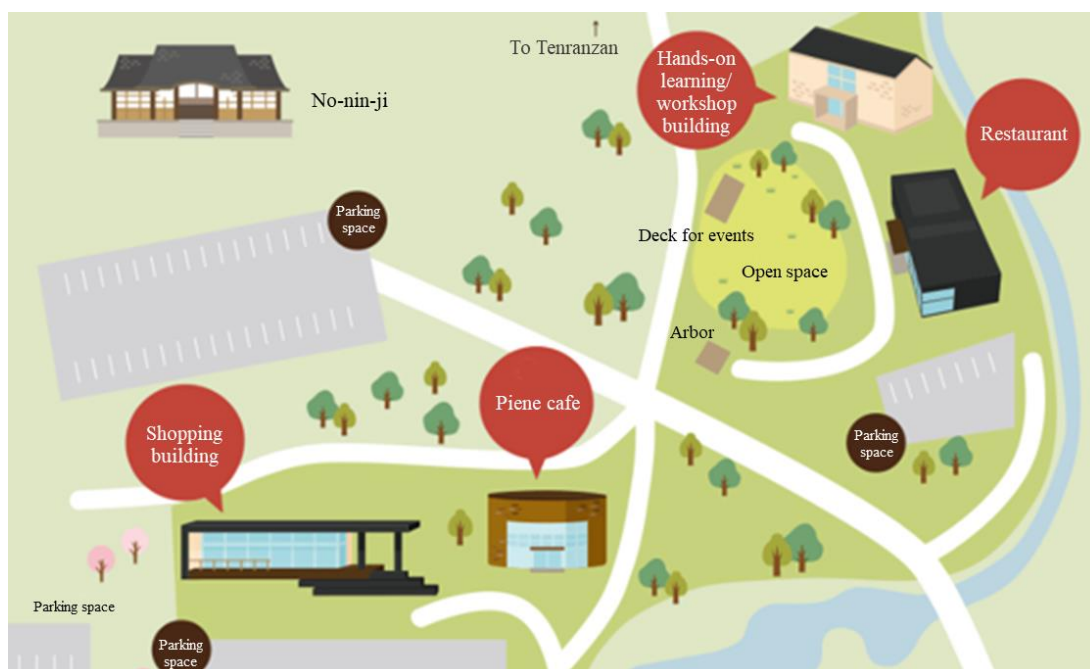
Ice Sweets Koji Tomato  
(Ice cream made with  
malted rice and tomato)



Honkaku Jukusei  
Daikon Kimchi  
(Authentic aging kimchi of  
Japanese radish)

Furthermore, OH Co., Ltd., the company set up in March 2019 as a subsidiary, will begin a restaurant and retail business by opening a theme park promoting fermentation and health, “OH!!! Magic of Fermentation, Health, and Food,” in the spring of 2020 (Hanno City, Saitama Prefecture) (it will start full-fledged operation in the term ending February 2021). This is a B to C business that can also serve as an enlightenment activity on fermented food items, and the company expects support from Hanno City. The company plans to construct 4 buildings, including one for shopping, one for a restaurant, one for a café where visitors can enjoy Piene-related food menus, and one for hands-on learning and workshops, in part of the premise of the “No-nin-ji,” a temple of Soto School of Zen Buddhism with a sango title of Buyosan, which was a leading figure that received a stamp for its 50 koku of rice production as the main temple of 20 branch temples in Hanno region in the Edo period. The company also plans to make capital investment of 700 million yen in fiscal 2021, expecting that the number of visitors will be nearly 300,000 per year and sales will reach 700 million yen.

Hanno City successfully invited the theme park of Moomin, “Metsa,” making it the world’s first Moomin theme park in a country other than its home country, Finland. The city opened “Metsa Village” where visitors can experience the life in Northern Europe in November 2018 and “Moomin Valley Park” at which people can feel the world of Moomin in March 2019.



(Taken from the reference material of the company)

### Efforts at production

The company is propelling forward adoption of energy-saving machines, such as automatic packaging machines and automatic weighing machines, in order to deal with labor shortages and cut reduction of employment costs. In addition, it will reconsider the process of procuring vegetables (such as procurement activities in each region) and materials (for trimming the weight of packages), and the facilities to which it outsources treatment of industrial waste in an effort to reduce costs. Taking into account how to secure human resources, the company will endeavor to enrich the welfare and personnel systems.

## 5. Medium-Term Management Plan

Unit: Million yen	FY2/20 Est.	Ratio to sales	YOY	FY2/21 Plan	Ratio to sales	YOY	FY2/22 Plan	Ratio to sales	YOY
Net sales	42,513	100.0%	+4.5%	45,110	100.0%	+6.1%	46,541	100.0%	+3.2%
COGS	32,474	76.4%	+4.6%	33,643	74.6%	+3.6%	34,665	74.5%	+3.0%
Gross profit	10,038	23.6%	+4.4%	11,467	25.4%	+14.2%	11,876	25.5%	+3.6%
SG&A expenses	8,458	19.9%	+3.1%	9,797	21.7%	+15.8%	10,099	21.7%	+3.1%
Operating income	1,580	3.7%	+12.1%	1,670	3.7%	+5.7%	1,777	3.8%	+6.4%
Ordinary income	1,739	4.1%	+11.4%	1,842	4.1%	+5.9%	1,955	4.2%	+6.1%
Net income	1,040	2.4%	+13.0%	1,164	2.6%	+11.9%	1,248	2.7%	+7.2%

The company plans to increase the number of sales partners, expand sales areas, and enrich the range of products that it sells through the capability of product development, utilization of the manufacturing and logistics systems and vendor function that cover all the regions of Japan, efforts to ensure food quality and safety and environmental preservation activities, development of new businesses, and agile response to M&A, all of which are its strengths and characteristics.

The company has established numerical goals for sales and profit for the term ending February 2022 as sales of 46.5 billion yen and operating income of nearly 1.8 billion yen. By food item, it expects that sales from delicatessen will grow 26.0% by the term ending February 2022, and those from asazuke lightly pickled vegetables and kimchi will also increase 14.1%, respectively. As a fermentation and health theme park, "OH!!! Magic of Fermentation, Health, and Food," will be opened in early 2020, SG&A expenses will rise in and after the term ending February 2021 due mainly to an increase in personnel cost; however, the company will be able to achieve a steady profit rise by offsetting this growth of cost.

### Sales by Food Item

Unit: Million yen		Results for FY2/19	Composition ratio	Plan for FY2/22	Composition ratio	Compared to FY2/19
Product	Asazuke pickles/kimchi	16,420	40.4%	18,736	40.3%	+14.1%
	Delicatessen	7,382	18.1%	9,300	20.0%	+26.0%
	Furuzuke pickles	854	2.1%	855	1.8%	+0.1%
Product (pickles)		16,012	39.4%	16,900	36.3%	+5.5%
Restaurant/retail		-	-	750	1.6%	-
Total		40,670	100.0%	46,541	100.0%	+14.4%



### Capital investment

The company plans to make capital investment of 1,444 million yen in a construction of a factory for products related to the Pne-12 lactic acid bacteria and equipment upgrade at the existing factories in the term ending February 2020, therefore it has taken into consideration a depreciation expense of 652 million yen in the earnings estimate. For fiscal year 2021, it will also make capital investment amounting to 1,731 million yen in the facility of a subsidiary, OH Co., Ltd., expansion of Chukyo Factory, and equipment upgrade at the existing factories, estimating a depreciation expense at 656 million yen. For fiscal year 2022, it is scheduled to make capital investment of 1 billion yen in equipment upgrade at the existing factories and has estimated that a depreciation expense will stand at 636 million yen; however, the company will flexibly make capital investment and perform M&A depending on the situation.

## 6. Conclusions

Although sales from asazuke lightly pickled vegetables were slightly stagnant in the term ended February 2019, the product line of “Gohan ga Susumu Kimchi” achieved steady sales growth and sales from delicatessen rose after the second half of the previous term thanks to the big hit of “7 kinds of pickled vegetables.” For the term ending February 2020, we would like to expect that the company will successfully take in further demand for the “Gohan ga Susumu Kimchi” line through the campaign celebrating the 10th anniversary of the product and develop a new popular delicatessen product next to “7 Hinmoku no Pickles” in the delicatessen business.

A theme park for fermentation and health, “OH!!! Magic of Fermentation, Health, and Food,” is kindling interest although how much the theme park will be able to contribute to revenue is not clear at this moment. It is not an exaggeration to say that the Japanese eating habit has developed together with fermented food items. Following the concept of “a place where rich mental and physical health develops through the power of fermentation,” PICKLES CORPORATION will deliver a wide range of surprises that make people say “OH!!!” Through experiment of relishing authentic fermented food which take a great deal of time and effort, realization of profoundness of fermentation and ripening and pleasure brought by food. Furthermore, it will strive to contribute to revitalizing Saitama Prefecture, Hanno City in particular, by selling fresh and processed products and hosting events at the facility. We would like to keep an eye on the aforementioned as a new business that is a cross between enlightenment activities for fermented products and regional contributory activities.

### <Reference: Regarding Corporate Governance>

#### ◎ Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	7 directors, including 2 outside ones
Auditors	4 auditors, including 4 outside ones.

#### ◎ Corporate Governance Report (Updated on Dec. 25, 2018)

##### Basic Policy

Our company considers corporate governance to be the important issue of business management for acting in conformity with the law and social norms, realizing the management policies, and achieving continuous growth.

##### <Principles that have not been followed, and reasons>

###### 【Principle 1-4. Strategically held shares】

In principle, our company does not possess shares of any listed companies; however, if we have decided to hold shares of a listed company for a reasonable managerial purpose for maintaining and strengthening a transaction partnership, we will regularly check that we hold the shares in a manner to fulfill the purpose. We will consider how to verify the appropriateness of holding strategically held shares of individual companies and how to disclose the details of the verification. We will make judgment on whether or not we should exercise the voting rights of the strategically held shares of individual listed companies, and exercise the voting rights when necessary after comprehensively judging if doing so contributes to medium- and long-term improvement of the value of our company and the corporations in which we have invested.

**【Supplementary Principle 4-1-3】**

Our company has not specifically formulated a plan to secure a successor to the president, who is the chief executive officer of our company, at this point; however, we will consider drawing up a plan regarding a successor and the board of directors will properly supervise the details.

**<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>****【Principle 3-1. Enrichment of information disclosure】**

- (1) Our company discloses our corporate philosophy and policies on our website.
- (2) Our company discloses our basic attitude toward corporate governance on this report.
- (3) Our company determines the amount of the remuneration for the executives within the range of the payment limit resolved at a general shareholder meeting by comprehensively taking into account a number of factors, including the title, years of service, business performance of each executive, and corporate business performance. Furthermore, we have adopted the subscription rights to shares as a stock option regarding the internal directors in order to share the advantages and risks of the fluctuating share prices with the shareholders and strengthen the motivation to contribute to increasing the share price and corporate value of our company.
- (4) Our company has designated employees who have high expertise in their respective fields and are capable of dealing promptly and accurately with changes in the management environment as internal directors. We have appointed those who are capable of supervising the management of our company independently from an objective viewpoint without being in favor of the management or specific persons concerned as outside directors. We will consider removing any director at a meeting of the board of directors when we have acknowledged that the relevant director does not satisfy the aforementioned designation policy, or when the director violated or may violate the laws or the articles of incorporation.
- (5) Our company discloses the reasons for assigning candidates for directors and auditors on the notice of convocation of a general shareholder meeting.

**【Principle 5-1. Policy for promoting constructive dialogue with shareholders】**

Our company endeavors to expeditiously disclose information on the basis of transparency, fairness, and continuity so that shareholders and investors can correctly understand our company. We strive to disclose information in accordance with the associated laws and regulations, such as Financial Instruments and Exchange Act, and the rules on timely disclosure stipulated by the financial instruments exchange, and disclose information that we have judged to be useful for shareholders and investors to have a better idea of our company in a more proactive manner through an appropriate method.

Specifically, we hold financial results briefings twice a year and explanatory meetings for individual investors as necessary, and the president and the public and investor relations division deal with individual interviews as much as possible. In addition, we have established the public and investor relations division as a department responsible for investor relations activities, and posted our disclosure policy on our website.

TSE Corporate Governance Information Service: <http://www2.tse.or.jp/tseHpFront/CGK010010Action.do?Show=Show>

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