

## BRIDGE REPORT



President Takashi Sumii

KENKO Mayonnaise Co., Ltd. (2915)



## Company Information

Market	TSE 1st Section
Industry	Foodstuff (manufacturing)
President	Takashi Sumii
HQ Address	3-8-13, Takaido Higashi, Suginami-ku, Tokyo
Year-end	March
Homepage	<a href="https://www.kenkomayo.co.jp/">https://www.kenkomayo.co.jp/</a>

## Stock Information

Share price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading unit
¥2,548	16,475,422 shares		¥41,979 million	7.2%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥31.00	1.2%	¥142.64	17.9 times	¥1,996.95	1.3times

\*The share price is the closing price on December 3.

\*The number of shares issued is obtained by deducting the number of treasury stocks from the number of shares issued at the end of the latest quarter.

\*ROE and EPS are the number of the last fiscal year-end.

## Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March. 2016 (Actual)	66,933	3,436	3,426	2,085	146.76	28.00
March. 2017 (Actual)	70,812	3,987	4,017	2,867	194.88	37.00
March 2018 (Actual)	72,759	4,173	4,149	2,877	174.65	37.00
March 2019 (Actual)	73,989	3,116	3,145	2,296	139.40	30.00
March 2020 (Forecast)	76,000	3,300	3,300	2,350	142.64	31.00

\*Unit: million yen, yen

\*The forecasted values were provided by the company.

This Bridge Report presents the earnings overview of the First Half of Fiscal Year March 2020 and full-year forecasts for KENKO Mayonnaise Co., Ltd.

## Table of Contents

### [Key Points](#)

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

#### [2. First Half of Fiscal Year March 2020 Earnings Results](#)

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

#### [4. Progress of Medium-term management plan “KENKO Value Action – Create Value” \(FY3/19 – 3/21\)](#)

#### [5. Conclusion](#)

[<Reference: Social and environmental activities>](#)

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

## Key Points

- For the first half of FY3/20, sales and ordinary income increased 1.0% and 5.2%, respectively, year on year. Profitability is improving, and the results are in line with the initial estimates as a whole. As for the seasoning and processed foods business, the sales of processed egg products were sluggish due to the decrease of dishes in the menu and bad weather (lingering rain and low temperatures), but the sales of potato salads recovered. As for the delicatessen-related business, etc., the production efficiency in the new Shiraoi Factory of DIETCOOK and Kanagawa Factory of KANTOH DIETCOOK increased, improving profitability and sales.
- There is no revision to the full-year earnings forecast, and it is estimated that sales and ordinary income will grow 2.7% and 4.9%, respectively, year on year. Sales are projected to increase, due to the recovery of performance of potato salads, the contribution of the new factory, and the increase in output of the new factory whose operation began in the previous term. As for profit, there are effects of production efficiency and the augmentation of costs for materials, distribution, etc., but they are offset by sales growth, the merits of procurement of major ingredients, the improvement in production efficiency of the new factory, etc. The term-end dividend is to be 16 yen/share, and the annual dividend amount, including the interim dividend, is to be 31 yen/share (the estimated payout ratio: 21.7%). The company plans to pay dividends according to business performance while aiming to achieve a payout ratio of 20%.
- The operation of 4 factories began, but the business model of convenience stores, which has been the driving force of business, is reaching a turning point. The company increased sales for 8 consecutive terms from FY 3/12 to FY 3/19, being highly evaluated in the market. The average sales growth rate during that period is 4.8 to 4.9%. In the first half of this term, the sales of products for restaurants and mass retailers increased, but the year-on-year growth rate was only 1%, due to bad weather, etc. For FY 3/19, annual sales grew 1.7% from the previous term.

## 1. Company Overview

KENKO Mayonnaise Co., Ltd. is a commercial food manufacturer focusing on salads. The company started out specializing in the commercial manufacture of mayonnaise, and using mayonnaise and dressings as its foundation, expanded business to include salads, delicatessen, and processed egg products. Utilizing its consolidated subsidiaries, the company also handles fresh delicatessen for mass retailers. It developed the “Long-life Salad,” which boasts an extended shelf life, for the first time in Japan as well as special salads using unconventional ingredients such as burdock and pumpkin. As a pioneer in its industry, KENKO has held the top market share for long-life salad since the product’s release. It is ranked 2<sup>nd</sup> in mayonnaise and dressings, and 3<sup>rd</sup> in the omelet market. (company estimate based on Fuji Economics’ “Food Marketing Handbook”).

The corporate group is composed of KENKO Mayonnaise (7 factories), 7 consolidated subsidiaries (10 factories) as overseas bases, PT. Intan Kenkomayo Indonesia (an equity method affiliate), which is located in Indonesia, and MKU Holdings, Inc. (an equity method affiliate), which is located in the U.S. The company manufactures and sells products such as mayonnaise, dressings, and processed eggs (seasoning and processed foods business), and its consolidated subsidiaries sell fresh delicatessen, etc. to mass retailers. (delicatessen-related business). The company's production bases are located in Atsugi, Yamanashi, Gotenba, Shizuoka Fujisan, Nishi-Nihon (Kyoto), Kobe, and Nishi-Kobe.

### 【Company Philosophy “Contributing to the world by providing quality foods”】

The company philosophy indicates the raison d'être of the Group in society. It is infused with the hope of “enriching the food industry with salad dishes” and “finding social and economic value while contributing to customers, markets, local communities, society, and the environment with product competitiveness, development capability, technology, quality, and services.” Reflecting this philosophy, the company contributes to society through the provision of various food-related products, services and information such as food education activities, support for food bank activities, and activities to contribute to the international community, while working on environmental initiatives including reducing waste, saving energy, and high value-added recycling. By improving corporate value, the company plans to keep growing and developing to become the No.1 salad enterprise.

### 【The Group’s Business Philosophy “Body and Mind (mind/body/soul) and Environment”】

The group’s Business Philosophy shows the passion of our company group based on the company philosophy. We care about the mental and physical aspects as well as the souls of our consumers and other people concerned with our business, who are loyal to our products. Also, we devote ourselves to work on environmental issues affecting earth, where the source of our soul (food) grows.

### 【The Group’s Management Policy “To become No.1 Salad Company,” “To provide the number one quality products/services in Japan”】

The Group’s management policy is based on the group’s business philosophy and indicates the direction the Group should aim for. The aim is to be “a company which offers salads that can be the main dish, or the king in other words, at the dining table.” The company is also working on “creating a market with a focus on salads” and “establishing salad dishes as one of the genres.” The company is still pursuing to improve the quality and service, based on the idea that “it is the manufacturer’s responsibility to provide safe, secure, and high-quality products in order to improve customer satisfaction.

#### 1-1 Business contents

The company’s business segments consist of the seasoning and processed foods business, which manufactures and sells salads, delicatessen, processed eggs, mayonnaise and dressings; the delicatessen-related business, which is handled by consolidated subsidiaries and deals with the manufacture and sale of fresh delicatessen (salad and foodstuffs with a shelf life of 1-2 days) as well as contract manufacturing within the company group; and others which are the shop business (cafe) and overseas business.

Sales composition ratios for FY3/19 were 80.7% (82.7% in FY3/18), 17.7% (15.6%), and 1.6% (1.8%), respectively. By product type, salads account for 44.3% (44.6% in FY3/18), eggs 29.0% (28.8%), mayonnaise and dressings 24.5% (24.4%), and others 2.2% (2.2%). By field of sale, dining out such as fast food and family restaurants accounts for 27.9% (26.1%), convenience stores 27.4% (28.3 % in FY3/18), mass retailers such as supermarkets 22.9% (21.9%), manufactured bread 13.3% (13.5%), school lunch services 4.5% (4.6%), and others, such as co-op and commercial cash & carry 4.1% (5.6%).

#### Seasoning and processed foods business

1: Salads and delicatessen (long-life salad, fresh salad, Japanese dishes, etc.)

KENKO was the first in Japan to develop “**long-life salad**”, the salad with an extended shelf life. It is also the first to introduce “burdock salad” to the world. This long-life salad is a brand called “FDF® (Fashion Delicia Foods®),” and is used in restaurants, bakeries, convenience stores, etc. As the industry’s first manufacturer and seller of long-life salad, the company takes pride in being the market leader and holding the top market share, and it is continuously striving to develop new products.

## BRIDGE REPORT



Potato salad gratin bread



【Menu example】  
KENKO Refined  
Potato Salad



Makunouchi-bento (variety box lunch) style rice-ball salad



【Menu example】  
Wasai Bansai®  
Kinpira-Gobo



Hokkaido potato pot-au-feu



【Menu example】  
Hokkaido chilled  
potato hall



Fried chicken with a light onion sauce



【Menu example】  
Onion Base for  
Salads



(Images above and below taken from the company's website)

## 2: Processed Eggs (fresh eggs, omelets, Kinshi-Tamago etc.)

The company produces all kinds of processed egg products, such as egg salad to be used in sandwiches and snack breads, Atsuyaki-Tamago (Japanese style) for lunch boxes, Kinshi-Tamago (narrowly stripped cooked eggs) used for cold Chinese noodles, and boiled eggs for Oden soup. In April 2014, the Shizuoka Fujisan egg baking factory began operation. The factory is equipped with an integrated manufacturing line that takes raw eggs with eggshell all the way to finished products.

Creamy eggs & napolitan



【Menu example】  
Easy-microwave Creamy Eggs

Atsuyaki-Tamago sandwich



【Menu example】  
Souzaitei® Thick  
Omelet

(Images above and below taken from the company's website)

## 3: Mayonnaise & Dressings (mayonnaise, dressings, cooking sauces, etc.)

This is KENKO's main business. Since the company's foundation, the company has developed many types of mayonnaise and dressings to meet the demands of professional clients as a commercial manufacturer. Some examples include solidified dice-shape sauces developed for use in frozen foods, and mayonnaise-flavored powder which can be sprinkled on snacks such as potato chips.



## BRIDGE REPORT



## Green salad with egg



【Menu example】  
KENKO OUFUU Mayonnaise

Grilled salad with bacon  
and summer vegetables

【Menu example】  
Triple Balance Non Oil Onion



## Green salad



【Menu example】  
Herb and Vegetable Dressing

**Delicatessen-related business, etc.**

This business handles the manufacture and sale of fresh delicatessen (daily salads, ready-to-eat foods) for supermarkets and mass retailers. For the main product, potato salad, the company constantly strives to make the most of its ingredients by rotating production areas and offering seasonal varieties, in order to consistently deliver high quality products.

**Others****Salad Cafe business**

This is the only business in the KENKO mayonnaise company group to have direct contact with customers. Utilizing both the Web and its actual shops, the company relays information to customers, and in turn, customers are able to voice their opinions. There are currently 16 shops, located in places such as supermarkets and department stores found at major railway terminals, as well as within station buildings themselves.

**Overseas business**

The company exports goods to more than 40 different countries and regions. Demand is expected to rise even further in Indonesia, which has the largest population in Southeast Asia and whose food culture is becoming more diverse due to rapid economic growth. As such, in 2012, the company established PT. Intan Kenkomayo Indonesia. A production facility was completed in 2013, establishing a system for local manufacturing and sales. In 2015, the Vancouver Research Office was established in Canada as a base for collecting food-related information, particularly in North America and Europe. As a market-oriented company, KENKO intends to promptly identify new food cultures and take actions based on this information.

Overseas businesses are not included in net sales as they are accounted for by the equity method.

**1-2 Manufacturing and sales network (Japan: 7 company-managed factories, and 10 factories managed by 7 consolidated subsidiaries)**

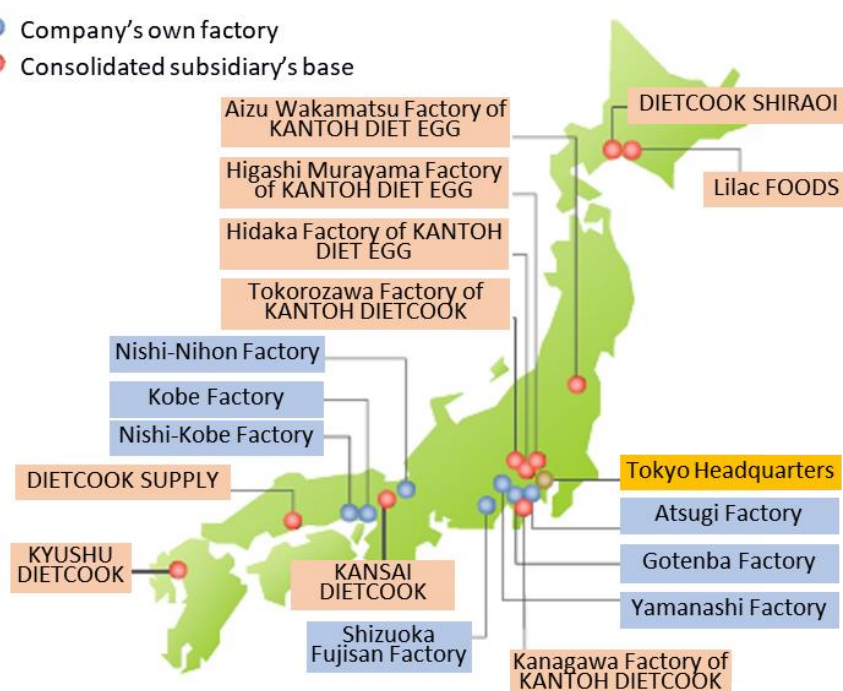
In Japan, there are 7 company-managed factories and 10 factories managed by 7 consolidated subsidiaries. The company builds production systems that are closely tied to the region, and one of its strengths is its ability to meet the needs of clients by providing freshness, variable quantities, and customer-specific service.

## BRIDGE REPORT



● Company's own factory

● Consolidated subsidiary's base

**Consolidated Subsidiaries**

- DIETCOOK SHIRAOI Co., Ltd.
- Lilac FOODS Co., Ltd.
- KANTOH DIETCOOK Co., Ltd.
- KANTOH DIET EGG Co., Ltd.
- KANSAI DIETCOOK Co., Ltd.
- DIETCOOK SUPPLY Co., Ltd.
- KYUSHU DIETCOOK Co., Ltd.
- Salad Cafe Co., Ltd. (Sales)

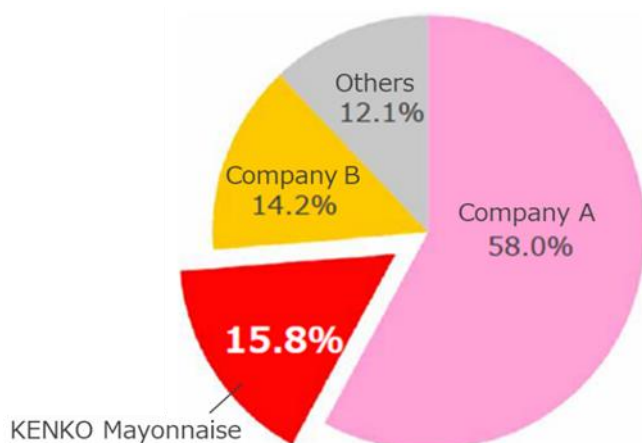
**(Overseas Bases)**

- PT.Intan Kenkomayo Indonesia
- Vancouver Research Office

(Source: The company)

**1-3 Industry positioning (Source: the company)****Mayonnaise and dressings**

The market size (expected) in 2018 is 216.8 billion yen. The company ranks second in production quantity in this industry.

**Market scale trends**

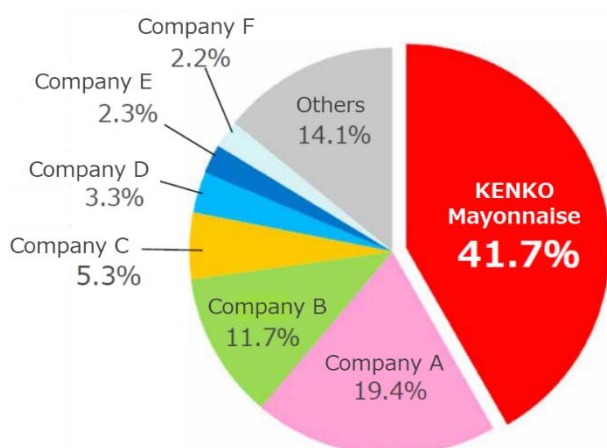
	2014	2015	2016	2017	2018(forecast)	2019(estimate)	2023(estimate)
Sales volume (ton)	426,800	431,900	436,200	442,700	441,050	445,400	458,300
Sales amount (million yen)	201,850	204,450	207,100	217,400	216,800	219,450	226,100

\*Sales volume is based on manufacturers shipping data. The table is taken from the same company, referring to FUJI KEIZAI CO., LTD.' Food marketing report". (Applies to all data in this report)

**Long-life salad**

The market size (expected) in 2018 is 64.35 billion yen. The company holds the absolute No. 1 share as it is the pioneer of "long-life salad"

## BRIDGE REPORT

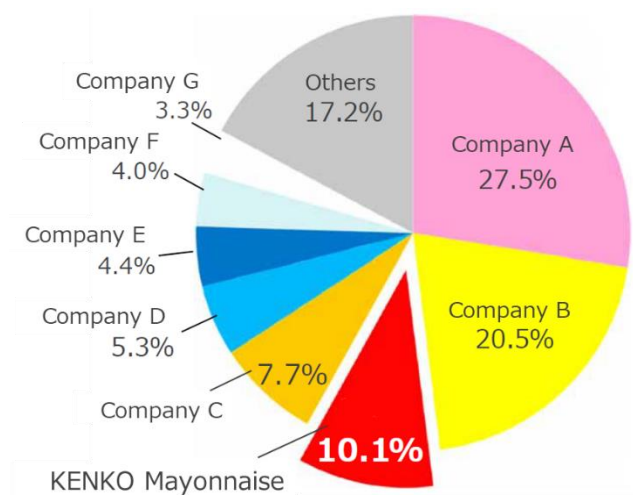


## Market scale trends

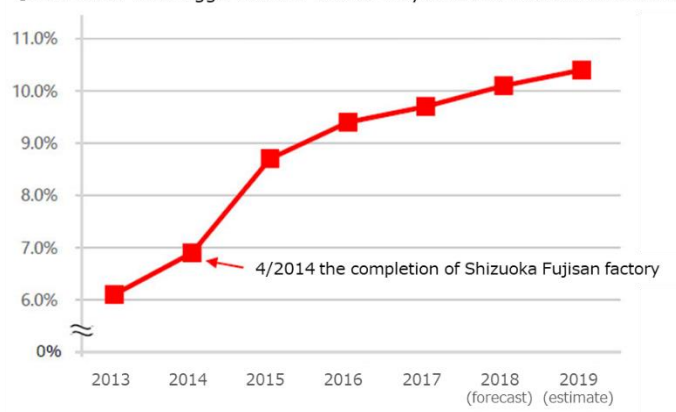
	2014	2015	2016	2017	2018(forecast)	2019(estimate)	2023(estimate)
Sales volume (ton)	119,000	119,000	119,800	123,700	125,300	126,800	128,900
Sales amount (million yen)	60,300	60,450	61,000	63,350	64,350	65,300	67,000

## Cooked egg products

The market size (expected) in 2018 is 61.45 billion yen. The company ranks third in sales amount although they entered the market late. Its market share is still expanding, and it pursues a further expansion.



[Reference: Fried eggs Trend in KENKO Mayonnaise's share in the Market]



	2014	2015	2016	2017	2018(forecast)	2019(estimate)	2023(estimate)
Sales volume (ton)	81,400	82,200	84,750	85,500	86,100	86,700	88,300
Sales amount (million yen)	58,000	58,700	60,500	61,050	61,450	61,850	63,000

## 2. First Half of Fiscal Year March 2020 Earnings Results

### 2-1 Consolidated Earnings of 1H

	1H FY 3/19	Ratio to sales	1H FY 3/20	Ratio to sales	YOY	Initial Forecast	Difference from the forecast
Sales	37,409	100.0%	37,766	100.0%	+1.0%	38,400	-1.7%
Gross profit	9,117	24.4%	9,030	23.9%	-1.0%	-	-
SG&A expenses	7,660	20.5%	7,539	20.0%	-1.6%	-	-
Operating income	1,456	3.9%	1,490	3.9%	+2.4%	1,540	-3.2%
Ordinary income	1,512	4.0%	1,590	4.2%	+5.2%	1,580	+0.7%
Net income	903	2.4%	1,104	2.9%	+22.2%	1,080	+2.2%

\* unit: million yen

#### Sales and ordinary income grew 1.0% and 5.2%, respectively, year on year.

Sales increased 1.0% year on year to 37,766 million yen. The sales of the seasoning and processed foods business declined 0.7% year on year to 30,294 million yen. The sales of processed egg products declined due to the decrease of dishes in the menu and bad weather (lingering rain and low temperatures), but it was offset by the recovery of performance of potato salads. The sales of the delicatessen-related business, etc. rose 9.2% year on year to 6,891 million yen. The production efficiency in the new Shiraoi Factory of DIETCOOK and Kanagawa Factory of KANTOH DIETCOOK increased, improving profitability and sales.

As for profit, cost rate rose 0.5 points, due to the start of operation of the second factory of Shizuoka Fujisan Plant (Feb. 2019) and the new line of the enlarged Nishi-Nihon Factory (Apr. 2019), etc., but operating income increased 2.4% year on year to 1,490 million yen, thanks to sales growth, streamlining of business operations, and the decrease in SG&A expenses through cost reduction. Ordinary income increased 5.2% year on year to 1,590 million yen, thanks to the rise in profit from equity method affiliates (from 6 million yen to 83 million yen). Net income increased considerably, because of the decrease in tax burden ratio (from 41.7% to 31.2%).

#### Increase/decrease factors for ordinary income

Ordinary income, 1H of FY3/19	1,512	
Increased sales	+22	
Impact of raw material price fluctuations	+183	The rise in material prices, etc. was covered by procuring major ingredients, including oil and eggs, in a favorable manner.
Impact of fixed expenses	+254	Improvement in the profit/loss from equity method affiliates for the overseas business, etc.
Impact of production efficiency	-242	Augmentation of depreciation burden and distribution cost
New factory related expenses	-139	Effects of the start of operation of Nishi-Nihon Factory in April
Ordinary income, 1H of FY3/20	1,590	

\* unit: million yen

#### Sales by field

	1H FY 3/19	Ratio to sales	1H FY 3/20	Ratio to sales	YOY
Eating out	10,098	27.0%	10,583	28.0%	+4.8%
CVS	10,628	28.4%	9,869	26.1%	-7.1%
Mass retailer	8,615	23.0%	9,337	24.7%	+8.4%
Bread	4,824	12.9%	4,808	12.7%	-0.3%
School lunch	1,670	4.5%	1,619	4.3%	-3.1%
Others	1,574	4.3%	1,550	4.2%	-1.5%
Consolidated sales	37,409	100.0%	37,766	100.0%	+1.0%

\* unit: million yen



## BRIDGE REPORT



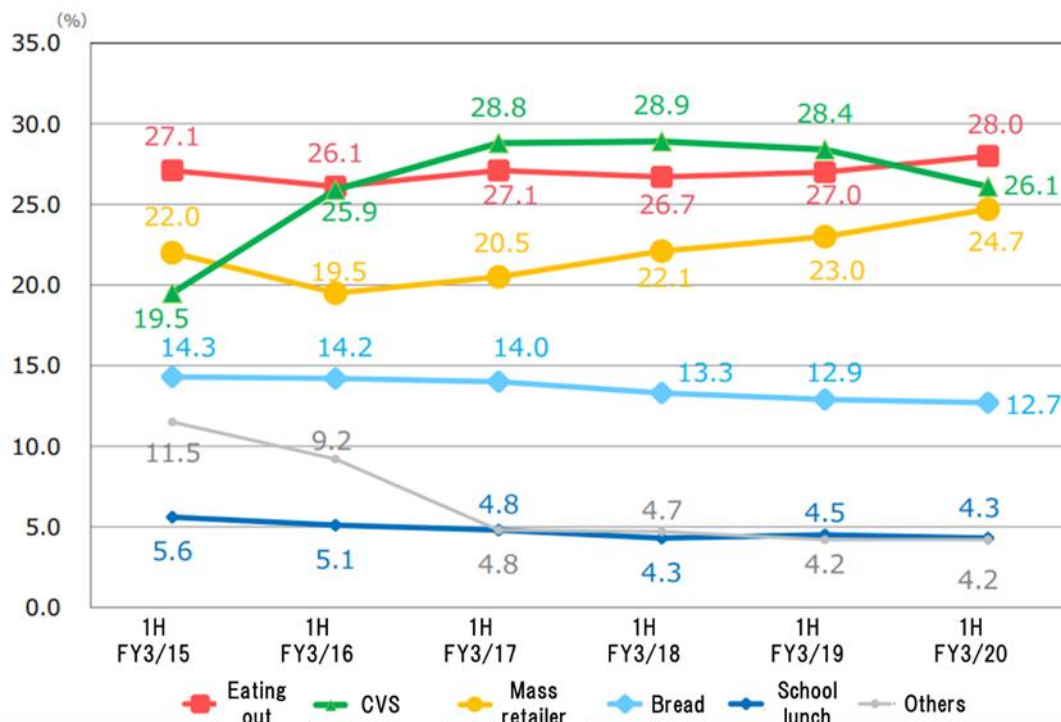
As for the sales composition, products for restaurants, including fast-food shops and family restaurants, account for 28.0%, products for convenience stores 26.1%, products for mass retailers 24.7%, and products for bakeries (bread makers and retail bakeries) 12.7%.

Compared with the same period of the previous year, the sales of products for restaurants increased 4.8%, thanks to the growth of demand from foreign visitors as foreign visitors to Japan increased. Especially, the performance of fast-food shops was healthy. Amid the chronic shortage of manpower, it is imperative for each company to streamline their business operations, so the products that could meet the needs for easiness increased.

On the other hand, the sales of products for convenience stores decreased 7.1%. As for convenience stores, the performance of products for the summer season was sluggish, due to the effects of the decrease of the product lineup on the performance of egg salad and the continued bad weather, including lingering rain and low temperatures, mainly in July. The company was affected by this. The convenience store industry is in the reform period, because the 24-hour operation of leading chains is being reconsidered and there are issues regarding cashless payment, etc.

The sales of products for mass retailers, such as grocery stores, increased 8.4%. In the field of mass retailers, the number of customers was stagnant due to bad weather, etc. and the competition with various sectors, including drugstores, became fierce, but the company met the needs for home meal replacements, etc. by operating the new Shiraoi Factory of DIETCOOK and Kanagawa Factory of KANTOH DIETCOOK, increasing the sales in the delicatessen domain.

## Sales composition trends by field



(Source: The company)

## BRIDGE REPORT



## Sales by product type

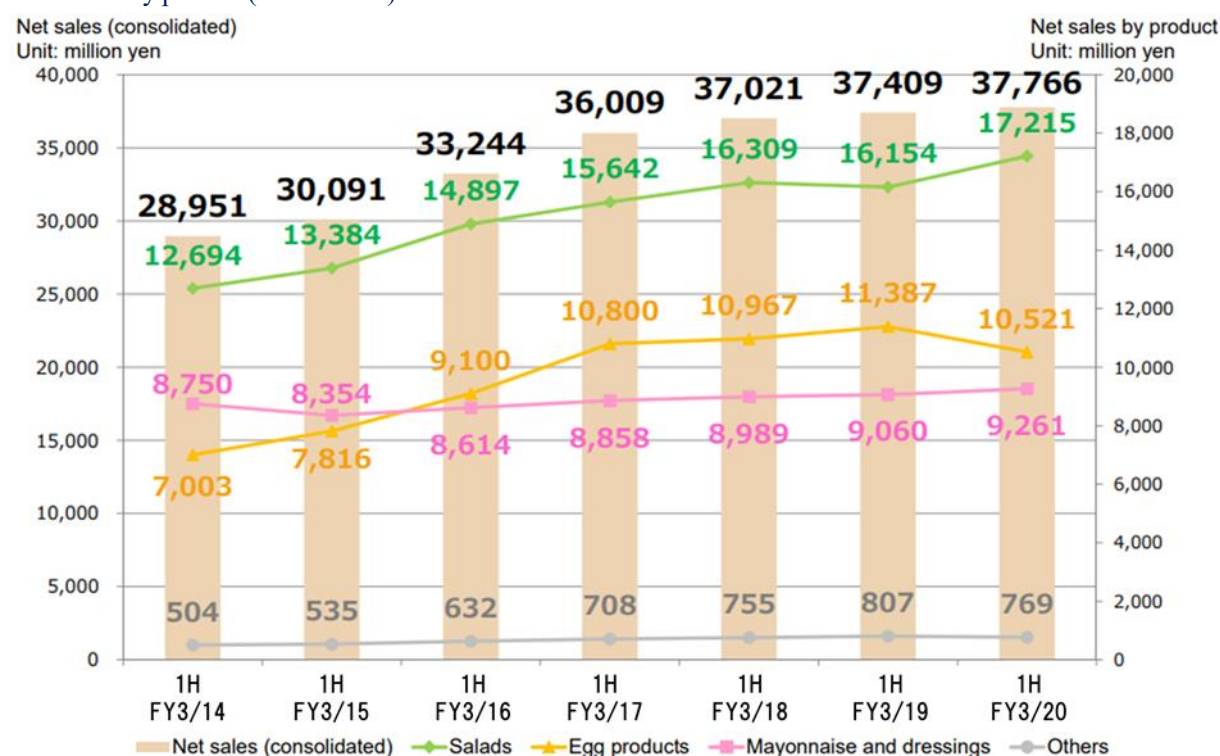
	1H FY 3/19	Ratio to sales	1H FY 3/20	Ratio to sales	YOY
Salads	16,154	43.2%	17,215	45.6%	+6.6%
Eggs	11,387	30.4%	10,521	27.9%	-7.6%
Mayonnaise & dressings	9,060	24.2%	9,261	24.5%	+2.2%
Others	807	2.2%	769	2.0%	-4.7%
Consolidated sales	37,409	100.0%	37,766	100.0%	+1.0%

\* unit: million yen

As for the sales composition for products, salads account for 45.6%, egg products 27.9%, and mayonnaise and dressings 24.5%. Salads include long-life salads, which are produced and sold by KENKO Mayonnaise, fresh salads, which are produced by a consolidated subsidiary and whose best-before period is short, and salads served by Salad Cafes.

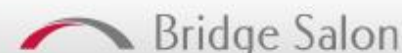
Compared with the same period of the previous year, the sales of salads rose 6.6% because people became more health-conscious, and the sales of mayonnaise and dressings increased 2.2%, but the sales of egg products mainly for convenience stores declined 7.6%.

## Sales trend by product (consolidated)



(Source: The company)

## BRIDGE REPORT



## 2-2 Trends by business

	1H FY 3/19	Composition ratio	1H FY 3/20	Composition ratio	YOY
Salads/delicatessen	9,469	25.3%	9,862	26.1%	+4.1%
Processed eggs	11,198	29.9%	10,422	27.6%	-6.9%
Mayonnaise/dressings	9,060	24.2%	9,260	24.5%	+2.2%
Others	771	2.1%	750	2.0%	-2.7%
Seasoning and processed foods business	30,498	81.5%	30,294	80.2%	-0.7%
Delicatessen related business	6,310	16.9%	6,891	18.2%	+9.2%
Others	599	1.6%	580	1.5%	-3.2%
Consolidated sales	37,409	100.0%	37,766	100.0%	+1.0%
Seasoning and processed foods business	1,680	5.5%	1,240	4.1%	-26.2%
Delicatessen related business	-193	-	261	3.8%	-
Others	0	-	98	16.9%	-
Adjustment	24	-	-10	-	-
Consolidated ordinary income	1,511	4.0%	1,590	4.2%	+5.2%

\* unit: million yen

## Seasoning and processed foods business

Sales were 30,294 million yen, down 0.7% year on year. Sales weight increased 0.3%, but sales price declined 3.6 yen/kg, due to the recovery of performance of potato salads.

The sales of salads and delicatessen increased 4.1% year on year to 9,862 million yen. The sales of potato salads, which were sluggish in the previous term, recovered, and the sales of burdock salads and soy meat products for convenience stores increased in the restaurant field. As for products including potato, the potato salad weighing 1 kg, which is the core product, and chilled potato that make the most of a material's features performed well.

The sales of processed egg products decreased 6.9% year on year to 10,422 million yen. Due to the decrease of the lineup and lingering rain and low temperatures mainly in July, the sales of processed egg products for convenience stores were stagnant.

The sales of mayonnaise and dressings rose 2.2% year on year to 9,260 million yen. The sales of sauces for convenience stores and fast-food shops increased, and the sales of bagged mayonnaise, which was adopted by supermarkets, increased.

Segment profit (ordinary income) declined 26.2% year on year to 1,240 million yen. Operating costs augmented, due to the increases in expenses for establishing the second factory of Shizuoka-Fujisan Plant (Feb. 2019) and enlarging the production line of Nishi-Nihon Factory (Apr. 2019) and their depreciation expenses.

## Delicatessen-related business, etc.

Sales were 6,891 million yen, up 9.2% year on year. Through the enhancement of production capacity by operating the new Shiraoi Factory of DIETCOOK and Kanagawa Factory of KANTOH DIETCOOK, the sales of mainly potato salads, which are core products, increased. As the operations of the two factories got on track, operating income/loss improved year on year from a loss of 193 million yen to a profit of 261 million yen.

## Others

Other businesses include the shop business for operating Salad Cafes and the overseas business, but the sales of the overseas business are not included, because it is operated by equity method affiliates. The sales of Salad Cafes declined 3.2% year on year to 580 million yen. In the Kanto region, leafy salads, including green salads and coleslaw, are popular, while in the Kansai region, longtime sellers, including fruit salads, potato salads, and burdock salads, remain popular. For Salad Cafes, the company is developing products under the theme of beauty and health, with the aim of increasing sales by reeling in female customers.

## BRIDGE REPORT



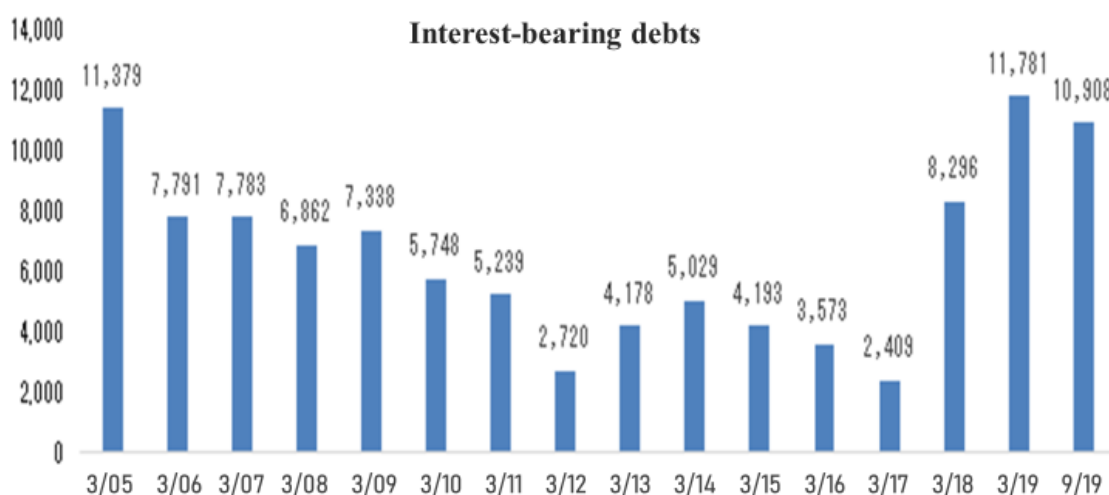
## 2-3 Financial position and cash flow

## Financial position

	Mar- 2019	Sep-2019		Mar- 2018	Sep- 2019
Cash and deposits	10,927	9,782	Trade payables	10,551	9,112
Trade receivables	13,398	12,391	Income taxes payable	604	548
Inventories	2,948	2,802	Retirement-benefit liability and Other provision	863	748
Current assets	27,945	25,253	Interest-bearing debts	11,781	10,908
Property, plant and equipment	35,507	33,614	Liabilities	37,204	31,801
Investments and other assets	6,450	6,365	Net assets	32,900	33,619
Noncurrent assets	42,159	40,166	Total liabilities, Net assets	70,105	65,420

(unit: million yen)

Total assets as of the end of the second quarter was 65,420 million yen, down 4,684 million yen from the end of the previous term. Due to seasonal factors, cash & deposits, trade receivables, trade payables, income taxes payable, etc. decreased, and due to depreciation, property, plant and equipment decreased. Capital-to-asset ratio was 51.4% (46.9% at the end of the previous term).



## Cash Flow (CF)

	1HFY 3/19	1HFY 3/20	YOY	
Operating CF (A)	4,950	2,405	-2,545	-51.4%
Investing CF (B)	-11,811	-8,895	+2,916	-
Free CF (A+B)	-1,998	713	+2,711	-
Financing CF	-99	-1,858	-1,759	-
Balance of cash and cash equivalents at end of period	10,975	9,782	-1,193	-10.9%

The company secured an operating CF of 2,315 million yen, due to profit growth, the increase in depreciation, etc. Due to the decrease in equipment investment, investing CF was negative 1,602 million yen, indicating the decrease in outflow. Due to the reduction of interest-bearing liabilities, financing CF was negative 1,858 million yen, indicating the increase in outflow.



## BRIDGE REPORT



### 3. Fiscal Year March 2020 Earnings Estimates

#### 3-1 Full-year consolidated earnings

	FY 3/19 Actual	Ratio to sales	FY 3/20 Forecast	Ratio to sales	YOY
Sales	73,989	100.0%	76,000	100.0%	+2.7%
Operating income	3,116	4.2%	3,300	4.3%	+5.9%
Ordinary income	3,145	4.3%	3,300	4.3%	+4.9%
Net income	2,296	3.1%	2,350	3.1%	+2.4%

\*unit: million yen

**It is forecasted that sales and ordinary income will grow 2.7% and 4.9%, respectively, year on year.**

Sales are estimated to be 76 billion yen, up 2.7% year on year. Thanks to the recovery of performance of potato salads and the contribution of the new factories, the sales of the seasoning and processed foods business are projected to rise 2.1% year on year. Due to the effects of the new factory whose operation began in the previous term, etc., the sales of the delicatessen-related business, etc. are forecasted to increase 5.5% year on year. As for profit, costs for materials, distribution, etc. will augment, but they are offset by sales growth, the merits of procurement of ingredients at favorable prices, the improvement in production efficiency of the new factory, etc. and ordinary income is estimated to rise 4.9% year on year to 3.3 billion yen.

#### Increase/decline factors for ordinary income

FY3/19 Ordinary income result	3,145(1H, 2H)	
Increased sales	+358(+22, +336)	
Impact of raw material price fluctuations	+288(+183, +105)	Stabilization of food oil and egg market conditions. It will absorb increased material cost, logistics and labor cost by improving productivity.
Impact of fixed expenses	+168(+254, -86)	Improvement in profit/loss from overseas equity method affiliates Stabilization of the new factory of DIETCOOK SHIRAOI.
Impact of production efficiency	-520(-242, -278)	Delay in profit earning at the two new factories and Kanagawa Factory of KANTOH DIETCOOK
New factory related expenses	-139(-139, 0)	Operation of new lines at Nishi-Nihon factory (building extension) in April
FY 3/20 Ordinary income forecast	3,300	

#### 3-2 Forecast and activities by business

	FY 3/19	Composition ratio	FY 3/20	Composition ratio	YOY	Initial Forecast	Divergence
Salads & Delicatessen	18,960	25.6%	19,942	26.2%	+5.2%	19,468	+2.4%
Processed eggs	21,042	28.4%	20,738	27.3%	-1.4%	21,401	-3.1%
Mayonnaise & Dressings	18,149	24.5%	18,732	24.6%	+3.2%	18,324	+2.2%
Others	1,538	2.1%	1,539	2.0%	+0.1%	1,758	-12.5%
Seasoning and processed foods business	59,689	80.7%	60,951	80.2%	+2.1%	60,951	+0.0%
Delicatessen-related business, etc.	13,105	17.7%	13,829	18.2%	+5.5%	13,829	+0.0%
Others	1,194	1.6%	1,220	1.6%	+2.2%	1,220	+0.0%
Consolidated Sales	73,989	100.0%	76,000	100.0%	+2.7%	76,000	+0.0%

\*unit: million yen

## BRIDGE REPORT



As for the seasoning and processed foods business, annual sales are estimated to increase 2.1% year on year to 60,951 million yen, and it is forecasted that the sales of salads and delicatessen will rise 5.2% and the sales of mayonnaise and dressings will increase 3.2%, although the sales of processed egg products will decline 1.4%. In the second half, the company aims to promote the sales of potato salads, potato as an ingredient, processed egg products, etc. and will enhance its activities in each domain and each business, by utilizing the improved production capacity. The company will also develop new products while predicting market trends, including people's willingness to be healthy, the shortage of manpower, compactness, and foreign customers.

As for the delicatessen-related business, etc., the company will make efforts to increase new customers of fresh delicatessen mainly at Kanagawa Factory of KANTOH DIETCOOK, and it is expected that sales will grow 5.5% year on year to 13,829 million yen. Other sales are projected to rise 2.2% year on year to 1,220 million yen.

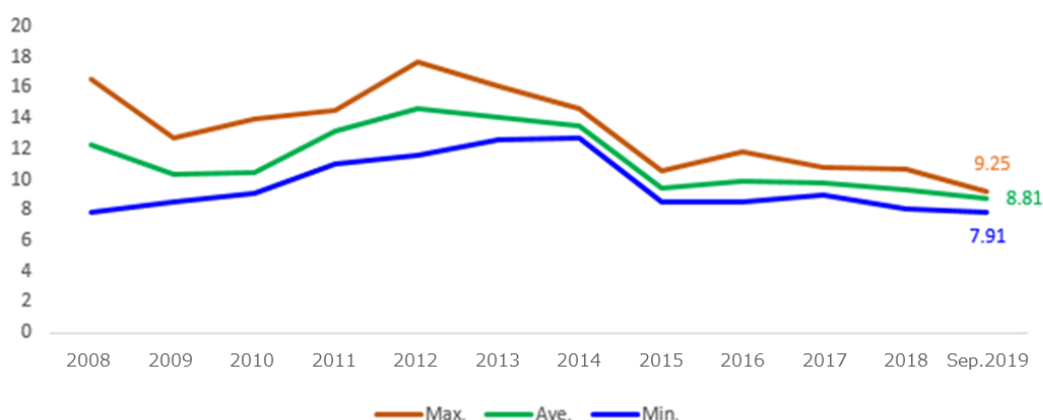
### 3-3 Dividends

The company plans to pay a term-end dividend of 16 yen/share, for an annual dividend of 31 yen/share, including the interim dividend (the estimated payout ratio: 21.7%).

### 3-4 Trend of market prices of ingredients (edible oil and chicken egg), based on the reference material of the company

#### Cooking oil

Trends on market price of raw materials, cooking oil: Trends on market price of Chicago soy beans (\$/Bushel)



Due to the plentiful harvest of soybeans in South America and the trade friction between the U.S. and China, the market price of soybeans decreased from around 9 dollars in early April 2019 to less than 8 dollars in early May 2019. However, the production amount of soybeans in the U.S. was estimated to decrease due to the delay in cropping due to bad weather and dryness in North America, so the market price started rising in late May, and was from the higher 8-dollar range to 9 dollars. As for exchange rates, the yen got stronger due to the lingering trade issue, the decrease in interest rate in the U.S., etc. so that 1 dollar = around 111 yen in April 2019 and 1 dollar = around 105 yen in August 2019, and then 1 dollar = 107-108 yen.

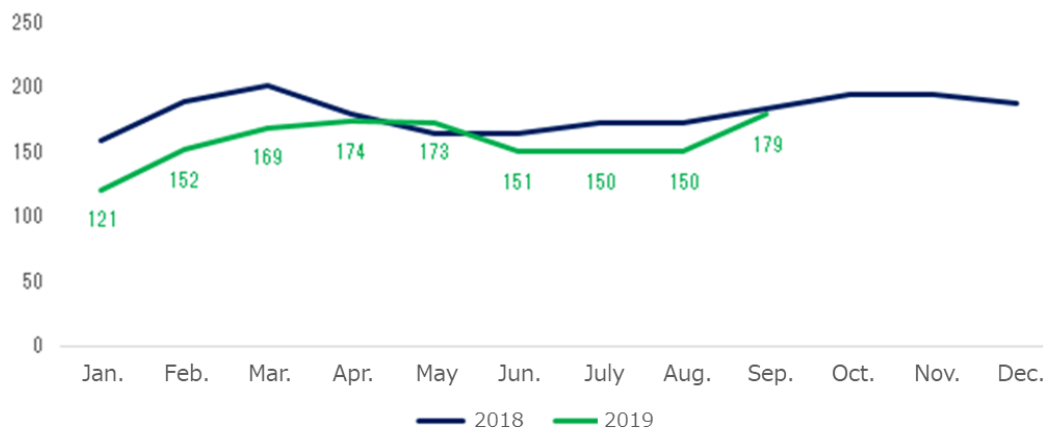
As for the outlook for 2019, it is highly likely that the production amount of soybeans in North America will decline due to the delay in cropping and unfavorable weather, but there are uncertainties over the trade negotiation between the U.S. and China and the drop in demand for feedstuff due to the spread of African swine fever in China. While the market price of soybean cake is decreasing, the market price of vegetable oil, including soybean oil, is rising. Therefore, it is necessary to keep an eye on the market trends. Also, for exchange rates, there are many uncertainties over interest-rate policies, economic situations, international politics, etc.

## BRIDGE REPORT



## Eggs

Trends on market price of raw material, eggs: Eggs of Agricultural Cooperative Association (Size M) (¥/Kg)



The average market price of chicken eggs in the first half of fiscal 2019 was 163 yen, down 10 yen from the previous fiscal year, but the market price skyrocketed from early September, in the wake of the Typhoon No. 15 hitting the major production area. As the production amount of chicken eggs is estimated to recover in November or later, the company forecasts that the market price of chicken eggs in fiscal 2019 will be unchanged from the previous fiscal year. The production amount of chicken eggs increased 1% year on year to 2.627 million tons in fiscal 2018, and was first estimated to keep rising in fiscal 2019, but the company forecasts that it will be unchanged from the previous year, due to the decrease of chickens caused by the low egg price in the first half, the damage by the typhoon, etc.

## 4. Progress of medium-term management plan “KENKO Value Action – Create Value” (FY3/19 – 3/21)

The medium-term management plan, “KENKO Value Action – To Create Value,” which started in April 2018, holds up Creating Shared Value (CSV) Management as its basic policy. The company promotes its three business strategies centered on the five themes of the CVS management. Through it, the company will expand its business scale and improve its earning capacity and fulfill its responsibility towards the community while aiming to be the No.1 salad company and continue growing and developing.

### 4-1 The Five Themes of CVS Management

With its basic policy, Creating Shared Value (CSV) Management “Creation of Common Values,” the company will promote corporate activities that create value for both society and company. In order to practice the CSV management, it has five themes: (1) local community contribution, (2) environment and resources, (3) supply chains, (4) solutions, and (5) work style.



(Source: The company)

Concerning the “contribution to local communities,” the company promotes initiatives to deepen the exchange with local communities and work with them to build the future to be the No. 1 company contributing to the local communities. Specifically, to promote the recruitment of local human resources, the company proactively conducts recruitment activities of local human resources at its nationwide bases and employs many local staff mainly at factories. Furthermore, the company performs a wide range of activities such as food education activities and lectures for nutritionists at educational institutions, mostly in Suginami-ku where its headquarters is located. In addition to holding the regular food education activities at elementary schools and welfare institutes, the company’s employees also started holding Mayonnaise classes in English at English-speaking childcare centers this term.

Within the theme of “environment and resources,” the company aims to increase the efficiency of use of resources and energy by promoting eco-friendly business activities. As one of the big themes of “environment and resources” is Zero-emission or to not produce waste, the company’s manufacturing base keeps the rate of recycling waste from manufacturing sites at 100% (as of the end of FY 3/19). Consolidated subsidiaries have also implemented similar measures, increasing its recycling rate year by year.



(Source: The company)



Concerning the “supply chains,” the company is taking measures to increase the efficiency of the supply chain, starting from the procurement of raw materials to the selling of products. One of the company’s essential measures is to communicate with the farmers in Hokkaido, which is the major production area for potatoes that are used a lot by the company in its leading product, the potato salad. The company staff visited the sites to check on producers and the crop growing conditions where the harvest in FY 3/20 ended safely in September.

Concerning “solutions,” the company works on providing solutions for the commercialization of its technology and services. During the general group fair, which is held in the autumn of every year, the company disseminates a variety of information and ideas since the fair is considered the company’s solution dissemination base. Also, the company provides its services and technology by holding its cooking classes “Kitchen Space 831” for consumers and periodical workshops for users with commercial purposes.

As for the “working style,” the company aims to improve the satisfaction of employees by providing a workplace where everyone can work comfortably. The company proactively provides consultations to follow up, especially with young employees. Employees who work 3 years or less unaccustomed to their daily tasks and feeling stressed and anxious but without anyone to seek advice from in most cases. The company aims to help the employees to work comfortably by providing the opportunity for them to exchange opinions frankly with their bosses, seniors, colleagues, and, of course, the human resources officers as a way to relieve their stress as much as possible. Moreover, as the company has a large number of employees who have been working in the company for a long time, the company periodically provides trainings classified according to positions for managers, unit chiefs, section chiefs and department chiefs to offer the experienced employees a learning opportunity to prepare for the future while reflecting in the past.



(Source: The company)

#### 4-2 Three Business Strategies

The company is implementing various measures during the first half of this financial year alongside the three business strategies: (1) creating a business with customers, (2) a production system to “create, respond and expand,” and (3) promoting salad dishes around the world.

##### Business strategy 1: Creating a business with customers

The company works with customers from various fields to solve the problems the costumers are facing by providing, sharing, disseminating, researching and surveying new values using their product appeals, menu proposals, and outreach that the company has nurtured since its establishment.

##### General Group Fair

In 2019, the annual general group fair was held in Tokyo in October and Osaka in November. The main title of this fair was “UP.” “UP” was selected to express the image of “leaping together” by providing help to solve the accumulated issues of the food industry market, such as the increasing prices of raw materials and the shortage of labor. The total number of attendees of both venues in Tokyo and Osaka in four days was around 4,100.

## BRIDGE REPORT

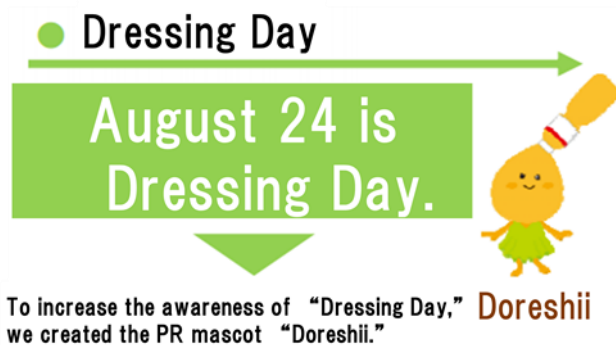


## Cooking Classes and Workshops

In the first half of this financial year, the company held its cooking class, “Kitchen Space 831” for consumers 25 times, and gave a lecture on lunch boxes and another on bread for users with commercial purposes. As one of activities for supporting store management, the company provided “the First Vegeru Shop,” which is a “food and beauty”-themed salad and smoothie shop operated by Kintetsu Department Store (Co., Ltd.) with the know-how of store management, such as product designing, guidance on store operation and hygiene control (“the First Vegeru Shop” opened on September 4 at Abeno Harukas Kintetsu Department Store’s cosmetics department in Osaka).

## “Dressing Day” (August 24)

To increase the awareness of “Dressing Day,” the company created the PR mascot “Doreshii.” From now on, the company will try to vitalize the dressing business by conducting PR activities using “Doreshii” in its advertisements in trade journals, catalogs, flyers, and sales promotion materials. The company established “Dressing Day” in 2016 to promote a more abundant diet by providing various ways of using dressings and dishes that use dressings.



(Source: The company)

## Website Renewal and Developing “Beauty Salads” for Salad Cafe

The company renewed its website (the renewed website was launched on October 3) integrating the products and menu information with the online shopping function, making the website easier to read and understand. Also, the company promoted the development of products at Salad Cafe such as the health and beauty-oriented salads named “Beauty Salads.” Salad Cafe is working on expanding its customer base by targeting female costumers. The company aims to expand its customer base by designing beauty and health-oriented products using keywords such as antiaging and detox and selling them in stores. Moreover, the company won the side dish division’s award of excellence for Salad Café’s “salted stewed diced pork rice bowl” in the “Delicatessen and Lunchboxes Grand Prix 2019” (held by The Japan Food Journal) in April of this year.



(Source: The company)

## Research and Surveys (Salads and Health)

The “Third Salad Symposium” was held by the endowed laboratory for salad science on October 25 at Tokyo University of Marine Science and Technology. Various experts participated in the symposium and gave lectures on salads from multiple points of view. The company held a lecture titled “salad research at food companies—endeavors toward the sustainable production and manufacturing of

potatoes.” The company also gave lectures and presentations all over Japan under various salad related themes. The company will continue promoting salads and health-related research and surveys using salads as a new approach to tackling different social issues.

### Business strategy 2: Production system to “create, respond and expand”

Nishi-Nihon Factory was completed in March 2019 as part of the group’s production bases plan that involves the establishment and extension of four factories, which was announced in November 2016. The company will work on establishing a stable supply system through the company group’s existing manufacturing and production bases nationwide, which was expanded by the four factories. Furthermore, the company will create new products using new facilities and technology and provide a variety of products and product sizes to respond to the customer’s needs. Additionally, the company will work on strengthening the production system and standardizing production capacity, as well as expand product supply, and reform the employees’ work style.



#### The Conditions after the Group’s Production Bases Plan that Involves the Establishment and Extension of Four Factories

DIETCOOK SHIRAOI Factory, which started operating in April 2018, has expanded the sales of potato as an ingredient and fresh delicatessen. The demand for potato as an ingredient has increased, especially among the foodservice industries as it contributes to the reduction of time used in cooking operations. So, the company is making efforts to expand the sales of potato as an ingredient to nurture it as a new pillar. Meanwhile, the sales volume of fresh delicatessen is increasing in grocery stores in Hokkaido.

The Kanagawa Factory of KANTOH DIETCOOK, which started operating in June 2018, is improving its productivity, focusing on the issue of reaching the target quantity of its leading products, fresh delicatessen. As for productivity, in the previous term, the factory depended on dispatched employees and there was a continued instability of operations, such as excess personnel. However, this term, the dependence on dispatched employees has decreased due to the improvement of employees’ skills, and operations have stabilized leading to cost reduction. Although the business environment continued to be difficult due to the bad weather in summer and natural disasters, profitability has been improving steadily and it was one step away from achieving a surplus. Meanwhile, the factory is focusing on acquiring new costumers to achieve the target sales volume of fresh delicatessen.

Due to summer’s low temperature and heavy rains mainly in July, the second factory of Shizuoka Fujisan Plant, which started operating in February 2019, struggled with the sales of its summer products, mainly Kinshi-Tamago (narrowly stripped cooked eggs) to convenience stores. Nonetheless, the sales of the egg brand, “Sozaiter” series, mainly Atsuyaki-Tamago and Dashimaki-Tamago, increased.

The company’s Nishi-Nihon Factory started the operation of expanded lines in April 2019. Through the expansion, the production system for a wide range product sizes, ranging from packages of 100 gm or less to large packages of 1 kg was established. Nishi-Nihon Factory tries to respond to customers’ various needs with these products. In the first half of the fiscal year, the demand for the main product, the potato salad, which was sluggish until the previous term, recovered and sales increased steadily.

	<p>The DIETCOOK SHIRAOI Factory (from April 2018)</p> <ul style="list-style-type: none"> <li>Expansion of sales of potato as an ingredient due to the increased demand mainly in the foodservice industry</li> <li>Continued brisk sales of fresh delicatessen (to grocery stores in Hokkaido)</li> </ul>
	<p>The Kanagawa Factory of KANTOH DIETCOOK (from June 2018)</p> <ul style="list-style-type: none"> <li>Although the factory did not reach the target sales volume of fresh delicatessen (to grocery stores in the metropolitan area), it increased its sales steadily. The factory is focusing its efforts on increasing new costumers to expand sales further.</li> <li>Improving productivity by enhancing the skills of the employees and improving profitability</li> </ul>

## BRIDGE REPORT



	<p>Second Factory of Shizuoka Fujisan Plant (from February 2019)</p> <ul style="list-style-type: none"> <li>Due to the bad weather conditions (the impact of low temperature and long rainy periods), the factory struggled with the sales of its summer products mainly to convenience stores (such as Kinshi-Tamago [narrowly stripped cooked eggs])</li> <li>Increase in sales of the “Sozaiter®” (the egg brand produced at Shizuoka Fujisan Factory) series, mainly Atsuyaki-Tamago and Dashimaki-Tamago</li> </ul>
	<p>Nishi-Nihon Factory (enlarged) (from April 2019)</p> <ul style="list-style-type: none"> <li>The recovery of the demand for the main product, the potato salad, and the increase in sales</li> <li>Building a production system that corresponds to various product sizes</li> </ul>

(Source: The company)

### Business strategy 3: Promoting salad dishes around the world

Due to the declining birthrate and the aging population in Japan, the market is shrinking. However, the developing countries' population mainly in Asia is increasing. According to prediction by the United Nations, the world's population is expected to reach 9.7 billion people in 2050. Meanwhile, in Japan, the number of foreign tourists visiting Japan is expected to increase due to the impact of the government's campaigns and hosting big events such as Tokyo Olympic and Paralympic games.

Therefore, the company, which focused on Japan as its main battlefield, will aim to adapt to globalization to achieve sustainable growth. The company currently is working on establishing a system to be a global company with means of information dissemination, product development, human resources development, export sales, and establishing overseas bases in North America and Indonesia. As part of these efforts, the company in Japan is receiving prompt feedback related to information on world's food inclination, cooking methods, food ingredients and food culture through their research activities, such as the activities of the research base in Vancouver and overseas exhibition surveys.

The feedback information received is then used in product development. One of these examples is the “German Curry Ketchup” added to the world's sauce series in July 2019. In Germany, curry-flavored ketchup is common, and it suits various foods. However, you could not find it in Japan. Also, it was received favorably during the food tasting in the exhibition in Tokyo and Osaka. Three products from the “Vegetable & Soybeans Meat” series that was launched in the previous term were based on the feedback the company received. As the awareness of health and healthy foods increases, and the diversification of food continues, the inquiries mainly by the restaurant industry for the soybeans meat are increasing.



(Source: The company)



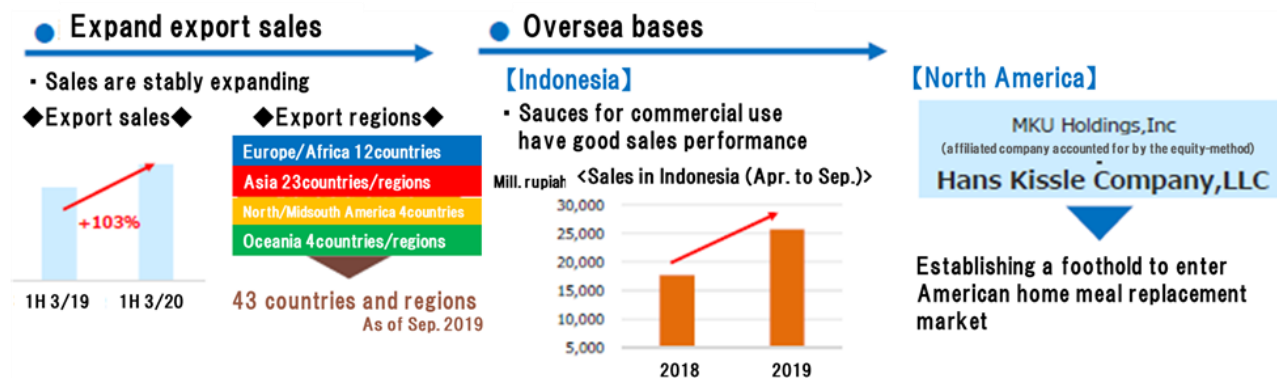
## BRIDGE REPORT



Concerning human resources development, the company conducts educational activities to promote overseas language study programs and in-house language courses to build a foundation for developing global personnel.

As for export sales, the magnitude of export sales is the company's future focus. On the other hand, the target regions for exporting products are expanding. As of the end of September 2019, the company is exporting its products to 43 countries and regions. Also, to expand the export sales, the company proactively participates in food exhibitions in North America and Europe to promote its products around the world.

As for the overseas bases, in Indonesia, the sauces for commercial use have good sales performance and it is expected to achieve surplus this term. According to the company, this good performance is thanks to the Japanese foodservice companies' expansion outside Japan. In North America, the company acquired the shares of an American home meal replacement manufacturer with Mitsui & Co., Ltd. in December 2018. The company is conducting surveys, analysis, etc. to establish a foothold to enter the promising American home meal replacement market.



(Source: The company)

## 5. Conclusion

The operation of 4 factories began, but the business model of convenience stores, which has been the driving force of business, is reaching a turning point. The company increased sales for 8 consecutive terms from FY 3/12 to FY 3/19, being highly evaluated in the market. The average sales growth rate during that period is 4.8 to 4.9%. In the first half of this term, the sales of products for restaurants and mass retailers increased, but the year-on-year growth rate was only 1%, due to bad weather, etc. For FY 3/19, annual sales grew 1.7% from the previous term. As the growth of the company is reaching a turning point, there is a possibility that the enhanced production capacity will become a burden. The company answered this question, saying "In the expanding market, we were not able to meet customer needs to a sufficient degree due to our production capacity, but from now on, we will expand the range of customers and our products by taking advantage of the excessive part of our production capacity." We would like to expect from their future progress.

Due to the investment in the four factories, interest-bearing liabilities exceed 10 billion yen as of the end of the term for the first time since the term ended March 2005. However, the capital-to-asset ratio in the term ended March 2005 was 18.2% and the latest one was 51.4%. Current ratio and fixed assets ratio have leeway, although they cannot be said to be sufficient. ROE declined from 12% in FY 3/17 to 7% due to the decrease in profit rate and turnover ratio. We would like to expect that the company will increase ROE by recovering its business performance with leverage.

## <Reference: Social and environmental activities>

### [Attempts for the Environment]

#### Environmental management

In order to promote environmental management within the Group, it formed an environmental management committee, set

## BRIDGE REPORT



environmental goals and plans, implements measures to grasp the environmental conditions to preserve it, conducts renewal examination of zero emission activities, etc. Furthermore, each environmental management promoting committee carries out initiatives such as reducing waste, zero CO<sub>2</sub> emissions and energy-saving activities, managing compliance with environmental laws, internal audits for zero CO<sub>2</sub> emissions, etc.

#### Measures for reducing waste

After the review and partial amendment of the Food Recycling Law in 2007 (the law was enforced in 2001), the company group succeeded in achieving the goal to recycle 85% or more of food waste (except some of its factories). The company is reducing food waste by drying and dehydration as well as turning the waste into feedstuff, fertilizers, etc. From FY 3/10, the Nishi-Nihon Factory in Maizuru City, Kyoto started supplying liquid feeds to pig farms. The liquid feeds are produced from by-products in the process of making potato salad within the factory, such as potato peels and residues, to maintain the environment by preventing bad smells surrounding the plant, etc. The activity was adopted by the Ministry of Agriculture, Forestry and Fisheries as an activity for Utilization of Recyclable Food Waste in FY 2009. Furthermore, the company received the 22nd Food Safety, Security and Environment Contribution Award (November 2013) and the 1st Food Industry Waste Reduction Grand Prize (March 2014).



Feed production plant



Potato peel after liquefaction treatment



Eggshell power

#### Measures for zero CO<sub>2</sub> emissions

Since FY 3/07, the company adopted 3R activities, which consist of initiatives to Reduce, Reuse and Recycle the resources the company consumes. It particularly addressed waste reduction by improving manufacturing processes. As a result, the company succeeded in accomplishing recycling 90% or more of waste in FY 3/08, and the entire factory achieved the goal of zero CO<sub>2</sub> emissions in FY 3/09. An in-house meeting is held once a year to report the current conditions for the CO<sub>2</sub> emissions reduction activities at each factory, and awards are given to factories with the highest or higher grades. In FY 3/16, measures for zero CO<sub>2</sub> emissions are carried out in related companies (subsidiaries) as well in order to accomplish zero CO<sub>2</sub> emissions in the entire Group.

#### [Measures for food education]

The measures for food education activities started in October 2007 with grade 5 students of a local elementary school in Setagaya-ku, Tokyo, where the old headquarters was located. Even after relocated in Sugunami-ku in 2009, the company continued the activities on food education including lectures about nutrition, eating habits and cooking practice sessions.

- Two nearby elementary schools (for students in Grades 3 and 4)
- Orphanages (for children and staff)
- Apartments in local areas (for elderly club members)
- Social welfare organizations in local areas (for elderlies requiring long term care or those close to needing care)

## BRIDGE REPORT



After listening to the participants' requests, including their common problems and area of their interest, the company visits them directly to have a discussion with them in order to decide the theme.

For inquiries: 0120-851-793 (weekdays; 09:00 to 17:00), <https://www.kenkomayo.co.jp/inquiry>

### [Relationships with local communities and society]

For the 2 days, November 3 (Sat.) and 4 (Sun.), 2018, the company set a booth at Sugunami Industrial Fair (it has been consecutively participating for 6 years since 2013) in Sugunami Festa 2018 which took place in Momoi Harappa Park (Suginami-ku, Tokyo). Sugunami Festa is an event organized by Sugunami Ward, and its basic philosophy is to bring people and regions together and rejuvenate Sugunami. It brings vigor to Sugunami through communication and connections among ward residents, etc. The venue is filled with elements representing the city and its attractions such as Sugunami-grown fresh vegetables and local delicious foods. There are many tents that offer stage events for families or children, games, and food to enjoy. The company sells its products such as mayonnaise, dressing, and donates the sales (except for operation and setup expenses) to the Sugunami Ward Next Generation Development Fund. The company has been contributing to the fund since 2014, and this year it received a letter of appreciation from Sugunami Ward. The company plans to promote CSR activities by proactively engaging in food education activities and social contribution activities for the region.



Suginami Festa



The company's booth



The donation made to the fund

## <Reference: Regarding Corporate Governance>

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

Organization type	Company with audit and supervisory board
Directors	8 directors, including 3 outside ones
Auditors	5 auditors, including 3 outside ones

### ◎ Corporate Governance Report (Updated on July 17,2019)

#### Basic Policies

In order to fulfill our social responsibilities and remain a trusted company, we are committed to not only complying with laws and regulations but also strengthening and developing our management foundation. We believe that continuity forms the foundation of corporate governance. We also strive to be an open corporation by building an even more thorough system of governance, and by improving the transparency of our corporate activities with the timely and appropriate disclosure of information.

#### (1) Ensure rights and equality for shareholders

In order to ensure practical equality for all shareholders including minority and foreign shareholders and to ensure shareholders' rights and their ability to exercise these rights, we have established an environment that facilitates prompt information disclosure on our website and the Timely Disclosure Network provided by Tokyo Stock Exchange.

#### (2) Collaborate appropriately with non-shareholding stakeholders

We consider that the cooperation with all stakeholders including shareholders is indispensable for us to achieve sustainable growth and to improve corporate value in the mid/long term. Additionally, in order to activate cooperation with stakeholders, the management including the president takes the initiative in fostering the corporate culture while respecting the corporate ethics and stakeholders' rights and positions.

#### (3) Properly disclose information and ensure transparency

Disclosing information is an important management issue, and we believe that ensuring appropriate disclosure is indispensable to gain understanding from our shareholders and other stakeholders. Backed by this belief, we proactively disclose information (including non-financial information) that we deem valuable for our shareholders and other stakeholders through various channels such as our website, the Corporate Report, the business report (our tool for communication with our shareholders), etc. regardless of whether disclosing such information is not enforced by law.

#### (4) Oversee responsibilities of the Board of Directors

Our company separates the management decision-making and supervisory system from business execution and attempts to establish an efficient management and executive system while realizing high-transparency management by appointing outside directors. We established a highly effective audit system for directors through the appointment of 2 outside directors and established a highly independent audit system for execution of operations by directors through the appointment of 3 outside auditors.

#### (5) Create a dialogue with shareholders

In our company, the head of the Corporate Planning Division is responsible for IR, and the Corporate Planning Division serves as a department related to IR activities. In addition to holding financial results briefings for shareholders and investors once every half-term, in which the top management participate, we hold information meetings for individual investors several times a year. And the results are regularly reported to top executives. Furthermore, as for dialogue with shareholders, we carefully manage insider information to prevent any leakage.

### <Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

#### Supplemental principle 4-2-1 (Management compensation, ratio of cash compensation and treasury shares compensation)

We operate a management compensation system linked to medium- to long-term business performance to contribute to the sustainable development of the company.

We will continue to consider the ratio of cash compensation and treasury shares compensation to work as a sound incentive.

### <Disclosure Based on the Principles of the Corporate Governance Code>

#### Principle 5-1 Policy regarding constructive dialogue with shareholders

We emphasize constructive dialogue with shareholders. We strive to create dialogues through a variety of opportunities, particularly by



## BRIDGE REPORT



senior executives. The head of the Corporate Planning Division, who is also responsible for IR, oversees departments related to IR activities, such as the Corporate Planning Office, the Finance and Accounting Headquarters, and the General and Judicial Affairs Headquarters, and works to form an integrated link between them.

At the Corporate Planning Office, we actively accept IR interviews from investors in the form of telephone interviews and small meetings, etc., and financial results briefings are conducted twice per year by the president and IR directors. The IR directors report these results to executives twice each month at progress meetings. As for dialogue with investors, we carefully manage insider information by centering the topic on our business contents and the growth strategies outlined in our medium-term management plan. The silent period takes place from the time accounts are closed to the time financial statements are announced.

This report is intended solely for informational purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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