



President Masahiro Miyamoto

PICKLES CORPORATION (2925)



Corporate Information

Stock Exchange	TSE 1st Section
Industry	Food products (manufacturing)
Representative	Masahiro Miyamoto
Address	7-8, Higashisumiyoshi, Tokorozawa-shi, Saitama
Accounting term	February
URL	https://www.pickles.co.jp/

Stock Information

Share Price	Shares Outstanding (Excluding Treasury Shares)		Total Market Cap	ROE (Actual)	Trading Unit
¥3,365	6,427,300 shares		¥21,627 million	13.3%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥35.00	1.0%	¥295.63	11.4x	¥2,275.38	1.5x

*Share price is as of closing on April 30. Each number is based on the financial statement of FY 2/21

Consolidated Earnings Trend

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
February 2018 Act.	37,616	1,131	1,233	872	144.81	25.00
February 2019 Act.	40,670	1,409	1,561	920	143.88	28.00
February 2020 Act.	41,417	1,871	1,973	1,290	201.67	30.00
February 2021 Act.	46,020	2,711	2,829	1,832	285.92	35.00
February 2022 Est.	46,500	2,850	2,940	1,900	295.63	35.00

*The estimated values were provided by the company. Unit: Million-yen, yen. Net income is the net income attributable to owners of the parent company. The same applies below.

This Bridge Report presents PICKLES CORPORATION's overview of the financial results for the Fiscal year ended February 2021 and describes the earnings forecast for the term ending February 2022 etc.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Fiscal Year ended February 2021 Earnings Results](#)

[3. Fiscal Year ending February 2022 Earnings Forecasts](#)

[4. Major Future Policies](#)

[5. Conclusions](#)

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

Key Points

- For the term ended February 2021, sales were 46,020 million yen, up 11.1% year on year. Sales from products rose thanks to demand from housebound consumers, which was boosted by the novel coronavirus, and escalating demand for kimchi as a food containing lactic acid bacteria owing to the rise in health consciousness. Sales grew for the 11th consecutive term. Operating income grew by 44.9% year on year to 2,711 million yen. Although cost prices of vegetables used as ingredients were high at some points because of the low temperatures in the spring, and prolonged rain and extreme heat in the summer slowed growth of vegetables, they became relatively stable after the weather turned ideal in the fall. The sales increase, and streamlined production through the revision to product specifications and integration of production items boosted profit significantly, offsetting a rise in selling, general and administrative (SG&A) expenses. Profit showed growth for four fiscal years in a row. Operating income margin went up by 1.4 points year on year. Both sales and profit exceeded the upwardly revised forecasts issued in December 2020, each of which marked a record high.
- For the term ending February 2022, sales are forecasted to grow by 1.0% year on year to 46.5 billion yen. Sales from lightly pickled vegetables and kimchi, and delicatessen are expected to be strong owing to an ongoing impact of demand from housebound consumers and the company's efforts in new businesses, such as the OH!!! business. Operating income is estimated to be 2,850 million yen, up 5.1% year on year. Rising SG&A expenses will be offset by improvement in cost prices as well as a sales increase. It is projected that sales and profit each will hit a record high this term as well. The dividend is to be 35.00 yen/share, unchanged from the previous fiscal year. The estimated payout ratio is 11.8%.
- As mentioned in the medium-term business plan, the company intends to expand business by taking advantage of its strengths and forging ahead with the following four strategies: reinforcing product development, expansion of sales areas, expansion of sales channels, and new businesses. In light of the satisfactory business performance, the company has revised the forecasts in the medium-term business plans (for the fiscal years February 2022 and 2023) upward. It aims to achieve sales of 48 billion yen and an operating income of 3.1 billion yen in the term ending February 2024.
- While we commented in the previous report that the progress rate toward the profit goal in the third quarter, which is around 80% on average, exceeded 90% in the term and we would like to pay attention to a possibility of a further increase in profit, the business results at the end of this fiscal year exceeded even the revised forecast. The estimates of sales and profit for this term are conservative, but the external business environment continues to be favorable. We would like to keep an eye on whether PICKLES CORPORATION will be able to raise sales by certainly taking in demand through the proactive launch of new products and the redesigning of the existing products. In addition, we would like to expect the company to produce positive outcomes of its ongoing efforts toward profitability improvement, including reconsidering the process of procuring vegetables (such as procurement by region), installing energy-saving machinery (such as a machine to remove the core of Chinese cabbages and an automated kimchi production line), and integrating production items.

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 17 consolidated subsidiaries, including PICKLES CORPORATION Sapporo, PICKLES CORPORATION Kansai, and Food Label Co., Ltd., and 3 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 80% 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) and acquisition of the certification of FSSC22000 and JFS-B.

【1-1 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 standards for food safety, including FSSC22000 and JFS-B, 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.

On the basis of the corporate philosophy, the company focuses also on Environmental, Social, and Governance (ESG)-based business operations, and prepares ESG reports with the aim of introducing its efforts and challenges related to ESG and its stories of enhancing the corporate value.

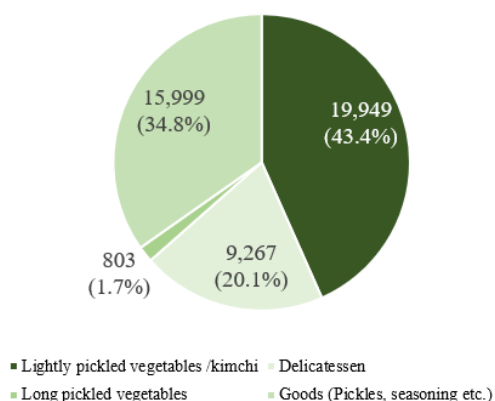
「ESG Bridge Report」

https://www.bridge-salon.jp/report_bridge/archives/2020/12/201202_2925.html

【1-2 Business Description】

In the term ended February 2021, sales from products (manufactured by PICKLES CORPORATION at its own factories) accounted for 65.2% (43.4% from lightly pickled vegetables and kimchi, 20.1% from delicatessen, and 1.7% from long pickled vegetables), and those from products of a consolidated subsidiary, Food Label Co., Ltd., and products purchased from other companies (products manufactured at factories other than the factories operated by PICKLES CORPORATION) made up 34.8%.

Sales by Food Item (FY 2/21)



*Unit: Million yen

(Product and Goods overview)

◎Lightly pickled vegetables and kimchi

The company offers a lineup of lightly pickled vegetable, which can be eaten like a salad, according to the season of the vegetables. In recent years, as consumers have become more health-conscious, the company has been selling "low-sodium lightly pickled vegetable," which is lower in salt than conventional products.

As the company emphasizes the provision of safe and secure food, the main ingredients, such as Chinese cabbage, cucumber, and other vegetables, are produced in Japan. No preservatives or synthetic coloring agents are used.

The mainstay product, "Gohan ga Susumu kimchi" which was launched in October 2009, has been developed with an original taste that accentuates sweetness and umami to suit Japanese tastes, abandoning the traditional basic concept of kimchi being spicy and coming up with a concept of kimchi that housewives would want to feed to their families. While most kimchi products have a capacity of 300 to 400 grams, the new product is 200 grams so that a family can eat it all, making it easier to buy and more affordable. In addition, the package was designed to be slim enough to fit in the refrigerator, and the main color of the package was black instead of red or orange. As a result, the new product was well received by women and children, and sales have been steadily increasing since its launch. The company has also developed products in collaboration with characters and food manufacturers to enrich its lineup.

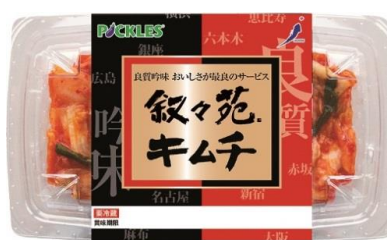
Currently, asazuke lightly pickled vegetables and kimchi account for about 50% of the pickled vegetables market. Although the overall pickle market is shrinking, the market for asazuke and kimchi is stable.

Asazuke and kimchi are made mainly from vegetables and are being reevaluated as low-calorie foods rich in dietary fiber, and future growth in demand is expected.



Gohan ga Susumu Kimchi

(Source: the company)



JOJOEN Pogi Kimchi



4 Kinds of Bran vegetables

◎Delicatessen

The company began handling delicatessen in August 2002 and has been steadily increasing its sales. In recent years, consumers have become more budget-conscious and have been cutting back on eating out, resulting in a growing trend toward eating in at home by buying delicatessen, as well as a change in eating styles due to the increase in the number of elderly people, single-person households, and dual-earner households.

Demand for delicatessen is expected to continue to grow in the future. The company is developing products based on the keyword "vegetables," which is one of its strengths, and currently Namul and other products are doing well. In addition, the company is developing products with originality and added value to its prepared foods, for example, by focusing on different varieties of vegetables and developing salad dressings in-house. In addition, the company utilizes technologies such as pH control to prevent discoloration of green vegetables.



4 kinds of Namul Set

(Source: the company)



Bangbangji Salad

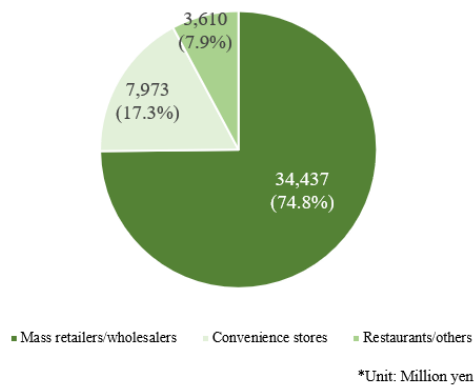


Boiled Okra

(Sales Destination)

Mass merchandisers, retailers, and wholesalers throughout Japan are the sales destinations, with 74.8% of the total sales channels being mass merchandisers and wholesalers, 17.3% being convenience stores, and 7.9% being restaurants and others as of FY2/21.

Sales by Sales Channel (FY 2/21)



(Prepared by Investment Bridge Co., Ltd. based on the company's materials)

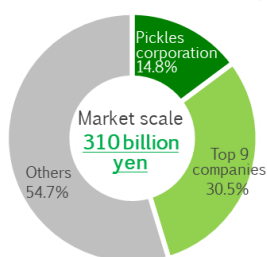
【1-3 Features, Strengths, and Competitive Advantages】

The company has the following features, strengths, and competitive advantages.

(1) Top share in the pickles industry

According to the ranking of companies that generate good sales in the pickles industry as presented by PICKLES CORPORATION based on THE JAPAN FOOD NEWS articles, PICKLES CORPORATION ranked first with consolidated sales of 46 billion yen, pulling far ahead of the other companies with a market share of 14.8% (as of 2019) while endeavoring to attain its target of a market share of 15% through M&A etc.

● Our Market share of 2019 (est.)



(Source: the company)

(2) Highly unique product development capabilities

In order to realize product development quickly and flexibly, we have established a team system of having a development staff and a sales staff for each customer, such as convenience stores, mass merchandisers, and the food service industry. By reflecting the opinions of our customers, we are able to develop highly original products that are different from those of other companies.

The company promotes development from multiple aspects, from the selection of ingredients such as vegetables and seasonings to processing methods, taste, and packaging.

The Research and Development Laboratory, which is responsible for basic research, is engaged in future-oriented initiatives, including research on lactic acid bacteria, such as the plant-derived lactic acid bacteria Pne-12 (hereinafter referred to as "Pene lactic acid bacteria"), which the company has developed on its own.

(3) Production and distribution system covering the entire country

Directly managed factories, distribution centers, subsidiaries, and affiliates cover the entire country. It is the only company in the pickles industry that has established a nationwide network of manufacturing, distribution, development, and sales functions. As a result, the company is able to provide the same lightly pickled vegetables, kimchi, and delicatessen to all of its customers' stores nationwide, which is a major selling point for the company.

In terms of manufacturing, the company has introduced the FSSC22000 and JFS-B standards for food safety and has established a system to supply safer and more secure products.



(Source: the company)

(4) Proposal-Based Sales with Close Relationships to Customers

At the company's sales bases located throughout Japan, proposal-based sales are conducted in close contact with each region and customer.

In addition to the mainstay lightly pickled vegetables and Kimchi products, the company is enhancing its product lineup for the delicatessen section, and its sales representatives are proposing sales methods, creating sales areas, holding pickle fairs, and considering various approaches to consumers together with the customers. In addition, information obtained from communication with customers is fed back to the company and used for product development based on consumer trends.

(5) Vendor functions to meet the needs of customers

The company has two functions: one as a manufacturer of its own products such as lightly pickled vegetables, kimchi, and delicatessen, and the other as a wholesaler of products such as pickled plums that cannot be manufactured at its own factory, which it purchases from pickle manufacturers throughout Japan. By taking advantage of its vendor function, which allows it to offer both its own products and those of other companies at the same time, the company is able to propose total sales floor development that meets the needs of its customers.

【1-4. ROE Analysis】

	FY2/17	FY2/18	FY2/19	FY2/20	FY2/21
ROE (%)	6.5	8.6	8.0	10.4	13.3
Net Profit Margin (%)	1.53	2.32	2.26	3.11	3.98
Total Asset Turnover (times)	2.02	1.90	1.88	1.79	1.83
Leverage (times)	2.10	1.95	1.89	1.88	1.83

Sustained improvement in profitability has led to higher ROE, which has exceeded 10% for two consecutive fiscal years.

2. Fiscal Year ended February 2021 Earning Results

2-1 Consolidated Business Results

① Outline

	FY2/20	Ratio to sales	FY2/21	Ratio to sales	YoY	Revised Estimate ratio
Net Sales	41,417	100.0%	46,020	100.0%	+11.1%	+2.3%
Gross profit	10,560	25.5%	12,298	26.7%	+16.5%	-
SG&A expenses	8,688	21.0%	9,586	20.8%	+10.3%	-
Operating income	1,871	4.5%	2,711	5.9%	+44.9%	+8.5%
Ordinary income	1,973	4.7%	2,829	6.1%	+43.4%	+8.8%
Net Income	1,290	3.1%	1,832	4.0%	+42.0%	+1.8%

*Unit: million yen. The revised estimate ratio is the ratio of increase/decrease to the estimate announced in December 2020.

Sales and Profit increased, record high sales and profit was achieved

Sales were 46,020 million yen, up 11.1% year on year. Sales from products rose thanks to demand from housebound consumers, which was boosted by the novel coronavirus, and escalating demand for kimchi as a food containing lactic acid bacteria owing to the rise in health consciousness. Sales grew for the 11th consecutive term.

Operating income grew by 44.9% year on year to 2,711 million yen. Although cost prices of vegetables used as ingredients were high at some points because of the low temperatures in the spring, and prolonged rain and extreme heat in the summer slowed growth of vegetables, they became relatively stable after the weather turned ideal in the fall. The sales increase and streamlined production through the revision to product specifications and integration of production items boosted profit significantly, offsetting a rise in selling, general and administrative (SG&A) expenses. Profit showed growth for four fiscal years in a row. Operating income margin went up by 1.4 points year on year.

Both sales and profit exceeded the upwardly revised forecasts issued in December 2020, each of which marked a record high.

Breakdown of SG&A Expenses

	FY2/20	Ratio to sales	FY2/21	Ratio to sales	YoY
Total SG&A expenses	8,688	21.0%	9,586	20.8%	+10.3%
Logistics cost	4,248	10.3%	4,720	10.3%	+11.1%
Personnel cost	2,630	6.3%	3,061	6.6%	+16.4%
Advertising cost	326	0.8%	250	0.5%	-23.3%
Others	1,483	3.6%	1,554	3.4%	+4.8%

*Unit: million yen

② Trends by Food Item and Sales Channel

◎ Sales by Food Item

	FY2/19	Ratio to sales	FY2/20	Ratio to sales	FY2/21	Ratio to sales	YoY
Product	24,658	60.6%	26,462	63.9%	30,020	65.2%	+13.4%
Lightly pickled vegetables /kimchi	16,420	40.4%	17,308	41.8%	19,949	43.4%	+15.3%
Delicatessen	7,382	18.1%	8,321	20.1%	9,267	20.1%	+11.4%
Long pickled vegetables	854	2.1%	831	2.0%	803	1.7%	-3.4%
Goods	16,012	39.4%	14,955	36.1%	15,999	34.8%	+7.0%
Total Sales	40,670	100.0%	41,417	100.0%	46,020	100.0%	+11.1%

*Unit: million yen

©Sales by Sales Channel

	FY2/19	Ratio to sales	FY2/20	Ratio to sales	FY2/21	Ratio to sales	YoY
Mass retailers/wholesalers	31,132	76.5%	31,030	74.9%	34,437	74.8%	+11.0%
Convenience stores	5,288	13.0%	6,587	15.9%	7,973	17.3%	+21.0%
Restaurants/others	4,250	10.5%	3,799	9.2%	3,610	7.9%	-5.0%
Total Sales	40,670	100.0%	41,417	100.0%	46,020	100.0%	+11.1%

*Unit: million yen

③Gross profit margin and situation surrounding vegetable prices

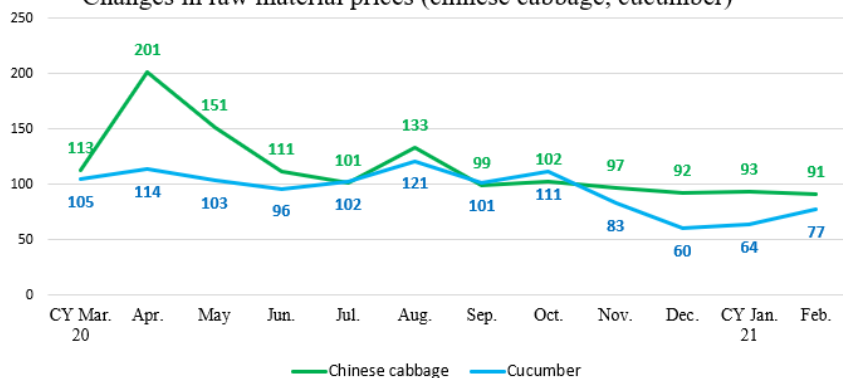
(Price of Chinese cabbages)

The price soared around the spring because of the increase in demand as more people started to refrain from going out and have meals at home due to the spread of Covid-19 and low temperatures slowed the growth of Chinese cabbages mainly in Ibaraki Prefecture. Around the summer, lack of sunlight in July and extreme heat in August caused the price of Chinese cabbages cultivated primarily in Nagano Prefecture to skyrocket. The price stabilized after the autumn because the growing environment became ideal.

(Price of cucumbers)

The price of cucumbers cultivated mainly in Fukushima and Iwate Prefectures shot up around August compared to the year before due to the lack of sunlight in July. The growing conditions were ideal for cucumbers around December, allowing the vegetable to grow vigorously, and the price stabilized.

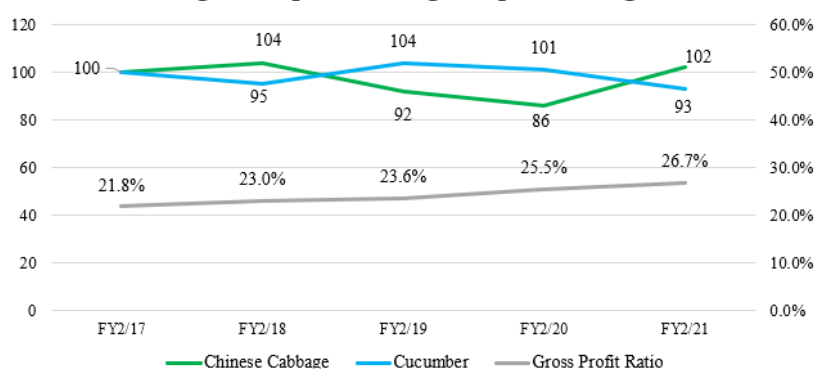
Changes in raw material prices (chinese cabbage, cucumber)



*The same month a year ago =100

The company strives to improve the gross margin rate on a continuous basis by entering into contracts with more farmers and cementing its relationship with them.

Vegetable prices and gross profit margin



2-2 Financial Conditions and Cash Flow

Financial conditions

	Feb.20	Feb.21	Increase/ Decrease		Feb.20	Feb.21	Increase/ Decrease
Current Assets	8,990	10,365	+1,375	Current liabilities	8,444	8,932	+487
Cash	3,309	4,437	+1,127	Payables	3,484	3,462	-22
Receivables	4,998	5,290	+291	ST Interest-Bearing Liabilities	2,439	2,551	+111
Inventories	621	546	-74	Noncurrent liabilities	2,810	2,288	-521
Noncurrent Assets	15,280	15,584	+303	LT Interest-Bearing Liabilities	1,857	1,380	-477
Tangible Assets	13,661	13,912	+251	Total Liabilities	11,254	11,221	-33
Intangible Assets	733	661	-72	Net Assets	13,016	14,728	+1,712
Investments and Others	885	1,011	+125	Total Liabilities and Net Assets	24,271	25,949	+1,678
Total Assets	24,271	25,949	+1,678	Total Interest-Bearing Liabilities	4,297	3,932	-365

*Unit: million yen. Interest-bearing liabilities include lease liabilities.

Total assets grew by 1,678 million yen from the end of the previous fiscal year to 25,949 million yen owing to the increases in cash and tangible assets etc. A decline in interest-bearing liabilities reduced total liabilities by 33 million yen from the end of the year before to 11,221 million yen. Net assets stood at 14,728 million yen, up 1,712 million yen from the end of the last year following a rise in retained earnings.

Capital-to-asset ratio increased 3.2% from the end of the previous year to 56.4%.

Cash flows (CF)

	FY2/20	FY2/21	Increase/Decrease
Operating cash flow	2,303	3,047	+743
Investing cash flow	-1,777	-1,312	+465
Free Cash Flow	526	1,735	+1,208
Financing cash flow	-52	-607	-555
Cash and Equivalents at the end of term	3,309	4,437	+1,127

*Unit: million yen

A growth of net income before income taxes further rose operating and free cash flows. The cash position increased.

3. Fiscal Year ending February 2022 Earnings Forecasts

3-1 Full-year Business Forecast

① Major income statements

	FY2/21	Ratio to sales	FY 2/ 22 Est.	Ratio to sales	YoY
Sales	46,020	100.0%	46,500	100.0%	+1.0%
Gross profit	12,298	26.7%	12,550	27.0%	+2.0%
SG&A	9,586	20.8%	9,700	20.9%	+1.2%
Operating Income	2,711	5.9%	2,850	6.1%	+5.1%
Ordinary Income	2,829	6.1%	2,940	6.3%	+3.9%
Net Income	1,832	4.0%	1,900	4.1%	+3.7%

*Unit: million yen

Increase in sales and income

Sales are forecasted to grow by 1.0% year on year to 46.5 billion yen. Sales from lightly pickled vegetables and kimchi, and delicatessen are expected to be strong owing to an ongoing impact of demand from housebound consumers and the company's efforts in new businesses, such as the OH!!! business.

Operating income is estimated to be 2,850 million yen, up 5.1% year on year. Rising SG&A expenses will be offset by improvement in cost prices as well as a sales increase. It is projected that sales and profit each will hit a record high this term as well.

The dividend is to be 35.00 yen/share, unchanged from the previous fiscal year. The estimated payout ratio is 11.8%.

Breakdown of SG&A Expenses

	FY2/21	Ratio to sales	FY 2/ 22 Est.	Ratio to sales	YoY
Total SG&A expenses	9,586	20.8%	9,700	20.9%	+1.2%
Logistics cost	4,720	10.3%	4,757	10.2%	+0.8%
Personnel cost	3,061	6.6%	3,108	6.7%	+1.5%
Advertising cost	250	0.5%	261	0.6%	+4.6%
Others	1,554	3.4%	1,572	3.4%	+1.2%

*Unit: million yen

② Trends by Food Item and Sales Channel

◎Sales by Food Item

	FY2/20	Ratio to sales	FY2/21	Ratio to sales	FY 2/ 22 Est.	Ratio to sales	YoY
Product	26,462	63.9%	30,020	65.2%	30,400	65.4%	+1.3%
Lightly pickled vegetables /kimchi	17,308	41.8%	19,949	43.4%	20,438	44.0%	+2.4%
Delicatessen	8,321	20.1%	9,267	20.1%	9,400	20.2%	+1.4%
Long pickled vegetables	831	2.0%	803	1.7%	561	1.2%	-30.1%
Goods	14,955	36.1%	15,999	34.8%	16,100	34.6%	+0.6%
Total Sales	41,417	100.0%	46,020	100.0%	46,500	100.0%	+1.0%

*Unit: million yen

◎Sales by Sales Channel

	FY2/20	Ratio to sales	FY2/21	Ratio to sales	FY 2/ 22 Est.	Ratio to sales	YoY
Mass retailers/wholesalers	31,030	74.9%	34,437	74.8%	34,835	74.9%	+1.2%
Convenience stores	6,587	15.9%	7,973	17.3%	8,014	17.2%	+0.5%
Restaurants/others	3,799	9.2%	3,610	7.9%	3,650	7.9%	+1.1%
Total	41,417	100.0%	46,020	100.0%	46,500	100.0%	+1.0%

*Unit: million yen

4. Major Future Policies

【4-1 Future strategies】

As mentioned in the medium-term business plan, the company intends to expand business by taking advantage of its strengths and forging ahead with the following four strategies: reinforcing product development, expansion of sales area, expansion of sales channels, and new businesses.

① Reinforcing product development

*Pickled vegetables and kimchi

(Market environment)

According to the ranking of companies that generate good sales in the pickles industry as presented by PICKLES CORPORATION based on THE JAPAN FOOD NEWS articles, only four companies have achieved sales of over 10 billion yen, with PICKLES CORPORATION ranked first with consolidated sales of 46 billion yen followed by Tokai Pickling Co., Ltd. whose sales are 20.2 billion yen, AKIMOTO FOODS Co., Ltd., with sales of 12.2 billion yen, and Bingo Tsukemono Co., Ltd., which has generated sales of 10.6 billion yen, in descending order.

PICKLES CORPORATION pulls far ahead of the other companies with a market share of 14.8% (as of 2019) while endeavoring to attain its target of a market share of 15%.

Although sales of pickled vegetables have been on the decline due to multifarious factors, including changing eating habits and falling demand for rice, the sales decline has bottomed out in the market as a whole thanks to some products that have been selling well, such as kimchi. The industry as a whole delivered satisfactory business performance in the previous fiscal year because, for example, people now refrain from going out and have meals at home more frequently due to the spread of Covid-19. The number of pickled vegetables produced grew from 742,000 tons in 2019 to 777,000 tons in 2020.

PICKLES CORPORATION strives to increase its share by strengthening product development with the favorable business environment as a tailwind.


(Examples of product development)

The company estimates sales from its core product, “Gohan ga Susumu Kimchi,” at 9.4 billion yen in the term ending February 2022, up 1.0% year on year.

In addition to the taste that people of all ages can savor, the company is taking in demand of health-minded consumers by mixing its uniquely developed plant-based lactic acid bacterium, Pne-12.

The following is a list of products released lately by PICKLES CORPORATION:

Product	Points
Kimchi Produced in Earnest by YAKINIKU CHAMPION 	<ul style="list-style-type: none"> *This product is produced by YAKINIKU CHAMPION, a popular yakiniku restaurant offering high-quality yakiniku of A5 black Wagyu beef. *This kimchi is made following a conventional, extremely time-consuming recipe of seasoning each leaf of Chinese cabbage with kimchi sauce. *This is an exquisite kimchi product of a popular yakiniku restaurant with a well-balanced flavor of sweetness, spiciness, and garlic. *A renewed version of this product has been on sale since March 2021.
Renewed versions of the lightly pickled vegetable brand Yasai no Genki wo Otokoke	<ul style="list-style-type: none"> *The brand has been completely renewed in order to convey the company's slogan, “We deliver the vitality of vegetables,” to more consumers. *New package designs have been adopted one by one since January 2021. *The redesigned packages are aimed at broadening the appeal of the product's quality of safety and making the product attractive to consumers by conveying the freshness and sense of the seasons of vegetables.

	<p>*Ink used for the packages has been changed to biomass ink step by step (the company expects that the change will reduce the amount of CO₂ emissions by about 10-20%).</p>
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*Delicatessen

(Market environment)

According to the reference material presented by the company (based on research by the Japan Chain Stores Association), the scale of the delicatessen market (including Japanese-style, Western-style, and Chinese-style delicatessen products, packed meals, and sandwiches) was 1,057.5 billion yen in 2020 (which was 1,035.7 billion yen in 2018 and 1,050.8 billion yen in 2019).


The market continues booming on the back of a growing number of one-person households, aging population, a higher number of working women, growing interest in food from the viewpoint of health and nutritional balance, and needs for simplifying and reducing time of household chores.



In this sector, PICKLES CORPORATION is vying with listed companies such as FUJICCO Co., Ltd. (sales of 66.1 billion yen and a net income of 3.1 billion yen), KENKO Mayonnaise CO., Ltd. (Sales of 74.4 billion yen and a net income of 2,050 million yen), and Ebara Foods Industry, Inc. (sales of 51.2 billion yen and a net income of 1,480 million yen), and subsidiaries of listed companies, including Deria Foods Co., Ltd. (Kewpie Group) and initio foods inc. (Nisshin Seifun Group Inc.)

Although PICKLES CORPORATION is a late comer (which entered the industry in 2003), it has been increasing sales from delicatessen products from 6,384 million yen in FY 2/2018 to 7,382 million yen in FY 2/2019, to 8,321 million yen in FY 2/2020, and to 9,267 million yen in FY 2021 by making careful sales activities as a direct marketer and focusing on vegetable-based delicatessen products that attract health-conscious consumers.

Estimating sales at 9.4 billion yen in the fiscal year February 2021, the company endeavors to renew the existing products (such as namul, salads, and pirikara (spicy) cucumbers), develop products that meet demand for drinking at home, and develop salads seasoned with dressings targeting health-conscious consumers.

The following are examples of products developed, other than lightly pickled vegetables, kimchi, and delicatessen:

Product	Points
<p>Gohan ga Susumu: Tofu Jjigae Base</p> 	<ul style="list-style-type: none"> *Everyone, including children, can enjoy hot pot dishes cooked with this product that brings out the flavor of seafood, such as bonito flakes, and the unique sweet and spicy taste of Gohan ga Susumu Kimchi. *This product can be prepared easily with microwave ovens in heat-resistant containers, meaning that pots are not necessary at all. *This product is sold at tofu sections of mass retailers.
<p>Base for boiled pork with garlic sauce(Yunbairou) produced by JUKEI HANTEN</p>	<ul style="list-style-type: none"> *This is an authentic Chinese-style base produced under the supervision of JUKEI HANTEN, a Chinese restaurant established in 1959 in Yokohama Chinatown. *Boiled pork with garlic sauce(Yunbairou) is one of the appetizers of the Shichuan cuisine cooked with pork and cucumber. *This product can be used also for tofu and salads, and arranged recipes are provided in the website accessible via the QR code on the back of the package.

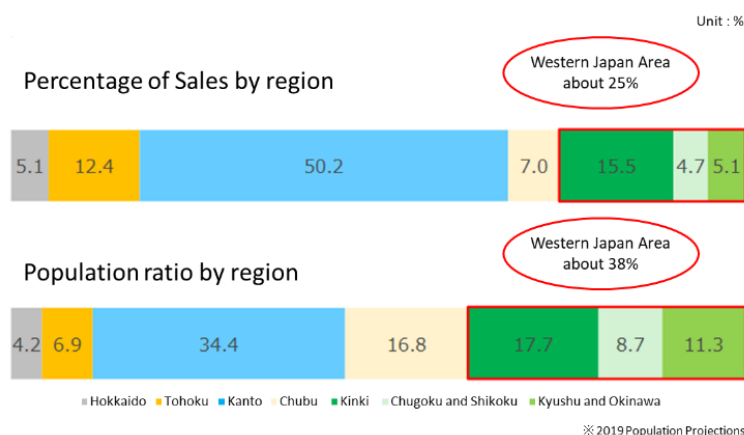
	
<p>Magic of Fermentation Ready-to-Use Fermented Rice Bran Bed</p> 	<p>*This is a ready-to-use base of rice bran bed fermented with the Pnc lactic acid bacterium using PICKLES' unique fermentation technique of bringing out sourness and flavor.</p> <p>*This product is packaged in a capped pouch that is convenient for pickling a variety of ingredients.</p> <p>*Everyone can enjoy making rice-bran pickles by using about 25 grams of this product per 100 grams of ingredients.</p>

② Expansion of selling areas

Sales in the Kanto region account for 50.2% of the total sales of the company while sales in Western Japan (the Kinki region, the Chugoku and Shikoku region, and the Kyushu region and Okinawa Prefecture) make up about 25%.

Considering that the combined population ratio by region of Western Japan is about 38%, there is ample room for expanding sales and the company aims to increase sales in the area to over 30% by enhancing sales activities there.

Taking advantage of the supply capacity of Hiroshima Factories of PICKLES CORPORATION Kansai, which now have capability enough to spare for production thanks to the start of the operation of Saga Factory, and Tegara Foods Co., Ltd., for which building extension and repair have been completed, PICKLES CORPORATION will reinforce production and sales in the Kinki region, the Chugoku and Shikoku region, and the Kyushu region.



(Source: the company)

③ Expansion of sales channels

In addition to taking a higher share through pickles and delicatessen sections of convenience stores and mass retailers, and through restaurants, the company focuses on expanding its products into other sectors than the conventional ones, such as drugstores that started to focus on selling food items and tofu and noodles sections of mass retailers, and prospecting for food delivery service providers targeting, for example, aged people.

④ New businesses

The company strives to sell Pne-related products and pickles through two e-commerce websites, which are Piene Online Shop (for products utilizing the Pne lactic acid bacterium) and YAWATAYA Online Shop (for authentic Japanese-style pickles) and works on the restaurant and retail businesses operated by one of its subsidiaries, OH Co., Ltd. (OH!!! Magic of Fermentation, Health, and Food!!!, which is a theme park featuring fermentation and health (hereinafter referred to as OH!!!)).

The two e-commerce websites, Piene Online Shop and YAWATAYA Online Shop, were opened in April of 2018.

Piene Online Shop sells products utilizing the Pne lactic acid bacterium while YAWATAYA Online Shop offers authentic Japanese-style pickles produced using domestically cultivated ingredients without use of synthetic seasonings. Establishment of a factory for products related to the Pne lactic acid bacterium was completed in April 2019 and shipment of the products began in June of the same year. The start of the operation of the factory has enabled the company to offer such products as malted-rice amazake not as refrigerated products but as non-refrigerated items.

OH Co., Ltd., a subsidiary established in March of 2019, began the restaurant and retail businesses in a theme park featuring fermentation and health, OH!!! – Magic of Fermentation, Health, and Food!!! –, (Hanno City, Saitama Prefecture) in October 2020.

The company endeavors to develop products including takeaway foods, increase the number of trial classes, plan and organize various events such as zen meditation and hand-copying sutra in cooperation with Noninji Temple which is the land owner, raise public awareness of the park via social media, utilize tours organized by travel agents, and coordinate with the e-commerce business.

In the term ended February 2021, sales stood at 118 million yen and operating loss was 53 million yen.

The company expects sales, operating loss, and the annual number of visitors to be 383 million yen, 63 million yen, and 300,000, respectively, this fiscal year.

● Introduction of each building

Restaurant Building <Femy.>



Café Building <Piene Café>



Shopping Building <YAWATAYA>



Experience Building
<PARI-SHAKI LABORATORY>



(Source: the company)

【4-2 Various efforts】

The following is a list of other efforts that PICKLES COPROATION made at advertising, production, ESG, and SDGs:

① Advertising

The company strived to foster public awareness of its products through the following activities:

Effort	Overview
Produced a new TV commercial “Gohan ga Susumu Kimchi EZ DO EAT” version	<ul style="list-style-type: none"> *The company appointed a Japanese dance and vocal group, TRF, as a new commercial mascot who choreographed an original exercise for the Gohan ga Susumu song. *The company released a video of the completely original, easy and enjoyable dancercise via its website.
Gohan ga Susumu Kimchi day campaign	<ul style="list-style-type: none"> *The company has recognized February 26 as the Gahan ga Susumu Kimchi Day because the character “su” resembles 2 and 6 could represent the “mu” part of the product’s name “Susumu.” *The company initiated a social media-based campaign asking users to post videos of them dancing the Gohan ga Susumu Dance choreographed originally by TRF.
Launch of collaborated products	<p>Gohan ga Susumu: Kimchi-simmered sardines</p> <ul style="list-style-type: none"> *This is a product developed in collaboration with Shinoda Kanzume Co., Ltd., a long-established canned food manufacturer founded in 1905. *This is canned sardines simmered with Gohan ga Susumu Kimchi that is characterized by sweetness of apples and flavor of seafood such as bonito flakes. <p>Yamasa Ready-to-Use Gohan ga Susumu Kimchi Base for Soupleless Noodles: three servings</p> <ul style="list-style-type: none"> *This is a sweet, spicy, and tasty base for udon noodles that comes with an appetizing flavor of bonito flakes, and punchy aroma of sesame oil and garlic. * Flavored ground soy meat in this product ward off hunger.
Other	<ul style="list-style-type: none"> *Outdoor signboard (at MetLife Dome) *Ad-wrapped busses *Social media: The company offered information via such social media as Instagram and Facebook.

② Production and management

With the aim of bringing down costs and enhancing efficiency, the company reconsidered the process of procuring vegetables (such as procurement by region), installed energy-saving machinery (such as a machine for removing the core of Chinese cabbages and automated kimchi production line), integrated production items, and adopted work flow systems (such as ringi system-based approval acquisition) and an online meeting system.

The company requires its employees to measure their body temperatures at home and when they come to the office, wear face masks and use hand sanitizers during work, and work in staggered working hours and from home as a preventive measure against Covid-19. It made consolation payments and distributed anti-bacterial sprays to the employees.

③ ESG, SDGs (ESG)

The company's ESG bridge report has been posted on the following website for enhanced disclosure of ESG-related information.

https://www.bridge-salon.jp/report_bridge/archives/2020/12/201202_2925.html

The following is a list of the company's efforts at each item of ESG:

E (Environment)	<ul style="list-style-type: none"> *Reduced the weight of the cups for lightly pickled vegetables, and adopted plant-based raw materials. *Contributed products to food banks. *Put the biomass mark.
S (Social)	<ul style="list-style-type: none"> *Adopted a qualification allowance payment system. *Promoted an overtime-free day campaign. *Utilized the employee promotion system.
G (Governance)	<ul style="list-style-type: none"> *Put together a Business Continuity Plan (BCP). *Adopted a safety confirmation system *Established a system to propel forward SDGs and disclosed relevant efforts.

(SDGs)

The company established a system to forge ahead with SDGs and began preparing for disclosing relevant efforts.

【4-3 Medium-Term Management Plan】

	FY2/20	FY2/21	FY2/22 (Plan)	FY2/22 (Revised Plan)	FY2/23 (Plan)	FY2/23 (Revised Plan)	FY2/24 (Plan)	CAGR
Sales	41,417	46,020	44,350	46,500	45,700	4,700	48,000	+3.8%
Operating Income	1,871	2,711	2,005	2,850	2,083	3,000	3,100	+13.5%
Ordinary Income	1,973	2,829	2,125	2,940	2,203	3,080	3,190	+12.8%
Net income	1,290	1,832	1,400	1,900	1,473	1,930	1,980	+11.3%

* Unit: million yen. CAGR is the average annual growth rate from FY2/20 to FY2/24, calculated by Investment Bridge Co., Ltd

	FY2/20	FY2/24 (Plan)	CAGR
Asazuke lightly pickled vegetables /kimchi	17,308	21,420	+5.5%
Delicatessen	8,321	9,700	+3.9%
Furuzuke old pickled vegetables	831	580	-8.6%
Product	14,955	16,300	+2.2%
Total	41,417	48,000	+3.8%

*Unit: million yen. CAGR is the average annual growth rate from FY2/20 to FY2/24, calculated by Investment Bridge Co., Ltd

In view of the actual business performance of the term ended February 2021, the company revised the forecasts for the fiscal years ending February of 2022 and 2023 upward.

It expects profit to show a double-digit growth annually.

	FY2/19	FY2/20	FY2/21	FY2/22(Plan)	FY2/23(Plan)	FY2/24(Plan)
Capital Expenditure	2,681	1,769	1,409	1,520	1,660	2,620
Depreciation	690	838	931	960	1,120	1,300

* Unit: million yen.

The company plans to make capital investment of 5.8 billion yen for the next three years mainly in expanding the floor space of Chukyo Factory and upgrading equipment in FY 2/22, building a factory dedicated to kimchi production and upgrading equipment in FY 2/23, and newly establishing a factory and upgrading equipment in FY 2/24. We would like to keep an eye on the outline of establishment of a new factory planned in the fiscal year February 2024.

5. Conclusions

While we commented in the previous report that the progress rate toward the profit goal in the third quarter, which is around 80% on average, exceeded 90% in the term and we would like to pay attention to a possibility of a further increase in profit, the business results at the end of this fiscal year exceeded even the revised forecast.

The estimates of sales and profit for this term are conservative, but the external business environment continues to be favorable. We would like to keep an eye on whether PICKLES CORPORATION will be able to raise sales by certainly taking in demand through the proactive launch of new products and the redesigning of the existing products.

In addition, we would like to expect the company to produce positive outcomes of its ongoing efforts toward profitability improvement, including reconsidering the process of procuring vegetables (such as procurement by region), installing energy-saving machinery (such as a machine to remove the core of Chinese cabbages and an automated kimchi production line), and integrating production items.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	9 directors, including 3 from outside
Auditors	4 directors, including 3 from outside

◎Corporate Governance Report (Updated on June. 1, 2020)

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.

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

[Supplementary Principle 2-2-1]

Going forward, the Code of Conduct will be disseminated through explanations at annual policy briefings and in-house newsletters.

We will also consider adding the status of compliance with the Code of Conduct in personnel evaluations and report the results to the Board of Directors.

[Supplementary Principle 4-2-1]

As for the remuneration of internal directors, as described in Principle 3-1 (3), in order for the directors to share the merits and risks of stock price fluctuations with shareholders and increase their desire to contribute to elevating stock price and enhancing corporate value more than ever before, we have introduced stock acquisition rights in the form of stock options.

Going forward, we will examine procedures to ensure objectivity and transparency in the determination of the compensation system's design and of specific remuneration amounts.

[Supplementary Principle 4-3-1]

As described in Principle 3-1 (4), we appoint internal directors who have a high degree of expertise in their fields of responsibility and who can respond quickly and accurately to changes in the business environment. Regarding outside directors, we appoint capable personnel who can supervise management independently from an objective standpoint without being biased toward the interests of management or specific stakeholders.

In the future, we will examine procedures to ensure objectivity and transparency.

[Principle 4-7. Roles and Responsibilities of Independent Outside Directors]

(1) The three outside directors of the company have abundant experience and wide-ranging insight as corporate managers. Utilizing those experiences and insights, they give advice on the management strategy etc. for the company.

(2) At present, there is no system in which the opinions of outside directors are reflected in the appointment, dismissal, and compensation of executives. However, as described in Supplementary Principle 4-3-1, going forward we will examine such procedures.

(3) The three independent outside directors of the company supervise conflicts of interest of the Board of Directors from an independent standpoint.

(4) The three independent outside directors of the company are independent from management and controlling shareholders, and appropriately reflect the opinions of stakeholders, including minority shareholders, in the Board of Directors.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

[Principle 5-1. Policy on Constructive Dialogue with Shareholders]

With a basis in transparency, fairness, and continuity, we strive to disclose information promptly so that our shareholders and investors can understand our company correctly.

We will strive to disclose information based on related laws and regulations such as the Financial Instruments and Exchange Act as well as the timely disclosure rules established by financial instruments exchange, and to actively disclose information that can be considered effective for understanding our company with appropriate measures.

Specifically, we will hold financial results briefings twice a year and hold briefings for individual investors as appropriate. The President and Chief Executive Officer and the Public Relations and IR Office will also handle individual interviews within a reasonable range.

Additionally, along with establishing a Public Relations/IR Office as the department in charge of IR, we have posted the disclosure policy on our home page.

This report is intended solely for information 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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