

ITO EN, LTD. (Common stock: 2593, Preferred stock: 25935)	 ITO EN <hr/> We Love Nature
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Company Information

Exchange	TSE 1st Section
Industry	Food products (manufacturing)
President	Daisuke Honjo
Address	47-10, Honmachi 3-chome, Shibuya-ku, Tokyo
Year-end	April
URL	https://www.itoen-global.com/

Stock Information

<Common Stock>

Share Price	Number of shares issued (End of the term)		Total market cap	ROE (Actual)	Trading Unit
¥6,920	89,212,380 shares		¥617,349million	4.7%	100 shares
DPS (Forecast)	Dividend yield (Forecast)	EPS (Forecast)	PER (Forecast)	BPS (Actual)	PBR (Actual)
¥40.0	0.6%	¥102.84	67.3 times	¥1,250.37	5.5 times

* The share price is the closing price on June 25. Each number is the financial statement of FY 4/21

<Preferred Stock>

Share Price	Number of shares issued (End of the term)		Total market cap	ROE (Actual)	Trading Unit
¥2,296	34,246,962 shares		¥78,631million	4.7%	100 shares
DPS (Forecast)	Dividend yield (Forecast)	EPS (Forecast)	PER (Forecast)	BPS (Actual)	PBR (Actual)
¥50.00	2.2%	¥112.84	20.3 times	¥1,255.37	1.8 times

* The share price is the closing price on June 25. Each number is the financial statement of FY 4/21

Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
April 2018 (Actual)	494,793	22,043	21,441	12,553	99.79	40.00
April 2019 (Actual)	504,153	22,819	23,211	14,462	116.02	40.00
April 2020 (Actual)	483,360	19,940	19,432	7,793	61.53	40.00
April 2021 (Actual)	446,281	16,675	17,029	7,011	55.10	40.00
April 2022 (Forecast)	410,000	20,000	19,800	12,800	102.84	40.00

* The company begins to apply the revenue recognition criteria in the term ending April 2022.

This Bridge Report outlines the results of ITO EN for the fiscal year ended April 2021 and the forecast for the term ending April 2022.

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Key points

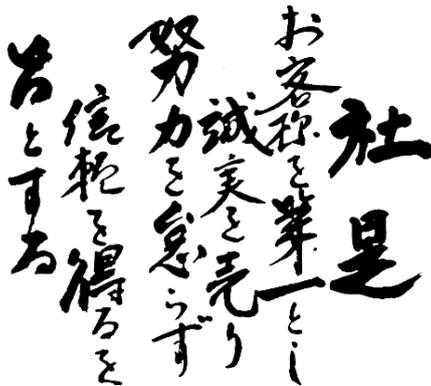
- Sales in the term ended April 2021 stood at 446.2 billion yen, down 7.7% year on year. While sales by ITO EN, LTD. (non-consolidated) shrank 6.6% year on year, Tully's Coffee Japan Co., Ltd., which has advantages in the locations of shops in urban areas, was affected significantly by the COVID-19 pandemic. Operating income went down 16.4% year on year to 16.6 billion yen. Although the Business in North America achieved a profit growth thanks to the strong sales from supplements by growing health consciousness, ITO EN (non-consolidated) saw a decline in profit and Tully's Coffee Japan recorded an operating loss. Both sales and profit decreased year on year, but profit exceeded the business forecast because the company promoted group-wide improvement of business operations and total cost reduction.
- The company will adopt the revenue recognition standards in this term ending April 2022. As the primary impact of the adoption, rebates, which are variable considerations in sales promotion expenses, will be deducted from sales. The amount of the financial impact on sales will amount to about 60 billion yen. Although sales are forecast to drop 8.1% in accordance with the new standards, sales and operating income are expected to increase 5.8% and 19.9%, respectively, pursuant to the conventional standards. The sales recovery at ITO EN (non-consolidated) and Tully's Coffee Japan will contribute to the growth of profit. It is assumed that the company will be continuously affected by the COVID-19 crisis in the first half of the term, so the forecast is conservative. The dividends for the common share and the preferred share will be 40 yen per share and 50 yen per share, respectively, unchanged from the previous year. The payout ratio is projected to be 38.9% for the common share and 44.3% for the preferred share.
- Profit exceeded the forecast, although both sales and profit shrank. On a quarterly basis, it is not easy to observe a clear trend of recovery in sales; however, the company will be able to achieve sales recovery this term because the number of people who have received COVID-19 vaccines is expected to grow at an accelerated rate while the company will meet demand from home-bound consumers for the tea leaf products for experiential consumption that means that people enjoy experience at home. The trend of the increase of health-conscious consumers, which began even before the outbreak of the novel coronavirus, is also a great tailwind. We would like to pay attention to quarterly trends in sales and profit.

1. Company Overview

ITO EN mainly manufactures and sells beverages (including tea beverages such as green tea, coffee, and vegetable beverage), and tea leaves, and also operates restaurants and conducts franchise (FC) business of Tully's Coffee, etc., manufactures and sells supplements via its subsidiaries. In Japan, the company has the largest share of 33% (as of 2020) in the market of green tea beverages, including "Oi Ocha." In addition, it owns a variety of popular product brands, such as "Kenko Mineral Mugicha" (barley tea) which is the bestselling caffeine-free tea beverage, "Ichinichibun no Yasai" (Vegetable Beverage), the most selling 100% vegetable beverage, and "TULLY'S COFFEE" which is the top-selling bottle-shaped canned black coffee product developed in cooperation with Tully's Coffee Japan Co., Ltd.. Each of them has achieved an annual sales quantity of over 10 million cases ("Oi Ocha" has sold about 80 million cases).

The ITO EN Group is composed of 31 consolidated subsidiaries, including Tully's Coffee Japan Co., Ltd. and Chichiyasu Company, and 3 companies accounted for using the equity method. With the aim of becoming a "Global Tea Company," it is developing the ITO EN brand and cultivating new green tea markets in the U.S. (mainly New York), China, Australia and Southeast Asia.

Management Principle “Always Putting the Customer First”



The corporate ethos of ITO EN is “Customer First,” which means that “valuing all customers is the basic of business administration.”

Customers mean all stakeholders (including consumers, shareholders, retailers, suppliers, financial institutions and local communities) related to ITO EN. The company recognizes all stakeholders as customers, listens to their respective opinions and requests sincerely and takes measures from the viewpoint of customers. This is their stance for business administration.

1-1. Five Concepts for Product Development since the Establishment of the Company



The concepts for product development are “Natural,” “Healthy,” “Safe,” marketing strategies and the pursuit of deliciousness. For its representative product “Oi Ocha,” ITO EN has been using high-quality ingredients and production methods since the period of the predecessor “Canned Sencha (green tea),” which was released in 1985, and brings out natural deliciousness without using any flavoring or seasoning agents.

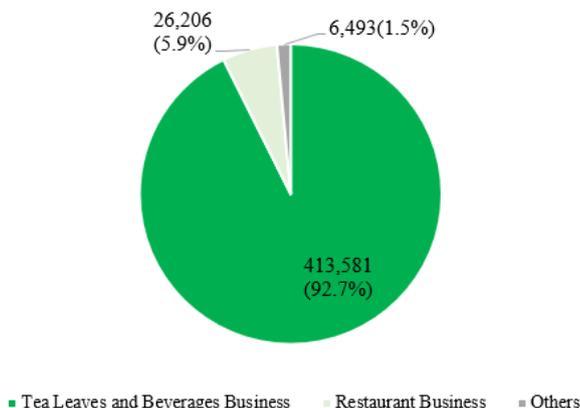
- Natural : Products with natural ingredients
- Healthy : Products that bring goodness and health to people’s lives
- Safe : Safe and enjoyable products
- Well-designed : Simply designed packaging attests to good taste
- Delicious : Good-tasting products that bring happiness

(Source: The company)

1-2. Outline of the business

The business of ITO EN is classified into the Beverages Business and Tea Leaves, which manufactures and sells tea leaves and beverages, the Restaurant Business, in which Tully’s Coffee Japan Co., Ltd. operates specialty coffee shops and FC business, and The Others, in which Mason Distributors, Inc. (Florida, the U.S.) manufactures and sells supplements.

Sales composition by segments (FY 4/21 Units: million yen)



Product brands representative of ITO EN, LTD. that have sold over 10 million cases annually



(Source: The company)

1-3 Global tea company

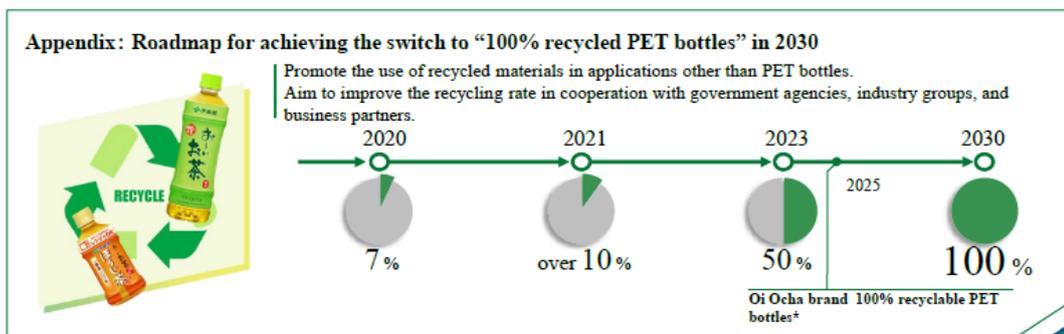
As a global tea company, the company aims to be the corporate group ITO EN that can contribute to the health of customers around the world, and support the affluent life of each customer. To attain this goal, the company is conducting activities as a health-enhancing enterprise that supports corporate sustainability and affluent lives, and strengthening its ROE management.

Corporate sustainability

The company set the medium/long-term environmental goals of the ITO EN Group, and takes measures for containers and packages, and for coping with climate changes, while advertising the value of tea, such as catechin and theanine, through their products. In addition, the company concentrates on the tea plantation development project, which is an original sustainable agricultural model, and on recycling used tea leaves which are excreted after the production of tea beverages, etc.

Packaging Initiatives

Following the basic policy of “3Rs (recycling, reduction, and replacement & reuse) + Clean,” the company aims to replace the material used in all the plastic bottles of the Oi Ocha brand and all of the plastic-bottled products with recyclable and other similar materials (including plant-based ones) by the end of the fiscal year 2025 and by 2030, respectively.



(Source: The company)

Policy regarding the plastics of the ITO EN Group

Recycling resources	-To fully make the material used in plastic bottles to recyclable materials* by 2030. -To promote the use of recyclable materials other than plastic bottles. -To conduct activities for improving the ratio of recycling in cooperation with administrative bodies, industrial groups, business partners, etc. *including biological materials
Reduction (resource saving)	-To modify the designs and production methods of containers for further decreasing the weights and consumption of containers and packages
Replacement & Reuse	-To promote the use of biological and biodegradable materials -To promote installing reusable containers in the restaurant business
Clean (environmental conservation)	-To promote the sorting-out of waste for utilizing plastic resources, participate in social contribution activities, such as cleaning activities, and continuously support environmental conservation activities in each region

(Produced based on the reference material of the company)

Response to climate changes

The company is striving to reduce CO₂ emissions by setting goals and analyzing climate changes related to tea leaves.

The company defined the response to climate changes as one of the most important missions in September 2020, and set the goal of reducing the CO₂ emissions of Scope 1 (direct discharge amount) and Scope 2 (amount of indirect discharge from energy) by 26% from fiscal 2018 by fiscal 2030, and the goal of decreasing the emissions per product of Scope 3 (other indirect discharge amount) by 26%. The company also set the goal of reducing total emissions of Scopes 1 and 2 by 50% and the goal of reducing the emissions per product of Scope 3 by 50% by fiscal 2050. The company has engaged in the installation of environmentally friendly filling systems in beverage factories, modal shift, promotion of eco-driving of commercial vehicles, active installation of heat pump-type vending machines, etc. As the company does not own factories for producing beverages, but adopted the fables business model in which production is outsourced, the company will enhance cooperation with about 50 factories in 5 blocks around Japan to attain the goals for fiscal 2030. Under ITO EN Group's policy regarding plastics, the company aims to fully make the materials used for plastic bottles to recyclable materials and such by 2030. Compared with virgin resin, recyclable materials and such are expected to reduce CO₂ emissions considerably, and help achieve the goals for Scope 3.

Goals of reducing CO₂ emissions

Target fiscal year	Scopes 1 and 2	Scope 3
FY 2030	To reduce total emissions by 26%	To reduce emissions per product by 26%
FY 2050	To reduce total emissions by 50%	To reduce emissions per product by 50%

*The reference year is the fiscal year 2018 for both. (Produced based on the reference material of the company)

In the analysis of climate changes related to tea leaves, the company continuously conducts original analysis and scenario analysis, and based on the analysis results, the company develops new plantations, cultivation management methods, technology developments, etc. in cooperation with tea farmers.

Tea plantation development project, a sustainable agricultural model unique to ITO EN (from the 1976s)

The area of tea plantations in Japan has been on the decline, and the production amount of green tea (unrefined tea) fell below 70,000 tons, down 22% from 10 years ago. The number of farmers is also on a downward trend with the average age standing at 67.8, indicating that the agricultural industry is aging.

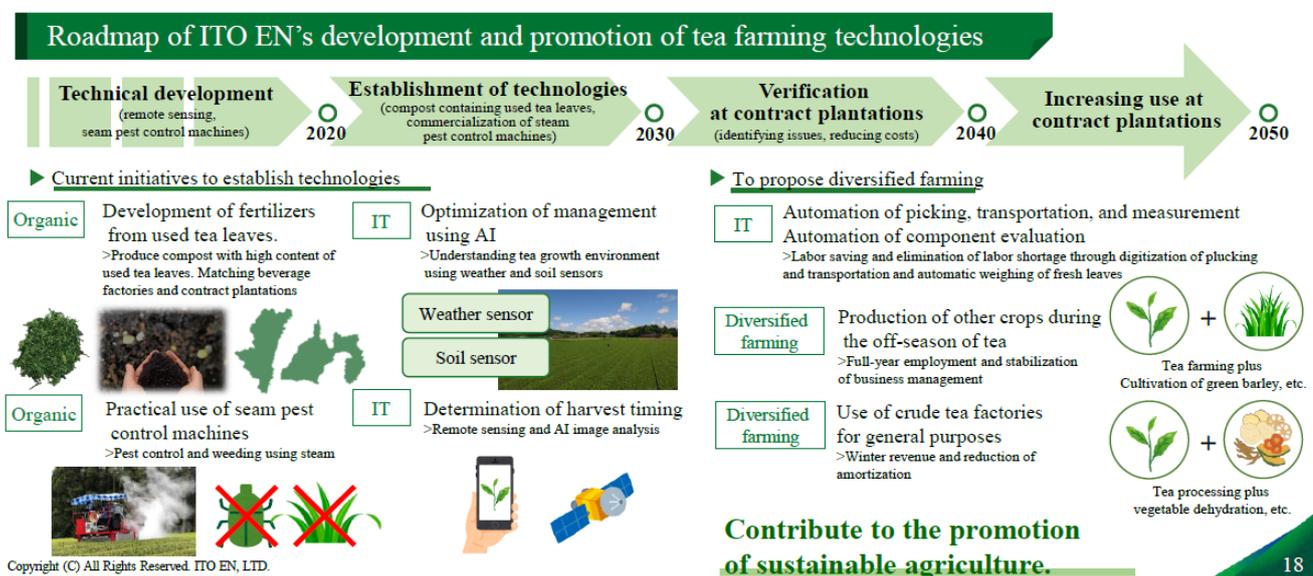
Under these circumstances, the company started a project for developing tea plantations, in which the company signs contracts with individual tea farmers or engages in development of tea plantations (a new plantation project), in 1976 with the aim of stably procuring high-quality tea leaves, and strives for sustainable procurement of tea ingredients in collaboration with tea farmers, including the farmers of large-scale tea plantations. The efforts to save labor and improve operational efficiency have delivered unprecedented results, that is, the average age of those engaging in the tea plantation development project (new plantation project) being 45 and the adoption rate of rideable tea-picking machines being 100%.

The “new plantation project,” which brings high value to the society and enterprises through regional vitalization, sustainable agricultural management, etc., was started in Miyazaki Prefecture in 2001, and is to be spread to Shizuoka Prefecture in 2020. The company also achieved the mid/long-term goal of increasing the plantation area to 2,000 ha by the end of April 2021.

The company is also making concentrated efforts in the agricultural industry with an eye toward the future in cooperation with the government, local municipalities, producers, Japan Agricultural Cooperatives, and subcontracting companies.

The company believes that ITO EN is the only food manufacturer that is capable of producing and selling tea leaves and beverages using ingredients cultivated in the fields.

Having formulated a roadmap toward technological development and promotion of tea agriculture, the company intends to contribute to promoting sustainable agriculture through development of a variety of technologies by utilizing information technology (IT), etc. and implementation of mixed husbandry.



(Source: The company)

Recycling used tea leaves discharged in the production process of tea beverages for daily necessities, etc. (from 2001)

In the system of recycling used tea leaves, the company creates products with high added value utilizing the tea leaves' (green tea) characteristics, such as the antibacterial and odor eliminating effects, based on the technology to transport tea leaves while keeping them at room temperature and keeping moisture, the technology for developing products made from used tea leaves with moisture, and the fixation technology for using used tea leaves that have absorbed CO₂ in products.

Activities as a health-enhancing enterprise and SDGs

In the COVID-19 crisis, interest in our own health and our family members' health is heightened. The company's main business is to handle products that would contribute to health, and will enhance such business activities. In detail, the company supports healthy, affluent lives by utilizing the functions of tea, which is consumed by Japanese people on a daily basis, creates a new chapter of 1200 year-long history of tea, and strives to solve social issues. As part of such business activities, the company started the education for deepening the knowledge of cognitive function and health enhancement programs. In detail, the company cooperated in the development of caregivers for dementia patients, attending the lectures for developing caregivers for dementia patients at 196 sites nationwide, and conducted screening tests for mild cognitive impairment, targeting about 280 employees aged 50 years or older whose cognitive function (attentiveness and judgment) are considered to decline due to aging. According to the test results, the company takes measures for improving the habits of eating and drinking, etc.

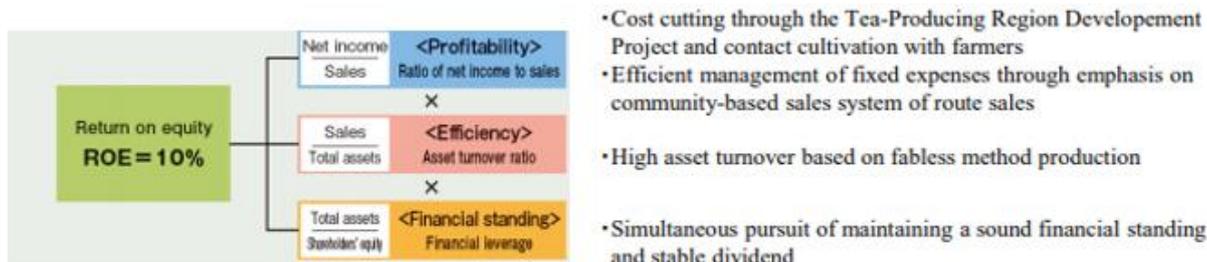
In addition, under the group's ethos, Customers First, the company aims to achieve sustainable growth as an enterprise that enhances health, and will engage in corporate activities to attain SDGs, while addressing important problems related to consumers, communities, society, and the earth environment.

Material issues	ITO EN's policies and initiatives	Major related SDGs
Consumer issues -Diversification of lifestyles -Healthy life expectancy, lifestyle , MCI	Proposal of tea products and other products contributing to health • Scientific research on health factors of tea nutrition • Efforts to prevent “loss of eating”	 
Communities and society -Issues in domestic agriculture and tea industry - Changes in workstyles and communication	• Promotion of the Tea-Producing Region Development Project • Educational activities for tea culture by ITO EN Tea Tasters • Continuation of new Haiku awards	  
Global environment- Plastic pollution, - Resource exhaustion, global warming	• Used Tea Leaves Recycling System • • Establishment of plastic policy and activity promotion • Response to climate change	  

(Produced based on the reference material of the company)

Strengthening of ROE Management

With the goal of achieving a ROE of 10% or higher, the company carries out business administration focused on profitability (ratio of net income to sales), efficiency (asset turnover ratio), and financial stand (financial leverage).



(Source: The company)

	FY 4/17	FY 4/18	FY 4/19	FY 4/20	FY 4/21
ROE(%)	10.5	9.0	9.9	5.2	4.7
Net Income to Sales Ratio (%)	2.88	2.54	2.87	1.61	1.57
Asset Turnover Ratio (Times)	1.61	1.64	1.67	1.63	1.43
Leverage (Times)	2.25	2.17	2.07	2.00	2.08

* Calculated by Investment Bridge Co, Ltd.

2. Fiscal Year Ended April 2021 Earnings Results

2-1. Trend of the domestic beverage market

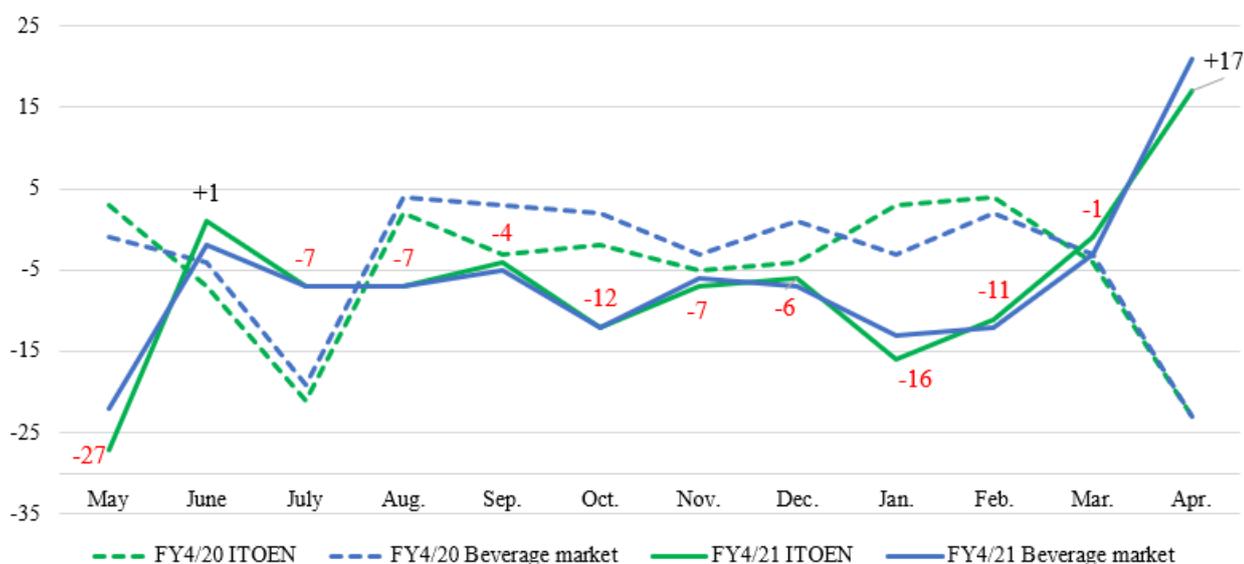
	2019	2020	YoY	Outlook of 2021	YoY
Tea total	9,665	8,770	-9.3%	9,010	+2.7%
Green Tea	4,450	4,180	-6.1%	4,350	+4.1%
Other Tea	5,215	4,590	-12.0%	4,660	+1.5%
Coffee	9,150	8,050	-12.0%	8,350	+3.7%
Carbonated	7,330	7,350	+0.3%	7,450	+1.4%
Mineral Water	2,840	2,560	-9.9%	2,590	+1.2%
Fruit	2,800	2,240	-20.0%	2,210	-1.3%
Sports Drink	2,265	1,930	-14.8%	1,990	+3.1%
Vegetable	1,540	1,570	+1.9%	1,570	0.0%
Others	2,000	1,780	-11.0%	1,780	0.0%
Domestic beverage market	37,590	34,250	-8.9%	34,950	+2.0%

* Unit: 100 million yen. Created based on the company's materials.

In 2020, the stringent restrictions on the transportation of people due to the COVID-19 pandemic and the impact of the unseasonable weather decreased the scale of the domestic beverage market by 9% year on year; however, the company forecasts that it will grow 2% year on year in 2021.

While health-conscious people are increasing amid the present situation, the percentage of sugar-free beverages has gone up to 53% in the Japanese beverage market for the last 40 years since 1980 when the company released canned oolong tea, which is a sugar-free beverage, of which sales of the company make up 75%. It is expected that people's awareness of health will increase further as indicated by the growing percentage of sugar-free beverages.

Monthly Volume YOY Change(unit:%)



(Created based on the company's materials.)

The sales volume of beverages in July fell below that in the year before due to the record downpours and the prolonged rainy season although the company expected growth in reaction to the cool summer in 2019. In August, too, the restrictions on the transportation of people, including the voluntary restraint of going back to hometowns, significantly reduced demand for beverages in the middle of summer.

The company's sales trend was almost the same as that of the entire beverage market.

2-2. Consolidated earnings

	FY 4/20	Ratio to sales	FY 4/21	Ratio to sales	YoY	Compared to forecast
Sales	483,360	100.0%	446,281	100.0%	-7.7%	-0.8%
Gross Profit	232,755	48.2%	215,003	48.2%	-7.6%	-
SG&A expenses	212,814	44.0%	198,327	44.4%	-6.8%	-
Operating Income	19,940	4.1%	16,675	3.7%	-16.4%	+35.6%
Ordinary Income	19,432	4.0%	17,029	3.8%	-12.4%	+40.7%
Profit attributable to owners of parent	7,793	1.6%	7,011	1.6%	-10.0%	+20.9%

*unit: million yen. "Compared to forecast" is the ratio of actual results to the forecast announced in December 2020.

Sales and profit declined, but profit exceeded the forecast.

Sales in the term ended April 2021 stood at 446.2 billion yen, down 7.7% year on year. While sales by ITO EN, LTD. (non-consolidated) shrank 6.6% year on year, Tully's Coffee Japan Co., Ltd., which has advantages in the locations of shops in urban areas, was affected significantly by the COVID-19 pandemic. Operating income went down 16.4% year on year to 16.6 billion yen. Although the Business in North America achieved a profit growth thanks to the strong sales from supplements by growing health consciousness, ITO EN (non-consolidated) saw a decline in profit and Tully's Coffee Japan recorded an operating loss. Both sales and profit decreased year on year, but profit exceeded the business forecast because the company promoted group-wide improvement of business operations and total cost reduction.

Major Components of SG&A

	FY 4/20	Ratio to sales	FY 4/21	Ratio to sales	YOY
Selling commission	80,537	16.7%	74,313	16.7%	-7.7%
Advertising cost	11,206	2.3%	9,808	2.2%	-12.5%
Freight cost	14,651	3.0%	13,833	3.1%	-5.6%
Depreciation and amortization	10,957	2.3%	10,207	2.3%	-6.8%
Others	95,463	19.7%	90,166	20.2%	-5.5%
Total	212,814	44.0%	198,327	44.4%	-6.8%

*unit: million yen

Sales and Operating Income in each company

	FY 4/20	Ratio to sales	FY 4/21	Ratio to sales	YOY
ITO EN (Non-consolidated)	377,787	78.2%	352,732	79.0%	-6.6%
Tully's Coffee Japan Co., Ltd.	32,811	6.8%	26,215	5.9%	-20.1%
Chichiyasu Company	14,251	2.9%	13,897	3.1%	-2.5%
Other Domestic Subsidiaries	55,823	11.5%	51,620	11.6%	-7.5%
US Business	30,971	6.4%	30,068	6.7%	-2.9%
Other Overseas Subsidiaries	5,311	1.1%	5,286	1.2%	-0.5%
Elimination of Internal Transactions	-33,595	-	-33,538	-	-
Consolidated Sales	483,360	100.0%	446,281	100.0%	-7.7%
ITO EN (Non-consolidated)	16,626	4.4%	15,759	4.5%	-5.2%
Tully's Coffee Japan Co., Ltd.	1,725	5.3%	-1,374	-	-
Chichiyasu Company	410	2.9%	702	5.1%	+71.4%
Other Domestic Subsidiaries	1,061	1.9%	685	1.3%	-35.4%
US Business (unit: thousand dollars)	654	2.1%	717	2.4%	+9.7%
Other Overseas Subsidiaries	963	18.1%	1,146	21.7%	+19.1%
Elimination of Internal Transactions	-1,500	-	-962	-	-
Consolidated Operating Income (Profit Ratio)	19,940	4.1%	16,675	3.7%	-16.4%

*unit: million yen. Average to the US dollar in FY4/20 ¥108.39, FY4/21 ¥106.20.

2-3 Impact of COVID-19

◎ ITO EN (non-consolidated)

In the fourth quarter of the term ended April 2021, sales went up 1.7% year on year. In the fourth quarter of fiscal year April 2020, sales dropped 8.5% year on year.

Although the impact of the sluggishness of opportunities to visit convenience stores, especially in urban areas, and the increase and decrease in the number of visitors on sales from vending machines became more apparent, a sign of recovery was seen.

Regarding the annual business performance for each distribution channel, sales declined 1%, 13% and 9% year on year at supermarkets, convenience stores, and vending machines, respectively, while sales through mail-order shopping rose 17% year on year.

By product, sales from tea-related beverages shrank 8% year on year, and those from tea leaves went up 3% year on year owing to the escalating demand from home-bound consumers.

◎ Tully's Coffee Japan

In the fourth quarter of the term ended April 2021, sales grew 22% year on year. In the fourth quarter of fiscal year April 2020, sales went down 34% year on year.

Although suspended operations and shortened business hours due to the state of emergency issued in urban areas as mentioned earlier had a significant impact, sales increased 212% in April 2021 alone because only a limited number of areas were subject to the state of emergency in the month compared to April 2020 when a state of emergency was issued all across Japan.

2-4. Financial Status and Cash Flows (CF)

◎Balance sheet

	April 2020	April 2021	Increase/ Decrease		April 2020	April 2021	Increase/ Decrease
Current assets	173,966	223,880	+49,914	Current liabilities	71,072	93,548	+22,476
Cash and deposits	64,813	109,430	+44,617	Accounts payable	26,447	29,999	+3,552
Accounts receivables	49,168	53,137	+3,969	Short-term loans payable	6,820	25,004	+18,184
Inventories	45,723	45,432	-291	Non-current liabilities	69,884	86,459	+16,575
Fixed assets	116,685	109,184	-7,501	Long-term loans payable	48,922	65,858	+16,936
Property, plant and equipment	82,986	78,099	-4,887	Total liabilities	140,956	180,007	+39,051
Intangible fixed assets	11,570	8,355	-3,215	Net assets	149,695	153,057	+3,362
Investments and other assets	22,128	22,749	+621	retained earnings	121,848	123,679	+1,831
Total assets	290,651	333,065	+42,414	Total liabilities and net assets	290,651	333,065	+42,414

*unit: million yen

Total assets increased by 42.4 billion yen from the end of the previous term to 333.0 billion yen due to an increase in cash and deposits by increasing short-term and long-term loans payable.

The capital adequacy ratio decreased by 5.4% from the end of the previous term to 45.6%.

◎Cash Flows (CF)

	FY 4/20	FY 4/21	Increase/Decrease
Operating CF (A)	24,719	25,351	+632
Investing CF (B)	-9,217	-7,514	+1,703
Free CF (A+B)	15,502	17,837	+2,335
Financing CF	-12,905	25,813	+38,718
Balance of cash and cash equivalents at end of period	63,710	107,763	+44,053

*unit: million yen

A rise in long-term borrowings and other factors turned financing cash flow into the black.
The cash position increased.

3. Fiscal Year Ending April 2022 Financial Forecasts

3-1. Consolidated Earnings

◎Previous standard

	FY 4/21	Ratio to sales	FY 4/22 Forecast	Ratio to sales	YoY
Sales (previous standard)	446,281	100.0%	472,300	100.0%	+5.8%
Gross profit (previous standard)	215,003	48.2%	228,400	48.4%	+6.2%
SG&A expenses (previous standard)	198,327	44.4%	208,400	44.1%	+5.1%
Operating income	16,675	3.7%	20,000	4.2%	+19.9%
Ordinary income	17,029	3.8%	19,800	4.2%	+16.3%
Net income	7,011	1.6%	12,800	2.7%	+82.6%

*unit: million yen

◎new standard

	FY 4/21	Ratio to sales	FY 4/22 Forecast	Ratio to sales	YoY
Sales (new standard)	446,281	100.0%	410,000	100.0%	-8.1%
Gross profit (new standard)	215,003	48.2%	166,100	40.5%	-22.7%
SG&A expenses (new standard)	198,327	44.4%	146,100	35.6%	-26.3%
Operating income	16,675	3.7%	20,000	4.9%	+19.9%
Ordinary income	17,029	3.8%	19,800	4.8%	+16.3%
Net income	7,011	1.6%	12,800	3.1%	+82.6%

*unit: million yen. The company begins to apply the revenue recognition criteria in the term ending April 2022.

Forecast for double-digit operating income growth

The company will adopt the revenue recognition standards in this term. As the primary impact of the adoption, rebates, which are variable considerations in sales promotion expenses, will be deducted from sales. The amount of the financial impact on sales will amount to about 60 billion yen. Although sales are forecast to drop 8.1% in accordance with the new standards, sales and operating income are expected to increase 5.8% and 19.9%, respectively, pursuant to the conventional standards. The sales recovery at ITO EN (non-consolidated) and Tully's Coffee Japan will contribute to the growth of profit. It is assumed that the company will be continuously affected by the COVID-19 crisis in the first half of the term, so the forecast is conservative. The dividends for the common share and the preferred share will be 40 yen per share and 50 yen per share, respectively, unchanged from the previous year. The payout ratio is projected to be 38.9% for the common share and 44.3% for the preferred share.

BRIDGE REPORT



Major Components of SG&A

	FY 4/21	Ratio to sales	FY 4/22 (Forecast, Previous standard)	Ratio to sales	YOY	FY 4/22 (Forecast, new standard)	Ratio to sales	YoY
Selling commission	74,313	16.7%	77,894	16.5%	+4.8%	269	0.1%	-99.6%
Advertising cost	9,808	2.2%	11,079	2.3%	+13.0%	11,079	2.7%	+13.0%
Freight cost	13,833	3.1%	14,101	3.0%	+1.9%	14,101	3.4%	+1.9%
Depreciation and amortization	10,207	2.3%	9,608	2.0%	-5.9%	9,608	2.3%	-5.9%
Others	90,166	20.2%	95,718	20.3%	+6.2%	111,043	27.1%	+23.2%
Total	198,327	44.4%	208,400	44.1%	+5.1%	146,100	35.6%	-26.3%

*unit: million yen.

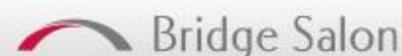
Sales and Operating Income in each company

◎Previous standard

	FY 4/21	Ratio to sales	FY 4/22 Forecast	Ratio to sales	YoY
ITO EN (Non-consolidated)	352,732	79.0%	370,000	78.3%	+4.9%
Tully's Coffee Japan Co., Ltd.	26,215	5.9%	31,500	6.7%	+20.2%
Chichiyasu Company	13,897	3.1%	13,610	2.9%	-2.1%
Other Domestic Subsidiaries	51,620	11.6%	53,808	11.4%	+4.2%
US Business	30,068	6.7%	32,204	6.8%	+7.1%
Other Overseas Subsidiaries	5,286	1.2%	5,439	1.2%	+2.9%
Elimination of Internal Transactions	-33,538	-	-34,261	-	-
Consolidated Sales	446,281	100.0%	472,300	100.0%	+5.8%
ITO EN (Non-consolidated)	15,759	4.5%	17,000	4.6%	+7.9%
Tully's Coffee Japan Co., Ltd.	-1,374	-	1,000	3.2%	-
Chichiyasu Company	702	5.1%	680	5.0%	-3.2%
Other Domestic Subsidiaries	685	1.3%	821	1.5%	+19.9%
US Business (unit: thousand dollars)	717	2.4%	1,124	3.5%	+56.6%
Other Overseas Subsidiaries	1,146	21.7%	1,161	21.3%	+1.2%
Elimination of Internal Transactions	-962	-	-1,786	-	-
Consolidated Operating Income (Profit Ratio)	16,675	3.7%	20,000	4.2%	+19.9%

*unit: million yen. Average to the US dollar in FY4/21 ¥106.20, FY4/22 ¥108.00.

BRIDGE REPORT



©new standard

	FY 4/21	Ratio to sales	FY 4/22 Forecast	Ratio to sales	YoY
ITO EN (Non-consolidated)	352,732	79.0%	311,000	75.9%	-11.8%
Tully's Coffee Japan Co., Ltd.	26,215	5.9%	31,500	7.7%	+20.2%
Chichiyasu Company	13,897	3.1%	11,931	2.9%	-14.1%
Other Domestic Subsidiaries	51,620	11.6%	52,151	12.7%	+1.0%
US Business	30,068	6.7%	32,204	7.9%	+7.1%
Other Overseas Subsidiaries	5,286	1.2%	5,439	1.3%	+2.9%
Elimination of Internal Transactions	-33,538	-	-34,225	-	-
Consolidated Sales	446,281	100.0%	410,000	100.0%	-8.1%
ITO EN (Non-consolidated)	15,759	4.5%	17,000	5.5%	+7.9%
Tully's Coffee Japan Co., Ltd.	-1,374	-	1,000	3.2%	-
Chichiyasu Company	702	5.1%	680	5.7%	-3.2%
Other Domestic Subsidiaries	685	1.3%	821	1.6%	+19.9%
US Business (unit: thousand dollars)	717	2.4%	1,124	3.5%	+56.6%
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Consolidated Operating Income (Profit Ratio)	16,675	3.7%	20,000	4.9%	+19.9%

unit: million yen. Average to the US dollar in FY4/21 ¥106.20, FY4/22 ¥108.00.

4. Marketing strategies

ITO EN (non-consolidated) sales results and full-year forecast by categories

	FY 4/21	Ratio to sales	FY 4/22 Forecast	Ratio to sales	YoY
Sales	352,732	100.0%	370,000	100.0%	+4.9%
Tea leaves	36,449	10.4%	37,548	10.1%	+3.0%
Beverages	313,777	88.9%	328,662	88.9%	+4.7%
Total sales of teas	201,133	57.0%	210,783	56.9%	+4.8%
Japanese Tea/Healthy Tea	182,681	51.7%	193,394	52.2%	+5.9%
Chinese Tea	14,611	4.1%	13,548	3.7%	-7.3%
Black tea	3,841	1.1%	3,840	1.0%	-0.0%
Vegetable	43,622	12.4%	45,382	12.3%	+4.0%
Coffee	34,486	9.8%	35,766	9.7%	+3.7%
Mineral Water	7,752	2.2%	9,480	2.6%	+22.3%
Carbonated	9,916	2.8%	10,241	2.8%	+3.3%
Fruit	7,651	2.2%	7,557	2.0%	-1.2%
Functional, Others	9,214	2.6%	9,451	2.6%	+2.6%
Others	2,505	0.7%	3,789	1.0%	+51.2%

unit: million yen.

4-1. Oi Ocha

In 2020, sales in the green tea beverage market stood at 418 billion yen, down 6% year on year due to the impact of the COVID-19 pandemic; however, they are projected to go up to 435 billion yen in 2021.

Oi Ocha Unsweetened Bold Green Tea (Koicha) is showing a double-digit growth even in its second year of release in September 2019 as a food with functional claims, and has been sold more than 25,000,000 cases, although a number of similar products have been released recently because of great expectations for the health value of green tea, such as tea catechin. The company has released Oi Ocha with Matcha Unsweetened Green Tea in an effort to enrich the lineup of its food products with functional claims. The product is effective in increasing the accuracy of attentiveness and judgment, which are part of cognitive functions. In addition, the company has adopted lighter-weight bottles and released environmentally friendly products without labels as containers that fit with the times.

The extensive lineup of products, including its regular items, Oi Ocha, Oi Ocha Unsweetened Roasted Green Tea (Hojicha), Oi Ocha Genmaicha, Oi Ocha with Matcha Unsweetened Green Tea, has allowed the company to maintain its market share at the 30% level, which is about 10% higher than that of the beverage manufacturer with the second largest share, and the company aims to increase its share further in 2021.



(Source: the company)

Expansion of product line of Food with Function Claims

Raises attentiveness and accuracy of judgment as part of cognitive functions

抹茶入り おーお茶

“Oi Ocha Japanese Green Tea with Matcha”

Launched on May 10

人生は、考えることの連続だ。

Neurotension labeling. This product contains caffeine and tea catechins. They are reported to have a function of increasing the accuracy of attentiveness, a function of assisting attention to consider a specific action, and judgment, a function of ensuring accuracy and equity of judgment and properly responding to changing situations, among the cognitive functions that decline with age. This product is suited to those concerned about cognitive functions.

525mlPET/151yen (tax included)

4-2 Tea leaves

The COVID-19 pandemic caused the scale of the entire market of tea leaves for household use to grow 5% year on year. The company believes that the reasons for the growth are that the number of young people who enjoy drinking tea made with tea bags is rising, as well as that homebound people enjoy spending relaxing time in making and drinking tea at home with teapots.

The sales of the company’s Japanese tea products as a whole grew 11% year on year and the sales of its tea bag products rose 14% year on year, significantly exceeding the growth rate of the market, and the company pulled far ahead of other companies with 2%-level market shares by taking a share of 25% for household-use tea leaf products. Sales of tea leaves for household use in Japan hit a record high.



(Source: the company)

4-3 Barley tea

The value of Kenkou Mineral Mughcha (healthy mineral barley tea) is changing from a thirst-quenching beverage in the summer to a beverage for replenishment of minerals throughout the year. The company aims to achieve a 7% sales growth this term for the product as a beverage for mineral replenishment all the year round regardless of age and gender. It will focus on elevating the sales level from that of fiscal year 2019.

Sales from tea bags of barley tea also rose 5% year on year. The company’s barley tea is characterized by the feeling of traditional barley tea brewed with kettles, which is conveyed through its strenuous efforts in selection of ingredients, roasting techniques, and brewing techniques. As a pioneer of barley tea of the kettle-brewing quality, the company will propose products of both tea leaves (tea bags) and beverages to consumers.

The company handles 45% of the ingredients of barley tea distributed in Japan. It will continue to focus on developing and selling high-quality and high value-added barley tea products.



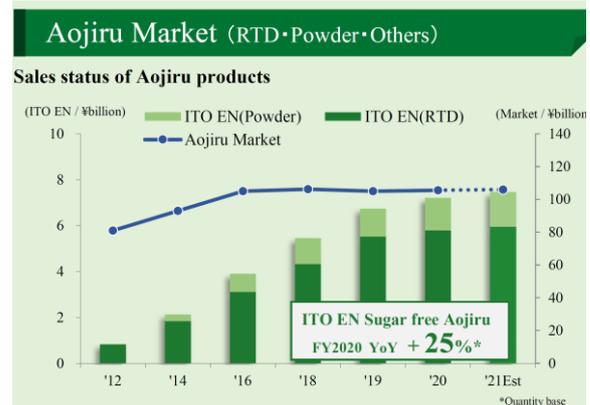
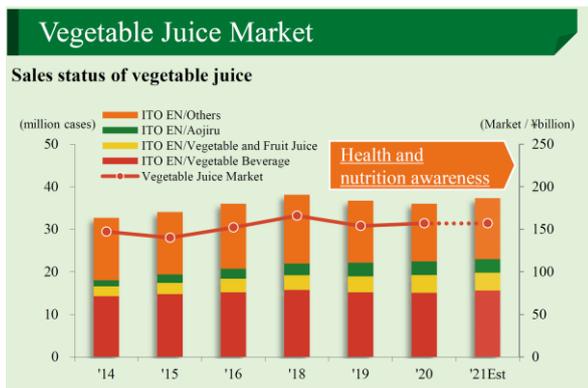
(Source: the company)

4-4 Vegetable beverages

Consumers are becoming more health-conscious, spurring demand for vegetable beverages from which consumers can take nutrition easily and make up for deficient intake of vegetables.

The company’s vegetable beverage products are composed mainly of 100% vegetable beverages and vegetable beverages mixed with fruit juices. This year, the company will promote health and the environment as the value of its vegetable beverages. It has recently released Eiyou Kyoukakei Ichinichibun no Yasai as a beverage with functional claims.

It also releases products with new value added, such as Jujitsu Yasai with lactic-acid bacilli mixed, for which the industry-first biodegradable, eco-friendly, telescopic straw was adopted.



(Source: the company)

4-5 Tully’s Coffee Japan / Chichiyasu Company

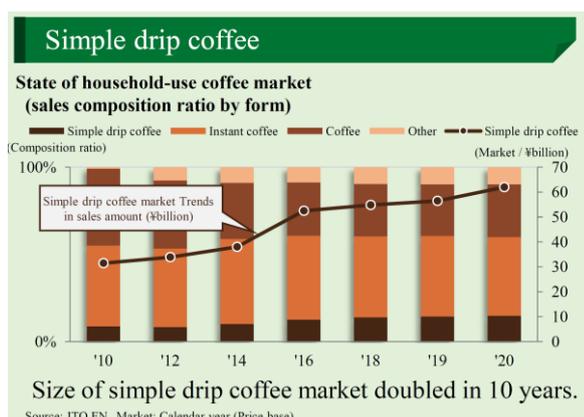
Tully’s Coffee Japan was affected significantly by the COVID-19 crisis because many of its stores are located in urban areas, and the company thinks that Tully’s Coffee Japan is biding its time.

Under these circumstances, with the aim of seizing diverse marketing opportunities, the company released a simple drip coffee product, TULLY’S COFEFEE THE BARISTA’S ROAST, on June 7 under the TULLY’S COFFEE brand that is highly acclaimed by consumers, as a new product that expands the choice of means of drinking coffee at home.

This product will raise the brand awareness even in the areas in which Tully’s Coffee Japan operates a relatively small number of stores, and exert synergy among the group companies.

In addition, Tully’s Coffee Japan opened Tully’s Coffee Haneda Innovation City Store that provides a workspace available for reservation for the first time. The company is taking various measures, such as adoption of delivery services, as well as focuses on selling such items as coffee beans.

While conventionally selling products mainly in Western Japan, Chichiyasu Company has given its focus to selling products also in the Kanto area. Profit grew because consumer awareness of health has increased after the spread of COVID-19 and the yogurt market has garnered more attention.

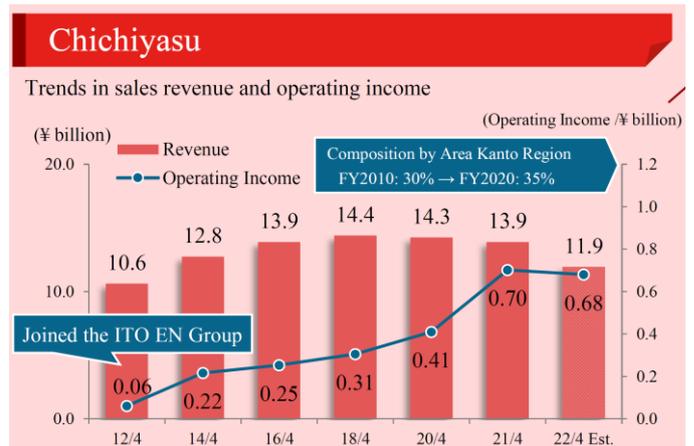
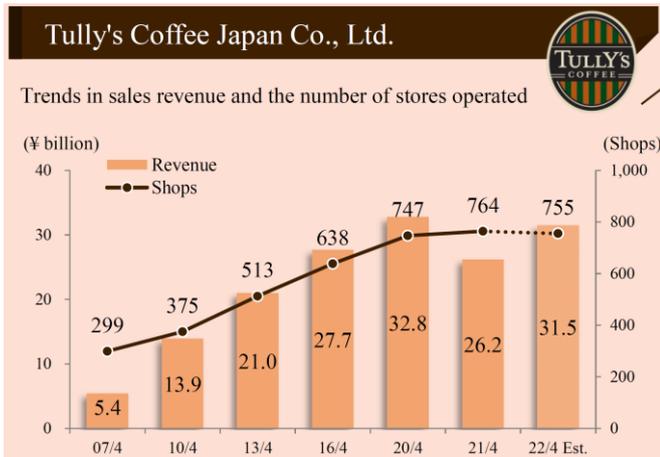


Hoping to enrich customers’ time at home New proposal for Tully’s brand “Simple Drip Coffee” bags



STANDARD / MILD / HEAVY

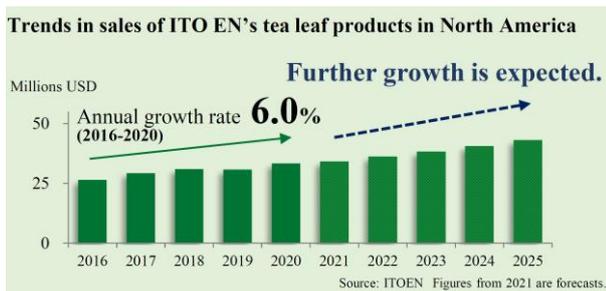
To be launched on June 7
6 bags each / 513yen(tax included)



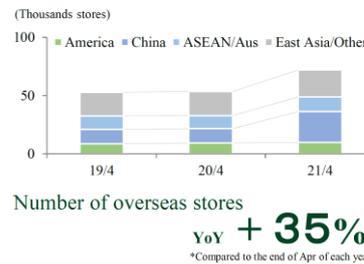
(Source: the company)

4-6 Overseas strategy

Although COVID-19 has a significant impact, sales in the Chinese region is on an upward trend. Sales from tea leaves (tea bags) are growing strongly, and the number of shops selling the beverage products (Oi Ocha) is increasing. The company will continue to expand business steadily both for tea leaves and beverages.



Increase in number of overseas stores dealing in Oi Ocha



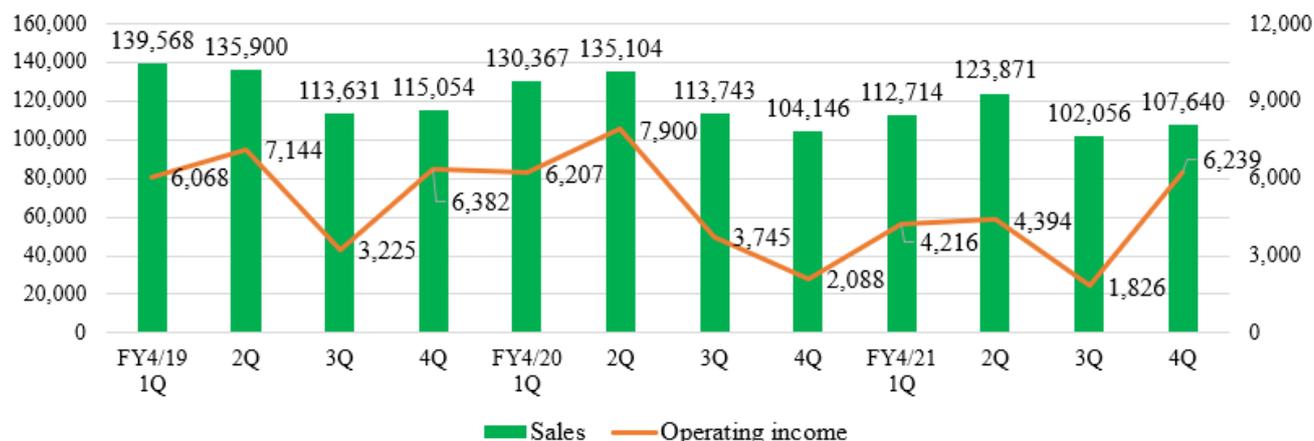
China: Increase the lines of Oi Ocha

(Source: the company)

5. Conclusions

Profit exceeded the forecast, although both sales and profit shrank. On a quarterly basis, it is not easy to observe a clear trend of recovery in sales; however, the company will be able to achieve sales recovery this term because the number of people who have received COVID-19 vaccines is expected to grow at an accelerated rate while the company will meet demand from home-bound consumers for the tea leaf products for experiential consumption that means that people enjoy experience at home. The trend of the increase of health-conscious consumers, which began even before the outbreak of the novel coronavirus, is also a great tailwind. We would like to pay attention to quarterly trends in sales and profit.

Trend of quarterly sales and operating income (unit: million yen)



<Reference: Regarding Corporate Governance>

◎Organization type and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	14 directors, including 4 outside ones
Auditors	4 auditors, including 3 outside ones

◎Corporate Governance Report: Updated December 1, 2020

Basic Policy

“Always Putting the Customer First” is the ITO EN Group’s management philosophy. In the ITO EN Group’s Basic Policies, the basis of our business administration to take corporate social responsibility in cooperation with interested parties such as the government, local communities, consumers, shareholders, clients, suppliers, and financial institutions, in order to achieve sustainable growth and development as well as increasing our corporate value. This management philosophy is the fundamental policy behind our group’s corporate ethics and the unchanging truth that supports our corporate governance. Based on this philosophy, all the executives and employees of our group will actively pursue an operation that works towards a sustainable society while responding to the trust of all the interested parties. To realize an appropriate form of corporate governance, our company, which has a board of auditors, carries out audits in which the auditors inquire the business conditions, the decision-making processes, etc. of the representative directors, the directors in charge, the executive officers or the employees of our group companies. The auditors attend every meeting of the board of directors in order to give their objective and impartial opinions on the audit situations concerning the company in general or individual issues, and audit the business execution by the directors in accordance with the audit policies set out by the board of auditors.

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

【Supplementary Principle 4-11 (1) Policies for the balance, diversity, and scale of the Board of Directors】

The number of members of the Board of Directors of our company is up to the limit specified by our articles of incorporation. As for its composition, the Board of Directors is basically composed of the necessary and appropriate number of members for making effective decisions and securing substantial discussions. Although there are no female directors as of the date of submission of this report, we will make efforts to appoint female directors from the viewpoint of securing diversity in gender and internationality, and expertness.

(Article 6 of ITO EN’s Guidelines (Composition of the Board of Directors))

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

[Disclosure in accordance with the principles of the corporate governance code]

Our company formulated “Corporate Governance Guidelines of ITO EN, Ltd. (hereinafter called “ITO EN Guidelines”)” based on resolutions of the board of directors, for describing the basic concept and policy for corporate governance, and disclosed them in our website. Please refer to them.

<https://www.itoen.co.jp/csr/governance/>

【Principle 1-4 Strategically held shares】

In principle, our company will not hold any shares of other companies, unless it is considered that the shareholding would smooth transactions, procurement, or fund raising. If the shareholding is not expected to contribute to the improvement in mid/long-term corporate value, we will reduce the number of shares we hold step by step. As for the shares of listed companies we hold in accordance with the above proviso (hereinafter called “strategically held shares”), we check whether the return of invested capital exceeds capital cost for each stock at the annual meeting of the board of directors. From the viewpoint of maintaining and cementing the mid/long-term relations with business partners, we check the meanings of shareholding, and confirm at the meetings of the board of directors that we will sell or reduce the shares whose economic rationality and meanings have diluted after consulting with the parties concerned. As for the exercise of voting rights for strategically held shares, we check the contents of each bill and comprehensively judge whether it will contribute to the improvement in corporate value of our company and the invested company, before exercising them. (Article 14 of the Guidelines of our company—Policy for strategic shareholding)

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

After grasping its own capital cost accurately, our company listens to the voices of shareholders and pays proper attention to their interests and concerns through the constructive dialogue between the management and shareholders, revises its business portfolio, explicitly explains its management policies including the investment in equipment, R&D, and human resources, and win the understanding of shareholders. (Article 16 of the Guidelines of our company—Policy for constructive dialogue with shareholders)

For details, please see the report titled “Situation of IR-related activities.”

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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