



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 |
|----------------|---|----------------|------------------|--------------|--------------|
| ¥1,849 | 12,859,200 shares | | ¥23,776 million | 13.3% | 100 shares |
| DPS (Estimate) | Dividend Yield (Estimate) | EPS (Estimate) | PER (Estimate) | BPS (Actual) | PBR (Actual) |
| ¥17.50 | 0.9% | ¥147.81 | 12.5x | ¥2,275.38 | 1.6x |

*Stock price is the closing price on Oct. 8. Number of shares issued, DPS and EPS are from the financial results for the second quarter of the fiscal year ending February 2022. ROE and BPS are from the previous fiscal year; PBR reflects the 1:2 stock split implemented on September 1, 2021.

Consolidated Earnings Trend

| Fiscal Year | Sales | Operating Income | Ordinary Income | Net Income | EPS | DPS |
|--------------------|--------|------------------|-----------------|------------|--------|-------|
| February 2018 Act. | 37,616 | 1,131 | 1,233 | 872 | 72.40 | 12.50 |
| February 2019 Act. | 40,670 | 1,409 | 1,561 | 920 | 71.94 | 14.00 |
| February 2020 Act. | 41,417 | 1,871 | 1,973 | 1,290 | 100.83 | 15.00 |
| February 2021 Act. | 46,020 | 2,711 | 2,829 | 1,832 | 142.96 | 17.50 |
| February 2022 Est. | 46,500 | 2,850 | 2,940 | 1,900 | 147.81 | 17.50 |

*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. EPS and DPS are retroactively adjusted for the 1:2 stock split implemented on September 1, 2021.

This Bridge Report presents PICKLES CORPORATION's summary of Financial Results for the Second Quarter of the Fiscal Year Ending February 2022, etc.

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Key Points

- For the second quarter of the term ending February 2022, sales were 24,423 million yen, up 0.1% year on year. The sales of products, especially delicatessen, increased for the 10th consecutive term, thanks to the demand from housebound consumers amid the coronavirus pandemic. Operating income grew 24.8% year on year to 2,232 million yen. In addition to the sales growth, the prices of ingredients were stable because the weather was relatively favorable. Furthermore, the company is streamlining production processes by revising the specifications of products and integrating production items this term, too, so profit rose for the 4th consecutive term. Both sales and profit hit a record high for the first half. Profit exceeded the initial forecasts.
- There is no change to the earnings forecasts. The sales for the term ending February 2022 are projected to be 46.5 billion yen, up 1.0% from the previous term. Thanks to the demand from housebound consumers, etc., the sales of asazuke lightly pickled vegetables/kimchi, and delicatessen remain healthy. In addition, the company will work on new businesses, including OH!!!, so sales are expected to grow. Operating income is forecast to rise 5.1% year on year to 2,850 million yen. The augmentation of SG&A expenses will be offset by cost reduction as well as the sales growth. Both sales and profit are expected to hit a record high this term again. The company plans to pay a dividend of 17.50 yen/share, unchanged from the previous term (a share split taken into account). The expected payout ratio is 11.8%.
- The profit in the first half exceeded the initial forecasts, but the full-year forecasts remain unchanged, because it is necessary to examine some figures in the third quarter (Sep. to Nov.), in which the prices of vegetables fluctuate considerably due to typhoons, etc.
- The progress rates toward the full-year forecasts are 52.5% for sales and 78.4% for operating income. Both sales and profit are at the highest level in the past several years. The forecasts for the second half remain unchanged, but the company expects that the prices of vegetables will be as initially forecasted as a whole, so we would like to pay attention to the results in the third quarter, to gauge the possibility that actual performance will exceed the forecast.
- From the medium-term viewpoint, the cultivation of the market in western Japan through the upgrade and increasing of production sites is considered to lead to the expansion of the market share, and we are expecting a rapid progress of their business.

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.

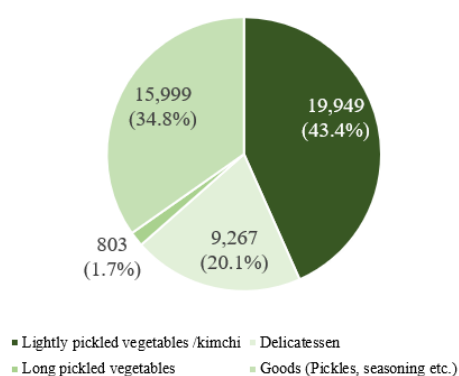
「ESG Bridge Report」

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.

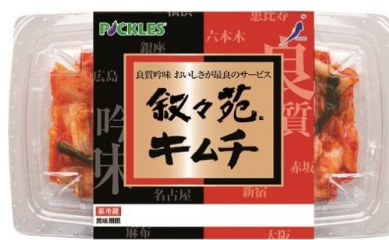
Currently, asazuke lightly pickled vegetables and kimchi account for about 50% of the pickled vegetables market. Although the overall pickle market is shrinking, the market for asazuke and kimchi is stable.

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

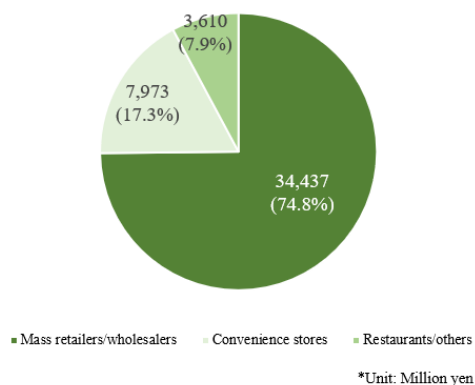


Boiled Okra

(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)

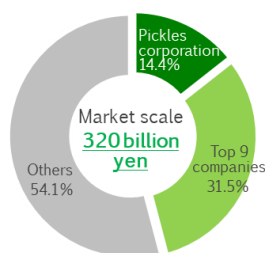
【1-3 Features, Strengths, and Competitive Advantages】

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 14.4% (as of 2019) while endeavoring to attain its target of a market share of 15% through M&A etc.

● Our Market share of 2020 (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. Financial Results for the Second Quarter of the Fiscal Year Ending February 2022

2-1 Consolidated Business Results

① Outline

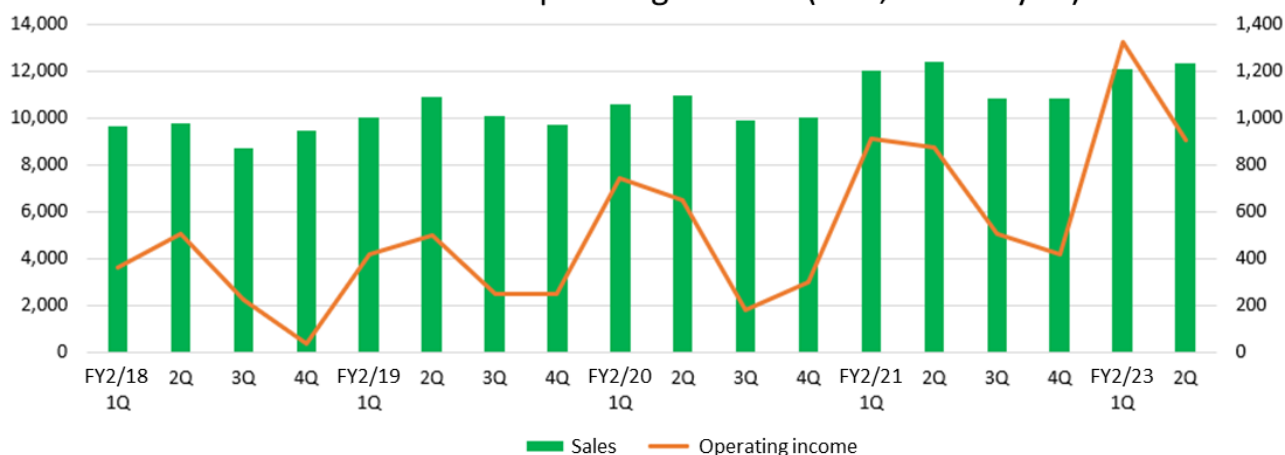
| | FY2/21 2Q | Ratio to sales | FY2/22 2Q | Ratio to sales | YoY | Compared to the forecast |
|----------------------|-----------|----------------|-----------|----------------|--------|--------------------------|
| Sales | 24,398 | 100.0% | 24,423 | 100.0% | +0.1% | -0.7% |
| Gross profit | 6,455 | 26.4% | 7,056 | 28.9% | +9.3% | - |
| SG&A expenses | 4,666 | 19.1% | 4,823 | 19.8% | +3.3% | - |
| Operating income | 1,788 | 7.3% | 2,232 | 9.1% | +24.8% | +20.7% |
| Ordinary income | 1,854 | 7.6% | 2,307 | 9.4% | +24.5% | +21.5% |
| Quarterly net Income | 1,293 | 5.3% | 1,630 | 6.7% | +26.1% | +33.7% |

*Unit: million yen.

Slight increase in sales and profit exceeds forecast

Sales were 24,423 million yen, up 0.1% year on year. The sales of products, especially delicatessen, increased for the 10th consecutive term, thanks to the demand from housebound consumers amid the coronavirus pandemic. Operating income grew 24.8% year on year to 2,232 million yen. In addition to the sales growth, the prices of ingredients were stable because the weather was relatively favorable. Furthermore, the company is streamlining production processes by revising the specifications of products and integrating production items this term, too, so profit rose for the 4th consecutive term. Both sales and profit hit a record high for the first half. Profit exceeded the initial forecasts.

Trend of Sales and Operating income (unit; million yen)



Breakdown of SG&A Expenses

| | FY2/21 2Q | Ratio to sales | FY2/22 2Q | Ratio to sales | YoY |
|---------------------|-----------|----------------|-----------|----------------|--------|
| Total SG&A expenses | 4,666 | 19.1% | 4,823 | 19.8% | +3.3% |
| Logistics cost | 2,449 | 10.0% | 2,454 | 10.1% | +0.2% |
| Personnel cost | 1,378 | 5.7% | 1,550 | 6.4% | +12.4% |
| Advertising cost | 77 | 0.3% | 54 | 0.2% | -29.8% |
| Others | 760 | 3.1% | 764 | 3.1% | +0.5% |

*Unit: million yen

②Trends by Food Item and Sales Channel

◎Sales by Food Item

| | FY2/20 2Q | Ratio to sales | FY2/21 2Q | Ratio to sales | FY2/22 2Q | Ratio to sales | YoY |
|------------------------------------|-----------|----------------|-----------|----------------|-----------|----------------|--------|
| Product | 13,631 | 63.3% | 15,902 | 65.2% | 16,211 | 66.4% | +1.9% |
| Lightly pickled vegetables /kimchi | 8,656 | 40.2% | 10,488 | 43.0% | 10,368 | 42.5% | -1.1% |
| Delicatessen | 4,544 | 21.1% | 5,002 | 20.5% | 5,580 | 22.8% | +11.6% |
| Long pickled vegetables | 431 | 2.0% | 412 | 1.7% | 263 | 1.1% | -36.2% |
| Goods | 7,906 | 36.7% | 8,496 | 34.8% | 8,211 | 33.6% | -3.4% |
| Total Sales | 21,537 | 100.0% | 24,398 | 100.0% | 24,423 | 100.0% | +0.1% |

*Unit: million yen

◎Sales by Sales Channel

| | FY2/20 2Q | Ratio to sales | FY2/21 2Q | Ratio to sales | FY2/22 2Q | Ratio to sales | YoY |
|----------------------------|-----------|----------------|-----------|----------------|-----------|----------------|--------|
| Mass retailers/wholesalers | 16,262 | 75.5% | 18,333 | 75.1% | 18,110 | 74.1% | -1.2% |
| Convenience stores | 3,346 | 15.5% | 4,171 | 17.1% | 4,168 | 17.1% | -0.1% |
| Restaurants/others | 1,929 | 9.0% | 1,893 | 7.8% | 2,143 | 8.8% | +13.2% |
| Total Sales | 21,537 | 100.0% | 24,398 | 100.0% | 24,423 | 100.0% | +0.1% |

*Unit: million yen

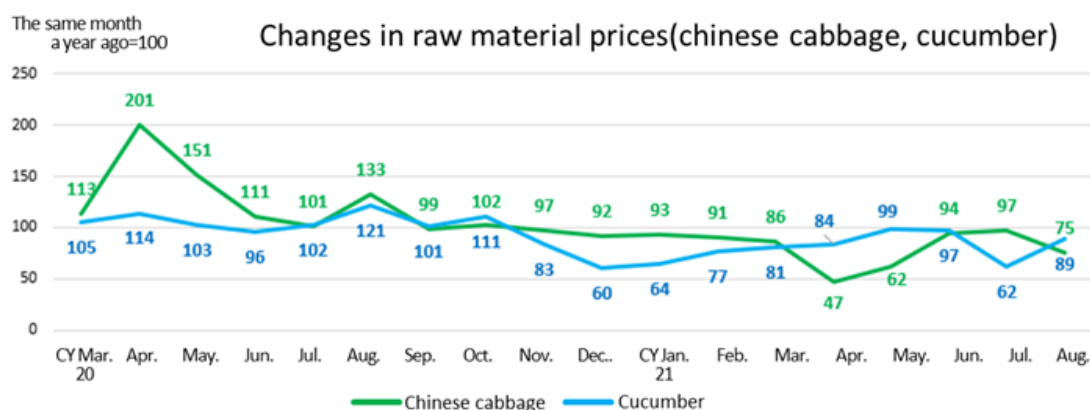
③Gross profit margin and situation surrounding vegetable prices

(Price of Chinese cabbages)

The price of Chinese cabbage was stable, because it grew healthily thanks to the favorable weather as the temperature in Ibaraki Prefecture, which is a major production site, in the spring from April to May was higher than usual, and it rained sufficiently.

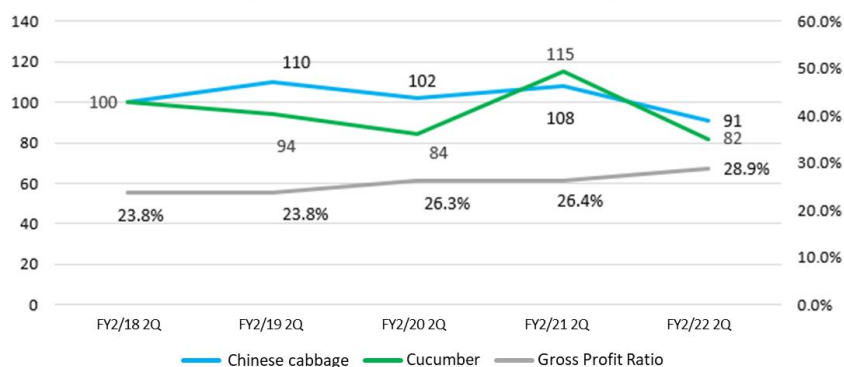
(Price of cucumbers)

The price of cucumber was normal as a whole. The price was stable, thanks to the healthy growth of cucumber, as the weather was favorable in major production sites, Fukushima and Iwate Prefectures, during the growth period around July.



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.21 | Aug.21 | Increase/ Decrease | | Feb.21 | Aug.21 | Increase/ Decrease |
|------------------------|--------|--------|-----------------------|------------------------------------|--------|--------|-----------------------|
| Current Assets | 10,365 | 11,885 | +1,520 | Current liabilities | 8,932 | 8,486 | -446 |
| Cash | 4,437 | 5,887 | +1,450 | Payables | 3,462 | 3,795 | +333 |
| Receivables | 5,290 | 5,259 | -31 | ST Interest-Bearing Liabilities | 2,550 | 1,855 | -695 |
| Inventories | 545 | 690 | +145 | Noncurrent liabilities | 2,288 | 2,564 | +276 |
| Noncurrent Assets | 15,584 | 15,352 | -231 | LT Interest-Bearing Liabilities | 1,380 | 1,646 | +266 |
| Tangible Assets | 13,912 | 13,749 | -163 | Total Liabilities | 11,221 | 11,051 | -170 |
| Intangible Assets | 661 | 606 | -55 | Net Assets | 14,728 | 16,187 | +1,458 |
| Investments and Others | 1,011 | 996 | -15 | Total Liabilities and Net Assets | 25,949 | 27,238 | +1,288 |
| Total Assets | 25,949 | 27,238 | +1,288 | Total Interest-Bearing Liabilities | 3,930 | 3,501 | -429 |

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

Total assets stood at 27,238 million yen, up 1,288 million yen from the end of the previous term, due to the increase in cash, etc. Total liabilities decreased 170 million yen from the end of the previous term to 11,051 million yen, due to the decline in ST interest-bearing liabilities, etc. Net assets rose 1,458 million yen from the end of the previous term to 16,187 million yen, due to the growth of retained earnings.

Capital-to-asset ratio increased 2.5% from the end of the previous year to 58.9%.

Cash flows (CF)

| | FY2/21 | FY2/22 2Q | Increase/Decrease |
|---|--------|-----------|-------------------|
| Operating cash flow | 3,047 | 2,512 | -535 |
| Investing cash flow | -1,312 | -403 | +909 |
| Free Cash Flow | 1,735 | 2,109 | +374 |
| Financing cash flow | -607 | -657 | -50 |
| Cash and Equivalents at the end of term | 4,437 | 5,887 | +1,450 |

*Unit: million yen

The cash position increased. Free cash flow increased.

2-3 Topics

◎ Selected The Prime Market

On July 9, 2021, the company received the results for the first screening for the compliance with the criteria for getting listed in the new market from Tokyo Stock Exchange, Inc. and confirmed that the company satisfied the criteria for getting listed on the Prime Market. Then, on September 28, the company selected the Prime Market, and resolved to apply for listing to Tokyo Stock Exchange, Inc.

The company will proceed with the procedure in accordance with the application schedule specified by Tokyo Stock Exchange.

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 | Rate of Progress |
|------------------|--------|----------------|---------------|----------------|-------|------------------|
| Sales | 46,020 | 100.0% | 46,500 | 100.0% | +1.0% | 52.5% |
| Gross profit | 12,298 | 26.7% | 12,550 | 27.0% | +2.0% | 56.2% |
| SG&A | 9,586 | 20.8% | 9,700 | 20.9% | +1.2% | 49.7% |
| Operating Income | 2,711 | 5.9% | 2,850 | 6.1% | +5.1% | 78.4% |
| Ordinary Income | 2,829 | 6.1% | 2,940 | 6.3% | +3.9% | 78.5% |
| Net Income | 1,832 | 4.0% | 1,900 | 4.1% | +3.7% | 85.8% |

*Unit: million yen

No change in earnings forecast. Increase in sales and income

There is no change to the earnings forecasts. The sales for the term ending February 2022 are projected to be 46.5 billion yen, up 1.0% from the previous term. Thanks to the demand from housebound consumers, etc., the sales of asazuke lightly pickled vegetables/kimchi, and delicatessen remain healthy. In addition, the company will work on new businesses, including OH!!!, so sales are expected to grow. Operating income is forecast to rise 5.1% year on year to 2,850 million yen. The augmentation of SG&A expenses will be offset by cost reduction as well as the sales growth. Both sales and profit are expected to hit a record high this term again. The company plans to pay a dividend of 17.50 yen/share, unchanged from the previous term (a share split taken into account). The expected payout ratio is 11.8%.

The profit in the first half exceeded the initial forecasts, but the full-year forecasts remain unchanged, because it is necessary to examine some figures in the third quarter (Sep. to Nov.), in which the prices of vegetables fluctuate considerably due to typhoons, etc.

Breakdown of SG&A Expenses

| | FY2/21 | Ratio to sales | FY 2/ 22 Est. | Ratio to sales | YoY | Rate of Progress |
|---------------------|--------|----------------|---------------|----------------|-------|------------------|
| Total SG&A expenses | 9,586 | 20.8% | 9,700 | 20.9% | +1.2% | 49.7% |
| Logistics cost | 4,720 | 10.3% | 4,757 | 10.2% | +0.8% | 51.6% |
| Personnel cost | 3,061 | 6.6% | 3,108 | 6.7% | +1.5% | 49.9% |
| Advertising cost | 250 | 0.5% | 261 | 0.6% | +4.4% | 20.9% |
| Others | 1,554 | 3.4% | 1,572 | 3.4% | +1.2% | 48.6% |

*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 | Rate of Progress |
|------------------------------------|--------|----------------|--------|----------------|---------------|----------------|--------|------------------|
| Product | 26,462 | 63.9% | 30,020 | 65.2% | 30,400 | 65.4% | +1.3% | 53.3% |
| Lightly pickled vegetables /kimchi | 17,308 | 41.8% | 19,949 | 43.4% | 20,438 | 44.0% | +2.4% | 50.7% |
| Delicatessen | 8,321 | 20.1% | 9,267 | 20.1% | 9,400 | 20.2% | +1.4% | 59.4% |
| Long pickled vegetables | 831 | 2.0% | 803 | 1.7% | 561 | 1.2% | -30.1% | 46.9% |
| Goods | 14,955 | 36.1% | 15,999 | 34.8% | 16,100 | 34.6% | +0.6% | 51.0% |
| Total Sales | 41,417 | 100.0% | 46,020 | 100.0% | 46,500 | 100.0% | +1.0% | 52.5% |

*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 | Rate of Progress |
|----------------------------|--------|----------------|--------|----------------|---------------|----------------|-------|------------------|
| Mass retailers/wholesalers | 31,030 | 74.9% | 34,437 | 74.8% | 34,835 | 74.9% | +1.2% | 52.0% |
| Convenience stores | 6,587 | 15.9% | 7,973 | 17.3% | 8,014 | 17.2% | +0.5% | 52.0% |
| Restaurants/others | 3,799 | 9.2% | 3,610 | 7.9% | 3,650 | 7.9% | +1.1% | 58.7% |
| Total | 41,417 | 100.0% | 46,020 | 100.0% | 46,500 | 100.0% | +1.0% | 52.5% |

*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 22.1 billion yen, AKIMOTO FOODS Co., Ltd., with sales of 13.3 billion yen, and Bingo Tsukemono Co., Ltd., which has generated sales of 11.2 billion yen, in descending order.

While the size of the market of pickles shrank from 480 billion yen in 2000 to 320 billion yen in 2020, the number of enterprises decreased from 2,000 to 800, too.

PICKLES CORPORATION pulls far ahead of the other companies with a market share of 14.4% (as of 2020) 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 202

This term, performance is declining compared with the previous term, but the company will keep enhancing product development and strive to expand its market share.

(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 family-friendly taste, the company added the Piene lactic acid bacterium and met the demand for health-oriented products.

In May 2021, it released Pne-12 + Kimchi, the company’s first food product with function claims.

It contains the Piene lactic acid bacterium and fructo-oligosaccharide. It has been reported that the Piene lactic acid bacterium and fructo-oligosaccharide function to reduce the body fat of people with a high BMI. A rich, sweet taste was selected, so that customers can eat the product on a daily basis with satisfaction.

The company also released Boukun Habanero Kimchi as a collaborative product nationwide in September. This product was developed through the collaboration between Tohato and Pickles Corporation, and the delicious & spicy taste of Boukun Habanero, a hit product of Tohato, was reproduced with kimchi. The delicious & spicy taste is addictive, and the kimchi becomes more delicious when sprinkled with the crushed Boukun Habanero.

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 64.2 billion yen and a net income of 3.4 billion yen), KENKO Mayonnaise CO., Ltd. (Sales of 68.5 billion yen and a net income of 1,450 million yen), and Ebara Foods Industry, Inc. (sales of 51.3 billion yen and a net income of 2,500 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 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. The sales in the term ending February 2022 are projected to be 9.4 billion yen.

(Product development case)

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.

As dried products, the company released *Gohan ga Susumu Toufu-chige no Moto* (Spicy tofu soup that goes well with rice) and *Kani-fiumi Kamaboko de Tsukuru Kanitama-you no An* (Starchy sauce for an omelet with imitation crab).

For the former product, the company added ginger to the umami flavor of seafood, such as dried bonito, which characterizes Gohan ga Susumu Kimchi, to achieve a good taste. It is possible to cook it easily without a pot, by putting in into a heat-resistant container and microwaving it. It is available at tofu selling spaces of mass retailers.

The latter product is a starchy sauce for an omelet with imitation crab including four ingredients (bamboo shoot, carrot, shiitake mushroom, and jelly ear), based on sugared vinegar with the umami of chicken stock. The QR code on the back side of its package allows customers to access a website introducing arranged dishes.

The company is trying to use selling spaces in addition to those for pickles and delicatessen and proposing recipes to improve added value.

The company also released Kantan Nukadoko, to meet the demand from health-oriented customers.

This is a paste for producing nukazuke (food pickled with rice bran), whose acidity and scent have been enhanced with the original fermentation method using the Piene lactic acid bacterium. A cap-attached pouch is used for convenience, so that customers can pickle various ingredients. By using about 25 g of this product for 100 g of ingredients, it is possible to produce nukazuke easily. The company also utilizes SNS for marketing.

② Expansion of selling areas

Sales in the Kanto region account for 50.9% 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.

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 natto sections of mass retailers, and prospecting for food delivery service providers targeting, for example, aged people.

The company will strive to expand selling areas of its products, because it will improve efficiency of marketing and distribution.

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.

【4-2 Various efforts】

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

① Advertising

To improve the recognition level, the company conducted advertisement through outdoor signboards, bus wrap advertising, etc., developed collaborative products, such as Gohan ga Susumu Kimchi-aji Corn Snack and Kakinomi—Gohan ga Susumu Kimchi-aji, and disseminated information via SNS.

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.

A marketing division was established for strengthening the marketing function.

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 to the employees who are vaccinated

③ ESG, SDGs

The company established a sustainability committee, which is constituted by an environment subcommittee, a subcommittee for safety and reliability, and a subcommittee for employees.

In addition, the company formulated a sustainability policy.

They consider that the provision of sustainable products and services would lead to the settlement of environmental and social issues and the improvement in corporate value.

(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

(SDGs)

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

◎ Strengthening of human capital

The company will enhance the support for acquisition of qualifications, and is planning to pay allowances to qualified employees according to the acquired qualifications in addition to lump-sum payments.

The company will promote employees to take paid holidays more strongly.

【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 | 47,000 | 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

BRIDGE REPORT



| | 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.

The company will invest more funds in mechanization for saving labor and upgrade production footholds for expanding sales channels in the Hokuriku region and western Japan.

Regarding kimchi production, the company considers that it is possible to reduce personnel cost considerably.

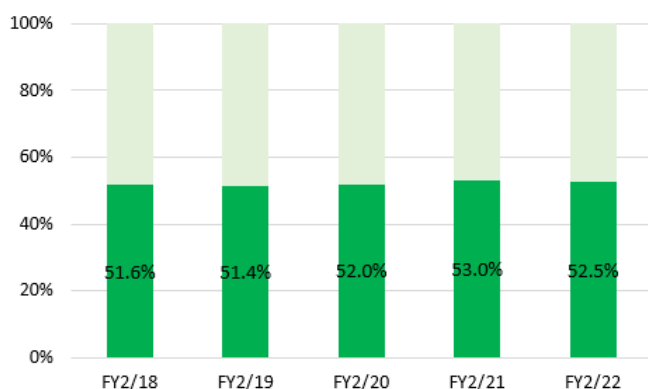
5. Conclusions

The percentage of progress toward the full-year forecast was 52.5% for sales and 78.4% for operating income. Both sales and profits are at higher levels than in the past few years.

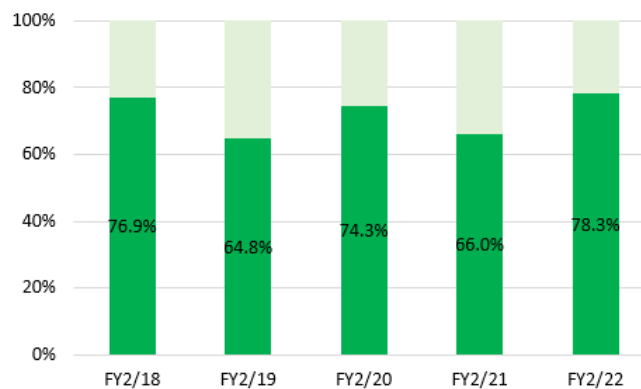
At present, the company has left its 2H forecast unchanged, but as vegetable prices are expected to be generally in line with the initial forecast, we would like to focus on the Q3 performance figures in order to judge the possibility of an upswing.

From a medium-term perspective, the development of the western Japan area through the expansion of production bases is a measure that will directly lead to an increase in market share, and the speed of progress in this area is highly anticipated.

Sales progress rate in the first half



Operating income progress rate in the first half



* FY 2/18-FY 2/21: Composition rate of the first half results to full-year results

<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. 10, 2021)

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 (Excerpt

[Principle 1-4: Policy Retention Co.]

In principle, our company will not hold the shares of listed companies. However, if we hold shares for a reasonable purpose, such as the maintenance or strengthening of transaction relationships, we regularly check whether the purpose is satisfied.

We will discuss methods for examining the appropriateness of strategic shareholding and disclosing the detailed information on strategic shareholding.

Regarding the exercise of voting rights for strategically held shares, we judge each case individually. We appropriately exercise voting rights, while comprehensively considering whether they would contribute to the improvement in mid/long-term corporate value of our company and invested companies.

[Supplementary Principle 4-2-1]

As for the remuneration of internal directors, 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]

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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