



President Masahiro Miyamoto

## PICKLES CORPORATION (2925)



## Corporate Information

Stock Exchange	TSE Prime Market
Industry	Food products (manufacturing)
Representative	Masahiro Miyamoto
Address	7-8, Higashisumiyoshi, Tokorozawa-shi, Saitama
Accounting term	February
URL	<a href="https://www.pickles.co.jp/">https://www.pickles.co.jp/</a>

## Stock Information

Share Price	Shares Outstanding (Excluding Treasury Shares)		Total Market Cap	ROE (Actual)	Trading Unit
¥1,244	12,859,200 shares		¥15,996 million	13.7%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥20.00	1.6%	¥136.93	9.1x	¥1,288.57	1.0x

\*Stock price is the closing price on Apr 27. Each figure is taken from the financial results for the fiscal year ended February 2022.

## Consolidated Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 Act.	45,006	2,942	3,068	2,128	165.59	20.00
February 2023 Est.	40,700	2,500	2,630	1,760	136.93	20.00

\*The estimated values were provided by the company. Unit: Million-yen, yen. Net income is the net income attributable to owners of the parent company. The same applies below. 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 Fiscal Year Ended February 2022, etc.

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## Key Points

- The sales in the term ended February 2022 were 45,006 million yen, down 2.2% year on year. The performance was affected by the drop in demand from housebound consumers, as the number of people infected with COVID-19 decreased and the state of emergency was lifted. Operating income grew 8.5% year on year to 2,942 million yen. As the weather was relatively favorable, the prices of ingredients were stable. In addition, the company revised the specs for merchandise and streamlined production by integrating production items, so profit increased for the 5<sup>th</sup> consecutive term. Gross profit margin and operating income margin rose 1.0 points and 0.6 points, respectively.
- For the term ending February 2023, sales are expected to decrease 9.6% year on year to 40.7 billion yen. The performance will be affected by the drop in demand from housebound consumers and “the accounting standards for revenue recognition,” which will be applied from this term. Operating income is projected to decline 15.0% year on year to 2.5 billion yen. Gross profit is forecasted to drop 23.0% year on year, as a drop in sales, etc. are forecasted. The company will curtail SGA, but profit is projected to decline for the first time in 6 terms. The dividend is expected to be 20.00 yen/share, unchanged from the previous term. The expected payout ratio is 14.6%. (The year-on-year changes of sales and gross profit in the term ended February 2022 before the application of the revenue-recognition standards were calculated by Investment Bridge for reference.)
- The company will reduce SG&A, mainly logistics costs, but profit is forecasted to drop in the term ending February 2023, due to the rise in prices of ingredients and a drop in sales. We would like to see how much they can secure profit by reducing costs and streamlining operations, by reconsidering the process of procuring vegetables (including the procurement in each region) and unprofitable items, integrating items, and installing labor-saving equipment.
- From now on, we would like to pay attention to their efforts to grow the “delicatessen” business and the progress of them, in response to the growth of demand, in the wake of the increase of single-person households, the aging population, the empowerment of women, the enhancement of people’s interest in health, nutritional balance, etc., the simplification of housekeeping, and the growth of needs for the shortening of hours.

## 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 SDGs, and prepares ESG reports with the aim of introducing its efforts and challenges related to ESG and its stories of enhancing the corporate value.

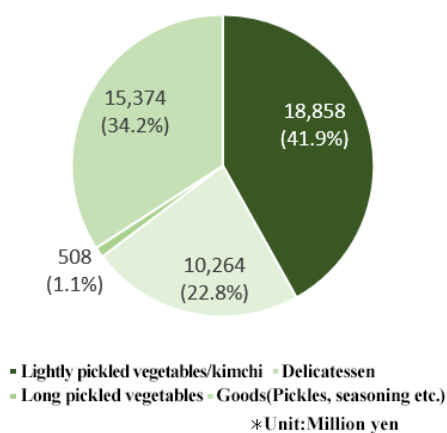
「ESG Bridge Report」

[https://www.bridge-salon.jp/report\\_bridge/archives/2022/04/220405\\_2925.html](https://www.bridge-salon.jp/report_bridge/archives/2022/04/220405_2925.html)

### 【1-2 Business Description】

In the term ended February 2022, sales from products (manufactured by PICKLES CORPORATION at its own factories) accounted for 65.8% (41.9% from lightly pickled vegetables and kimchi, 22.8% from delicatessen, and 1.1% 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 34.2%.

Sales by Food Item(FY2/22)



### (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 and cucumber, 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.

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



JOJOEN Pogi Kimchi



4 Kinds of Bran vegetables

(Source: the company)

◎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, etc. In addition, the company utilizes technologies such as pH control to prevent discoloration of green vegetables.



4 kinds of Namul Set



Bangbangji Salad



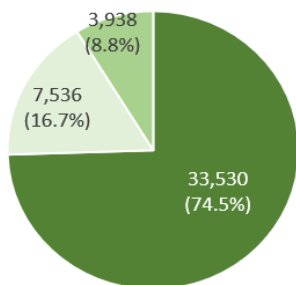
Boiled Okra

(Source: the company)

(Sales Destination)

Mass merchandisers, retailers, and wholesalers throughout Japan are the sales destinations, with 74.5% of the total sales channels being mass merchandisers and wholesalers, 16.7% being convenience stores, and 8.8% being restaurants and others as of FY2/22.

Sales by Sales Channel (FY2/22)



■ Mass retailers/wholesalers ■ Convenience stores  
■ Restaurants/others

※ Unit: Million yen

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

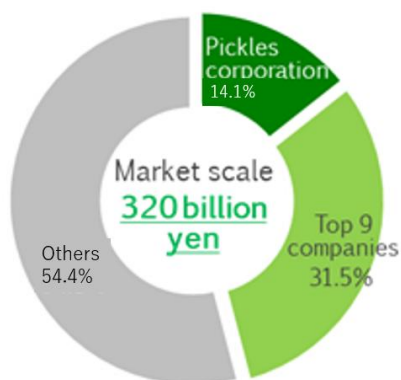
### 【1-3 Features, Strengths, and Competitive Advantages】

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 14.1% 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.

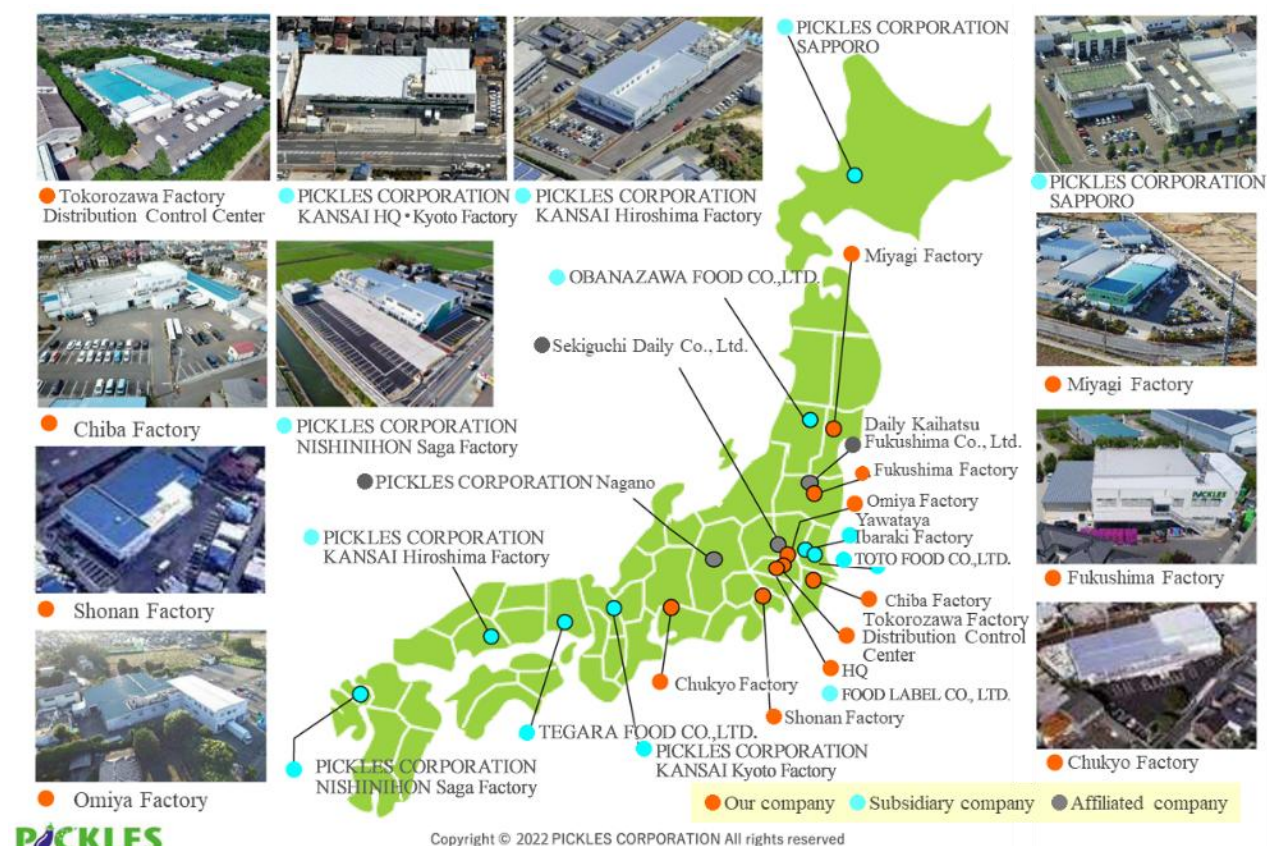
The company promotes development from multiple aspects, from the selection of ingredients such as vegetables and seasonings to processing methods, taste, and packaging.

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.



#### (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	FY2/22
<b>ROE (%)</b>	<b>6.5</b>	<b>8.6</b>	<b>8.0</b>	<b>10.4</b>	<b>13.3</b>	<b>13.7</b>
Net Profit Margin (%)	1.53	2.32	2.26	3.11	3.98	4.73
Total Asset Turnover (times)	2.02	1.90	1.88	1.79	1.83	1.73
Leverage (times)	2.10	1.95	1.89	1.88	1.83	1.67

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

## 2. Financial Results for the Fiscal Year Ended February 2022

### 2-1 Consolidated Business Results

#### ① Outline

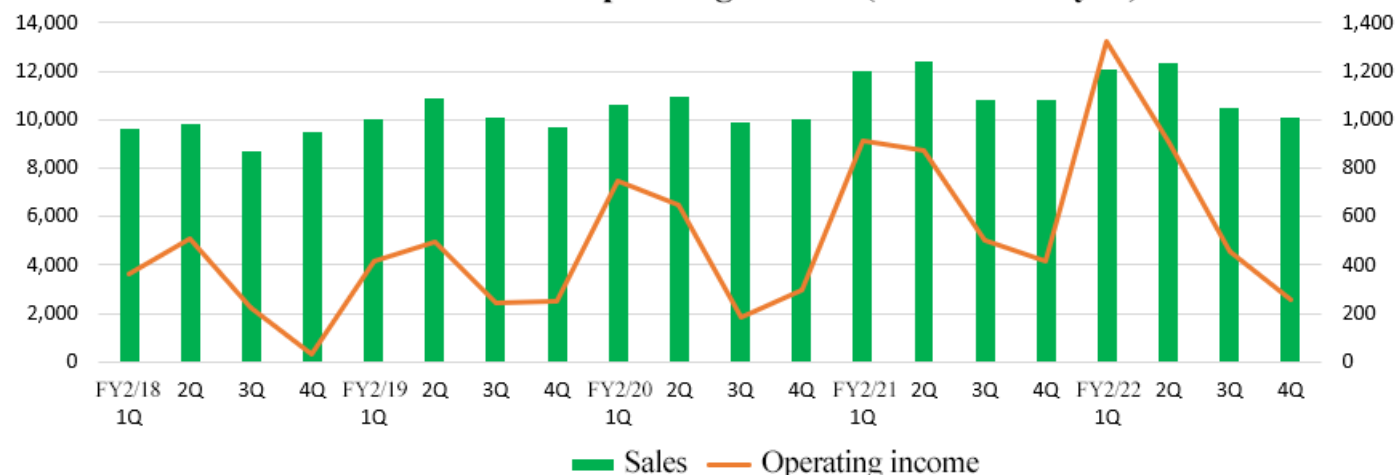
	FY2/21	Ratio to sales	FY2/22	Ratio to sales	YoY	Compared to the forecast
Sales	46,020	100.0%	45,006	100.0%	-2.2%	-3.2%
Gross profit	12,298	26.7%	12,466	27.7%	+1.4%	-0.3%
SG&A expenses	9,586	20.8%	9,523	21.2%	-0.7%	-1.8%
Operating income	2,711	5.9%	2,942	6.5%	+8.5%	+3.2%
Ordinary income	2,829	6.1%	3,068	6.8%	+8.5%	+4.4%
Net Income	1,832	4.0%	2,128	4.7%	+16.2%	+12.0%

\*Unit: million yen.

#### Sales decreased but operating income grew

Sales were 45,006 million yen, down 2.2% year on year. Sales was affected by a decrease in the number of cases of new coronavirus infections, the lifting of the state of emergency declaration, and the drop in demand from housebound consumers amid the coronavirus pandemic. Operating income grew 8.5% year on year to 2,942 million yen. The prices of ingredients were stable because the weather was relatively favorable. Furthermore, the company streamlined production processes by revising the specifications of products and integrating production items this term, too, so profit rose for the 5th consecutive term. Gross profit margin and operating profit margin improved 1.0 point and 0.6 point respectively.

#### Trend of Sales and Operating income (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	FY2/22	Ratio to sales	YoY	Ratio to Forecast
Product	26,462	63.9%	30,020	65.2%	29,631	65.8%	-1.3%	-2.5%
Lightly pickled vegetables /kimchi	17,308	41.8%	19,949	43.4%	18,858	41.9%	-5.5%	-7.7%
Delicatessen	8,321	20.1%	9,267	20.1%	10,264	22.8%	+10.8%	+9.2%
Long pickled vegetables	831	2.0%	803	1.7%	508	1.1%	-36.7%	-9.4%
Goods	14,955	36.1%	15,999	34.8%	15,374	34.2%	-3.9%	-4.5%
Total Sales	41,417	100.0%	46,020	100.0%	45,006	100.0%	-2.2%	-3.2%

\*Unit: million yen

The sales of delicatessen were healthy and exceeded the forecast, but the sales of lightly pickled vegetables, kimchi, long pickled vegetables, and purchased products were affected by the drop in demand from housebound consumers.

### ◎Sales by Sales Channel

	FY2/20	Ratio to sales	FY2/21	Ratio to sales	FY2/22	Ratio to sales	YoY	Ratio to Forecast
Mass retailers/wholesalers	31,030	74.9%	34,437	74.8%	33,530	74.5%	-2.6%	-3.7%
Convenience stores	6,587	15.9%	7,973	17.3%	7,536	16.7%	-5.5%	-6.0%
Restaurants/others	3,799	9.2%	3,610	7.9%	3,938	8.8%	+9.1%	+7.9%
Total Sales	41,417	100.0%	46,020	100.0%	45,006	100.0%	-2.2%	-3.2%

\*Unit: million yen

### ③Gross profit margin and situation surrounding vegetable prices

#### (Price of Chinese cabbages)

Chinese cabbage grew healthily thanks to the favorable weather in Ibaraki Prefecture, which is a major production site, in the spring from April to May.

The price was stable as a whole, although the growth of Chinese cabbages was slowed by the prolonged rain in September.

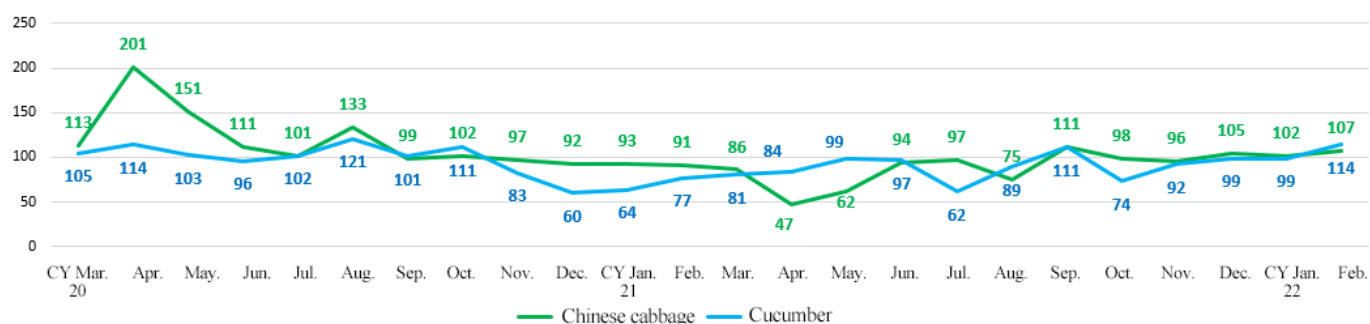
#### (Price of cucumbers)

Cucumber grew healthily, as the weather was favorable in major production sites, Fukushima and Iwate Prefectures, in July.

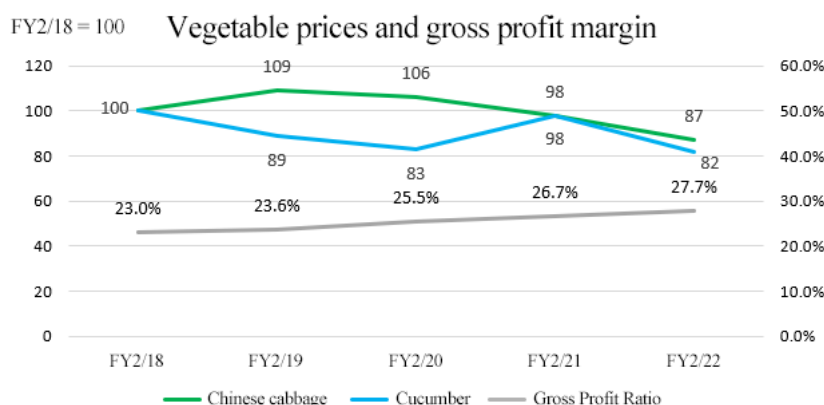
The price was normal as a whole, although the growth of cucumbers was affected by the prolonged rain in September.

The same month  
a year ago = 100

### Changes in raw material prices (chinese cabbage, cucumber)



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.





## 2-2 Financial Conditions and Cash Flow

### Financial conditions

	Feb.21	Feb.22	Increase/ Decrease		Feb.21	Feb.22	Increase/ Decrease
Current Assets	10,365	10,864	+499	Current liabilities	8,932	7,345	-1,587
Cash	4,437	6,034	+1,597	Payables	3,462	2,828	-634
Receivables	5,290	4,205	-1,085	ST Interest-Bearing Liabilities	2,550	1,893	-657
Inventories	545	578	+33	Noncurrent liabilities	2,288	1,989	-299
Noncurrent Assets	15,584	15,227	-357	LT Interest-Bearing Liabilities	1,380	1,055	-325
Tangible Assets	13,912	13,588	-324	Total Liabilities	11,221	9,334	-1,887
Intangible Assets	661	571	-90	Net Assets	14,728	16,757	+2,029
Investments and Others	1,011	1,066	+55	Total Liabilities and Net Assets	25,949	26,091	+142
Total Assets	25,949	26,091	+141	Total Interest-Bearing Liabilities	3,930	2,948	-982

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

Total assets stood at 26,091 million yen, up 142 million yen from the end of the previous term, due to the increase in cash and the decrease in account receivables and tangible assets. Total liabilities decreased 1,887 million yen from the end of the previous term to 9,334 million yen, due to the decline in both long and short term interest-bearing liabilities and account payables. Net assets rose 2,029 million yen from the end of the previous term to 16,157 million yen, due to the growth of retained earnings.

Capital-to-asset ratio increased 7.1% from the end of the previous year to 63.5%.

### Cash flows (CF)

	FY2/21	FY2/22	Increase/Decrease
Operating cash flow	3,047	3,521	+474
Investing cash flow	-1,312	-712	+600
Free Cash Flow	1,735	2,809	+1,074
Financing cash flow	-607	-1,212	-605
Cash and Equivalents at the end of term	4,437	6,034	+1,597

\*Unit: million yen

The operating cash flow and cash position increased. Free cash flow increased.

## 【2-3 Topics】

### (1) To establish a holding company

On September 1, 2022, the company will establish PICKLES HOLDINGS CO.,LTD. , to shift to the holding company system.

The purposes are to improve the function to design strategies for corporate group management, including M&A and new businesses, optimize the allocation of managerial resources inside the corporate group, clarify the roles and responsibilities of the holding company and business companies by separating the overseeing function and the business execution function, develop a system for enabling each business company to make a decision swiftly, and strengthen the competitiveness of the corporate group by speedily responding to the changes in the times.

## (2) Changes of representatives

On May 26, 2022, the representative director and president Masahiro Miyamoto will be appointed as representative director and chairperson, and the representative director and vice-president Naoji Kageyama will be appointed as representative director and president.

Its purpose is to further fortify and enrich the management structure.

## 3. Fiscal Year ending February 2023 Earnings Forecasts

### 3-1 Full-year Business Forecast

#### ① Major income statements

	FY2/22	Ratio to sales	FY 2/ 23 Est.	Ratio to sales	YoY
Sales	45,006	100.0%	40,700	100.0%	-9.6%
Gross profit	12,466	27.7%	9,600	23.6%	-23.0%
SG&A	9,523	21.2%	7,100	17.4%	-25.4%
Operating Income	2,942	6.5%	2,500	6.1%	-15.0%
Ordinary Income	3,068	6.8%	2,630	6.5%	-14.3%
Net Income	2,128	4.7%	1,760	4.3%	-17.3%

\*Unit: million yen. From this term, the “accounting standards for revenue recognition,” etc. are applied. The year-on-year change in sales from the term ended February 2022 before the application of said accounting standards was calculated by Investment Bridge for reference.

#### Sales and income are expected to decrease

The sales for the term ending February 2023 are projected to be 40.7 billion yen, down 9.6% from the previous term. Due to the drop in demand from housebound consumers and the effect of the “accounting standards for revenue recognition”. Operating income is forecasted to decline 15.0% year on year to 2,500 million yen. Gross profit is expected to decline 23.0% YoY due to the planned sales decline and raw material prices that are on par with those of past years. The company forecast to pay a dividend of 20.00 yen/share, unchanged from the previous term. The expected payout ratio is 14.6%.

#### ◎Sales by Food Item

	FY2/22	Ratio to sales	FY 2/ 23 Est.	Ratio to sales	YoY
Product	29,631	65.8%	27,345	67.2%	-7.7%
Lightly pickled vegetables /kimchi	18,858	41.9%	17,283	42.5%	-8.4%
Delicatessen	10,264	22.8%	9,575	23.5%	-6.7%
Long pickled vegetables	508	1.1%	485	1.2%	-4.5%
Goods	15,374	34.2%	13,354	32.8%	-13.1%
Total Sales	45,006	100.0%	40,700	100.0%	-9.6%

\*Unit: million yen. From this term, the “accounting standards for revenue recognition,” etc. are applied. The year-on-year change in sales from the term ended February 2022 before the application of said accounting standards was calculated by Investment Bridge for reference.

#### ◎Sales by Sales Channel

	FY2/22	Ratio to sales	FY 2/ 23 Est.	Ratio to sales	YoY
Mass retailers/wholesalers	33,530	74.5%	30,599	75.2%	-8.7%
Convenience stores	7,536	16.7%	6,639	16.3%	-11.9%
Restaurants/others	3,938	8.8%	3,460	8.5%	-12.1%
Total	45,006	100.0%	40,700	100.0%	-9.6%

\*Unit: million yen. From this term, the “accounting standards for revenue recognition,” etc. are applied. The year-on-year change in sales from the term ended February 2022 before the application of said accounting standards was calculated by Investment Bridge for reference.

### Plan of SG&A Expenses

	FY2/22	Ratio to sales	FY 2/ 23 Est.	Ratio to sales	YoY
Total SG&A expenses	9,523	21.2%	7,100	17.4%	-25.4%
Logistics cost	4,677	10.4%	2,118	5.2%	-54.7%
Personnel cost	3,104	6.9%	3,211	7.9%	+3.4%
Advertising cost	196	0.5%	270	0.6%	+37.8%
Others	1,544	3.4%	1,498	3.7%	-3.0%
Sales	45,006	100.0%	40,700	100.0%	-9.6%

\*Unit: million yen

## 4. Major Future Policies

### 【4-1 Future strategies】

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 45 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 14.1% (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 2020.

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 7.8 billion yen in the term ending February 2023, down 10.6% 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.

On February 1, 2022, the company upgraded Gohan ga Susumu Karakuchi Kimchi Kakuteki.

For Karakuchi Kimchi (spicy kimchi), the company pursued a taste that will go well with alcoholic beverages by increasing spicy and garlic flavors while keeping its rich seafood flavor. For Kakuteki (Japanese radish kimchi), the company pursued a lasting exquisite, sweet and spicy taste by adding refreshing sweetness and spiciness while keeping its bonito flavor.

In addition, the company changed the ink for packages to biomass ink. This would reduce CO<sub>2</sub> emissions by 10-20% (calculated by the ink manufacturer) compared with the conventional ink. By indicating the biomass mark, they will try to make it known broadly. The company uses environmentally friendly materials, such as recycled materials for containers.

## \*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 1,166.3 billion yen in 2021 (which was 1,050.8 billion yen in 2019 and 1,057.5 billion yen in 2020).

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 by making careful sales activities and focusing on vegetable-based delicatessen products that attract health-conscious consumers.

The sales in the term ended February 2022 exceeded 10.0 billion yen for the first time at 10.2 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 dry products, the company released “Char Siu Sauce supervised by JUKEI-HANTEN” and “Sesame-flavored Salad Dressing of the Authentic Grilled Meat Restaurant Toraji.”

For the former product, the company combines it with pork belly, so that customers can produce authentic char siu easily just by heating it with a microwave oven. It reproduces the taste of prestigious Chinese restaurants characterized by five-spice powder, which is a representative mixed spice of Chinese cuisine. The website indicated on the reverse side of the package introduces a dish including this product.

For the latter product, the taste of the sesame-flavored salad dressing of “Yakiniku Toraji,” an authentic grilled meat restaurant, is reproduced by the aroma-rich dressing in which mild acidity matches the sesame flavor. This dressing can be used for various dishes, including meat and tofu.

## ② Expansion of selling areas

Sales in the Kanto region account for 50.7% 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

While increasing its market share in the selling spaces for pickles and delicatessen at convenience stores and mass retailers, restaurants, etc., the company will concentrate on selling products in new selling spaces for tofu, natto, sauces, dressings, and processed food products, in addition to the selling spaces for pickles and delicatessen, at drugstores that actively sell food products and mass retailers. The company will also approach enterprises that deliver meals to elderly people and others.

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. and launched agricultural business via its subsidiary named PICKLES FARM CO.,LTD.

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” handles pickles that are produced by pickling domestic ingredients for a long period of time. 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. In the summer of 2022, the EC sites are scheduled to be upgraded.

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 landowner, 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 2022, sales stood at 223 million yen and operating loss was 82 million yen.

The company expects sales and operating loss to be 275 million yen and 60 million yen respectively, this fiscal year.

PICKLES FARM CO.,LTD. , which is a subsidiary, was established in March 2022, and started agricultural business in Saitama Prefecture.

It grows komatsuna (Japanese mustard spinach) for Tokorozawa Factory, and sweet potato for OH!!!. It aims to vitalize each region through stable procurement and agriculture.

Concretely, it examines special materials and test varieties, holds events for experiencing planting seedlings and harvesting (as in-house training and for voluntary diners for children), operates circulating agriculture using vegetable residues, and conducts operations in accordance with JGAP\*, etc.

\*JGAP: Certification specifying the standards for appropriate agricultural farm management from the viewpoints of farm management, food safety, environmental conservation, occupational safety, human rights and welfare, while considering Japanese laws, production and social environments. The factory of the company, too, procures vegetables that are managed in accordance with JGAP as ingredients.

#### 【4-2 Various efforts】

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

##### ① Advertising

To improve the recognition level, the company conducted advertisement through outdoor signboards, etc., and disseminated information via SNS.

##### ② Production and management

The company will strive to reduce costs and streamline operations, upgrade the system for procuring vegetables (procurement in each region, etc.), review unprofitable items, integrate items, install labor-saving equipment (equipment for removing the cores of Chinese cabbages and an automated kimchi production line), and improve and streamline product inspection by adopting label inspection equipment, etc.

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 has identified material items, including “activities for contributing to society and regions,” “measures against global warming and effective use of resources,” “enhancement of collaborative initiatives with supply chains,” and “development of skills respecting the diversity and individuality of employees and workplaces with worthwhile jobs,” in order to strengthen initiatives for ESG and SDGs.

In March 2022, they opened a website regarding sustainability, to introduce their future policies and activities.

<https://www.pickles.co.jp/sustainability/>

#### 【4-3 Medium-Term Management Plan】

	FY2/22	Ratio to sales	FY2/23 (Plan)	Ratio to sales	FY2/24 (Plan)	Ratio to sales	FY2/25 (Plan)	Ratio to sales
Sales	45,006	100.0%	40,700	100.0%	41,500	100.0%	42,000	100.0%
Gross Margin	12,466	27.7%	9,600	23.6%	9,750	23.5%	9,900	23.6%
Operating Income	2,942	6.5%	2,500	6.1%	2,550	6.1%	2,600	6.2%
Ordinary Income	3,068	6.8%	2,630	6.5%	2,680	6.5%	2,730	6.5%
Net income	2,128	4.7%	1,760	4.3%	1,800	4.3%	1,830	4.4%

\* Unit: million yen. From next term, the “accounting standards for revenue recognition,” etc. are applied.

	FY2/22	FY2/23 (Plan)	FY2/25 (Plan)	CAGR
Asazuke lightly pickled vegetables /kimchi	18,858	17,283	17,663	+1.1%
Delicatessen	10,264	9,575	10,121	+2.8%
Furuzuke old pickled vegetables	508	485	487	+0.2%
Product	15,374	13,354	13,728	+1.4%
Total	45,006	40,700	42,000	+1.6%

\*Unit: million yen. CAGR is the average annual growth rate from FY2/23 to FY2/25, calculated by Investment Bridge Co., Ltd

From next term, the “accounting standards for revenue recognition,” etc. are applied.

	FY2/20	FY2/21	FY2/22	FY2/23(Plan)	FY2/24(Plan)	FY2/25(Plan)
Capital Expenditure	1,769	1,409	718	1,400	1,900	2,700
Depreciation	838	931	953	1,007	1,026	1,022

\* Unit: million yen.

The company plans to make capital investment of 6 billion yen for the next three years mainly in upgrading equipment in FY 2/23, building a factory dedicated to kimchi production (Kanto area) and upgrading equipment in FY 2/24, and newly establishing a factory (Kansai area) and upgrading equipment in FY 2/25.

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 company expects a decrease in profit in FY2/23 due to the planned decrease in sales and other factors. We will see how much profit the company can accumulate through cost reduction and efficiency improvement by reviewing vegetable procurement (procurement by region, etc.), reviewing unprofitable items and consolidating items, and introducing labor-saving machinery.

From now on, we would like to pay attention to their efforts to grow the “delicatessen” business and the progress of them, in response to the growth of demand, in the wake of the increase of single-person households, the aging population, the empowerment of women, the enhancement of people’s interest in health, nutritional balance, etc., the simplification of housekeeping, and the growth of needs for the shortening of hours.

### <Reference: Regarding Corporate Governance>

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

Organization type	Company with an audit and supervisory board
Directors	8 directors, including 3 from outside
Auditors	4 directors, including 3 from outside

#### ◎Corporate Governance Report (Updated on December. 27, 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.

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 2-4-①】

Our company promotes highly motivated and skilled employees to management posts (division chiefs or higher) regardless of age, nationality, gender, etc. Regarding the promotion to management posts, the ratio of female managers is 3.6%, and we will increase this ratio. For non-Japanese employees, the ratio of them is low, so we have not set a goal for them. For mid-career workers, we promote them to management posts while comprehensively considering their experiences, abilities, etc., so we have not set a goal for them.

With the aim of honing the ability of each employee, we make efforts to foster the stance of learning voluntarily, adopting systems for supporting self-development, incentives for acquiring qualifications, etc. In addition, we recognize that the development of a comfortable working environment as an important management issue, and adopted refreshing holidays, overtime-free days, staggered working hours, etc.

**【Principle 4-11 Preconditions for securing the effectiveness of the board of directors and the board of auditors】**

Our directors possess technical knowledge and plenty of experience in the fields of business administration, financial affairs, etc. We think that the board of directors has diversity of gender, internationality, work experience, and age, and an appropriate scale, in order to fulfill its roles and duties effectively. In addition, our auditors include certified public accountants, who possess adequate knowledge of finance and accounting. We consider the overall balance among knowledge, experience, and ability in the board of directors, when appointing directors and auditors, to improve the effectiveness of the board of directors. Accordingly, we do not evaluate the effectiveness of the entire board of directors, but we plan to evaluate it by conducting a questionnaire survey and disclose its results.

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

Regarding sustainability, we recognize the environment, safety, reliability, etc. as important issues, and take initiatives. As the investment in human capital, we develop educational systems and pursue a comfortable working environment for employees, and as the investment in intellectual property, we research lactic acid bacteria, etc. These are disclosed via our ESG reports and IR documents, which are available in our website.

**【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.

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