KENKO Mayonnaise Co., Ltd.
2915 Tokyo Stock Exchange First Section

1-Aug.-14

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FISCO Ltd. Analyst
Yuzuru Sato

Capturing Demand by Meticulously Meeting Customer Needs in Each Business Category

KENKO Mayonnaise Co., Ltd. (hereafter "KENKO Mayo" or "the company") is engaged in the production and sale of salads and delicatessen, mayonnaise and dressings, processed foods made from eggs, and other products. It has a strong position in the market for commercial-use and has the leading market share in the "long-life salad" category at 40% and in egg salad for sandwiches and snack breads at 56%. In the mayonnaise and dressings market, it is second behind Kewpie <2809> with a 14.9% share.

In the fiscal year ended March 2014, although the company had sales of ¥57,301 million, up 5.1% y-o-y, the third consecutive year of record-high sales on steady growth in demand for egg products and delicatessen products, recurring profit declined for the first time in two fiscal years by 12.3% due to high raw material costs and the yen's depreciation.

In FY3/15, sales are expected to rise 4.7% y-o-y due to continued growth. Recurring profit is forecast to increase 19.5%, reversing a previous loss as a result of the full contribution from price revisions implemented during the previous fiscal year and last year's peaking of raw material costs.

The outlook for the home-meal replacement (HMR) market is favorable owing to an aging society, an increase in single-person households, and changes in lifestyle due to women's social advancement and other factors. Moreover, an increase in demand for the salad and delicatessen business is forecast thanks to a rising health consciousness. The company's strategy is to absorb this demand by creating teams of sales, product development, and menu development segmented by business category to meet customer demand with the aim of further sales expansion. Returning profits to shareholders is one of the company's priorities: it aims stable dividend growth with dividend payout ratio of 20% on a consolidated basis and sends out company's products to shareholders once a year.

Check Point

- Established top industry position with "long-life salad"
- Expects revenue growth in all businesses in FY3/15
- Focused on global development and expansion of business domain

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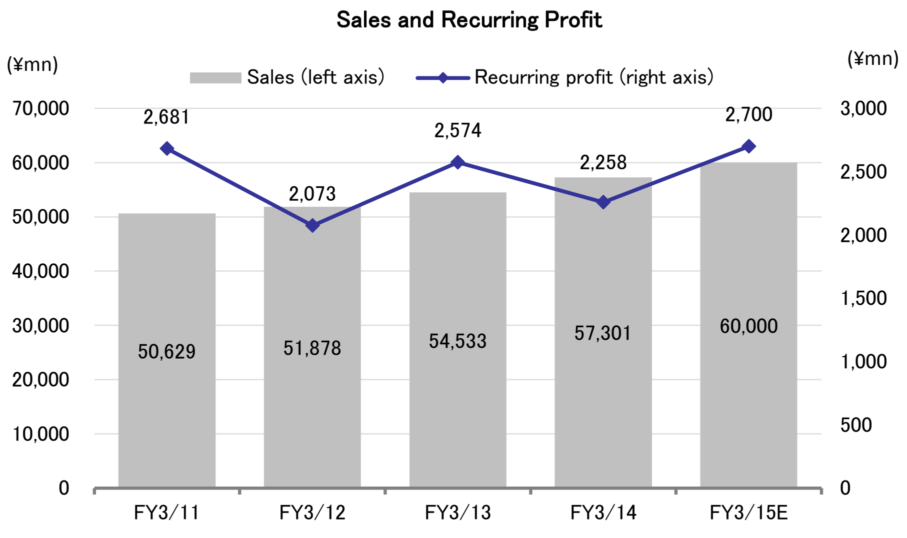

Company Overview

Highly Respected within Industry as a Pioneer in the Salad Market

(1) Company History

The company's origin goes back to March 1958, when it was founded in Kobe as a sales company for edible oil. Since its founding and up to the present day, the company has had two major turning points in its history. The first was in 1961 when it shifted its business from sales of edible oil to the production and sales of commercial-use mayonnaise.

At the company's start up, it sold edible oil to delicatessens in Kansai area for frying croquettes and chicken and other meats as well as raw materials used in mayonnaise. At that time, there were many delicatessens that made their own mayonnaise, but homemade mayonnaise suffered from unstable quality as oil and eggs separate in hot summer weather. The company judged that there would be demand if it produced and sold mayonnaise of stable quality, and in 1961 it started the business of producing mayonnaise for commercial-use.

Initially, sales struggled, but sales volume increased when the company succeeded in winning customer trust by proposing a menu of deli items made with mayonnaise. After 1970, with the growing westernization of the Japanese diet and the rise of the restaurant industry, demand for mayonnaise began to grow and the company entered a growth phase.

The second turning point was in 1977, the year it began to market world's first "long-life salad." Long-life salad remains fresh for one month as long as the bag it comes is not opened. Demand for it has grown rapidly, especially in the restaurant industry and from bakeries, and presented a further growth opportunity for the company, which had specialized in making mayonnaise for commercial-use. Since then, the company has developed and launched a stream of industry-first products such as burdock salad, pumpkin salad, and tuna salad. As a pioneer that has developed the salad market, its product development capabilities are highly respected in the industry.

In the 1990s, the home-meal replacement (HMR) market began to take off due to changes in social conditions such as the increase in single-person households, the aging of society, and more women in the workforce, causing demand for delicatessen products and boxed lunches at supermarkets and convenience stores (hereafter "CVS") to grow. To absorb this market demand, the company has expanded the salad and delicatessen business along with the egg products business. The egg products business provides a variety of products includifng Tamago-Yaki (Japanese style rolled omelet) for lunch boxes, egg salad for sandwiches, Kinshi-Tamago (thin strips of cooked eggs) used as a topping on cold Chinese noodles, boiled eggs for Oden soup, and scrambled eggs.

Kinshi-Tamago

In 2005, the company started the overseas operations. It established a salad production and sales company (an equity-method affiliate) in China. In addition, it opened the Salad Cafe (currently 16 shops) to directly capture consumer needs to develop better-suited products.

The company's stock was traded over the counter on the Osaka Securities Exchange JASDAQ market in 1994. In 2011, the company was listed on the second section of the Tokyo Stock Exchange, and then listed on the first section of the Tokyo Stock Exchange in March 2012.

History

1958 March	The company is established and begins edible oil sales
1961 September	Begins production and sales of KENKO Mayonnaise AS for salads for commercial-use
1966 June	Changes trade name to KENKO-Mayonnaise Co., Ltd.
1977 October	Launches the industry's first "long-life salad" under the Fashion Delica Foods® brand
1986 December	Begins sales of Burdock Salad for commercial-use
1992 June	Changes trade name from KENKO-Mayonnaise Co., Ltd. to KENKO Mayonnaise Co., Ltd.
1994 November	Shares traded over the counter on the Osaka Securities Exchange JASDAQ market
2005 May	Establishes Kenko Foods (Hong Kong) Co., Ltd. (currently KENKO & TING (HONG KONG) HOLDING CO., Ltd., an equity-method affiliate)
2005 August	Establishes Kenko Foods (Dongguan) Co., Ltd. (currently Dongguan KENKO & Ting Foods Co., Ltd., an equity-method affiliate)
2005 August	Establishes Salad Cafe Co., Ltd.
2010 July	Establishes Hangzhou KENKO & Ting Foods Co., Ltd.(an equity-method affiliate)
2011 March	Company listed on second section of the Tokyo Stock Exchange
2012 March	Company listed on first section of the Tokyo Stock Exchange
2012 July	Establishes PT. Intan Kenkomayo Indonesia (Jakarta, Indonesia; an equity-method affiliate)
2014 March	Completion of Shizuoka-Fujisan Factory

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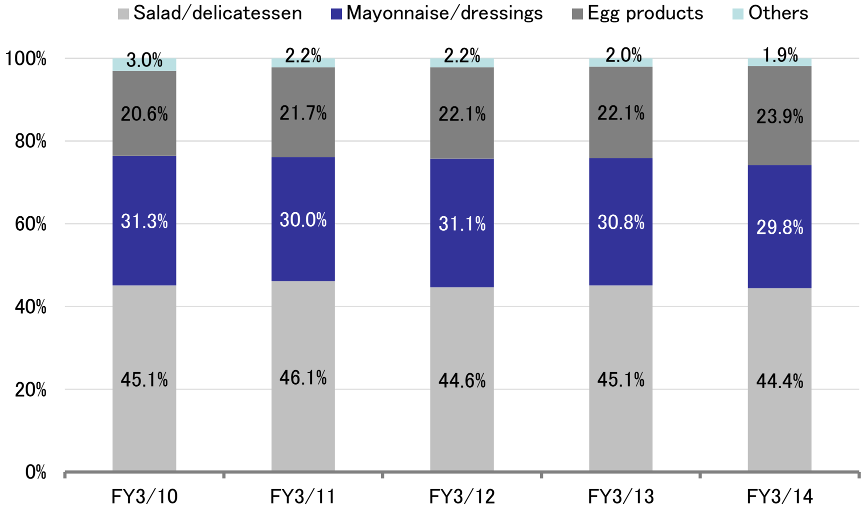
Securing top industry position with "long-life salad"

(2) Market Share and Sales by Product and Business Category

Company sales by product are divided into salad and delicatessen, mayonnaise and dressings, egg products, and others. Salad and delicatessen has the highest ratio of sales at 44.4% followed by mayonnaise and dressings at 29.8%, and egg products at 23.9% (as of FY3/14). Looking at the past five fiscal years, although there are no major changes, the sales ratio of egg products has steadily risen. This is due to yearly growth in demand from CVS for the use of egg products in lunch boxes and sandwiches.

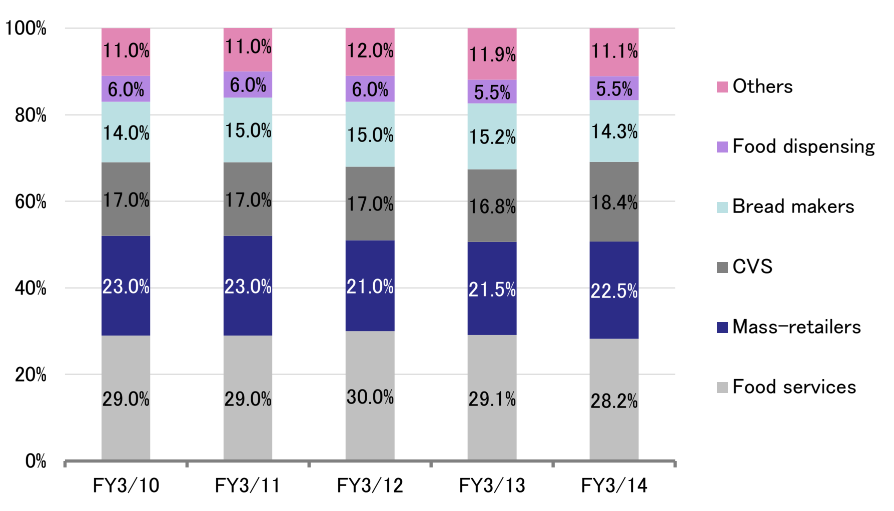
The salad and delicatessen business consists of products produced and sold with a long shelf life (long-life salad, etc.), and products for daily delivery operated by subsidiaries, comprising 60% and 40% of this business, respectively.

Percentage of Sales by Product (Consolidated)



The sales ratio by business category (as of FY3/14) is 28.2% for the food service industry, the largest share, followed by 22.5% for mass retailers (supermarket chains), 18.4% for CVS, 14.3% for bread makers (bakeries), 5.5% for food dispensing, and 11.1% for others (consumer co-ops, food service wholesaler, etc.). A distinctive feature of the company is that its main business is in restaurant and HMR markets.

Percentage of Sales by Business (Consolidated)



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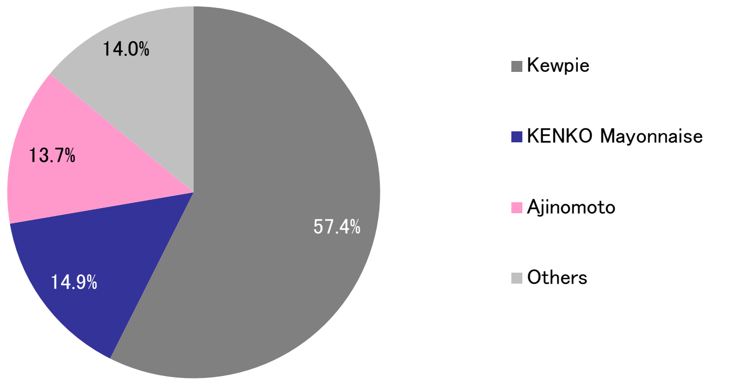
Its industry market share for the mayonnaise and dressings business has been stable over the past several years at around 15%, keeping the second position in the industry. Since it basically specializes in sales for commercial-use, the company's name is not well-known to the general public. However, it competes with Kewpie, the largest commercial producer, and supplies almost all major restaurants and hotel chains.

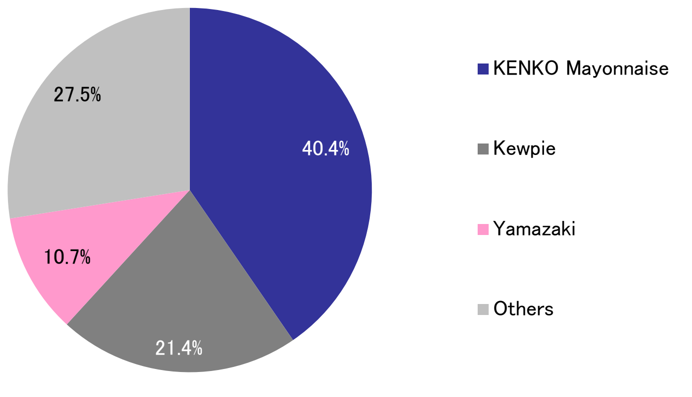
Meanwhile, the company, the pioneer of "long-life salad," has established the industry-leading market share of over 40% for long-life salad.

Mayonnaise/Dressings Market Share (2013)



Source: Nikkan Keizai Tsushinsha, Inc. "The Beverage & Food Statistics Monthly"

Long-Life Salad Market Share



Source: Fuji-Keizai "Foodstuff Marketing Handbook"

Company's Strength is Management Integration of Production, Development and Sales

(3) Company's Strengths

The company's strengths are 1) its nationwide production system that supplies high-quality products on a stable basis and 2) its collective strength of integrated production, development and sales, namely product development capabilities that meet customer needs as well as its meticulous sales response capabilities.

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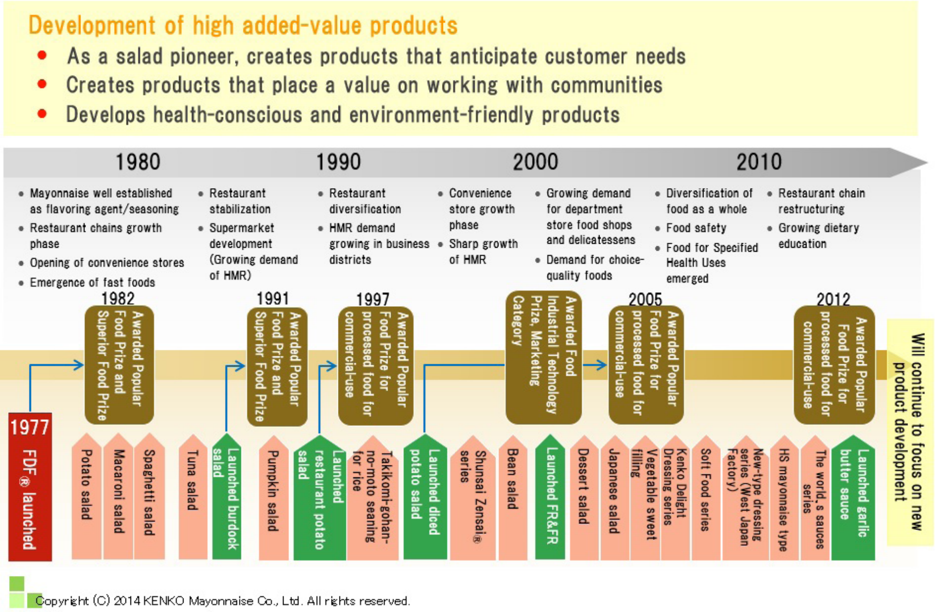
High quality means not only good taste; safety and security are also important elements. Further, for the company, which is focused on sales for commercial-use, the question of how much added value can it offer customers holds an important key to its business growth. The company has taken steps to offer added value through its meticulous response to customers involving the segmentation of fields by business classification and the integration of its sales, product development, and menu development teams. The number of product items that it develops annually exceeds 1,800, meaning it develops five new items every day. As the graph shows, since 2011, it has continued to grow at a rate exceeding the restaurant and HMR markets thanks to the fruits of these efforts.

Wide-ranging product lineup

Source: Company briefing materials

Excellent development capabilities that meet customer needs



Source: Company briefing materials

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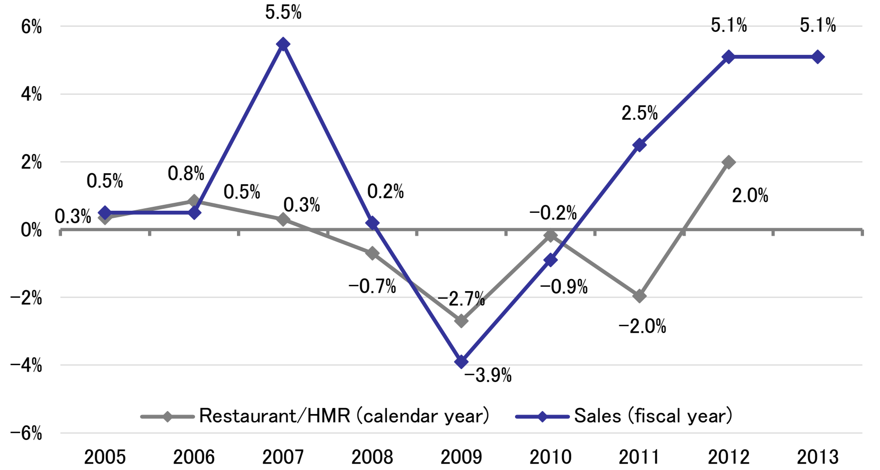
Growth Rate of Restaurant/HMR Market and Company Sales



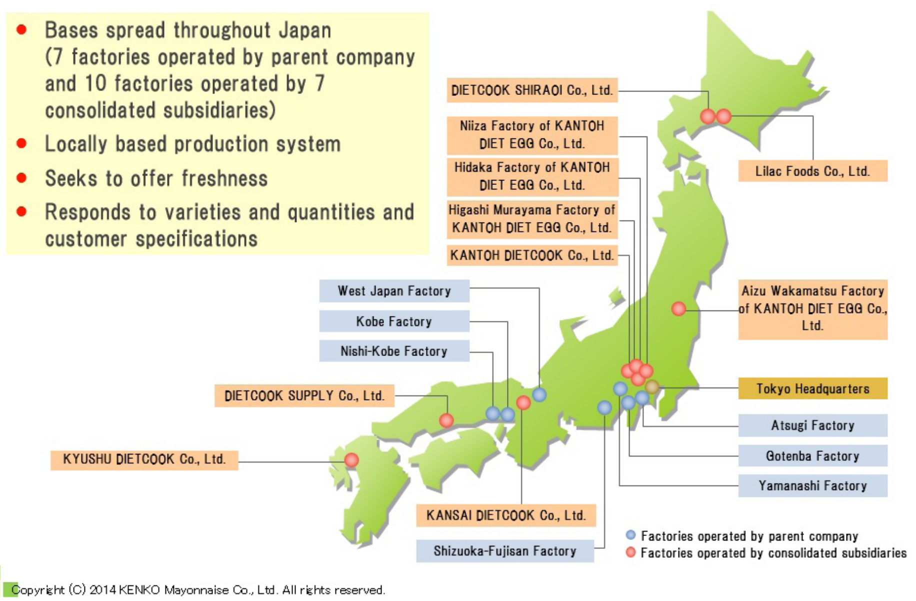
Source: Restaurant/HMR by Foodservice Industry Research Institute

Development of flexible production system that meets customer needs

(4) Production system and group companies

Currently, the company's nationwide production system comprises seven factories operated by the parent company and 10 factories operated by seven consolidated subsidiaries. Subsidiaries' production bases are closely linked to their operating areas because they are the production bases for delicatessen products for daily delivery to supermarkets, CVS, and other outlets. Above all, just-in-time (JIT) response capability is essential for CVS that operate 24/7. Some of the factories therefore operate 365 days-a-year, with flexible production systems that can quickly respond to changes in order volume.

Production Bases to Meet Customer Needs



Source: Company briefing materials

The company also operates in China and Indonesia. It initially operated its business in China independently, but established a joint venture (50% equity stake) with a Taiwanese food producer in 2011, which now operates as an equity-method affiliate. As production bases for local companies as well as restaurants run by Japanese companies, it has a salad factory in Dongguan (with annual production capacity of about 1,200 tons) and a mayonnaise and dressings factory in Hangzhou (with annual production capacity of about 25,000 tons).

In Indonesia, it established a joint venture (49% equity stake) with a local food producer in 2012 that began production (annual capacity of about 4,000 tons) and sales of mayonnaise, dressings, and sauces in autumn 2013.

Because its companies in China and Indonesia are equity-method affiliates, their sales are not reflected in the company's consolidated sales, but are recorded in non-operating income and expenses as equity in earnings of affiliates. They are included under Other Businesses of the consolidated segmentation.

Affiliates

Consolidated subsidiaries	Ownership (%)	Main business
DIETCOOK SHIRAOI Co., Ltd.	100.0	Delicatessen-related production and sales
Lilac Foods Co., Ltd.	100.0	Delicatessen-related production and sales
KANTOH DIETCOOK Co., Ltd.	100.0	Delicatessen-related production and sales
KANTOH DIET EGG Co., Ltd.	100.0	Delicatessen-related production and sales
KANSAI DIETCOOK Co., Ltd.	100.0	Delicatessen-related production and sales
DIETCOOK SUPPLY Co., Ltd.	100.0	Delicatessen-related production and sales
KYUSHU DIETCOOK Co., Ltd.	100.0	Delicatessen-related production and sales
Hello Delica Co., Ltd.	100.0	Delicatessen-related sales
Salad Cafe Co., Ltd.	100.0	Operation of shops specializing in salads
Equity-method affiliate	**Ownership (%)**	**Main business**
KENKO & TING (HONG KONG) HOLDING CO., Ltd.	50.0	Mayonnaise, dressings, and salad sales
Dongguan KENKO & Ting Foods Co., Ltd.	50.0	Salad production and sales
Hangzhou KENKO & Ting Foods Co., Ltd.	50.0	Mayonnaise and dressings production and sales
PT. Intan Kenkomayo Indonesia	49.0	Mayonnaise, dressings and sauces production and sales

*Shows group investment ratio including indirect investment from wholly-owned subsidiaries.

Performance Trends

Favorable market environment due to rising salad and delicatessen demand

(1) Market environment

The following summarizes the market environment surrounding the company by main business category for FY3/14.

○Food Service Industry

Sales in the food service industry in FY2013 grew 0.7% y-o-y, the second consecutive year of positive growth, and remained on a modest recovery track. Breaking it down, fast-food market sales, which had been a sales driver in the past, decreased 0.5%, shifting to negative growth. Drinking establishment and pub sales remained sluggish and were down 3.5%. In contrast, family restaurant sales fared well, increasing 3.3%, the second consecutive year of positive growth.

With corporate earnings recovering due to the effects of Abenomics and the advancing depreciation of the yen, consumers' preference for lower food prices has passed its peak and average spending per customer at family restaurants and other establishments is continued to increase. Demand for salad is expanding thanks to people turning to healthier food.

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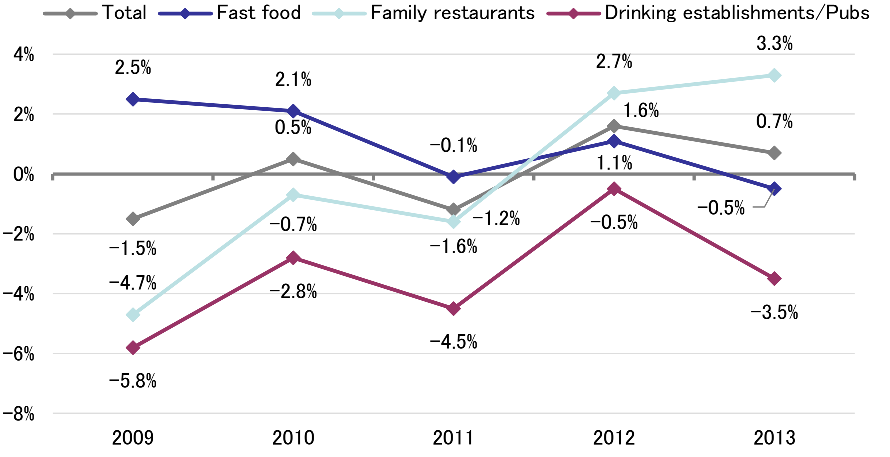
Growth Rate of Sales by Restaurant Business Classification (Calendar year)

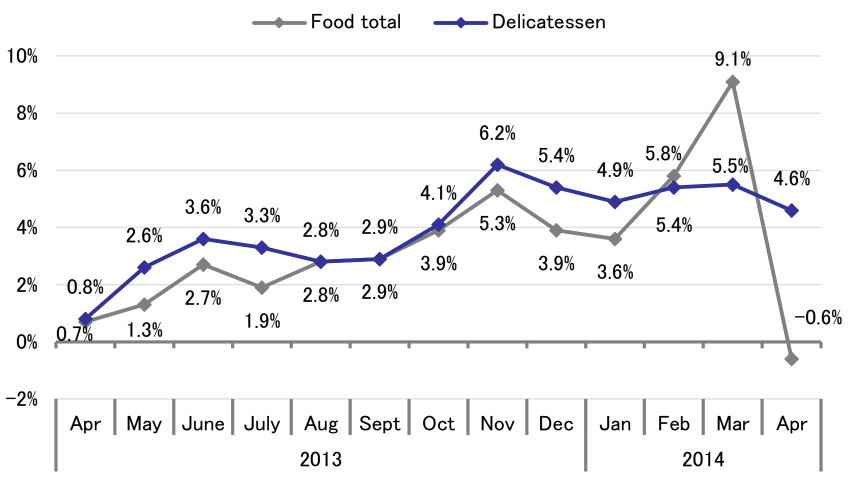


Source: Japan Foodservice Association

○Supermarkets

Food sales in the supermarket industry in FY2013, despite rising vegetable prices, were strong, buoyed by the economic recovery. Delicatessen sales were especially strong, climbing about 4% y-o-y due in part to a rise in single-person households and changing lifestyles resulting from women's social advancement. Further, foodstuff sales as a whole in April reversed and declined due to the diminishing effect of last-minute demand before the consumption tax-rise, but delicatessen products alone remained strong, rising 4.6% y-o-y.

Supermarket Monthly Sales Growth Rate



Source: New Supermarket Association of Japan, April 2014 preliminary figures.

○CVS

In the CVS industry, sales of fresh food and small-sized delicatessen products for single-person consumption and the delivery service market grew. CVSs are increasingly introducing their own products such as store-brewed coffee and tasty gourmet chicken, a common strategy among CVSs to increase sales. As a result, sales of daily-delivered products in FY3/13 fared well throughout the year, rising 9% y-o-y.

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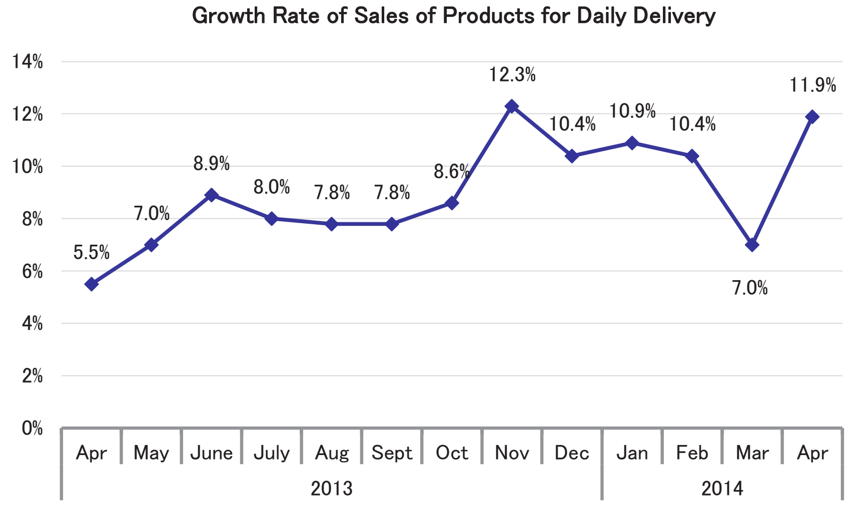


Source: Japan Franchise Association

Sales Increased but Profit Declined in FY3/14 on Rising Raw Material Prices

(2) Consolidated Financial Highlights for FY3/14

In FY3/14, although sales were up 5.1% y-o-y, the third consecutive fiscal year of record-high sales, operating profit was down 12.6% to ¥2,428 million, recurring profit declined 12.3% to ¥2,258 million, and net income slipped 10.2% to ¥1,265 million, all down for the first time in two fiscal years. Comparing with the initial plan, profits declined while sales exceeded.

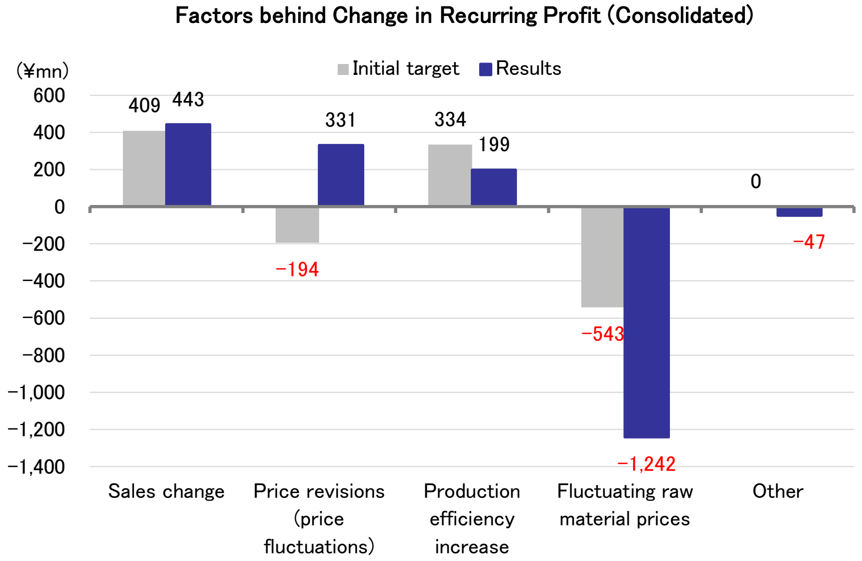
FY3/14 Operating Results Summary

(¥mn)

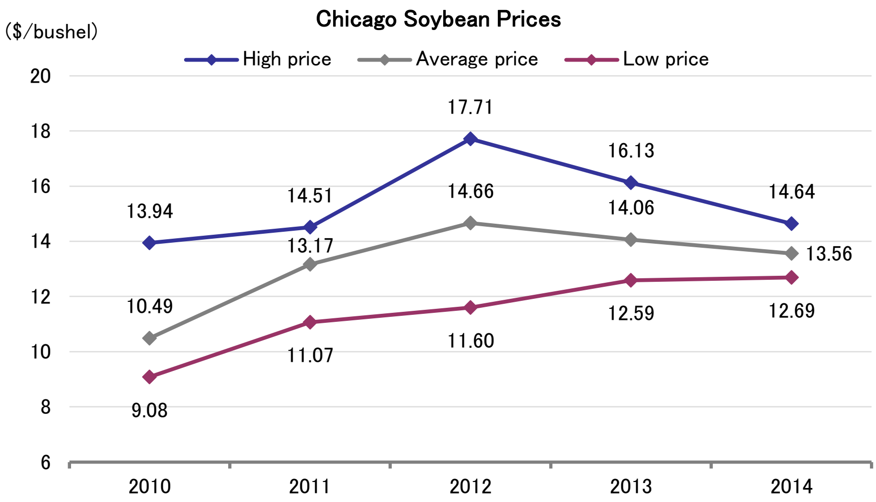
	FY 3/13		FY3/14				
	Results	Ratio	Initial target	Results	Ratio	y-o-y	Change from target
Sales	54,533	-	55,500	57,301	-	5.1%	3.2%
Cost of goods sold	39,628	72.7%	-	42,530	74.2%	7.3%	-
SGA expenses	12,126	22.2%	-	12,342	21.5%	1.8%	-
Operating profit	2,778	5.1%	2,720	2,428	4.2%	-12.6%	-10.7%
(equity in earnings of affiliates)	-216	-0.4%	-	-229	-0.4%	-	-
Recurring profit	2,574	4.7%	2,580	2,258	3.9%	-12.3%	-12.5%
Extraordinary profit	-186	-	-	-44	-	-	-
Net profit	1,409	2.6%	1,420	1,265	2.2%	-10.2%	-10.9%

The reason for the profit decline was the rising purchase price for raw materials such as chicken eggs and edible oil. In FY3/14, the effect of raw material prices amounted to ¥1,242 million, a factor behind the profit decline. Although a ¥543 million profit decline was factored into the initial plan, the effect of rising grain and chicken egg prices during the term caused an even greater decline.

Although the company revised its prices from the second half, the positive effects of the price revision came only to ¥331 million. Adding up the effects of higher sales (¥443 million) and increased profits (¥199 million) from rising production efficiency could not offset the rise in raw material costs.

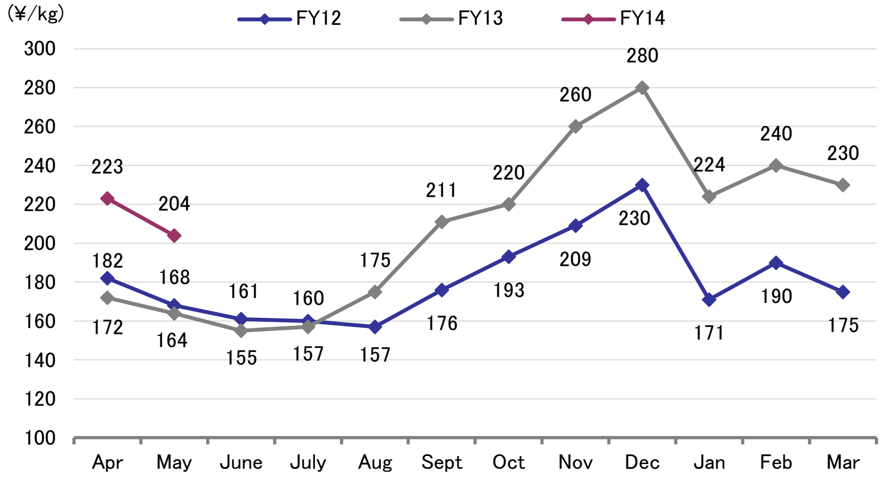


Even though the market prices for soybeans, which affect edible oil prices, shifted downward in 2013 y-o-y as shown in the graph, the company's purchase price has a half-year to one-year time lag, so we must bear in mind that the effects of sharply rising soybean prices in 2012 was partially reflected in FY3/14 purchase costs. Further, the effect of the yen's depreciation in the previous fiscal year is another factor behind rising costs.



Note: 2014 data is for January through March only

National Federation of Agricultural Cooperative Associations'
(ZEN-NOH) Price (Tokyo) for Medium-Sized Egg



Delicatessen business fares well on increased purchase of mainstay products by mass retail shops

(3) Trends by business segment

○Seasoning/Processed Food Business

In the mainstay seasoning and processed food business, sales rose 3.6% y-o-y to ¥47,541 million, while operating profit declined 15.8% to ¥2,106 million. The profit decline was attributable to aforementioned rising raw material costs.

Looking at sales trends by product, we see a slight 1.3% (flat on a sales-weighted basis) decrease in salad and delicatessen items to ¥15,866 million. Pumpkin salad was introduced in lunch boxes for CVS, and among Japanese delicatessen items, burdock products for lunch boxes saw brisk sales, but sales were sluggish to restaurants, especially drinking establishments.

Mayonnaise and dressings increased 1.6% (down 0.6% on a sales weighted basis) y-o-y to ¥17,093 million. The sales volume of mayonnaise was up due to use in sandwiches and baked into snack breads as a filling, and sales of dressings grew on new sales, mainly to restaurants in the form of low-calorie non-oil dressings in 1-liter bottles and 20-ml individual packets. In addition, the "the world' s sauces" series product lineup increased and contributed to higher sales. On the other hand, sales to the fast-food industry were sluggish as the industry itself was stagnated.

Egg products were up 13.2% (up 13.3% on a sales weighted basis) to ¥13,567 million. Various egg products including egg salad for sandwiches and for baking into snack breads as a filling, Atsuyaki-Tamago (thick omelets served in slices) for lunch boxes, and boiled eggs for Oden soup saw increased sales, especially to CVS.

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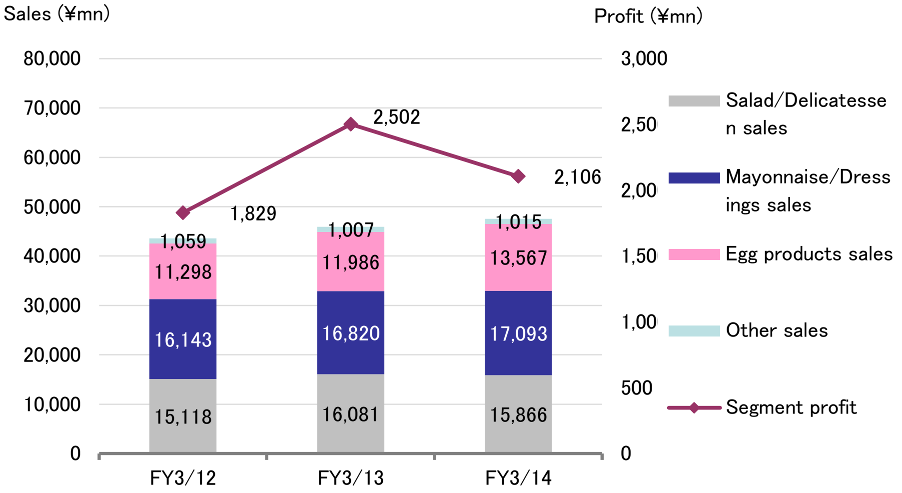
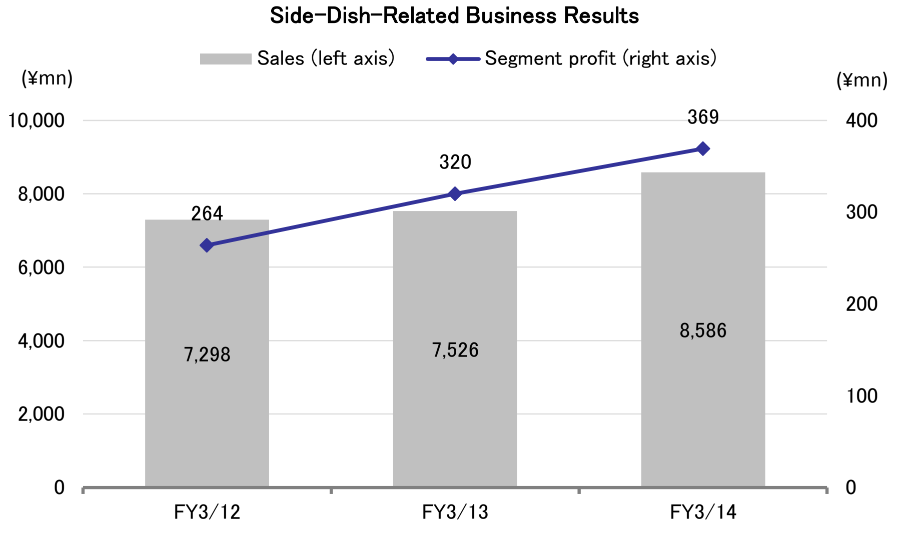
Atsuyaki-Tamago

Seasoning/Processed Food Business Results



○Side-Dish-Related Business

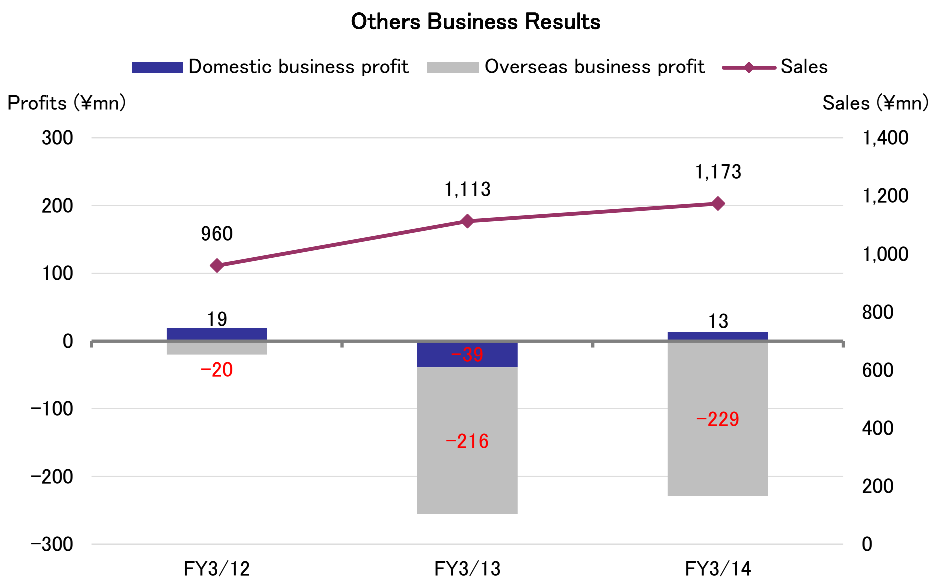
Sales in the side-dish-related business climbed 14.1% y-o-y to ¥8,586 million and segment profit grew steadily, rising 15.0% to ¥369 million. This was mainly attributable to a steady purchase of mainstay products such as potato salad and pasta salad by mass retailers (supermarkets). Although raw material prices rose sharply, this was offset by higher sales, effects from improved yields, expense reductions, and other factors, and as a result, the profit margin remained at 4.3%, the same level as the previous term. The side-dish segment grew at a rate exceeding the industry average, given the 4.0% growth of sales to mass retailers and 9.0% increase in sales of products for daily delivery to CVS as mentioned before.



○Other Business

Sales of other business include sales at salad shops operated by its subsidiary Salad Cafe and equity in earnings of affiliates of the overseas business. In FY3/14, sales rose 5.4% y-o-y to ¥1,173 million, and a segment loss of ¥216 million (compared to a loss of ¥255 million in FY3/13) was recorded. However, if we exclude the overseas business, segment profit came to ¥13 million, returning to profitability for the first time in two fiscal years. The Salad Cafe business is positioned to understand the needs of consumers (end users) for product development.

Regarding the profitability of overseas business, the Chinese business continues to have negative earnings, along with the loss of Indonesian business due to the startup of a factory in Indonesia last autumn. Sales in the Chinese business rose sharply from ¥267 million in FY3/13 to ¥1,147 million in FY3/14. This was attributable to an increase in customers, both local companies and Japanese restaurant operators.



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Higher sales forecast in all businesses in FY3/15

(4) Outlook for FY3/15

The outlook for FY3/15 is sales of ¥60,000 million, up 4.7% y-o-y, operating profit of ¥2,890 million, up 19.0%, recurring profit of ¥2,700 million, up 19.5%, and net income of ¥1,590 million, up 25.6%.

In terms of sales by business, higher sales are expected in all businesses. Among businesses, the salad and delicatessen business, which was the only segment that had decreased sales, is further reinforcing its sales and development strategy segmented by business category. It will further expand sales of its mainstay Fashion Delica Foods® (FDF) brand for commercial-use. In addition, it will expand market channels for its "Salad Made by a Salad Pro" salad series, a small FDF brand product, which has been marketed since September 2013 for home use. The sales target for this salad series is ¥650 million in FY3/15.

Sales of egg products, which had grown by double digits in the previous fiscal year, are expected to increase 3.5%. As sales to CVS were higher than expected in FY3/14, the sales target is somewhat conservative. In April 2014, the Shizuoka-Fujisan Factory began operation, and with orders continuing at a brisk pace, sales have sufficient upside potential.

In the mayonnaise and dressings business, continued growth in demand for non-oil dressings and dressings in small packets is anticipated and with the effects of price revisions, sales are expected to rise 2.1% y-o-y. Moreover, sales of HMR-related business operated by its subsidiary are expected to increase 8.3% due to greater product acceptance by mass retailers.

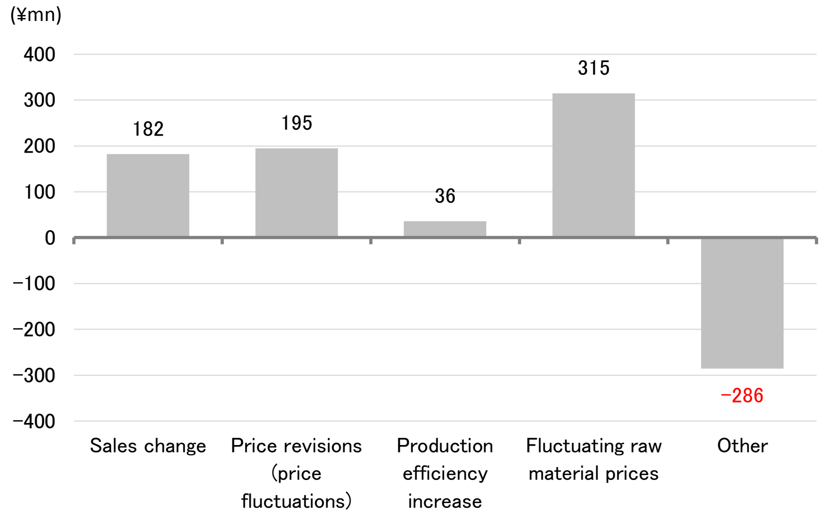
Sales by Segment

(¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15E	y-o-y
Seasoning/Processed Food Business	43,618	45,894	47,541	49,501	4.1%
Salad/Delicatessen	15,118	16,081	15,866	16,877	6.4%
Mayonnaise/Dressings	16,143	16,820	17,093	17,448	2.1%
Egg products	11,298	11,986	13,567	14,048	3.5%
Others	1,059	1,007	1,015	1,128	11.1%
Side-Dish-Related Business	7,298	7,526	8,586	9,298	8.3%
Other Business	960	1,113	1,173	1,200	2.3%
Total	51,878	54,533	57,301	60,000	4.7%

Factors that could lead to higher profits in FY3/15 are the effects of raw material price fluctuations, which are expected to add ¥315 million to profits, while sales price revisions should add ¥195 million, and increased sales to add another ¥182 million to profits. On the other hand, a factor that could lead to lower profits is an expected ¥286 million in higher fixed costs caused by the operation of a new factory. With regard to increased sales, the portion of those sales that will contribute to profits will be smaller than in the previous fiscal year, but that is because the sales growth of products for CVS, which was solid in the previous fiscal year, appears to be slowing.

Factors behind Change in Recurring Profit (Consolidated)



In overseas business, which affects equity in earnings of affiliates, Chinese business sales are expected to increase 50% y-o-y to ¥1,585 million, and they will strive to become profitable on a monthly basis in FY3/15. During the previous fiscal year, the company sent over a president for the Chinese joint venture and changed its sales method to the one developed by the company. As a result, sales have begun to increase and as demand for mayonnaise and salad has picked up in China, it should contribute to earnings in FY3/16 and beyond.

Meanwhile, the Indonesian business is now mainly producing and selling mayonnaise for household use, but it has begun selling liquid whole eggs to bakeries. It plans to expand marketing channels for commercial-use. Products of the Indonesian business have obtained Halal certification, and it will study the possibility of exporting these products to Southeast Asia and Japan from FY3/15 and thereafter. In FY3/15, the company anticipates sales of ¥400 million and seeks to become profitable on a monthly basis within the fiscal year. Equity in earnings of affiliates will continue to be in the red in FY3/15, but if all goes well, it expects to become profitable in FY3/16.

Growth Strategy

Focusing on Global Growth and Expansion of Business Domains

(1) Midterm Management Plan IV (Fourth) 2012-2014

The company is now implementing the "Midterm Management Plan IV (Fourth) 2012-2014," of which FY3/15 is the plan's final year. It has tackled five themes under the plan with the aim of "raising its business presence as a company that creates/proposes new ideas." The following is a brief presentation of the status of those efforts.

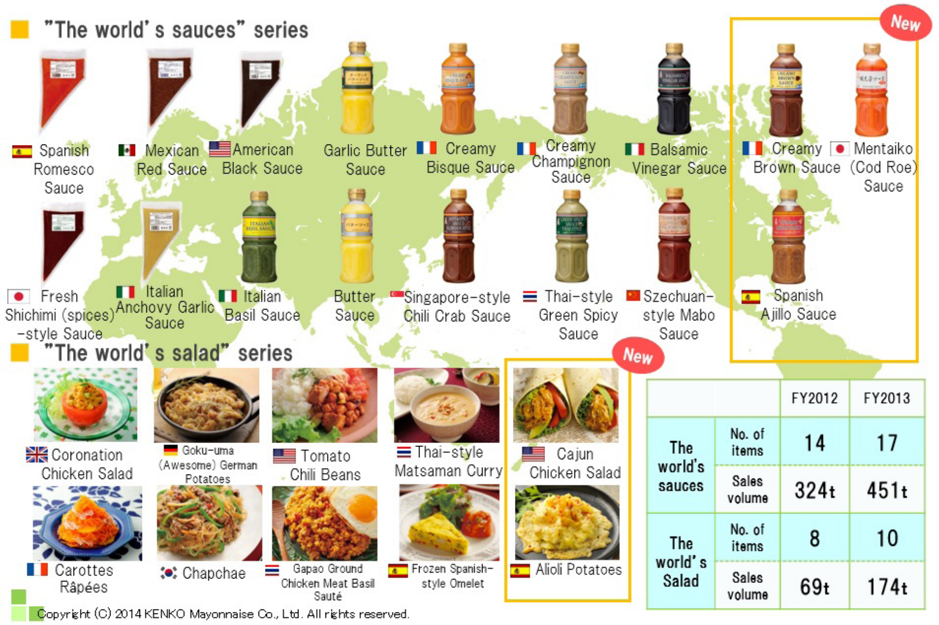
○Becoming a global company

Aiming to become a global company, KENKO Mayo has expanded business into China and Indonesia through joint ventures. From Japan, the company now exports dressings, mayonnaise, frozen foods and other products to 26 countries and regions. In FY3/13, it had export sales of ¥200 million and targets export sales of ¥500 million in FY3/15.

○Expansion of Business Domain

The company has expanded its business domain by boosting its efforts in the sauce market. By increasing the types of sauces that it offers, especially to restaurants, it expects that will lead to a broadening of its salad menu. "The world's sauces" series, developed to enhance its product lineup, has commercialized 17 sauces (as of March 2014), and grown 40% y-o-y to 451 tons on a sales by weight (sales were just over ¥300 million).

Expansion of Business Domain – the world's sauces/the world's salad



		FY2012	FY2013
The world's sauces	No. of items	14	17
	Sales volume	324t	451t
The world's Salad	No. of items	8	10
	Sales volume	69t	174t

Source: Company briefing materials

In FY3/15, as new products, the company plans to release a powdered mayonnaise and nutrient-rich products to meet today's increasing health consciousness. Also, as a new business, from December 2013, it began to produce and sell cut vegetables (packaged salads) to specific customers in Hokkaido.

○ Creating and disseminating information on "Salad Cuisine," and practicing its strategy as a company that creates/proposes new ideas

To create a salad-eating culture and to expand the salad market, the company has proposed menus based on business category through the holding of events for the food service industry, and has also focused on "salad cuisine recipes" on its corporate website. As of March 2014, it had posted on its website a total of nearly 370 recipes classified by business category and season. Its monthly page views have more than doubled from a little over 50,000 one year ago, to about 130,000 as of March 2014, which has contributed to increased product sales.

Leveraging its website

Source: Company briefing materials

○Promoting and spreading the Salad Cafe brand

Through its Salad Cafe shops, the company learns about consumer needs while raising its brand power. At present, 16 shops have been opened in major urban areas, and it plans to open stores while focusing on profitability.

○Personnel development and system enhancement

As part of its personnel development, the company will conduct hierarchical training (compulsory participation) and selective training (training for future CEO and mid-management levels) for the first time. It will also continue security workshops, e-learning and other training methods under a policy of ongoing active investment in personnel development.

The performance outlook for FY3/15 is the same as the business targets of the midterm management plan announced by the company in 2012. The company will most likely to achieve the target figures stated in the midterm plan. The new midterm business plan for FY3/16 and after will indicate more specific strategies for even greater growth in terms of approaches to overseas business and new business domains.

Main Factory for Egg Products is Completed

(2) Overview of Shizuoka-Fujisan Factory

As previously mentioned, with the HMR market poised to expand more than before due to changes in lifestyle and the progressive aging of society, demand for egg products, which are used in lunch boxes, bread, noodles and other items, is expected to continue to grow.

The company has established a dominant position in the industry with a market share of 56% for egg salad for sandwiches and for snack breads. However, in the field of baked eggs such as Atsuyaki-Tamago (rolled omelet) and Dashimaki-Tamago (flavored omelet) used as an ingredient in lunch boxes, it holds a low market share of 7%. Increasing its share in that field has been a business challenge for the company.

Dashimaki-Tamago

In an effort to achieve a higher market share in the baked egg field, the company completed construction of the Shizuoka-Fujisan Factory in March 2014 at a cost of ¥4,500 million. At this factory, a continuous production line, from breaking eggs to final product, has been built and is distinctive for creating high-quality products. Because it is a continuous production, few people are needed to operate it, which makes it more cost-competitive. Items produced on this line include Atsuyaki-Tamago, Dashimaki-Tamago, Kinshi-Tamago, Omsheet®, and scrambled eggs. There are nine continuous production lines, plus one line for semi-automated to respond promptly to sudden orders.

The company targets an annual production volume of 6,000 tons of baked eggs in 2017, but given recent brisk orders, it could achieve this target one year ahead of schedule. Since there is a part of the line that will be moved from the old factory to the new one, production at the new factory as it stands will not add to sales, but undoubtedly it will contribute to increased sales as well as the development of new customers. At the existing factories, the company posted pollution prevention expenses, but such expenses will be slashed at the new factory, which should be a positive earnings factor.

Further Sales Growth through Increased Market Share and Greater Brand Power

(3) Aiming for further sales growth

In the future, the company seeks to further expand sales. Its basic strategy for sales growth is to pursue increased market share in all of its existing businesses. In its overseas business, it wants to capture Asian market growth.

For general consumers in Japan, the company is expanding in areas where there is certain demand, by selling its "Salad Made by a Salad Pro" long-life salad series. However, it basically focuses on the commercial-use market. This is because the company's ability to propose menus and its meticulous sales support capabilities are the strongest when it demonstrates in the commercial market including restaurant, mass-retailer and CVS industries.

A future challenge for the company is how to raise its brand power. Even though it has established a solid position in the commercial-use market, brand power inevitably has some influence on developing new customers. Every autumn, the company holds a food festival in Tokyo and Osaka. Four or five years ago, it started proposing new menus with themes which could become next year's food trends and set up booths for each business category. The event has won popularity and visitors have been on the increase every year. These persistent effort/activities have surely contributed to the sales growth for the last couple of years.

Financial Status and Policy on Shareholder Returns

Financial Standing Expected to Improve

(1) Financial Status

The company's total assets as of March 31, 2014 were ¥39,686 million, up ¥5,687 million y-o-y. The largest variable factor for assets was the large increase in fixed assets following the completion of the Shizuoka-Fujisan Factory in March. Fixed assets increased ¥5,995 million compared with the end of the previous fiscal year, and ¥4,589 million of this was due to an increase in the construction in process account after the completion of the new factory.

Capital investments for FY3/14 totaled ¥6,424 including investments to increase the production capacity of subsidiaries, the largest capital investment over the past several years. Almost matching this was the increase in interest-bearing debt, and cash and deposits decreased. Net assets rose ¥1,009 million to ¥15,810 million due to an increase in retained earnings.

Management indicators revealed a temporary deterioration in its financial standing, such as a decline in the equity ratio from 43.5% to 39.8%, and a rise in the debt-to-equity ratio from 37.3% to 62.9% due to an increase in interest-bearing debt following large-scale investments, but these were all at problem-free levels. Further, the capital investment target for FY3/15 is ¥780 million and as capital investments are expected to remain at ¥1,000 million or below for some time, these indicators should improve again in FY3/15 and thereafter.

Consolidated Balance Sheet

(¥mn)

	FY3/11	FY3/12	FY3/13	FY3/14	y-o-y
Current assets	16,203	16,107	18,403	18,095	-307
(cash and deposits)	5,557	4,017	5,919	3,884	-2,035
Fixed assets	14,550	14,297	15,595	21,590	5,995
Total assets	30,753	30,404	33,998	39,686	5,687
Current liabilities	13,281	13,207	14,249	14,860	611
Fixed liabilities	4,760	3,705	4,948	9,015	4,067
(interest-bearing debt)	7,531	4,254	5,526	9,943	4,417
Total liabilities	18,042	16,912	19,197	23,876	4,678
Net assets	12,711	13,492	14,801	15,810	1,009
[Safety]					
Current ratio (current assets/current liabilities)	122.0%	122.0%	129.2%	121.8%	
Equity ratio (equity capital/total assets)	41.3%	44.4%	43.5%	39.8%	
Debt-to-equity ratio (interest-bearing debt/shareholders' equity)	59.4%	31.7%	37.3%	62.9%	
[Profitability]					
ROA (recurring profit/total assets)	8.9%	6.8%	8.0%	6.1%	
ROE (net profit/shareholders' equity)	11.2%	7.9%	10.0%	8.0%	
Operating margin	5.5%	4.1%	5.1%	4.2%	
[Efficiency]					
Total asset turnover (sales/total assets)	167.3%	169.7%	169.4%	155.5%	

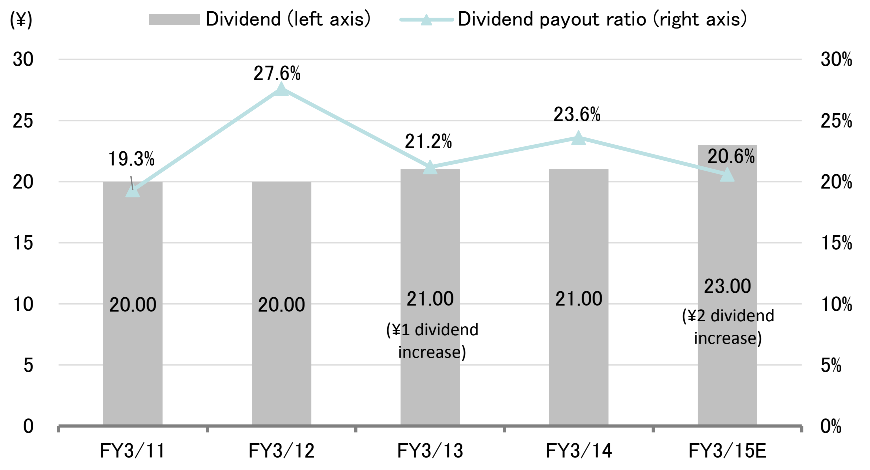
Potential for Dividend Increase Remains on the Back of Earnings Growth

(2) Shareholder Return Policy

The company's shareholder returns are cash dividend payments and special gift exclusive for shareholders. On the basis of a dividend payout ratio of 20% on a consolidated basis, and out of consideration for the continuity of dividends, its policy is to stably raising dividends in line with its increased earnings. In FY3/15, as operating results are expected to recover, the company plans to pay a dividend of ¥23, a ¥2 increase, for a dividend payout ratio of 20.6%. Therefore, if there is growth in operating results in FY3/16 and after, it is highly likely to increase cash dividends.

As a special gift to shareholders, KENKO Mayo presents the company's products as gifts to shareholders of register as of March 31. A present with a value of ¥1,000 is given to shareholders with 100 to 999 shares, while a present with a value of ¥2,500 is given to shareholders of 1,000 or more shares. The investment return per unit of shares including the shareholder special gift was 2.5% based on conversion at a share price of ¥1,009 as of July 10.

Dividend Per Share and Dividend Payout Ratio



Income Statement

(¥mn; %)

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E
Sales					
(y-o-y)	-0.9	2.5	5.1	5.1	4.7
Cost of goods sold	36,536	38,253	39,628	42,530	-
(ratio)	72.2	73.7	72.7	74.2	-
SG&A expenses	11,319	11,480	12,126	12,342	-
(ratio)	22.4	22.1	22.2	21.5	-
Operating profit	2,773	2,144	2,778	2,428	2,890
(y-o-y)	-6.0	-22.7	29.6	-12.6	19.0
(ratio)	5.5	4.1	5.1	4.2	4.8
Non-operating profit	87	80	100	148	-
Non-operating expenses	180	151	303	318	-
(equity in losses of affiliates)	-4	-20	-216	-229	-
Recurring profit	2,681	2,073	2,574	2,258	2,700
(y-o-y)	-6.0	-22.7	24.1	-12.3	19.5
(ratio)	5.3	4.0	4.7	3.9	4.5
Extraordinary profit	31	-	2	1	-
Extraordinary loss	269	83	188	45	-
Income before income taxes	2,443	1,990	2,388	2,215	-
(y-o-y)	-8.9	-18.5	20.0	-7.3	-
(ratio)	4.8	3.8	4.4	3.9	-
Corporate income tax	1,124	960	979	949	-
(effective tax rate)	46.0	48.2	41.0	42.8	-
Net profit	1,319	1,029	1,409	1,265	1,590
(y-o-y)	-8.8	-22.0	36.8	-10.2	25.6
(ratio)	2.6	2.0	2.6	2.2	2.7
[Key indicators]					
Number of shares outstanding (thousands)	14,211	14,211	14,211	14,211	14,211
Net profit per share (yen)	103.47	72.46	99.16	89.08	111.89
Dividend per share (yen)	20.00	20.00	21.00	21.00	23.00
Net assets per share (yen)	894.47	949.44	1,041.54	1,112.55	-
Dividend payout ratio (%)	19.3	27.6	21.2	23.6	20.6

Disclaimer