KENKO Mayonnaise Co., Ltd.

2915 Tokyo Stock Exchange First Section

22-Jan.-16

Important disclosures and disclaimers appear at the end of this document.

FISCO Ltd. Analyst
Yuzuru Sato

## Increasing sales in all products and markets, establishing new record highs on a half-yearly basis

KENKO Mayonnaise Co., Ltd. <2915> (hereafter "KENKO Mayo" or "the Company") is engaged in the production and sale of salads and delicatessen products, mayonnaise and dressings, as well as processed egg and other products. It has a leading position in the commercial-use market, and the leading market share in the "long-life salads" category at 37.4%. In the mayonnaise and dressings market, it is second behind the market leader Kewpie <2809> with a 14.7% share.

The Company continues to deliver sound results. In 1H FY3/16 consolidated results sales were up 10.5% y-o-y to ¥33,244mn, recurring profit was up 41.2% y-o-y to ¥1,793mn, both ahead of the plan at the beginning of the year, and establishing new record highs on a half-yearly basis. Sales were increased across all products and markets, including processed egg products, salads, mayonnaise and dressings, with a key feature of these results being this expansion on all fronts. In addition to processed egg products and small packaged long-life salads for convenience stores (herein CVS), tackling the need for "wanting to create delicious meals that are easy to prepare" for restaurants also, due to staffing shortages, led to sales expansion. From a profit perspective, rises in raw material and fixed costs were absorbed by the impact of higher sales and the increased capacity at the Shizuoka Fujisan Factory, leading to double-digit growth.

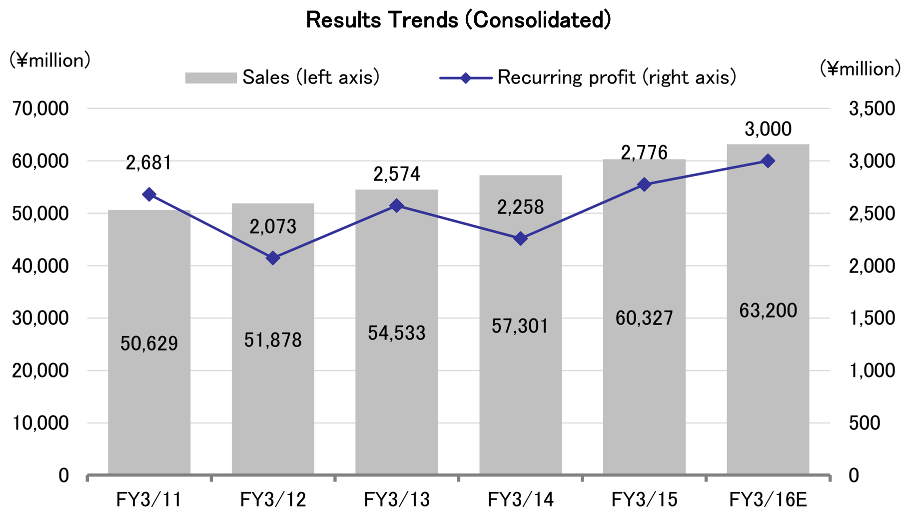
The plan from the beginning of the year was left unchanged, aiming for full-year FY3/16 sales of ¥63,200mn (up 4.8% y-o-y), and recurring profit up 8.0% y-o-y to ¥3,000mn. However, it appears that sales from October also continue to be sound, and we feel that, in the absence of any significant change in the market environment, the likelihood of an upward revision is high. In particular, processed egg products produced at the Shizuoka Fujisan Factory are also well received by customers, providing momentum to achieve full production capacity a year ahead of the initial plan. As a result, the Company is considering increasing production capacity, not only at the Shizuoka Fujisan Factory, but at all factories.

We may cite the meticulous, coordinated response by the sales, product and menu development team to customer needs, and having been able to tackle value-added proposal activities as forming the background to these sound results. In the "KENKO Five Code 2015-2017" three-year mid-term management plan that started from this period, sales of ¥75,000mn and a consolidated recurring profit margin of 5% are cited as targets for the plan's final year, FY3/18. If the current pace continues, the Company is on track to comfortably achieve these targets.

The Company's shareholder returns policy aims for stable dividend growth, with a payout ratio of 20% as a benchmark. In FY3/16 the Company again plans to increase dividends by ¥2 per share year-on-year to ¥25 (representing a payout ratio of 20.1%). Also, as a further shareholder incentive, the Company awards shareholders of record at the end of March each year with (¥1,000 or ¥2,500 worth of) its own products in line with the number of shares held.

## Check Point

- Indonesian joint venture company established, and Halal certification obtained
- 1H FY3/16 results show increased sales and earnings, setting new record highs on a half-yearly basis
- Expecting that FY3/16 recurring profit will for the first time in six periods set a record high



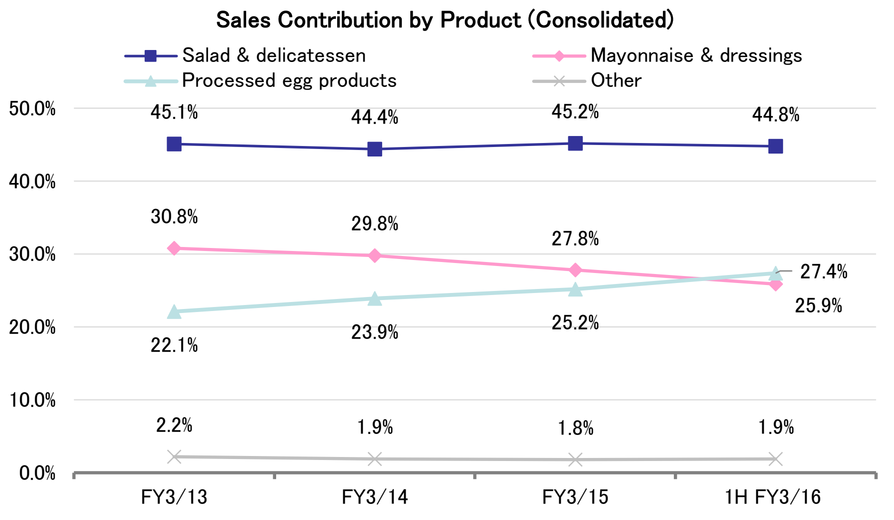

## Company Overview

### Production capacity expansion proceeding as the Shizuoka Fujisan Factory commences operations

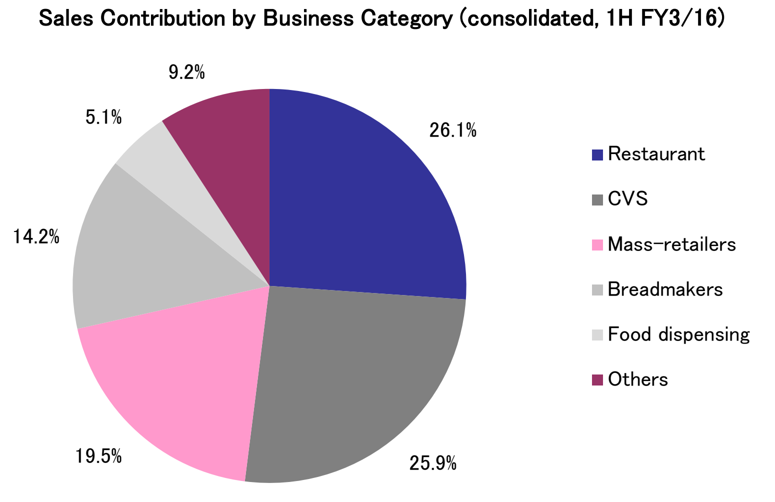
**(1) Scope of Business**

KENKO Mayo is a manufacturer of foodstuffs, mainly engaged in the production and sale of salads and delicatessen items, mayonnaise and dressings, as well as processed egg products and other products for commercial use, undertaking operations such as the production and sale of daily grocery delicatessen products, and retail store operations through subsidiaries.

Looking at the consolidated sales contribution by product in 1H FY3/16, salads and delicatessen items were the highest with 44.8%, followed by processed egg products with 27.4% and mayonnaise and dressings with 25.9%. Looking at trends in recent years, while all sales are growing, in terms of the proportion of sales, processed egg products are rising, with 1H FY3/16 being the first time that the contribution by processed egg products has overtaken mayonnaise and dressings. We may cite as the reason for this that, due to expansion in the home meal replacement market (HMR), demand is expanding for processed egg products for lunch boxes, bakery products, and sandwiches aimed at CVS. Also, from a production perspective, the commencement of operations from FY3/15 at the Shizuoka Fujisan Factory, and promotion of increased production capacity were significant.



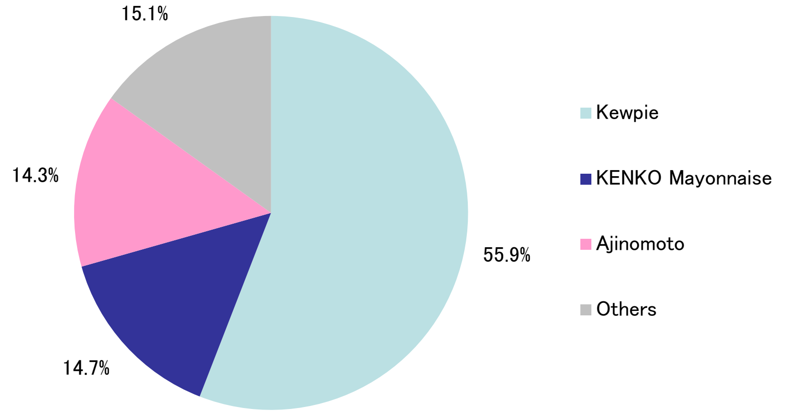

Looking at the consolidated sales composition by business category (customer industry type), we see that three industry segments represent more than 70% of the total, with the restaurant industry being 26.1%, CVS 25.9% and mass-retailers 19.5%. Looking at the trends for the past few years we see that contributions by CVS and mass-retailers are in an uptrend. Expansion in the HMR is thought to be the cause, against a background where, amongst other things, there are changes in consumer lifestyles and greater participation by women in society.




Looking at market shares within these industries, in recent years mayonnaise and dressings have performed stably at around 15%, maintaining the Company's number two position in the industry. Given that it is virtually specialized in commercial-use, while its familiarity is limited with general consumers, in the commercial-use field the Company plays sparring partner to the leading manufacturer, Kewpie, with a supply track record to most of the major restaurants and hotel chains.

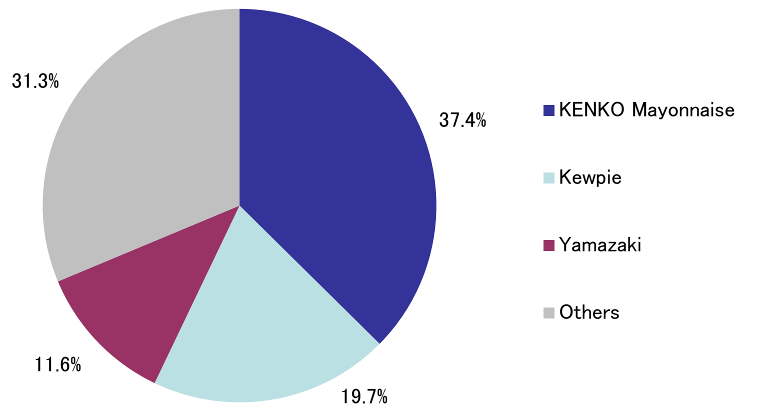
Meanwhile, the Company, the pioneer of "long-life salads," has established an industry-leading market share of over 37% in long-life salads.

Mayonnaise/Dressing Market Share (2014)




Source: NIKKAN KEIZAI TSUSHINSHA, Inc. "The Beverage & Food Statistics Monthly"

Long-Life Salad Market Share (2013)




Source: FUJI Keizai "Foodstuff Marketing Handbook"

## Indonesian joint venture company established, and Halal certification obtained

**(2) Company strengths**

The Company's strength 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.

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

KENKO Mayonnaise Co., Ltd.

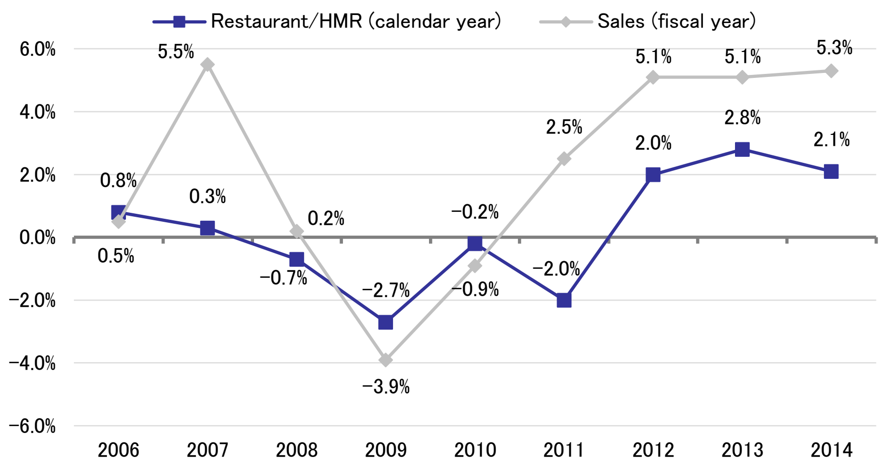
2915 Tokyo Stock Exchange First Section

22-Jan.-16

**Broad Product Lineup**


Source: Company briefing materials

**Growth rate of Restaurant/HMR Market and Company sales**




Source: Restaurant/HMR by market data from Foodservice Industry Research Institute

### (3) Production Structures, Group Subsidiaries

Currently, the Company's nationwide production system comprises 7 factories operated by the parent company and 9 factories operated by 7 consolidated subsidiaries. Subsidiary production bases are closely linked to their operating areas because they are the production bases for delicatessen-related 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 volumes.

Also, the Company's subsidiary Salad Cafe Co., Ltd. operates specialty salad restaurants. As of end-September 2015 there were 17 shops, mainly opened in department stores and supermarkets.

In terms of overseas operations, the Company established a joint venture (49% equity stake) in Indonesia with a local food producer in 2012 that began production (annual capacity of about 4,000 tons) of mayonnaise, dressings, and sauces in Autumn 2013. This factory has obtained Halal certification, and apart from home and commercial-use sales of these products locally, it is engaged in the sale of liquid eggs. Demand, in particular from Japanese-affiliated companies is so high that it has to proceed with expansion of its production capacity. From February 2015 the Company has commenced exports to Japan of its “Omayo” brand mayonnaise, which has received Halal certification, while domestically it is in the process of expanding its sales channels on a number of fronts, such as hotels and restaurants.

Because its overseas businesses operate as 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 net income (losses) of affiliates. They are included under Other Businesses in the consolidated business segments.

**Affiliates (% Capital Contribution & Scope of Operations)**

| 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 affiliates | | |
| PT. Intan Kenkomayo Indonesia | 49.0 | Mayonnaise, dressings and sauces production and sales |

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

# ■ Results Trends

## 1H FY3/16 results show increased sales and earnings, setting new record highs on a half-yearly basis

### (1) 1H FY3/16 Financial Highlights

Consolidated 1H FY3/16 results, which were announced on November 9, showed solid performance with sales up 10.5% y-o-y at ¥33,244mn, operating profit up 31.0% y-o-y at ¥1,826mn, recurring profit up 41.2% y-o-y at ¥1,793mn and net profit up 106.7% y-o-y at ¥1,522mn, establishing a record high on a half-yearly basis.

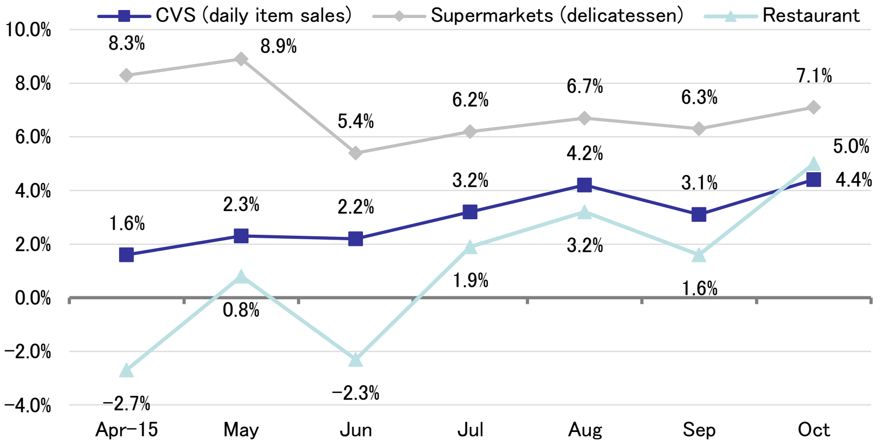
**Consolidated 1H FY3/16 Results**

(¥mn)

| | 1H FY3/15 | | 1H FY3/16 | | | | |
|---|---|---|---|---|---|---|---|
| | Actual | % Sales | Initial plan | Actual | % Sales | y-o-y | vs Plan |
| Sales | 30,091 | - | 31,900 | 33,244 | - | 10.5% | 4.2% |
| Gross profit | 7,728 | 25.7% | - | 8,596 | 25.9% | 11.2% | - |
| SG&A expenses | 6,334 | 21.0% | - | 6,770 | 20.4% | 6.9% | - |
| Operating profit | 1,394 | 4.6% | 1,790 | 1,826 | 5.5% | 31.0% | 2.0% |
| Recurring profit | 1,270 | 4.2% | 1,730 | 1,793 | 5.4% | 41.2% | 3.7% |
| Net profit | 736 | 2.4% | 1,020 | 1,522 | 4.6% | 106.7% | 49.2% |

Looking at restaurant, CVS and supermarket industry trends, which form the Company's major target markets, there is a gradual recovery trend for the industry overall. Despite Izakaya (Japanese-Style restaurant-bar)'s continuing to struggle, family restaurants, fast food and other outlets, due also to the impact of inbound demand, performed well. Further, in respect of sales of daily items for CVS also, on an existing store basis, sales are performing soundly up 2-4% year-on-year. This is due to the proliferation of solitary dining as a result of lifestyle changes and greater participation by women in society, against a backdrop of expanding demand for lunch- boxes, sandwiches, salads and other items. Given that the statistics only announce existing store data, we feel on a total store basis the rise would be 5% or more. For the same reasons, this suggests that the pace of delicatessen items sales at supermarkets also continue to exceed 6% year-on-year, and underlying expansion in the HMR market continues.

Major Markets Monthly Sales Trends (y-o-y)




Source: restaurants (Japan Food Service Association), supermarkets (Japan Supermarket Association), CVS (Japan Franchise Association) CVS data shows in existing store base

While the fact that the industry environment itself is also sound forms a backdrop to the Company's solid results, the Company's sales growth rate exceeds that of the industry overall and we may cite, as major reasons for this solid performance, new customer acquisition and the promotion of expansion in the share of business it enjoys with existing customers as a result of engaging in new product proposals that meet customer needs.

Looking at the Company's sales by business category, apart from CVS, which at about 30% up year-on-year, grew the most, all business category had higher revenues including restaurants, mass-retailers, and bread makers. In the restaurant industry in particular, amidst a worsening in staff shortages, the need for "wanting to provide delicious meals that are easy to prepare" is rising, with the ability to make product proposals that match this need leading to increased sales. In the Izakaya industry also, that continues to struggle, the Company is expanding its share of business, focusing on salads, and with increased sales year-on-year is arguably performing well.

Looking at factors behind fluctuations in recurring profit, ¥380mn from increased sales, and ¥441mn from efficiency enhancements, underpinned by higher utilization rates at the Shizuoka Fujisan Factory, were factors tending to increase earnings, while on the other hand, ¥202mn in raw material cost fluctuations, mainly due to the impact of soaring egg prices, and ¥96mn in higher fixed costs due to reductions in entrenched overheads and other costs, including IT investment, were factors tending to lower earnings.

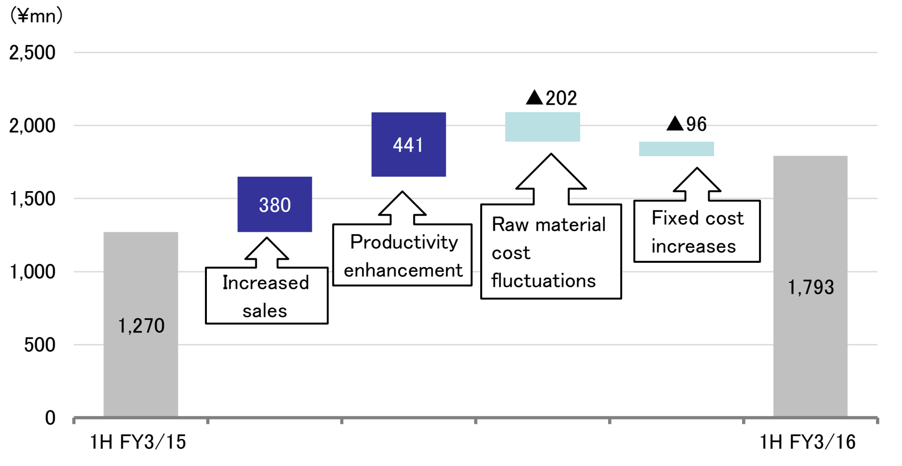
Moreover, as a result of the Company selling all of its shares in two affiliates in China in 1Q, and recording ¥190mn of gains on sales in extraordinary profits, the quarterly net profit grow rate rose.

FISCO

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

22-Jan.-16

Factors for Fluctuations in Recurring Profit




## Delicatessen-related business increased significantly, with the promotion of new take-ups of basic products by mass-retailers

**(2) Trends by Business Segment**

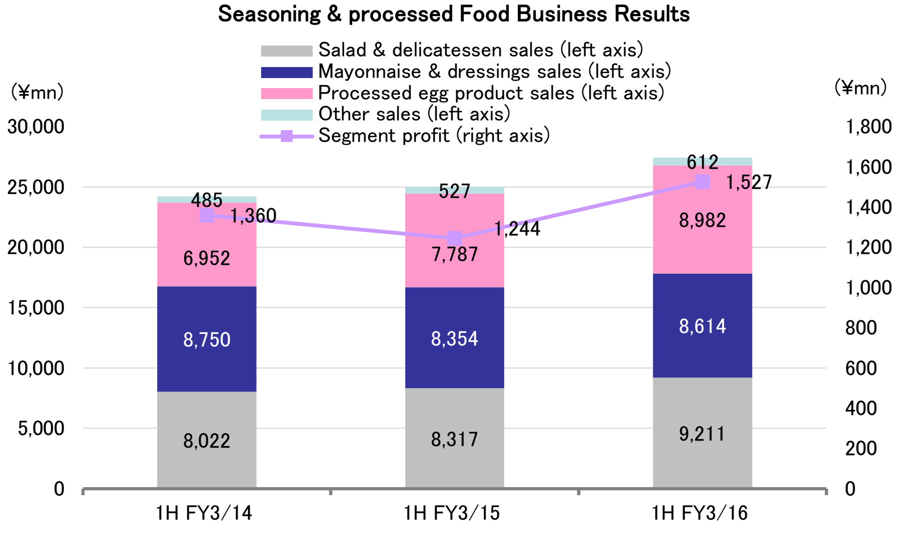
○ **Seasoning/Processed Food Business**
Sales in the seasoning and processed food business rose 9.7% y-o-y to ¥27,419mn, with segment profit rising 22.7% y-o-y to ¥1,527mn.

Looking at sales trends by item, salads and delicatessen items rose 10.7% y-o-y to ¥9,211mn (sales volumes rose 7.9%), mayonnaise and dressings rose 3.1% y-o-y to ¥8,614mn (sales volumes rose 6.4%), processed egg products rose 15.3% y-o-y to ¥8,982mn (sales volumes rose 13.1%), with all performing soundly. Looking at pricing per unit volume, only mayonnaise and dressings declined due to the impact of increased weighting in bulk size commercial-use mayonnaise sales.

In processed egg products, the flavor and quality of the Souzaitei® series, produced at the Shizuoka Fujisan Factory is rated highly, and a major factor for sound sales. By industry, apart from items such as egg salads for sandwiches and delicatessen bakery products, Atsuyaki (thick omelet) for lunchboxes, and Kinshi-tamago for noodles performing well, with Atsuyaki and Dashimaki (Japanese rolled omelet with broth) tamago for conveyor-belt sushi chains driving new customer acquisition, there was significant growth in revenues. At the Shizuoka Fujisan Factory, orders continue to be sound and with, amongst other things, some production lines approaching full 24 hour capacity, there is momentum to achieve full operational capacity a year ahead of the initial plan, which sought to achieve this in three years from commencing operations in March 2015.

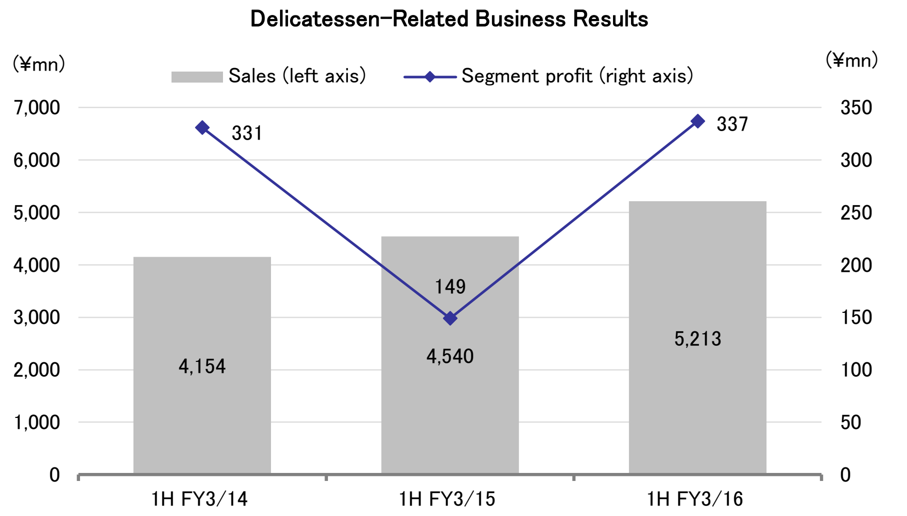
In salads and delicatessen items, small packaged long-life salads grew significantly by approximately five times year-on-year. Given that the use by date is long at 45-60 days and with one meal per package they are easy to purchase, apart from private label sales expanding significantly at CVS, sales under the Company's proprietary brand are also performing well. Further, items utilizing ingredients in basic products such as potato salad and tuna salad, have had new take-up for mainly restaurants, CVS and bread makers, which is also a factor behind increased revenues.

In mayonnaise and dressings, apart from promoting new take-up of mayonnaise for bread makers, sales of mayonnaise for commercial-use in the 1kg format increased. Further, in sauces, with amongst other things the addition of two new products to the "World Sauces" series, there was steady 13% year-on-year expansion, mainly in the restaurant industry.




○ **Delicatessen-Related Business**

Delicatessen-related business sales rose 14.8% y-o-y to ¥5,213mn, with segment profits up 125.6% y-o-y to ¥337mn. Apart from promotion of new take-up for basic products for mass-retailers, such as potato salad, macaroni salad and spaghetti salad, as a result of cut vegetables, which are limited to the Hokkaido region, also performing well, there was double-digit growth in sales. Considering that delicatessen sales in the supermarket industry grew more than 6%, this suggests that the Company's market share is expanding steadily. It is perceived that having optimal potatoes for its potato salad, grown in cooperation with, and supplied by contracted farmers, allows it to differentiate itself in terms of flavor and quality, leading to expansion in market share. From a profit perspective, there had been a decline due to vegetable prices soaring year-on-year, however, in this quarter, as a result of the promotion of productivity enhancement at each location and the impact of higher revenues, profits are recovering.



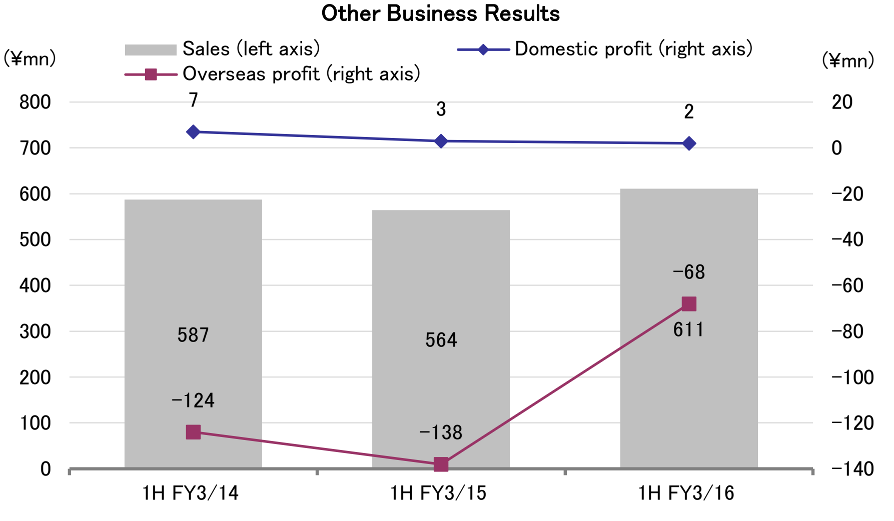
FISCO

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

22-Jan.-16

**○ Other Businesses**
Other business, in addition to revenue from the Company's specialty salad shops, Salad Café, operated by its subsidiary, Salad Café, Inc., includes in profits equity in net income (losses) of affiliates from overseas operations. Sales rose 8.3% y-o-y to ¥611mn, with a segment loss of ¥66mn (compared to a segment loss of ¥134mn for the same period a year earlier).

Although at 17 Salad Café store numbers were the same as those in this period a year earlier, sales performed soundly with heightened health consciousness. From a profit perspective, it maintains a modest profit. On the other hand, in respect of overseas business, as a result of the disposal of Chinese affiliates in 1Q, equity in net losses in affiliates declined from ¥138mn a year earlier to ¥68mn. In respect of Indonesian operations, local sales of mayonnaise and liquid eggs are expanding, and while it is now profitable on a standalone monthly basis, it will not be in the black on a cumulative 1H basis.




## Improvement in the Company's financial status continues, with the interest-bearing debt ratio in a downtrend

**(3) Financial Condition**

Looking at the financial condition at the end of September 2015, total assets rose ¥837mn since the end of the previous fiscal period to ¥40,286mn. Within current assets, cash and deposits grew by ¥1,636mn and notes and accounts receivable by ¥1,040mn, while other current assets declined by ¥931mn. Further, within fixed assets, apart from tangible fixed assets declining ¥298mn, investments and other assets declined ¥578mn due to the disposal of shares in affiliates.

Total liabilities declined ¥274mn from the end of the previous period to ¥21,206mn. Notes and accounts payables rose ¥1,197mn, however, a steady reduction in interest bearing liabilities proceeded, as they declined by ¥1,026mn. Further, net assets rose ¥1,112mn from the end of the previous period to ¥19,080mn, as a result of increases in retained earnings.

Looking at management indicators, the shareholders' equity ratio rose 1.9% from the end of the previous period to 47.4%, steadily approaching the mid-term management plan target of 50%. The interest-bearing debt ratio is also in a downtrend, so arguably the financial condition has further improved.

FISCO

KENKO Mayonnaise Co., Ltd.

2915 Tokyo Stock Exchange First Section

22-Jan.-16

**Consolidated Balance Sheet**

(¥mn)

| | FY3/13 | FY3/14 | FY3/15 | 1H FY3/16 | Change |
|---|---|---|---|---|---|
| Current assets | 18,403 | 18,095 | 18,704 | 20,449 | 1,744 |
| (cash and deposits) | 5,919 | 3,884 | 4,778 | 6,414 | 1,636 |
| Fixed assets | 15,595 | 21,590 | 20,744 | 19,836 | -907 |
| Total assets | 33,998 | 39,686 | 39,448 | 40,286 | 837 |
| Current liabilities | 14,249 | 14,860 | 14,422 | 15,138 | 716 |
| Fixed liabilities | 4,948 | 9,015 | 7,058 | 6,067 | -991 |
| (interest-bearing debt) | 5,526 | 9,943 | 8,584 | 7,558 | -1,026 |
| Total Liabilities | 19,197 | 23,876 | 21,481 | 21,206 | -274 |
| Total Net Assets | 14,801 | 15,810 | 17,967 | 19,080 | 1,112 |
| (Safety) | | | | | |
| Current ratio | 129.2% | 121.8% | 129.7% | 135.1% | |
| Equity ratio | 43.5% | 39.8% | 45.5% | 47.4% | |
| Interest-bearing debt ratio | 37.3% | 62.9% | 47.8% | 39.6% | |

## ■ Future Outlook

### Expecting that FY3/16 recurring profit will for the first time in six periods set a record high

**(1) Results Outlook for FY3/16**

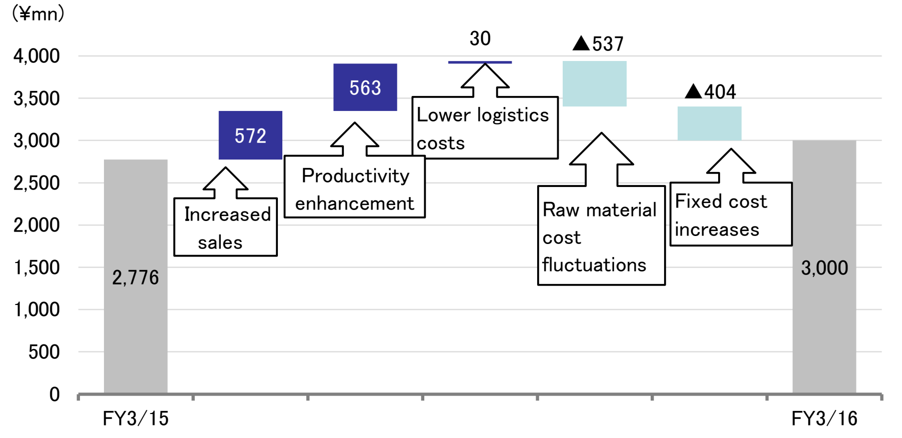
FY3/16 full-year targets remain unchanged from the plan at the beginning of the period, with sales up 4.8% y-o-y to ¥63,200mn, operating profit up 1.6% y-o-y to ¥3,050mn, recurring profit up 8.0% y-o-y to ¥3,000mn, and net profit up 7.8% y-o-y to ¥1,770mn. The factors behind fluctuations in recurring profit include ¥572mn from the impact of greater revenues, ¥563mn from enhanced production efficiency, and ¥30mn in reduced logistics costs as factors boosting earnings, and ¥537mn in increased raw material costs, and ¥404mn in increased fixed costs (staff costs, IT investment etc.) as factors reducing earnings. However, apart from the rate of progress through to 1H for sales and recurring profit, at 52.6% and 59.8%, exceeding the plan from the beginning of the period, given no change in sound underlying sales from October onwards, we feel that the likelihood of an upward revision sooner or later is high, with recurring profit expected to set a record high for the first time in six periods (after recording ¥2,853mn in FY3/10).

**Results Outlook for FY3/16**

(¥mn)

| | FY3/15 | | FY3/16 | | | |
|---|---|---|---|---|---|---|
| | Actual results | % Sales | vs Plan | % Sales | y-o-y | vs 1H plan |
| Sales | 60,327 | - | 63,200 | - | 4.8% | 52.6% |
| Operating profit | 3,001 | 5.0% | 3,050 | 4.8% | 1.6% | 59.9% |
| (equity in net income (losses) of affiliates) | -246 | -0.4% | - | - | - | - |
| Recurring profit | 2,776 | 4.6% | 3,000 | 4.7% | 8.0% | 59.8% |
| Net profit | 1,642 | 2.7% | 1,770 | 2.8% | 7.8% | 86.0% |

Factors for Fluctuations in Recurring Profit




Within this framework, how the Company will proceed with strengthening production capacity for processed egg products, salads, delicatessen and other items for which sales are currently sound, is a key point of interest. The Company is currently at the stage of considering strengthening capacity in respect of the Shizuoka Fujisan Factory and other domestic production bases, and we understand that within this fiscal period the plan for strengthening capacity from next period onwards will crystallize to some extent. Further, at some of the other production bases, certain production equipment is becoming obsolete, and the Company is considering introducing new lines with high productivity as well as refurbishing the buildings. For this reason, the possibility of a one-off expensing against this obsolete equipment by the Company in FY3/16 is also conceivable. Either way, underlying conditions continue to be sound, and we may expect a continuation in core results expansion as the Company promotes new customer acquisition and also expansion in the share of business with existing customers going forward.

**Plan to Strengthen Production Bases Towards Fiscal 2017**

| Mayonnaise & dressings business | Salad & delicatessen business |
|---|---|
| Enhancing flavor & quality, extending use by dates, changing packaging, and flexible format responses (multi-refill) | Long-life salad line small package response<br>Multi-product production responses |

| Potato business | Egg business |
|---|---|
| Potato salad production line response to cater for all packaging sizes | Strengthening baked egg production lines at the Shizuoka Fujisan Factory<br>Strengthening freezer facilities and scrambled egg lines |

Source: Company results briefing materials

The outlook for full-year sales by reported segment calls for 4.2% y-o-y growth in seasonings and processed foods, 7.7% in delicatessen-related businesses, and 4.3% in other businesses, however, from the rate of progress as of 1H it is likely that all segments will exceed plan. “Engaging in the strengthening of initiatives by industry and business” and “Augmenting the product line-up” may be cited as the two key initiatives for 2H.

**Sales by Segment**

(¥mn)

| | FY3/13 | FY3/14 | FY3/15 | FY3/16 E | Growth rate |
|---|---|---|---|---|---|
| Seasonings & Processed foods | 45,894 | 47,541 | 49,733 | 51,829 | 4.2% |
| Salads & Delicatessen | 16,081 | 15,866 | 16,758 | 17,061 | 1.8% |
| Mayonnaise & Dressings | 16,820 | 17,093 | 16,771 | 16,783 | 0.1% |
| Processed Egg products | 11,986 | 13,567 | 15,115 | 16,878 | 11.7% |
| Others | 1,007 | 1,015 | 1,089 | 1,107 | 1.7% |
| Side-Dish-Related Business | 7,526 | 8,586 | 9,419 | 10,145 | 7.7% |
| Other Business | 1,113 | 1,173 | 1,175 | 1,225 | 4.3% |
| Total | 54,533 | 57,301 | 60,327 | 63,200 | 4.8% |

In engaging in the strengthening of initiatives by industry and business type, the Company will promote expansion of sales channels and product formats that meet market needs. For processed egg products, the policy will be to acquire customers not only for CVS, but also for the restaurant industry. Further, for small, packaged long-life salads, that continue to perform well, the Company is planning to introduce new products for mass-retailers and CVS, and expects a further rise in sales from 2H.

In respect of augmenting the product line-up, apart from promoting the strengthening of product series, such as the World Salad, World Sauce and WASAI BANSAI ® series, there are plans for a "World Traveler Dressings ™ series. Sales of the first product entry, "Sylter style ™ Dressing" have commenced. This product is a dressing made to envisage the German resort area of Sylt island, and reproduces a dressing which is popular in Germany. Additionally, the Company is promoting expansion of functional foods. From 2H apart from commencing sales of a sausage-shaped potato salad that can be readily eaten with one hand, "Vegeso ™ Smoked Potato", it is also promoting the development of products in response to demand for softer foods.

## Mid-term management plan targets of ¥75bn in sales and ROE of 8% or above maintained

**(2) Three-Year Mid-Term Management Plan**

The Company has started a new three-year Mid-term Management Plan, "KENKO Five Code 2015-2017" from fiscal 2015. In terms of specific management indicators it aims for consolidated sales of ¥75bn, a consolidated RP margin of 5%, a shareholders' equity ratio of 50% and to maintain an ROE of 8% or above in FY3/18.

**KENKO Five Code 2015-2017**

| | FY3/15 | FY3/18 |
|---|---|---|
| Consolidated sales | 60,327 | 75,000 |
| Consolidated RP margin | 4.6% | 5% |
| Shareholders' equity ratio | 45.5% | 50% |
| ROE | 9.6% | 8% or above |

The market environment, amidst a shift in the style of meals at home in the direction of individuality and simplicity, due to the rise of single member households, evolution in the nuclear family and greater participation by women in society, anticipates going forward also expanded growth in the HMR market, which is one of the Company's major markets. Further, with recent rises in health consciousness and the arrival of Japanese cuisine booms domestically and overseas, and also increases in the number of foreign tourists as we head towards the hosting of 2020 Tokyo Olympics and Paralympics, it is expected that for the time being the Company's operating environment will remain favorable, and arguably its operating target figures are at comfortably achievable levels. Under the mid-term management plan, initially an increased sales contribution from MA was expected, however, judging by the current momentum, even in the absence of M&A, the Company is on track to be able to achieve ¥75bn in net sales. That said, the Company continues to consider M&A, with target companies being those which may be expected to offer synergies with existing operations domestically. Further, within business strategies aimed at achieving the mid-term management plan, the Company is tackling the following three major initiatives.

○ **Establishing our position as the Leading Company in Salads**
In order to establish its position as the Leading Company in Salads the Company's policy is to expand the scope of sales in its various existing businesses. For its FY3/18 sales target, the Company plans for 19% growth in its mayonnaise and dressings business, 14% growth in its salads and delicatessen business, 19% growth in its potato business and 23% growth in its egg business over FY3/15 actual results.

In its egg business, which is expected to have the highest rate of growth, as noted above, given that performance is sound to the extent that production lines are already fully utilized, we feel the Company will progress expansion of the Shizuoka Fujisan Factory. In respect of its mayonnaise and dressings business, apart from promoting the development of product series, such as the World Sauces series, the Company will expand sales by developing functional products, expanding export products and other initiatives. In its salads and delicatessen business the Company will promote the strengthening of the World Salad series and the WASAI BANSAI® series, and promote product development including also softer foods for the elderly. In its potato business apart from strengthening products that meet market needs (such as potatoes that are pre-prepared for commercial usage), the strategy is to expand sales by implementing menu proposals where potato salad forms the main dish, while spurring an invigoration of the potato salad market.

○ **Further evolving of “Salad Cuisine”**
Toward further evolution of Salad Cuisine the Company is strengthening KENKO Mayonnaise Group structures. The Group will continue to broadcast Salad Cuisine utilizing the media at KENKO Mayonnaise parent. In addition, at subsidiaries that manufacture and sell daily items, the Group will expand its sales market share to local mass-retailers, strengthening product development and its menu proposal capabilities. Furthermore, the Group will increase the number of its Salad Cafe shops, and will undertake expansion of salad cuisine tutorials.

○ **Strengthening the management platform to proactively promote expansion into global markets**
As part of its global expansion the Company has newly established a research office in Vancouver, Canada in July 2015. Given that Vancouver is a region with racial diversity and strong health consciousness, and where there is also an abundance of relevant foodstuffs, the Company entered this market as the optimal place to gather information on food trends. In the future, the Company aims to provide new food culture information and undertake product development as a market player, based on information collected at this office location.

Further, the Company will also promote strengthening of Halal certified products. Along with the mayonnaise type “Omayo” from the Indonesian factory, the Company commenced imports of frozen fish patties and frozen fried fish produced by its joint venture partner from November 2015.

In respect of exports, while ¥350mn worth of exports are expected in FY3/16, the Company targets ¥1,000mn in FY3/18. Currently, as of September 2015 the Company is selling mayonnaise and dressings in 33 countries and regions, and plans to expand exports of processed egg products and long-life salads in the future. Overseas, as there is also a Japanese cuisine boom, there is also increased activity among Japanese-affiliated restaurants in penetrating these markets, so arguably the Company’s room for growth is substantial.

## ■ Shareholders Return Policy

### Expecting further dividend increases if the payout ratio falls below 20%

The Company’s shareholder returns are cash dividend payments and special gifts exclusive to shareholders. On the basis of a dividend payout ratio of 20% on a consolidated basis, and taking into consideration the continuity of dividends, its policy is to stably raise dividends in line with increased earnings. In FY3/16 the Company plans to pay a dividend of ¥25, a ¥2 increase year-on-year (representing a dividend payout ratio of 20.1%). However, if the dividend payout ratio falls below 20% as a result of net profit exceeding forecasts, we may expect a further increase in dividends.

FISCO

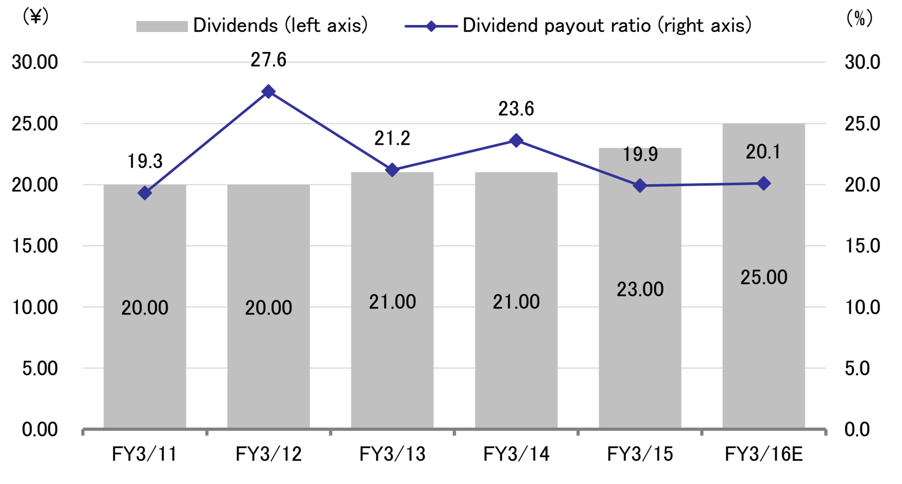
KENKO Mayonnaise Co., Ltd.

2915 Tokyo Stock Exchange First Section

22-Jan.-16

At the same time, 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 at about 1.5% mark based on conversion at a share price of ¥2,267 as of December 22.

**Dividend Per Share and Dividend Payout Ratio**




**Consolidated Income Statement**

(¥mn; %)

| | FY3/12 | FY3/13 | FY3/14 | FY3/15 | FY3/16 E |
|---|---|---|---|---|---|
| Sales | 51,878 | 54,533 | 57,301 | 60,327 | 63,200 |
| (y-o-y) | 2.5 | 5.1 | 5.1 | 5.3 | 4.8 |
| Cost of goods sold | 38,253 | 39,628 | 42,530 | 44,608 | |
| (% Sales) | 73.7 | 72.7 | 74.2 | 73.9 | |
| SG&A expenses | 11,480 | 12,126 | 12,342 | 12,717 | |
| (% Sales) | 22.1 | 22.2 | 21.5 | 21.1 | |
| Operating profit | 2,144 | 2,778 | 2,428 | 3,001 | 3,050 |
| (y-o-y) | -22.7 | 29.6 | -12.6 | 23.6 | 1.6 |
| (% Sales) | 4.1 | 5.1 | 4.2 | 5.0 | 4.8 |
| Non-operating profit | 80 | 100 | 148 | 154 | |
| Non-operating expenses | 151 | 303 | 318 | 378 | |
| (Equity in net income (losses) of affiliates) | -20 | -216 | -229 | -246 | |
| Recurring profit | 2,073 | 2,574 | 2,258 | 2,776 | 3,000 |
| (y-o-y) | -22.7 | 24.1 | -12.3 | 22.9 | 8.0 |
| (% Sales) | 4.0 | 4.7 | 3.9 | 4.6 | 4.7 |
| Extraordinary profit | - | 2 | 1 | 97 | |
| Extraordinary losses | 83 | 188 | 45 | 80 | |
| Income before income taxes | 1,990 | 2,388 | 2,215 | 2,793 | |
| (y-o-y) | -18.5 | 20.0 | -7.3 | 26.1 | |
| (% Sales) | 3.8 | 4.4 | 3.9 | 4.6 | |
| Corporate income tax | 960 | 979 | 949 | 1,151 | 1,230 |
| (effective tax rate) | 48.2 | 41.0 | 42.8 | 41.2 | 41.0 |
| Net profit | 1,029 | 1,409 | 1,265 | 1,642 | 1,770 |
| (y-o-y) | -22.0 | 36.8 | -10.2 | 29.8 | 7.8 |
| (% Sales) | 2.0 | 2.6 | 2.2 | 2.7 | 2.8 |
| [Key indicators] | | | | | |
| Number of shares outstanding (thousands) | 14,211 | 14,211 | 14,211 | 14,211 | 14,211 |
| Net profit per share (¥) | 72.46 | 99.16 | 89.08 | 115.57 | 124.55 |
| Dividend per share (¥) | 20.00 | 21.00 | 21.00 | 23.00 | 25.00 |
| Net assets per share (¥) | 949.44 | 1041.54 | 1,112.55 | 1,264.38 | - |
| Dividend payout ratio (%) | 27.6 | 21.2 | 23.6 | 19.9 | 20.1 |

## Disclaimer