# KENKO Mayonnaise Co., Ltd.

2915 Tokyo Stock Exchange First Section

24-Jan.-17

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## FY3/17 1H results were strong and exceeded their initial targets

KENKO Mayonnaise Co., Ltd. <2915> (hereafter, “KENKO Mayo” or “the Company”) is engaged in the production and sale of salads and delicatessen items, mayonnaise and dressings, as well as processed egg and other products. It holds a leading position in the commercial-use market and the leading market share in the “long-life salads” category at 37.6%. It has a 14.7% share of the mayonnaise and dressings market, second behind the market leader Kewpie <2809>.

The FY3/17 1H (April to September 2016) consolidated results were strong, with net sales increasing 8.3% year-on-year (y-o-y) to ¥36,009mn and recurring profit rising 38.8% to ¥2,490mn, both exceeding their initial Company forecasts. Leveraging its strengths of providing detailed menu proposals tailored to specific industries and formats and its product development capabilities, sales grew steadily for a variety of products, including processed egg products, salads and delicatessen items, and mayonnaise and dressings. Also, the consolidated recurring profit margin rose 1.5 percentage points, which was due to the favorable sales of high value-added products, including small-package long-life salads, and in addition from the effects of reductions in the costs of raw materials and logistics, and also improved productivity at consolidated subsidiaries.

The forecasts for the FY3/17 consolidated results are for net sales to increase 5.8% y-o-y to ¥70,800mn and recurring profit to rise 22.6% to ¥4,200mn, which will once again be record highs. The initial forecasts have been upwardly revised, by ¥800mn for net sales and ¥700mn for recurring profit, but this is simply the addition of the amounts that the forecasts were exceeded in 1H, so the initial forecasts for 2H have basically been left unchanged. The reason for this is that vegetable prices continue to soar due to the impact of the summer typhoons and unseasonable weather, so the costs of procuring raw materials are expected to rise in 2H.

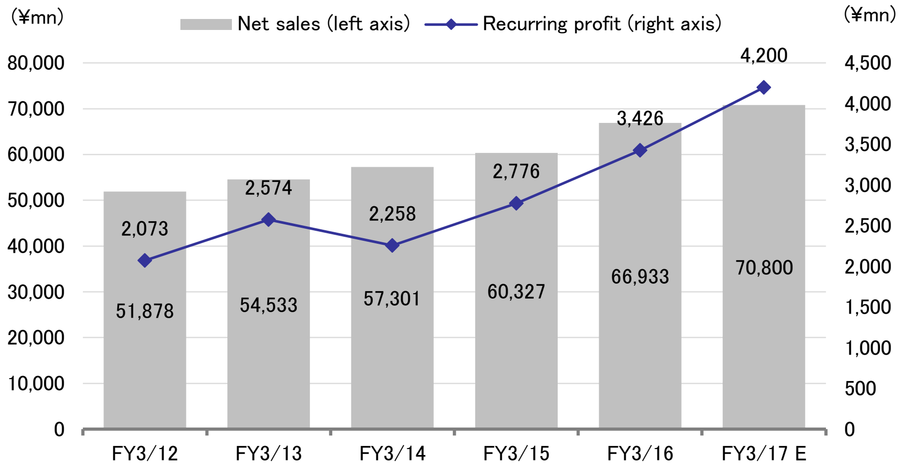
On November 7, 2016, the Company newly announced its concept for the Group’s production bases toward growth from FY3/19 onwards. Specifically, it is to expand production facilities at its Shizuoka Fujisan Factory, which is the production base for processed egg products, and at its Nishi-Nihon Factory, which is the production base for long-life salads and dressings, and in addition, it will build two new factories for its subsidiaries that produce delicatessen items. Operations are scheduled to start by March 2019 and the total investment amount will be more than ¥15bn.

The Company’s shareholder returns policy is based on stable dividends, with a payout ratio of 20% as the benchmark. It plans to raise dividends by ¥2 y-o-y to ¥30 in FY3/17, but as this represents a dividend payout ratio of 15.9%, we can expect an additional dividend hike if earnings meet forecasts. Also, as a further shareholder incentive, the Company awards shareholders registered at the end of March of each fiscal year with (¥1,000 or ¥2,500 worth of) its own products according to the number of shares held.

## Check Point

- Small-package long-life salads continue to maintain their strong results
- The shareholders’ equity ratio rose to 47.2% and is drawing steadily closer to the medium-term target of 50%
- Outlook is for the sixth consecutive period of increased sales and continued record-high profits

Results trends (consolidated)




## Company Overview

### Sales of salads, delicatessen products, and egg products are increasing

**(1) Scope of Business**

KENKO Mayo is a manufacturer of foodstuffs and is 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. It also undertakes operations such as the production and sale of daily grocery delicatessen products and retail store operations through its subsidiaries.

Looking at the contributions to consolidated net sales by product in FY3/17 1H, salads were the highest with 43.4%, followed by egg products with 30.0%, and mayonnaise and dressings with 24.6%. Looking at trends in recent years, salads and delicatessen items and egg products have been trending upward, while mayonnaise and dressings have been flat. The factors behind the higher sales of egg products include that due to the expansion of the home meal replacement market (HMR), demand is expanding for processed egg products for lunch boxes, bakery products, and sandwiches, mainly for convenience stores (hereafter, CVS). In addition, the strong sales are being driven by the start of operations in FY3/14 at the Shizuoka Fujisan Factory and the resulting expansion of production capacity, and also the steady acquisition of new customers from the food services industry and elsewhere thanks to the favorable assessment of quality at this factory.

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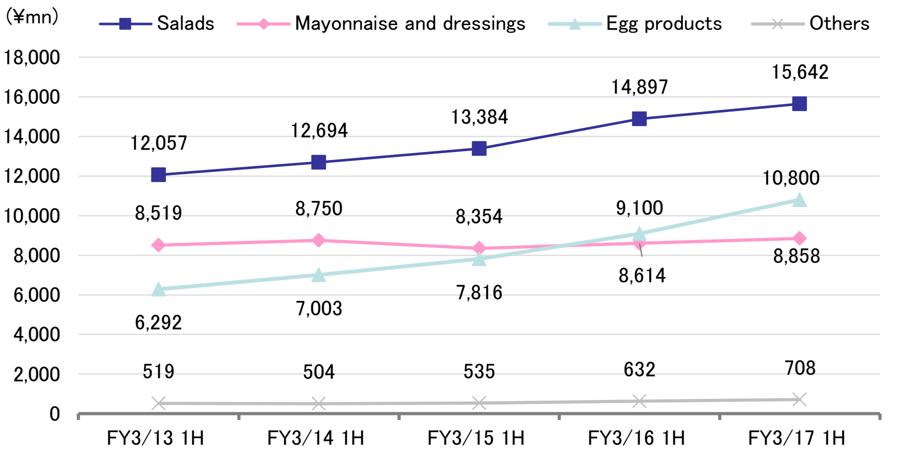
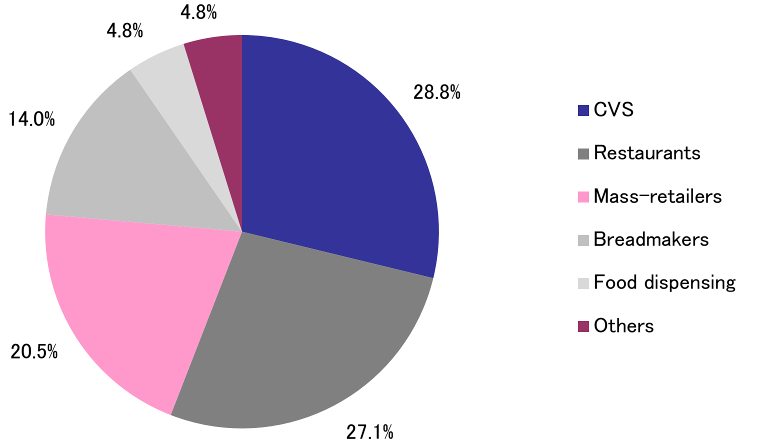
Trends in net sales by product (consolidated)




Source: the Company's briefing materials

Looking at the contributions to consolidated sales by business category (customer industry type), we see that three industry segments contribute more than 70% of the total, with CVS providing 28.8%, the food services industry 27.1%, and mass-retailers 20.5%. Looking at the trends for the past few years, we find that contributions by CVS and mass-retailers have been trending upward, and particularly in the FY3/17 1H results, CVS exceeded the food services industry. The expansion of the HMR market is thought to be due to the trend toward more "solitary meals" with the rise in single-person households and the "simplification" of cooking at home due to changes such as the shift to nuclear families and the greater participation of women in society, such as more working women.

Sales Contributions by Business Category (consolidated, FY3/17 1H)

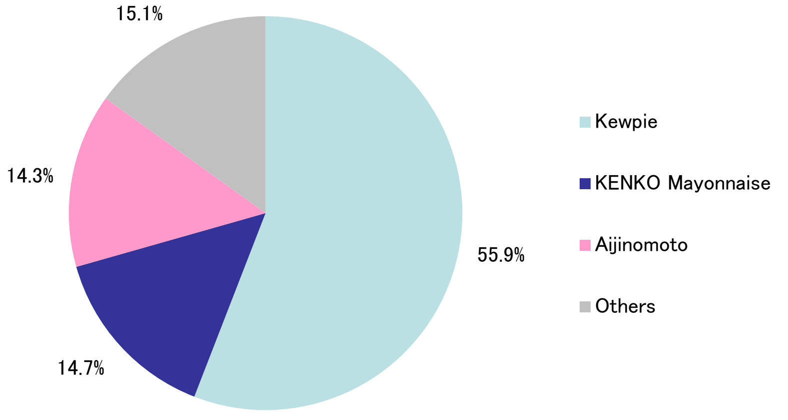



Source: the Company's briefing materials

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 virtually specializes in commercial-use products, while its familiarity with general consumers is limited, in the commercial-use field the Company competes for top position with the leading manufacturer Kewpie, and has a track record of supplying many major restaurants and hotel chains.

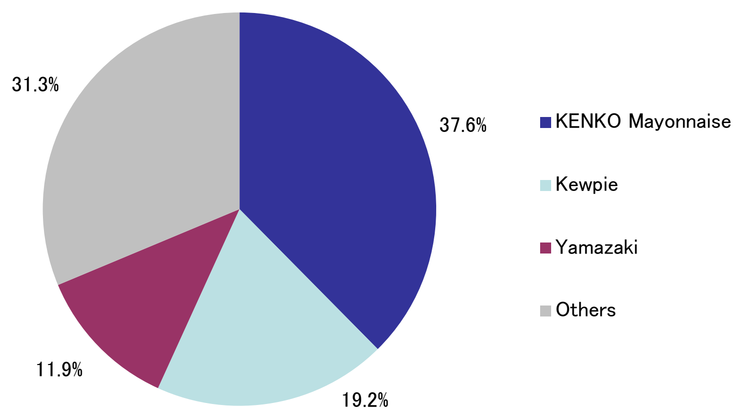
Meanwhile, the Company, which is the pioneer of long-life salads, has established an industry-leading market share of over 37% for this product.

Mayonnaise and dressings market shares (2014)




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

Long-life salads market shares (2014)




Source: FUJI Keizai, “Foodstuff Marketing Handbook”

## Built a nationwide production system for the stable supply of high-quality products

**(2) The Company Strengths**

The Company’s feature is its collective strength of integrated production, development and sales; namely, its nationwide production system that supplies high-quality products on a stable basis, and product development capabilities that meet customer needs as well as its meticulous sales response capabilities.

High quality means not only good taste, as 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 is an important key in order for it to grow its business. Therefore, it is taking steps to offer added value through its meticulous response to customers, involving the detailed segmentation of industry fields by business format, with the sales, product development, production and menu development teams acting in concert. The number of products that the Company develops exceeds 1,800 a year, meaning it develops new items at a pace of 5 every day. Seemingly as a result of these efforts, since 2011 the Company’s sales growth rate has continued to outpace the growth rate of the restaurants and HMR markets, including an increase of over 10% in FY3/16.

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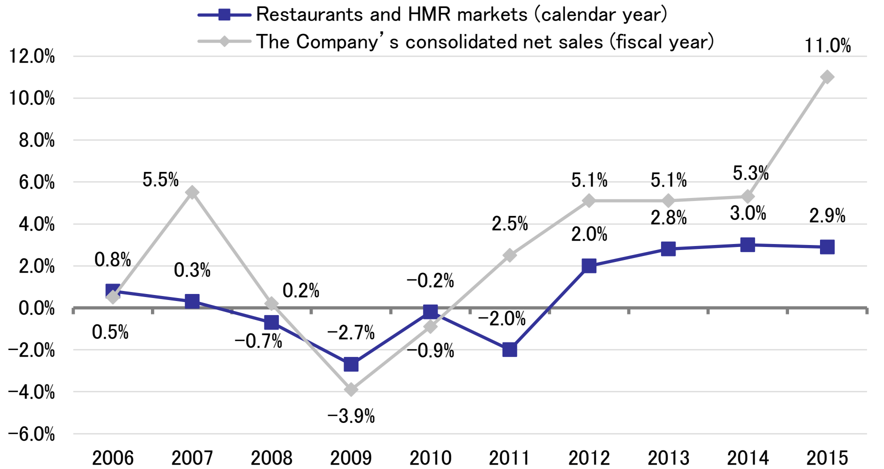
Broad Product Line-Up


Source: Company briefing materials

Growth rate of the restaurants and HMR markets and the sales growth rate




Source: the Company's financial results summary and restaurants / HMR market data from the Foodservice Industry Research Institute

### (3) Production Structures, Group Subsidiaries

Currently, the Company's nationwide production system comprises seven factories operated by the parent company and nine factories operated by seven consolidated subsidiaries. Subsidiary production bases are closely linked to their operating areas because they produce delicatessen-related products for daily deliveries to supermarkets. Above all, a just-in-time (JIT) response capability is essential for CVS, which operate 24 hours a day, 7 days a week. 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 shops (in the Salad Cafe chain). As of the end of September 2016, there were 17 shops, mainly opened in department stores and shopping malls in the metropolitan Tokyo and Kansai areas.

In terms of overseas operations, the Company established a joint venture (49% equity stake) in Indonesia with a local food producer in 2012, which began production of mayonnaise and sauces in the fall of 2013. This factory has obtained Halal certification*, and apart from local home and commercial-use sales of these products, it is engaged in the sale of liquid eggs. From February 2015, the joint venture 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 for hotels and restaurants.

* Halal certification: a system that confirms that products and services conform to Islamic religious precepts, such as that followers of Islam are forbidden to intake pork or alcohol.

As 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 profit and expenses as equity in net profit (loss) of affiliates. They are included in Other Businesses in the consolidated business segments.

**Affiliates (scope of operations, investment ratio)**

| Consolidated subsidiaries | Investment ratio (%) | 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 investments from wholly-owned subsidiaries
Source: the Company's securities report

## Results Trends

### Strong results that exceeded the initial forecasts and achieved new record highs for 1H

**(1) Overview of the FY3/17 1H results**

In the FY3/17 1H consolidated results announced on November 7, 2016, net sales increased 8.3% y-o-y to ¥36,009mn, operating profit rose 35.6% to ¥2,476mn, recurring profit climbed 38.8% to ¥2,490mn, and net profit attributable to parent shareholders grew 11.1% to ¥1,690mn, for strong results that exceeded the initial forecasts and achieved new record highs for 1H.

**FY3/17 1H consolidated results**

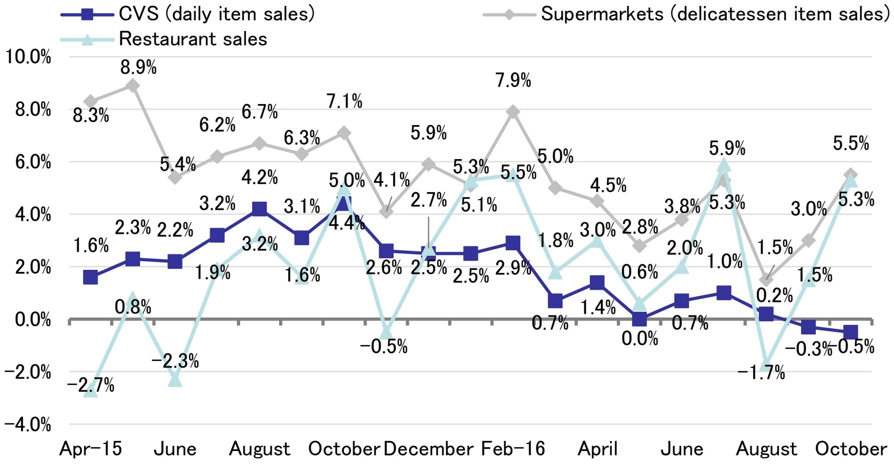
(¥mn)

| | FY3/16 1H | | FY3/17 1H | | | | |
|---|---|---|---|---|---|---|---|
| | Results | % of sales | Initial forecast | Results | % of sales | y-o-y | vs. forecast |
| Net sales | 33,244 | - | 35,250 | 36,009 | - | +8.3% | +2.2% |
| Profit margin on sales | 8,596 | 25.9% | - | 9,573 | 26.6% | +11.4% | - |
| SG&A expenses | 6,770 | 20.4% | - | 7,097 | 19.7% | +4.8% | - |
| Operating profit | 1,826 | 5.5% | 1,820 | 2,476 | 6.9% | +35.6% | +36.1% |
| Recurring profit | 1,793 | 5.4% | 1,800 | 2,490 | 6.9% | +38.8% | +38.4% |
| Net profit attributable to parent shareholders | 1,522 | 4.6% | 1,150 | 1,690 | 4.7% | +11.1% | +47.0% |

Source: the Company's briefing materials

Looking at restaurant, CVS, and supermarket industry trends, which form the Company's major target markets, while Izakaya (Japanese-style restaurant-bars) continue to struggle, family restaurants and other outlets performed well, due also to the impact of inbound demand. Fast-food outlets moved to a recovery trend from the second half of 2015 and overall maintained steady growth, of around 2%. Further, in sales of daily items for CVS, on an existing store basis sales decreased slightly y-o-y, but on an all stores basis, it is estimated they grew by around 5%. This was due to the proliferation of "solitary meals" and "simplification of cooking" following the increase in single-person households and greater participation by women in society, such as working women, that is expanding demand for lunch-boxes, sandwiches, salads and other items, and the underlying expansion in the HMR market is continuing alongside that in the restaurant market.

Major markets' monthly sales trends (y-o-y)




Source: Restaurants (Japan Food Service Association), supermarkets (Japan Supermarket Association, CVS (Japan Franchise Association). CVS shows existing stores only

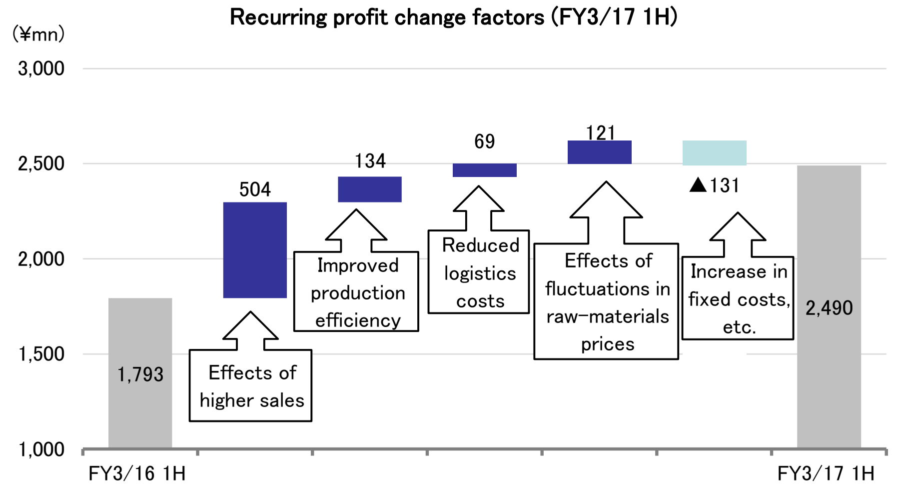
The Company's net sales increased 8.3% y-o-y and continue to grow at a pace above the growth rates of the restaurants and HMR markets. As previously described, we consider this to be as a result of the Company's continuous initiatives to propose new products and menus that meet customer needs. In particular, in the context of the continued chronic labor shortage in the restaurant industry, there is strong demand for the development of menus that can be easily prepared while remaining tasty and healthy. It is considered that by proposing menus that solve this sort of problem, the Company is developing new customers and increasing its share of business with existing customers, and thereby achieving sales growth above the industry averages.

Looking at sales by business category, in addition to CVS, which achieved significant double-digit growth y-o-y, the major business categories had higher sales, including restaurants and mass-retailers. In the CVS industry, in addition to the increase in sales of processed eggs products, small-package long-life salads that have been adopted as private brands (PB) have become long-running hits and the driving force behind the sustained high growth. Further, for the restaurants industry, the recovery of a major hamburger chain, whose results were sluggish in the same period in the previous fiscal year, contributed, while the growth of sales to conveyor belt sushi chains was also mainly from processed egg products. In addition, sales grew of fresh delicatessen daily items for mass-retailers, while sales of cut vegetables sold exclusively in Hokkaido also trended strongly.

On looking at the factors behind the changes to recurring profit, we see it increased ¥504mn from the effects of higher sales, ¥134mn from improvements to production efficiency, ¥69mn from the reduction in logistics costs, and ¥121mn from fluctuations in raw materials prices, mainly from the fall in prices in the egg market, and these increases absorbed the higher fixed costs of ¥131mn, which included personnel costs and IT investment.

The profit (loss) on investments from the equity method was a loss of ¥14mn (compared to a loss of ¥68mn in the same period in the previous fiscal year). The situation at the equity-method affiliate in Indonesia was that sales of liquid eggs and commercial-use mayonnaise trended strongly, but sales of retail-use mayonnaise were below target. Retail-use products struggled despite being sold through the sales channels of the local joint-venture partner, and going forward, the Company is considering improvement measures toward achieving profitability for the full fiscal year.

The growth rate of net profit attributable to parent shareholders was lower than that for recurring profit, but this was due to a gain on the sale of a Chinese affiliate of ¥190mn that was recorded in extraordinary profit in the same period in the previous fiscal year.




## Small-package long-life salads continue to maintain their strong results

**(2) Trends by Business Segment**

**a) Seasoning and Processed Food Business**

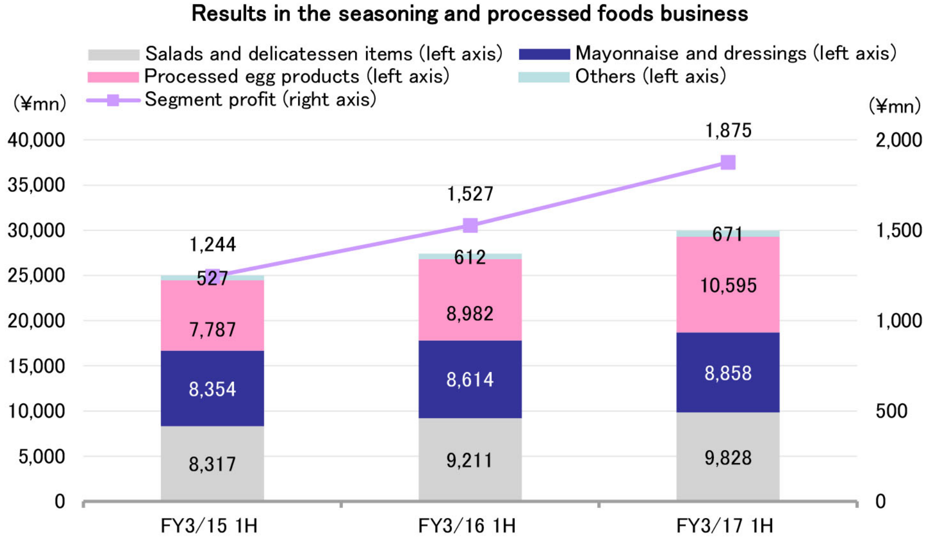
In this business, net sales increased 9.2% y-o-y to ¥29,954mn and the segment profit rose 22.8% to ¥1,875mn.

Looking at the sales trends by product, sales of salads and delicatessen items increased 6.7% to ¥9,828mn (sales volume, up 3.8%), mayonnaise and dressings rose 2.8% to ¥8,858mn (up 3.5%), and processed egg products grew 18.0% to ¥10,595mn (up 18.3%), meaning sales of every product increased.

Salads and delicatessen items continued to trend strongly, mainly from the sales of small-package long-life salads to the CVS market. In addition, potato salads and other products for the restaurant market, particularly the basic products of 1kg packages, achieved favorable results. In Japanese side dishes also, in July the Company launched two new products in the WASAI BANSAI® series (for a total of eight products), and also continued to adopt products such as the salty-sweetened Maru burdock for lunch-box stores, restaurants, and mass-retailers, which also contributed to the higher sales.

In mayonnaise and dressings, sales grew of 1kg mayonnaise packages for mass-retailers and for export, while they also increased for 500ml dressing packages and other products for the fast food market. In addition, in World Traveler Dressings®, which the Company launched as a new series in the previous fiscal year, as the second stage of its launch it released two new items from the information collected and developed into products at the Vancouver Research Office in Canada, which was opened in July 2015. The first product is a Sriracha sauce (a spicy chili sauce) that is currently very popular in the United States, and the second product is a red eye gravy sauce (a coffee flavored sauce), which is a traditional sauce in the southern states of the United States, and each sauce was arranged as a dressing and made into products (for a total of three products).

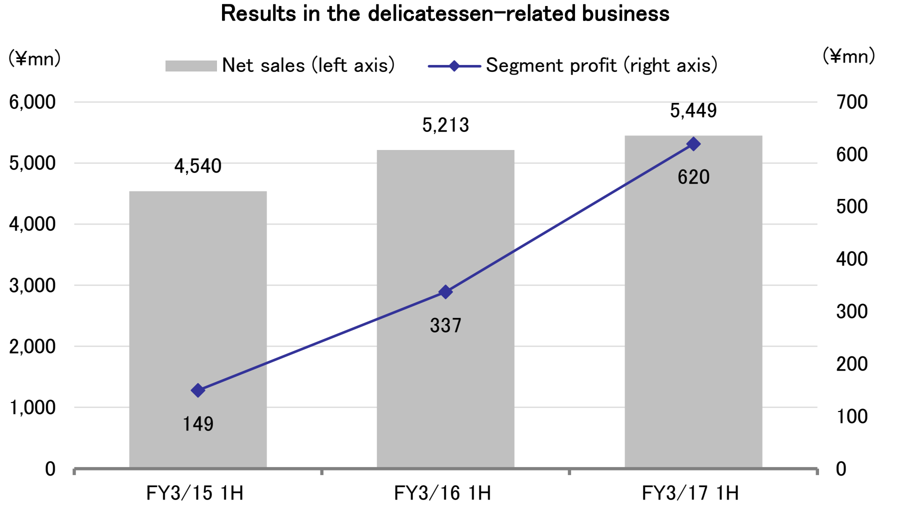
The growth in processed egg products was mainly for the CVS market, from egg salads for sandwiches and for delicatessen bakery products, Atsuyaki (thick omelet) for sushi rolls, and Kinshi-tamago, thin omelet cut into string-like strips, for noodles. In boiled egg products also, the Company continued to adopt various products, including for restaurants and for bread with filling, and the double-digit growth continued.




Source: the Company's briefing materials

**b) Delicatessen-Related Business**

In this business, net sales increased 4.5% y-o-y to ¥5,449mn and segment profit rose 84.2% to ¥620mn. Sales grew for basic products for supermarkets, including potato salad and macaroni salad, spaghetti salad using seasoned cod roe, and vermicelli salad. Cut vegetables sold exclusively in the Hokkaido area also trended strongly. The segment profit margin rose greatly y-o-y, from 6.5% to 11.4%, but this was mainly due to the effects of measures to improve productivity, including to improve the loss (to improve the yield) in the manufacturing process at consolidated subsidiaries and a review of production lines, and also due to the inexpensive prices of raw materials.




Source: the Company's briefing materials

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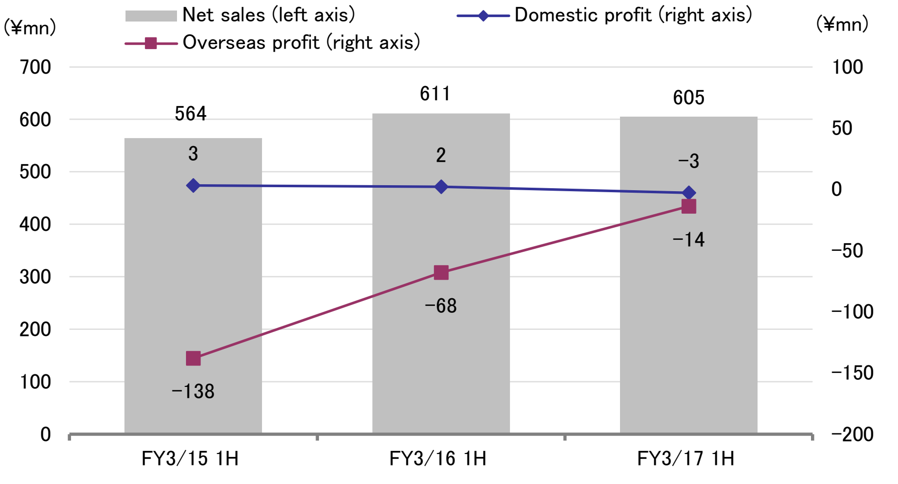
**c) Other Businesses**

Other businesses includes in its results the equity in net profit (loss) of affiliates from overseas operations, in addition to revenue from the Company's specialty Salad Cafe shops operated by its consolidated subsidiary Salad Cafe Inc. Sales decreased 1.0% y-o-y to ¥605mn and the segment loss was ¥17mn (compared to a loss of ¥66mn in the same period in the previous fiscal year).

The number of shops in the Salad Cafe chain remained at 17, despite shop openings and closures, and net sales also remained at basically the same level as in the previous fiscal year. As a result, profits trended on the profit-loss breakeven line. A store was newly opened in March 2016 under the new brand WaSaRa Kintetsu Abeno Harukas, which provides "Japanese-style salads" with an emphasis on Japanese ingredients and tastes. Its sales are growing on the back of the boom in Japanese food, and the Company is considering strengthening measures for the future. On the other hand, in the overseas business, the loss in the equity in net profit (loss) in affiliates was reduced as a result of the sale of a Chinese affiliate in Q1 of the previous fiscal year.

**Other businesses results**




Source: the Company's briefing materials

## The shareholders' equity ratio rose to 47.2% and is drawing steadily closer to the medium-term target of 50%

**(3) Financial Condition**

Looking at the financial condition at the end of September 2016, total assets were up ¥1,768mn on the end of the previous fiscal year to ¥44,075mn. The main factors were, in current assets, increases in cash and deposits of ¥940mn following the higher profits and ¥666mn in notes and accounts receivable, and in fixed assets, an increase of ¥364mn in tangible fixed assets alongside the higher capital investment.

Total liabilities were up ¥276mn on the end of the previous fiscal year to ¥23,270mn, mainly because the increase in notes and accounts payable of ¥619mn exceeded the decrease in interest-bearing debt of ¥447mn. Further, net assets rose ¥1,492mn to ¥20,804mn, as despite dividend payments of ¥241mn, net profit attributable to parent shareholders of ¥1,690mn was recorded.

Looking at management indicators, the shareholders' equity ratio rose 1.6 percentage point from the end of the previous period to 47.2%, drawing steadily closer to the mid-term management plan target of 50%. The interest-bearing debt ratio is also trending downward alongside the stronger earnings after temporarily increasing from the procurement of funds for the capital investment for the Shizuoka Fujisan Factory in FY3/14. So arguably, the Company's financial condition has further improved.

**Consolidated Balance Sheet**

(¥mn)

| | FY3/14 | FY3/15 | FY3/16 | FY3/17 Q2 | Change |
|---|---|---|---|---|---|
| Current assets | 18,095 | 18,704 | 21,836 | 23,262 | +1,426 |
| (cash and deposits) | 3,884 | 4,778 | 7,412 | 8,353 | +940 |
| Fixed assets | 21,590 | 20,744 | 20,469 | 20,812 | +342 |
| Total assets | 39,686 | 39,448 | 42,306 | 44,075 | +1,768 |
| Fixed liabilities | 9,015 | 7,058 | 6,680 | 6,075 | -605 |
| (interest-bearing debt)* | 9,943 | 8,584 | 7,617 | 7,170 | -447 |
| Total liabilities | 23,876 | 21,481 | 22,994 | 23,270 | +276 |
| Total net assets | 15,810 | 17,967 | 19,311 | 20,804 | +1,492 |
| (stability) | | | | | |
| Current ratio | 121.8% | 129.7% | 133.9% | 135.3% | - |
| Shareholders' equity ratio | 39.8% | 45.5% | 45.6% | 47.2% | - |
| Interest-bearing debt ratio | 62.9% | 47.8% | 39.4% | 34.5% | - |

* Interest-bearing debt includes long-term accounts payable
Source: the Company's financial results summary

# ■ Future Outlook

## Outlook is for the sixth consecutive period of increased sales and continued record-high profits

**(1) Outlook for the FY3/17 results**

The outlook for the FY3/17 consolidated results is for net sales to increase 5.8% y-o-y to ¥70,800mn, operating profit to climb 19.3% to ¥4,100mn, recurring profit to grow 22.6% to ¥4,200mn, and net profit attributable to parent shareholders to rise 28.5% to ¥2,680mn, for the sixth consecutive fiscal year of higher sales and continued record-high profits. The forecasts for both sales and profits have been upwardly revised compared to the initial Company forecasts, but the amounts that they have been increased is only the amounts that the 1H results exceeded their forecasts, so if looking only at 2H results, the initial forecasts have basically been left unchanged. This is because nationwide, the volume of vegetables harvested fell due to Japan being hit by several typhoons in the summer and the lack of sunshine in the fall, which means that raw material procurement costs are expected to rise in 2H due to the soaring prices of vegetables.

**Outlook for the FY3/17 consolidated results**

(¥mn)

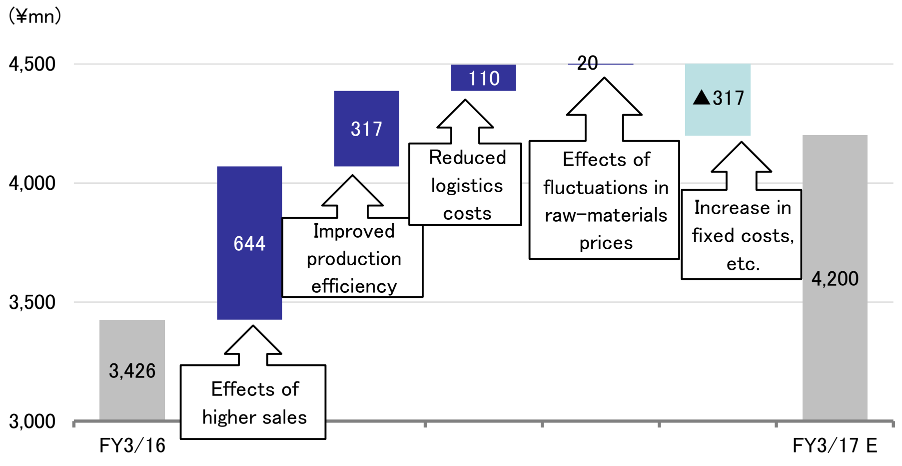
| | FY3/16 | | FY3/17 | | | |
|---|---|---|---|---|---|---|
| | Result | y-o-y | Initial forecast | Revised forecast | y-o-y | Amount revised |
| Net sales | 66,933 | +11.0% | 70,000 | 70,800 | +5.8% | +800 |
| Operating profit | 3,436 | +14.5% | 3,450 | 4,100 | +19.3% | +650 |
| Recurring profit | 3,426 | +23.4% | 3,500 | 4,200 | +22.6% | +700 |
| Net profit attributable to parent shareholders | 2,085 | +27.0% | 2,130 | 2,680 | +28.5% | +550 |

Source: the Company's briefing materials

For the full fiscal year recurring profit, the change factors are on the one hand increases of ¥644mn from the effects of higher sales, ¥317mn from improvements in production efficiency, ¥110mn from the reduction in logistics costs, and ¥20mn from the effects of fluctuations in the prices of raw materials, but on the other hand, a decrease of ¥317mn from higher fixed costs. The price of eggs, which is the main raw material, trended slightly lower than expected in the April to October period compared to the annual average price.

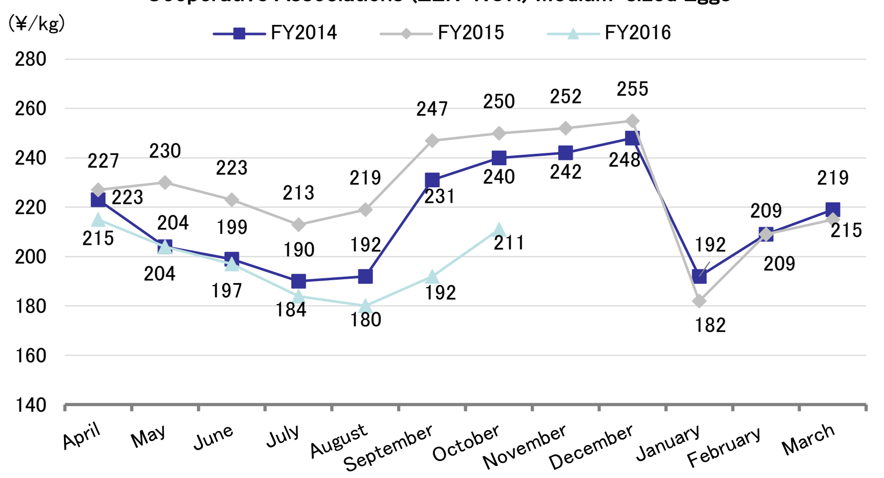
However, the harvest volume of potatoes in the main production area of Hokkaido is expected to fall significantly y-o-y due to the impact of typhoon damage and some food producers have already been affected, such as having to postpone the launches of new products. The Company is working to increase its suppliers to secure the volume that it needs, but it is being affected by higher procurement costs and quality management costs and has incorporated these higher costs into the forecasts for the current period. As potatoes are a single-harvest crop, the impact of the decline in harvest volume may continue until around July 2017.

Recurring profit change factors (FY3/17)




Source: the Company's briefing materials

Trends in Price (Tokyo) of the National Federation of Agricultural Cooperative Associations (ZEN-NOH) Medium-sized Eggs




Source: ja-z-tamago. Co., Ltd.

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### (2) Sales outlook by segment

By segment, sales are forecast to increase 5.3% y-o-y to ¥57,969mn in the seasoning and processed foods business, to rise 8.5% to ¥11,565mn in the delicatessen-related business, and to grow 2.2% to ¥1,265mn in other businesses. Continuing on from the previous period, the Company is pursuing a strategy of tailoring sales to specific industries and business formats, and it is also aiming to expand product formats and strengthen its product lineup to meet market needs.

**Net sales by segment**

(¥mn)

| | FY3/14 | FY3/15 | FY3/16 | FY3/17 E | Growth rate |
|---|---|---|---|---|---|
| Seasonings & Processed foods | 47,541 | 49,733 | 55,035 | 57,969 | 5.3% |
| Salads & Delicatessen | 15,866 | 16,758 | 18,903 | 19,021 | 0.6% |
| Mayonnaise & Dressings | 17,093 | 16,772 | 17,064 | 17,142 | 0.5% |
| Processed Egg products | 13,567 | 15,116 | 17,792 | 20,505 | 15.2% |
| Others | 1,015 | 1,087 | 1,276 | 1,300 | 1.9% |
| Delicatessen-related Business | 8,586 | 9,419 | 10,660 | 11,565 | 8.5% |
| Other Business | 1,173 | 1,175 | 1,238 | 1,265 | 2.2% |
| Total | 57,301 | 60,327 | 66,933 | 70,800 | 5.8% |

Source: the Company's briefing materials

Within the seasoning and processed foods business, for salads and delicatessen items, sales of small-package long-life salads for mass-retailers and CVS are expected to increase to the next level, based on the strong level of inquiries. Also, in October, the Company launched Magokoro Shokusai™ as a new brand. Based on the concept of "Delicious salads and prepared meals that everyone can eat," the products are targeted at seniors, being smoother and easier to prepare than its previous "soft food" releases.

In mayonnaise and dressings, the Company continues to develop its overseas markets. Overseas, various countries' import restrictions are becoming increasingly strict, so its strategy is to improve its name awareness by presenting products at exhibitions in these countries that meet their needs, such as mayonnaise with longer expiration dates or that is gluten-free. As of the end of September 2016, it was exporting to 35 countries and regions. Conversely, domestically, as a new release following on from World Traveler Dressings®, responding to the increasing awareness of health among consumers, it announced the Triple Balance™ series of non-oil dressings and launched two products in October, Kingoma and Caesar Salad. With the keywords of low calorie, low sugar, and reduced salt, these products are being sold to restaurants and CVS, mass-retailers, food dispensers, and bakers. Further, at the same time it released smaller 200ml packages of three of its currently most popular dressings.

In processed egg products, the Company plans to strengthen the lineup of its Sozaitei® series toward opening-up new markets. Since the production of this series was started at the Shizuoka Fujisan Factory, it has acquired a strong reputation for taste and quality. In the restaurant industry, this brand became established in a short period of time and its products became hits, while in the fall of 2016, the Company renewed the brand and is further strengthening its product capabilities. Specifically, it extended the expiration dates of refrigerated-type products from 21 days to 30 days, and in addition, it is focusing on the Dashi (soup stock) from certain production areas (dried-bonito Dashi from Yaizu in Shizuoka Prefecture and Makombu (Japanese kelp) Dashi from Hokkaido), and is introducing various marketing techniques, such as creating logos and including QR codes on the package designs that guide consumers to recommended recipes on its website. As yet, Sozaitei® products do not provide a high percentage of the total sales of processed egg products, but their sales are expected to grow in the future.

Sales are expected to steadily increase in the delicatessen-related business, supported by the expansion of the HMR market. There are concerns about profitability in 2H due to the soaring prices of vegetables, but it is thought that the effects of the higher sales will be able to cover for this. In other businesses, Salad Cafe sales are forecast to trend basically the same as in the previous fiscal year. The aim for the Indonesian affiliate is to recover sales of mayonnaise for retailers and to achieve profitability on a single-month basis.

FISCO

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

24-Jan.-17

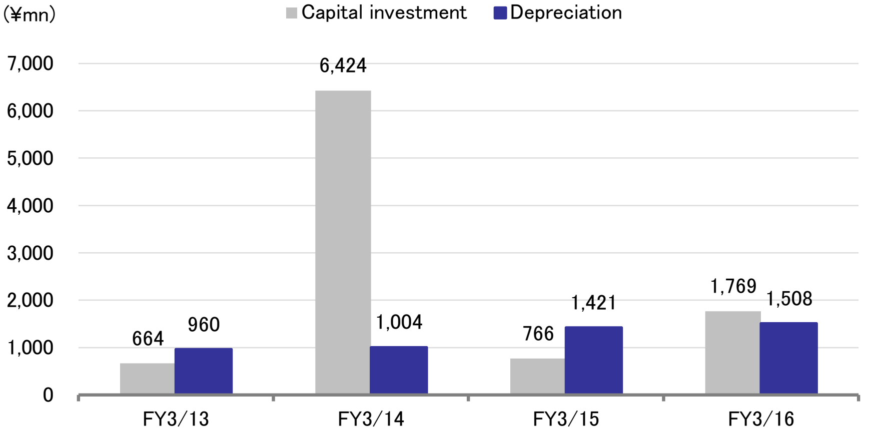
## A large-scale investment totaling more than ¥15bn over 2 years is expected

**(3) The concept for the Group's production bases**

On November 7, 2016, the Company announced its concept for the Group's production bases in the future. Within the context of the steady expansion of results, this is its basic concept for expanding production capacity in the future and it is finalizing the details. Specifically, it plans to increase production facilities at the Shizuoka Fujisan Factory (main products: omelet products) and the Nishi-Nihon Factory (long-life salads and dressings) and build new factories at its consolidated subsidiaries of KANTOH DIETCOOK Co., Ltd. (fresh delicatessen items) and DIETCOOK SHIRAOI Co., Ltd. (fresh delicatessen items and long-life salads). It is currently securing the land to build the new KANTOH DIETCOOK factory.

The Company intends for all of the increased production facilities and new factories to have been constructed and be operational by March 2019, and it is expected to be a large-scale investment totaling more than ¥15bn over 2 years. The largest amount the Company spent on capital investment recently was for the construction of the Shizuoka Fujisan Factory. However, this investment will take place over two years and involve increasing production facilities and constructing new factories at four separate bases. The Company is considering which method among various options to use to fund this capital investment, including effectively utilizing cash on hand. The Company will do so while remaining aware of the shareholders' equity ratio and the ROE level. Details such as the production capacity are as yet undetermined, but if the expanded facilities and new factories become operational as planned, the Company's net sales can be expected to further increase.

**Change in capital expenditure and depreciation**




**(4) The progress made in the three-year Mid-term Management Plan**

The Company started a new three-year Mid-term Management Plan, "KENKO Five Code 2015-2017" from FY15, with the current fiscal year being the Plan's second year. In terms of the Plan's specific management targets, it aims for consolidated sales of ¥75bn, a consolidated recurring profit margin of 5%, a shareholders' equity ratio of 50%, and to maintain ROE at 8% or above in FY3/18. At the present stage the progress made has been extremely smooth, with the recurring profit target in sight of being achieved 1 year ahead of schedule, and ROE also expected to be kept at above 12%, meeting the target of 8% or above.

**KENKO Five Code 2015-2017**

| | FY3/15 | FY3/16 | FY3/17 E | FY3/18 targets |
|---|---|---|---|---|
| Consolidated net sales | 60,327 | 66,933 | 70,800 | 75,000 |
| Consolidated recurring profit margin | 4.6% | 5.1% | 5.9% | 5.0% |
| Shareholders' equity ratio | 45.5% | 45.6% | - | 50.0% |
| ROE | 9.6% | 11.2% | - | At least 8% |

There are three main reasons why results are trending above the targets. The first reason is the steady expansion of the restaurants and HMR markets, which are the Company's main markets, due to factors such as the increase in single-person households and the greater participation by women in society, for example more working women. The second reason is that the Company continues to propose detailed menus and conduct sales activities tailored to specific industries and formats in order to respond to the issues in the restaurant industry, that it requires products and menus that contribute to the "simplification" of cooking due to its chronic shortage of labor, and also the development of menus that reflect the rising awareness of health among consumers. This is enabling the Company to expand its share of business with existing customers and also develop new customers. The third reason is that results have improved at a pace faster than expected due to the strong sales of processed egg products for CVS and of long-life salads as PB products.

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,'" "Further evolving Salad Cuisine," and "Strengthening the management platform to proactively promote expansion into global markets." 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. To further evolve Salad Cuisine, it intends to strengthen information provision through the media and its own website, strengthen branding, and promote its Salad Cuisine cooking schools and Salad Cafe shops. On its own website, the Company has posted a total of 1,330 recipes (as of the end of September 2016), including by business format and by season, and it uses its website to disseminate information on trends. For the shop opening strategy for Salad Cafe, its policy is to consider openings while giving the greatest priority to profitability.

As part of its strengthening of the management platform to proactively promote expansion into global markets, the Company newly established a research office in Vancouver, Canada, in July 2015. Specific results have already started to appear from the information collected by this base, including the early launch of new products in the World Traveler Dressings® series. It is difficult for the Company to expand its export business quickly due to the various hurdles that must be cleared, such as meeting each country's import restrictions, but it intends to expand profits centered on exports of mayonnaise and dressings.

## ■ Shareholder Returns Policy

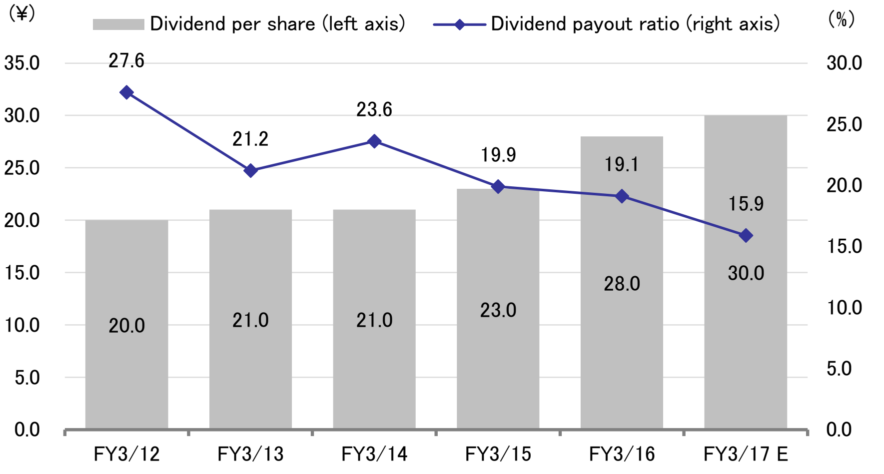
### For FY3/17, plans to increase the dividend per share by ¥2 to ¥30

The Company returns profits to shareholders through paying dividends and providing special gifts to shareholders. On the basis of a benchmark dividend payout ratio of 20% on a consolidated basis, and taking into consideration the continuity of dividends, its policy is to raise dividends in line with corporate growth and development and with increased earnings. In FY3/17, the Company plans to increase the dividend by ¥2 y-o-y to ¥30, which will be the third consecutive fiscal year of higher dividends. However, if the results achieve the Company targets, the dividend payout ratio will become 15.9%, meaning we can expect a further hike in dividends.

At the same time, the Company gives its products as gifts to shareholders registered on March 31 of each fiscal year. 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 with 1,000 or more shares.

■ Shareholder Returns Policy

**Dividend per share and dividend payout ratio**




**Consolidated income statement**

(¥mn, %)

| | FY3/13 | FY3/14 | FY3/15 | FY3/16 | FY3/17 E |
|---|---|---|---|---|---|
| Net sales | 54,533 | 57,301 | 60,327 | 66,933 | 70,800 |
| (y-o-y) | 5.1 | 5.1 | 5.3 | 11.0 | 5.8 |
| Cost of goods sold | 39,628 | 42,530 | 44,608 | 49,689 | - |
| (% of sales) | 72.7 | 74.2 | 73.9 | 74.2 | - |
| SG&A expenses | 12,126 | 12,342 | 12,717 | 13,807 | - |
| (% of sales) | 22.2 | 21.5 | 21.1 | 20.6 | - |
| Operating profit | 2,778 | 2,428 | 3,001 | 3,436 | 4,100 |
| (y-o-y) | 29.6 | -12.6 | 23.6 | 14.5 | 19.3 |
| (% of sales) | 5.1 | 4.2 | 5.0 | 5.1 | 5.8 |
| Non-operating profit | 100 | 148 | 154 | 158 | - |
| Non-operating expenses | 303 | 318 | 378 | 168 | - |
| (equity in net profit (loss) of affiliate) | -216 | -229 | -246 | -81 | - |
| Recurring profit | 2,574 | 2,258 | 2,776 | 3,426 | 4,200 |
| (y-o-y) | 24.1 | -12.3 | 22.9 | 23.4 | 22.6 |
| (% of sales) | 4.7 | 3.9 | 4.6 | 5.1 | 5.9 |
| Extraordinary profit | 2 | 1 | 97 | 225 | - |
| Extraordinary loss | 188 | 45 | 80 | 885 | - |
| Income before income tax | 2,388 | 2,215 | 2,793 | 2,767 | - |
| (y-o-y) | 20.0 | -7.2 | 26.1 | -0.9 | - |
| (% of sales) | 4.4 | 3.9 | 4.6 | 4.1 | - |
| Corporate income tax, etc. | 979 | 949 | 1,151 | 681 | - |
| (effective tax rate) | 41.0 | 42.9 | 41.2 | 24.6 | - |
| Net profit attributable to parent shareholders | 1,409 | 1,265 | 1,642 | 2,085 | 2,680 |
| (y-o-y) | 36.8 | -10.2 | 29.8 | 27.0 | 28.5 |
| (% of sales) | 2.6 | 2.2 | 2.7 | 3.1 | 3.8 |
| Number of shares outstanding (1,000) | 14,211 | 14,211 | 14,211 | 14,211 | 14,211 |
| EPS ( ¥) | 99.16 | 89.08 | 115.57 | 146.76 | 188.59 |
| Dividend per share ( ¥) | 21.00 | 21.00 | 23.00 | 28.00 | 30.00 |
| BPS ( ¥) | 1041.54 | 1112.55 | 1264.38 | 1358.94 | - |
| Dividend payout ratio (%) | 21.2 | 23.6 | 19.9 | 19.1 | 15.9 |
| Number of employees (including temporary employees) | 2,936 | 2,944 | 2,841 | 2,957 | - |

Source: the Company's financial results summary

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