

Oisix ra daichi

Oisix ra daichi Inc.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

November 10, 2022

Event Summary

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[Participants]	
[Number of Speakers]	1 Kohey Takashima Representative Director, CEO
[Analyst Names]*	Hideki Sumi Tokai Tokyo Research Institute

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Shibamoto: The time has come to start the briefing. Thank you very much for taking time out of your busy schedule to participate in Oisix ra daichi Inc.'s briefing on the financial results for Q2 of the fiscal year ending March 31, 2023. I am Mr. Shibamoto of the Corporate Planning Department, and I will be moderating today. Thank you for your cooperation.

Today's briefing will be divided into two major parts. In the first half, Representative Director Takashima will report on our mid-term financial results and the growth strategy for about 30 minutes. After that, we will move on to the Q&A session with the participants.

We will now begin.

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Takashima: Hello, everyone. Thank you very much for joining us today. A lot has happened this year, and in some respects, it has been a hectic time, starting the year with the problems at distribution centers and then the TOB-related issues. I would like to focus on the performance of our core business from April to October.

Today's presentation is structured as follows.

First, I would like to talk about H1 results and the progress of our strategy, and then I will explain our business expansion strategy using two examples. Finally I will introduce a few topics of interest.

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Executive Summary -2023/3 1H Achievements

Sales

Sales were in line with initial forecast. All three brands achieved a net increase in subscribers in 2Q for after a year.

Whilst ARPU was weaker than the COVID-19 peak years of 2020~2021, it remained above the pre-COVID-19 year of 2019.

◆ 3 home delivery business

- ✓ Subscribers : Whilst new subscribers in the 2Q are typically weak owing to seasonal factors, net subscriptions in the 2Q this year saw sequential QoQ growth. The three brands achieved a net increase for after a year, resulting in a net subscribers growth of roughly 7,000 QoQ. (3 brands total)
- ✓ ARPU : ARPU has been above initial expectations despite the headwind from the deregulation of COVID-19 behavior; ARPU was -5% YoY (relative to pre-COVID-19 levels +4~12%).

EBITDA

Against COVID-19 driven rising profit margins last year, EBITDA fell YoY. However, with Oisix New Ebina Station recovering and profitability enhancement initiatives making good progress, EBITDA was above initial forecast.

◆ 3 home delivery business

- ✓ Recovery from Oisix New Ebina Station's logistical problems essentially completed in Oct. Cost structure has improved to pre-trouble levels.
- ✓ Advancing profitability improvement objectives via such initiatives as full-scale operation of the Food Rescue Center and countermeasures against soaring raw material costs.

◆ Other Business

- ✓ Purple Carrot (US) saw profit margin improvement reflecting price increases implemented in May to counter inflation and the fruits of Operational Excellence initiatives.

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First, the results for the past six months.

Simply put, we are growing in line with our expectations. Sales are roughly in line with the forecast, and although the total amount is slightly lower than last year, this is due to a YoY decrease in ARPU. However, it is still at a higher level than before the pandemic.

When it comes to net growth, subscribers did not increase at the Oisix brand during a certain period, because of issues at our distribution centers. Although Q2 is usually the hardest season to increase customers because it includes summer months, we did record a net increase.

As for EBITDA, as I have said again, we have made a lot of progress in bouncing back from our logistics troubles.

Also, the external environment was more severe than we had initially anticipated, but we are improving our earnings in response and are making progress as expected.

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2023/3 Summary of 1H Results

- Sales : Developments in AfterCOVID-19 , such as the lifting of action restrictions, have accelerated, and the churn rate and ARPU are returning to pre-COVID-19 levels, **largely in line with initial forecasts.**
- EBITDA : Against COVID-19 driven rising profit margins last year, EBITDA fell YoY. However, with Oisix New Ebina Station recovering and profitability enhancement initiatives making good progress, was above initial forecast.

Sales

55.45bn yen
(YoY **- 1** %)

EBITDA

2.77bn yen
(YoY **- 34** %)

Operating
Income

1.67bn yen
(YoY **- 50** %)

**Net
income**
Attributable to
owners of the
parent

0.89bn yen
(YoY **- 59** %)

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More specifically, sales were JPY55.45 billion, and EBITDA was JPY2.77 billion for H1.

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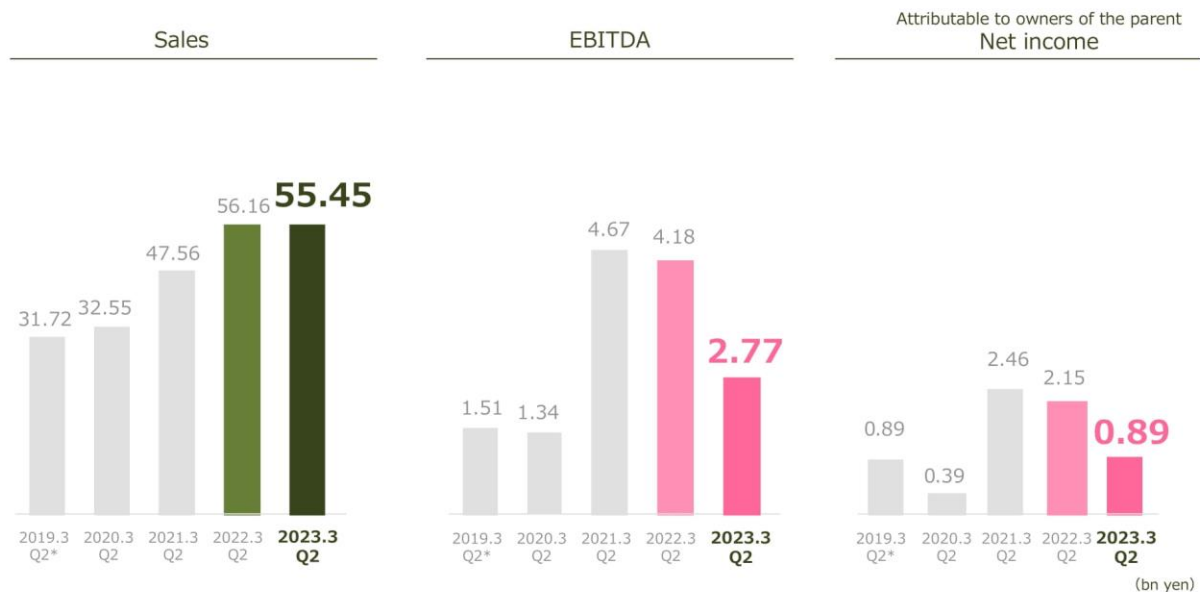
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Consolidated Results Overview

- Sales : Reaching 99% YoY, with ARPU declined, while Subscribers increased.
- EBITDA : Declined YoY reflecting a difficult comparison against last year's high profit margins as well as widening losses at Purple Carrot (U.S.) owing to inflation and the impact of Yen depreciation. Still, **EBITDA was higher than initial forecast.**



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*For the purposes of like-for-like vs Target comparisons, one extra month of Radish Boya data (March 2018) was deducted from 2019.3 data.

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The trend looks like this.

Even if sales are similar, a decline in ARPU has a significant effect on profit margins.

While EBITDA may not be as good as in the previous year or two, this is not the result of some terrible event.

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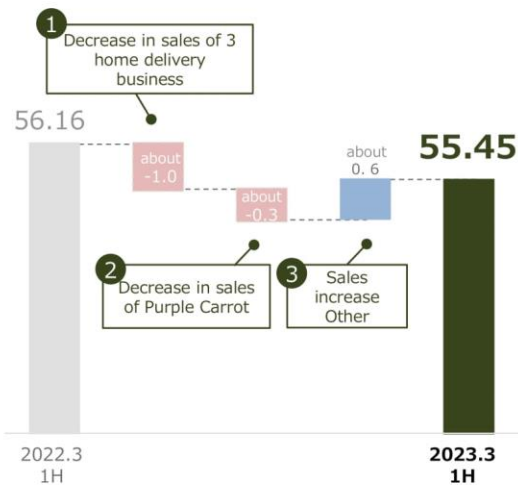
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YoY : Sales

Domestic home delivery business centered on Oisix increased by approx. 10,000 subscribers YoY
Relative to inflated COVID-19 driven performance last year, ARPU declined YoY.
And as a result, **we were in line with initial forecasts.**

- Sales (bn yen)



Breakdown

- 1 Decrease in sales of 3 home delivery business** : about - **1.0** bn yen
 - Increase in sales due to increase in subscribers : about +0.3 bn yen
 - Decrease in sales due to decrease in ARPU : about - 1.3 bn yen
- 2 Decrease in sales of Purple Carrot** : about - **0.3** bn yen
 - Downward trend in Subscriber after peaking in the previous Q1
- 3 Sales increase of Other** : about + **0.6** bn yen
 - EC support
 - Kindergarten wholesale
 - Hong Kong/ Shanghai
 - Consolidated subsidiaries

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The number of subscribers for Daichi and Radish remained stagnant, but we were relieved to notice a general increase of all brands in Q2, when a decrease is most likely, and at a time when coronavirus was not a factor.

Let me elaborate a little.

In terms of changes from the previous year, the domestic business was down JPY1 billion in total due to a drop in ARPU and an increase in subscribers, and Purple Carrot in the US is still posting declining sales.

On the other hand, several businesses, including B2B, increased, and overall sales stayed at the same level.

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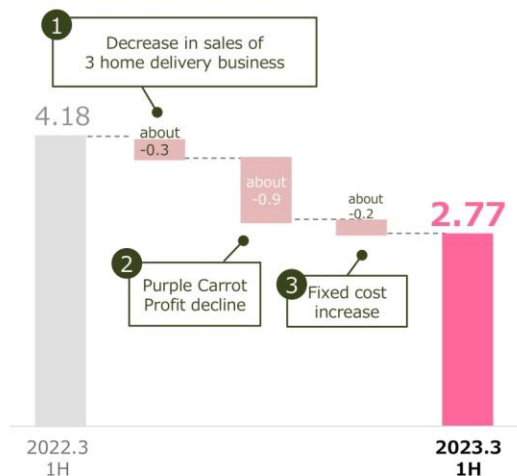
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YoY : EBITDA

EBITDA fell owing to the negative repercussion effect of COVID-19 driven inflated profitability last year. Whilst Purple Carrot posted a loss reflecting such factors as soaring raw material and labor costs, 2Q returned to profitability on a non-consolidated basis.

-EBITDA (bn yen)

Breakdown



- 1 Decrease in profits in the 3 domestic home delivery businesses**
: about - 0.3 bn yen
- 2 Purple Carrot (U.S) Reaching a deficit**
: about - 0.9 bn yen
• 2022.3 1H +0.8bn yen ⇒ 2023.3 1H : -0.5bn yen
• Loss in the current fiscal year due to the impact of inflation in addition to the decrease in sales
- 3 Companywide fixed costs increase**
: about - 0.2 bn yen
• Preparatory expenses for renewal of system infrastructure (enhancement of speed and data utilization).
• Strengthening personnel for business enhancement and expansion

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As for profits, as I mentioned earlier, if the ARPU drops, the profit margin will drop even with similar sales.

Purple Carrot, which had a very high profit level last year, recorded a JPY50 million deficit.

However, we are recovering much better than the bad scenario we had initially envisioned given the US situation at the beginning of this year. The numbers themselves are not good for H2, but I believe they will be much better than we had originally expected, and that they will keep improving.

These are the results for each business segment.

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Strategy and Progress

Our strategy is to work on a set of priority themes each half year.

1H: The highest priority on improve profitability in new Ebina Station (new distribution center).

2H: Resumption of growth investments such as promotions

- Entering profitability : With the **recovery process from trouble-related deterioration in earnings completed in the 1H**, we now anticipate steady improvement to logistics as well as reductions to CoGS in the 2H. We are transitioning into a profitability improvement phase with ramp-up of the Food Rescue Center and progress in reassessment of optional services.
- Strengthen value proposition : Using product/service value propositions as a base, in the 2H we have resumed promotional growth **investments for the post-COVID-19 environment.**



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Next, I will discuss the progress of our strategy.

This fiscal year, we wanted to change our approach and scope drastically between H1 and H2. As you know, H1 was a period of various headwinds and challenges, including our issues at the distribution center, the impact of inflation due to rising costs, and the need for a new value proposition as the pandemic winds down.

We chose a threefold response.

First, to recover the distribution center and then start up the Food Rescue Center, which was supposed to be launched after the distribution center but was delayed.

Then, muscularization. This is because the external environment has become more severe than it was six months ago at the time of the briefing. We have to adapt to these new circumstances.

Finally, the development of services that can increase the number of subscribers in the post-COVID-19 era. These were our three initiatives. Since the environment is now becoming much more favorable, we are considering resuming promotions in H2.

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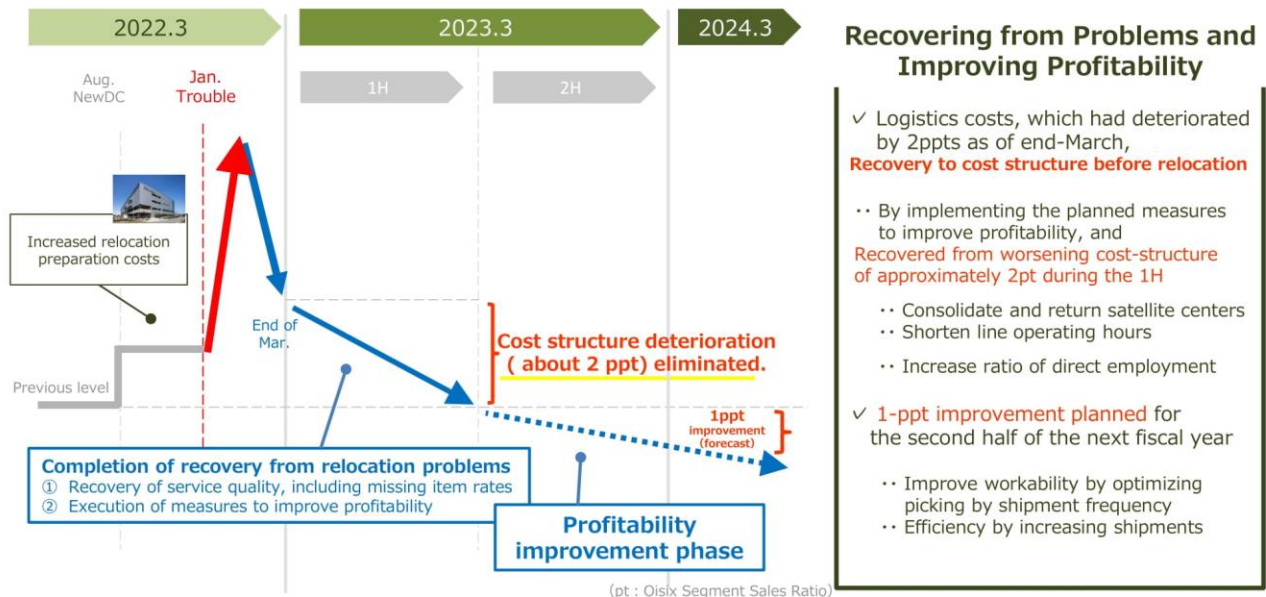
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① Enhance profitability Profitability Recovery from Ebina Troubles

Regarding improving profitability following issues related to relocation of distribution centers, plans are underway to reduce costs within 1H to levels prior to problems.

In 1H, logistics costs, which had deteriorated roughly 2 ppts at the beginning of the fiscal year, recovered to the cost structure prior to relocation. In the 2H, we anticipate transition into a net improvement phase.

-Oisix Distribution cost reduction



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I would like to elaborate on our initiatives for H1.

First of all, regarding logistics issues, it is safe to say that they have been mostly settled in H1.

In terms of costs, we have space rented until September, but looking at the October and November figures, costs are back to their previous levels, and operationally the recovery was much earlier.

We are challenging ourselves to improve productivity in H2, which we had hoped to achieve when we initially launched the Center. We will then work to further improve the profit margin by about one percentage point over the current level. As such, we believe that we have finally restored profitability as planned.

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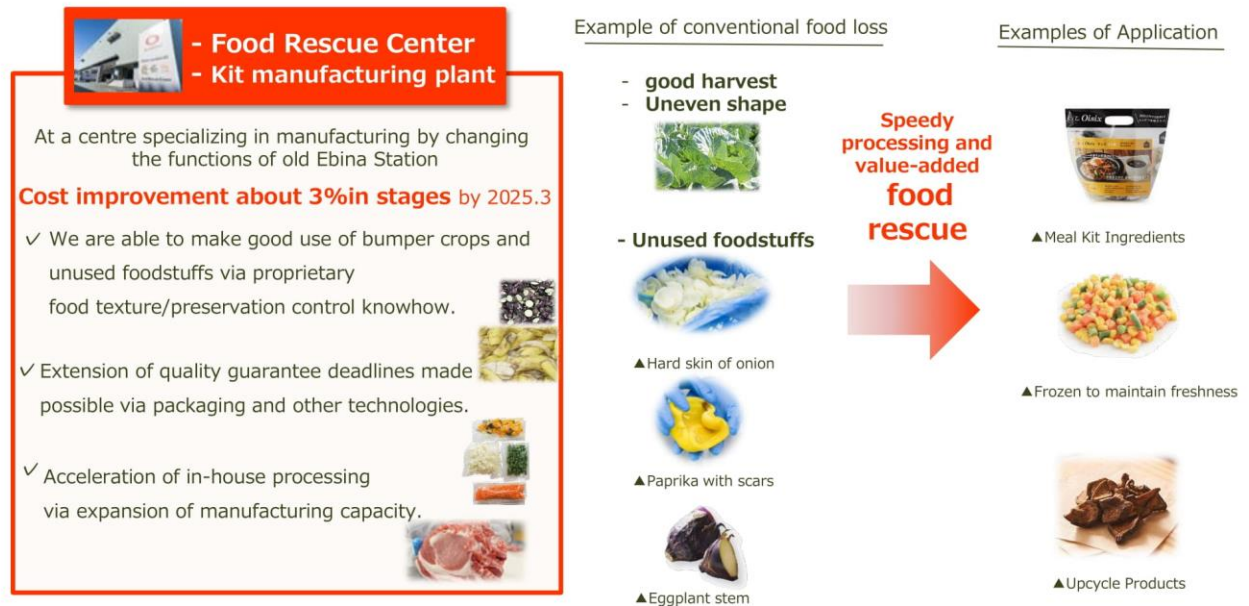
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① Enhance profitability

Full-scale operation of Food Rescue Center

Food Rescue Center, which conducts product manufacturing designed to enhance the value of formerly discarded foodstuffs, **is now in full operation**.

By increasing efficiency in manufacturing/procurement, we aim to incrementally achieve a roughly 3% reduction to CoGS (vs. FY3/2022).



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We then set up a new Food Rescue Center at that location.

Eventually we want to achieve a 3% reduction in cost of goods sold. Our company has very little food loss, but the Food Rescue Center is designed to improve the food loss in the fields as well as our own profitability as a result.

We receive unused produce, or produce from unexpected bumper crops, and send it to our Food Rescue Center, where we extend the quality deadlines or process the food into meal kits, frozen foods, or upcycled products.

Operations have started successfully, and we should feel the impact on our numbers in the future.

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② Measures to combat raw material price hikes and streamlining

Evolution of flat-rate option services

We hope to achieve improvements to both **improvement in earning power and LTV** with a user friendly renewal of services that includes adjustments to prices of flat-rate optional services, enhancement of product lineup, and launch of a website dedicated to service users only.

-Flat-rate optional service (formerly Prime Pass)

Mainly daily items (milk, eggs, etc.)
at a flat rate Unlimited service to select 3 items
a week



Value Enhancement

✓ Strengthening lineup

- New products, plant-based foods, etc.
Added to target products



✓ Bargain site exclusively for service users

- Can purchase vegetables and fruits
at a good price Opened a limited site for
users of optional services



Price revision

- ✓ Due to rising prices for raw materials and other products,
Optimize monthly optional services

▶ **improvements to both improvement in earning power and LTV**

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Secondly, this month there has been a series of milk price revisions and price increases for food products in general, and we are looking for ways to increase profitability and user friendliness in response to the cost of raw materials which is much higher than expected.

Oisix has several subscription services, and we are working to improve their profitability and customer convenience at the same time.

We are doing the same for the Daichi and Radish Boya brands, and are also watching cancellation rates.

So far, overall progress is going well.

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③ Offering high-value-added services Polish our specialty of products and services

Steady growth was seen in the number of registrants for the Kurihara Harumi-supervised course and in the sales volume of Patto Oisix, which are completed in range cooking and 1step cooking. Maintain high demand through value propositions in line with changing lifestyles, such as increased opportunities to surround the dinner table and the establishment of 1-person lunches for remote work.

-supervised Course by Harumi Kurihara

- ✓ The "carefully prepared with a little time and effort" taste has been well received by 17,000 people who have registered. New series to be launched in Nov.



-Patto Oisix

- ✓ By expanding the series of vegetable-rich frozen foods Developed about 50 types of products since the start in Feb.



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We are working to enhance value for the post-COVID-19 period.

One big development is our investment in Yutori no kukan this spring, and we therefore resumed our collaboration with Mrs. Kurihara in September, although we were on a very tight schedule.

A new series will start again in November.

The course's popularity is still overwhelming, and 17,000 people have already registered for the subscription service within Oisix. We hope to launch several products in H2.

In addition, we are now strengthening Patto Oisix.

Until now, most meal kits were refrigerated and took 10 minutes or 20 minutes to make, but with Patto Oisix, we have started selling products that can be prepared very quickly.

The service has also been very successful so far.

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④ New promotions

Accelerate acquisition of new customers through TV program broadcasting

NEW

Started offering to a TV program featuring 20th Century, who appeared in a commercial in Feb. The program is about cooking food loss ingredients.

In addition to creating a market as a front-runner in the food x sustainability field, we will accelerate subscriber acquisition in the second half of the fiscal year as initially planned by improving brand recognition.

-Promotion featuring 20th Century

May /2022

Feb/2022

Nov /2022~

TV commercial airing Collaboration Kit sales

- ✓ Awareness expanded through ongoing measures since CM in Feb
- ✓ Subscriber registration continues to increase as a result of the commercial.

- ✓ Collaboration meal kits prepared for 13,000 meals sold out



Tapping into the popularity of the idol group 20th Century, the decision has been made to broadcast the sustainable food variety program "Delicious! Loss Meal Restaurant." Starts airing weekly

- ✓ We aim to expand brand recognition and position ourselves as a frontrunner.



※Every Thursday from 10:57pm -

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We are also strengthening promotions in H2, with a few concrete initiatives.

We thought about using television last year during our logistics troubles, and have been moving forward at the beginning of this year. We did a commercial with 20th Century at the end of last year and collaborated to create kits.

From this November, we will be broadcasting programs instead of commercials. In November, we are starting the broadcast of a very short program, like Kuishinbo! Banzai or Three Minute Cooking, where 20th Century members use ingredients that they would usually throw away to make delicious meals.

With TV ads and TV programs, we want to learn what kind of mass marketing is effective.

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④ New promotions

Utilization of Customer Attraction Method Developed in the 1H

In addition to conventional web advertising, we are developing new customer acquisition methods that include leveraging of offline customer contact points made via our alliance with AKACHAN HONPO. Develop and evolve new promotional methods, including launching DEAN&DELUCA collaboration Kit and other products that are popular with established customers.

-Alliance with AKACHAN HONPO

✓ AKACHAN HONPO in-store and through the app "Oisix with AKACHAN HONPO" to attract customers. Identified issues with in-store guidance and strengthened collaboration.

✓ Understand issues in-store guidance and continue to strengthen collaboration



-PR for DEAN & DELUCA collaboration products

✓ Sales of DEAN&DELUCA (operated by affiliate Welcome) sample sets that include meal kits and enable home-made delicatessen were strong.

✓ Leveraging products popular with existing customers as an enticement tool, orders from customers hitherto inaccessible are now increasing.



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Also, the alliance with AKACHAN HONPO, which started at the beginning of this year, [inaudible] we are receiving a lot of know-how. We would like to strengthen this collaboration.

Also, since September, our collaboration with our affiliate, DEAN & DELUCA, has been going quite well. Through these initiatives, we will strengthen our promotions in H2.

This concludes the presentation of our B2C strategy.

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growth strategy

*"Leveraging the power of the business model and technology
to provide food that is good for both people and the earth."*

Sustainable Retail

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I would now like to talk about sustainability and our green shift strategy.

Since last year, we have been aware that we cannot survive as a food distributor unless we become a sustainable retailer, and we are working to become such an organization.

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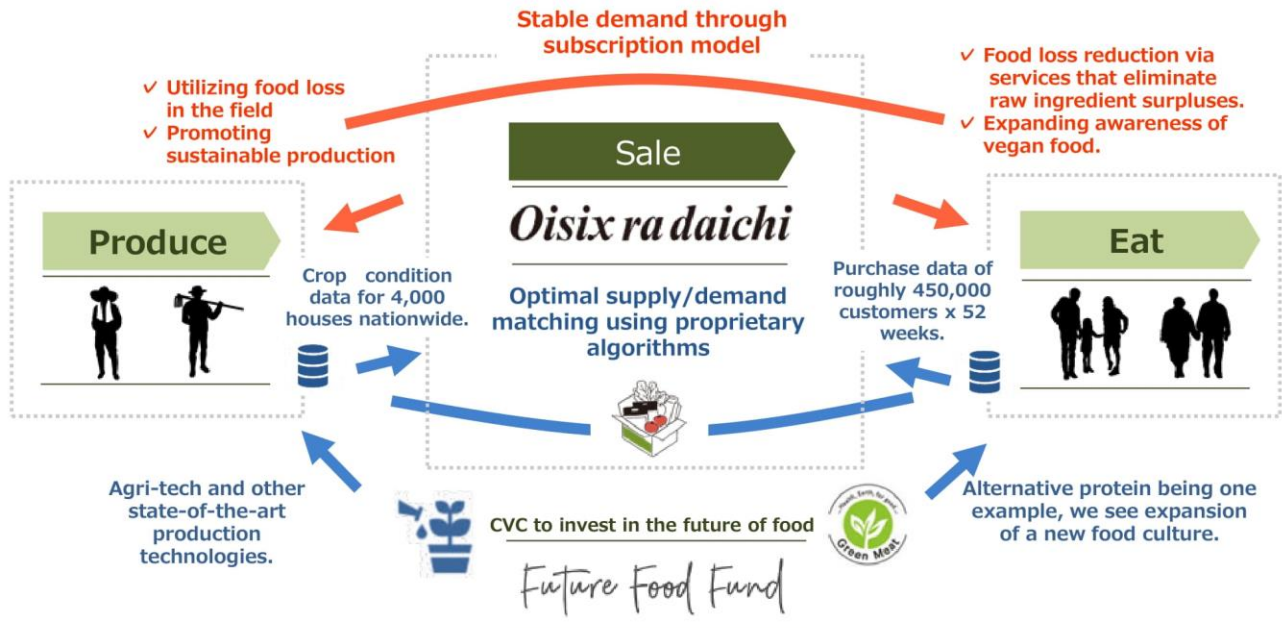
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Using business models and technology
(Re-investigation : 2022.3 2Q)

→ Using Business Models
→ Using Technology



Realization of zero food loss and carbon neutrality

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Specifically, we are reducing food loss at our distributors, but also at production sites and at home.

By creating such a business model, we are expanding the concept of thoroughly reducing food loss and achieving carbon neutrality.

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Business Model Features

We accelerating our efforts to achieve further reduction in **GHG emissions and food waste that are already low given the characteristics of our business model.**

We continue to provide services and products that contribute to sustainability.

Recognition of sustainable activities by customers exceeds 75% for all brands.

①Zero Food Waste

- ✓ Supply and demand are matched using a subscriber model and a proprietary algorithm. **Food waste in the distribution process is as low as approximately 0.2%.**
- ✓ Strengthened food loss reduction services at production sites, **reducing food loss by 160 tons in the first half of the year**

- Weight of food waste reduction in fields



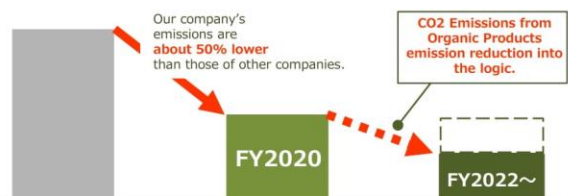
②Carbon Neutral

- ✓ Through a simple distribution channels **Low GHG emissions compared to averages for brick-and-mortar retailing**
- ✓ Sales of **low pesticide use and additive-free** are characteristics of our environmentally friendly food products.

- CO2 emissions per sales (including all of Scope 1, 2, and 3)

Physical Retail Average*

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Over 75% awareness of sustainable activities

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*We calculated the average of five companies that disclose information on CO2 emissions in Scope 1, 2, and 3. Sales of each company are calculated on a consolidated basis for the relevant fiscal year (based on our research).

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Here are our specific initiatives.

First, regarding food loss, our food loss in the distribution process is very low by nature at 0.2%. This percentage rose when we encountered problems at Ebina, but it is now lower than before the relocation, and there is very little disposal anymore.

We are now trying to reduce food loss at the production area, with about 160 tons of food saved in H1.

With respect to carbon neutrality, it is quite difficult to measure, but we know that our business type emits only half the amount of carbon of a regular brick-and-mortar store, and we use as little chemical pesticides and fertilizers as possible.

As I will explain later, we are starting to measure the amount of chemical pesticides and fertilizers we use.

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① Zero Food Waste

Strengthen development of services and products that reduce food waste.

Users of food-waste reduction services are increasing with *Otasuke Oisix* registrants numbering 35,000 and the utilization rate of *fuzoroi Radish* exceeding 70%.

Further, by strengthening development of kits using hitherto neglected food items, we provide users with the opportunity to cut food-loss without sacrificing taste.

Going forward, we look to accelerate development of products using hitherto neglected food items via FRC operations.

- *Otasuke Oisix*

- ✓ Responding rapidly to climate disasters, Friendly to households and contributing to reduction of food loss



- *fuzoroi-Radish*

- ✓ Specializing in non-standard agricultural and fishery products and processed into prepared foods, etc.



- Meal kits with underutilized ingredients

- ✓ Meal Kit for easy enjoyment of previously unavailable ingredients



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We have launched a new service called *Otasuke Oisix*, which aims to solve food loss caused by natural disasters by preparing meals eaten by everyone.

In addition, *Radish's* service, called *fuzoroi Radish*, which uses non-standard ingredients, now includes about 70% of *Radish's* regular member customers.

We have other meal kits which use underutilized ingredients. The example you can see here is brewer's rice. The production of sake creates an excess of brewer's rice, which is then ground into powder and used in meal kits.

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①Zero Food Waste Expand awareness of Upcycle by Oisix

To expand brand awareness of "Upcycle by Oisix," we are conducting joint product development with food companies and students among others. We are also accelerating expansion of external sales.

Since the service was launched in Jun. 2021, we have rapidly developed original products from 2 to 29, Contributed to a 60-ton reduction in food waste.

Collaborate with companies and students to develop products

とどけ、梅のちから。
— CHOYA —



— 青稜中学校・高等学校 —



Expand external sales

NEW

— Afternoon Tea LIVING —



— OIOI —



NEW

— NATURAL LAWSON —



— Natural Supermarket BIO-RAL LIFE —



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Then we collaborate with various places on upcycling products from food loss.

CHOYA has been making dried fruits with the plums left over from the production of ume liqueur, and we also collaborate with junior high school students to develop several products.

We are also expanding external sales outside of Oisix.com, with Afternoon Tea, Natural Lawson, Marui, and BIO-RAL, as you can see here.

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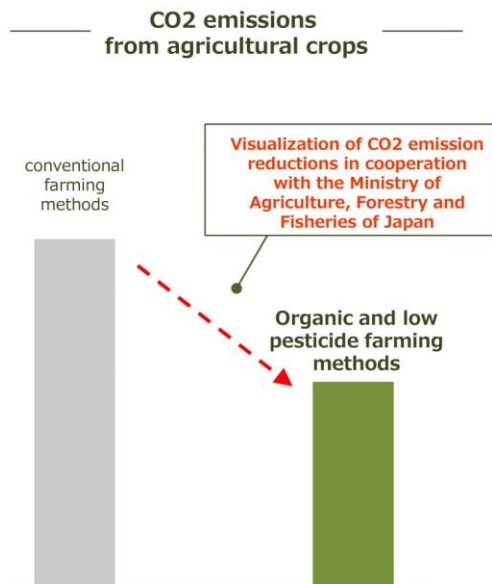
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②Carbon Neutral

Visualization of CO2 emissions by cultivation method

Organic and low pesticide farming methods practiced on crops handled by our company emit less CO2 than conventional farming methods. It has been quantitatively confirmed that **CO2 emissions of mainly fruits and vegetables are significantly lower than those of conventional farming methods, ranging from about 50% to 0%.**



◆ Results of the Demonstration Experiment

CO2 emissions compared to conventional farming methods



44%



Producer A **12%**

Producer B **0%**

Proof that CO2 emissions are significantly lower than conventional farming methods due to reduced use of pesticides, fertilizers, and agricultural materials, as well as the use of "biochar"

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We are also verifying the extent to which our crops emit less CO2 than crops grown in the usual way, as I mentioned earlier.

We are finding that the CO2 reduction varies considerably depending on the product and the producer, from 0% to 50%.

From now on, we intend to reduce emissions by visualizing where emissions are the lowest, and by selling these identified items.

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②Carbon Neutral -Sustainability Promotion Measures

In the name of sustainable retail, we have implemented further measures to reduce plastics-use and completed a switch to renewable energy sources for electric power.

-Kit Oisix packing material measures to reduce plastics-use

- ✓ Switch packaging materials and **reduce plastics by 22% per year**
- ✓ Review of the thickness of the BioPath plastic outer bag (Jun.2022~)
- ✓ Review of individual vegetable package size (Jun.2022~)
- ✓ Elimination of vegetable clips (Mar.2022~)



-completed a switch to renewable energy

- ✓ Switch electricity from all distribution bases and offices to renewable energy (Oisix ra daichi only)
- ✓ Contribute to annual reduction of 3,852 tons of CO2 emissions (compared to FY2019)



Oisix ra daichi

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Other initiatives include a 20% reduction in the amount of plastic used for packaging materials and a switch to renewable energy for all distribution bases.

I will now skip the explanation of our different business segments. Many details are presented in the document.

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Business Portfolio (B2C Subscription)

In the B2C subscription food delivery business, we are the rare entity in the world that implements numerous brands both domestically and overseas. Annual GMV in the domestic B2C subscription business has reached ¥120 bn. Going forward, we aim to use that as a base from which to achieve continuous organic CAGR growth of 10%+

-Expansion of a subscription model in the distribution industry

1 Domestic B2C Subscriptions

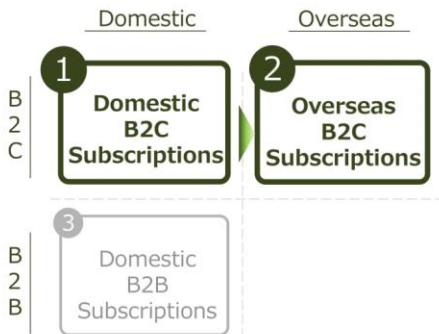
CAGR of

• Total distribution amount
• Number of subscribers

Sales-based distribution amount

About **1,200** bn yen

OVER +10%



Oisix

daichi 大地を守る会
DAICHI MAMORU KAI

Radish Boya

ISE TAN DOOR

ISE TAN DOOR
(他社EC支援)

dメールキット
(他社EC支援)

2 Overseas B2C Subscriptions

PURPLE CARROT

Oisix
Hong Kong

Oisix
Shanghai

Oisix ra daichi

* 2022.3期実績

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Next, our business portfolio expansion.

So far, we have started B2C domestically. The sales-based distribution amount for B2C is now around JPY120 billion.

We have several brands, including our own brands such as Oisix, Daichi, Radish, and Tokushimaru, which is also a subsidiary, and brands for “shopping refugees,” as well as brands such as ISETAN DOOR and d-meal kit, for which we handle the infrastructure and back-end. The total value of the brands is JPY120 billion.

Overseas B2C, including the Purple Carrot service acquired from the US, Oisix in Hong Kong, and in Shanghai, which we are currently launching, amounts to about JPY10 billion.

As for the B2C subscriptions, we are planning to expand in the same way as I explained earlier, but we are also thinking of expanding into B2B and other areas.

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Business Portfolio Expansion

Addition to the domestic B2C business growth, we will add “Domestic B2B Subscriptions” by applying our know-how of subscription food delivery model, and “Next generation food” by leveraging our product development and manufacturing capabilities to our business portfolio to aim for discontinuous growth.



Oisix ra daichi

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We want to start a full-fledged B2B business in Japan, since we see the meal service business as a B2B subscription business, and we believe that we can utilize B2C’s know-how and facilities as a foundation for success with B2B.

We have already mentioned sustainable retail, but in order to become a sustainable food business, we need to handle not only retail products but also the products themselves. We would like to start manufacturing and selling next-generation food products.

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school lunch market overview and our strengths

Domestic B2C	Overseas B2C
Domestic B2B	
Next generation food	

Of the B2B subscription market, the school lunch market which includes wholesale of food ingredients to childcare facilities, is large at roughly ¥4.5 trillion. By leveraging our knowhow in the B2C subscription business, we aim to provide solutions to issues in the school lunch market and thereby drive further sales growth under new business segments.

-Market Overview

- ✓ Large and stable market, worth ¥4.5 trillion as a whole.
- ✓ Market shrank temporarily due to COVID-19, but is recovering.

overall school lunch market (2021)

About **4.5tri yen***

Hospitals, the elderly, and Nursery school

About **2.3tri yen***

Nursery School Only
About **0.2tri yen***

-Synergies with existing businesses

◆Social Issues

- ✓ Measures against excessive labor due to human resource shortages
- ✓ Market environment with intense price competition, making it difficult to increase profitability

◆our strengths

- ✓ Delivering varying menus to customers every week. **High operational capabilities borne from strong affinity with the school lunch business.**
- ✓ **Procurement network/manufacturing capacity built on the B2C subscription business.**
 - Direct procurement from roughly 4000 producers nationwide.
 - Green Procurement Initiatives (Organic and Low Agrochemical Vegetables, Food Rescue).
- ✓ **Digitization skills**

Oisix ra daichi

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Let me explain the B2B model more specifically.

We've been doing daycare for a long time, but the overall market is very large.

Some markets are expanding and others are slowly declining, depending on the industry, but overall there is a very large market, and we have skills that are very compatible with that market.

We believe we can apply an approach that has not yet been seen in the B2B area.

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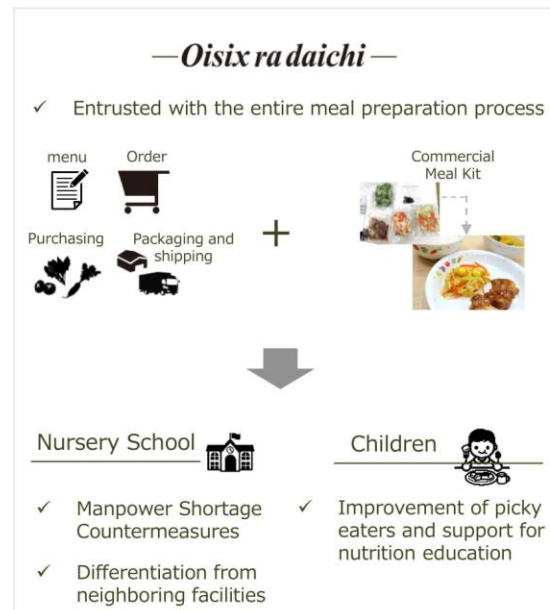
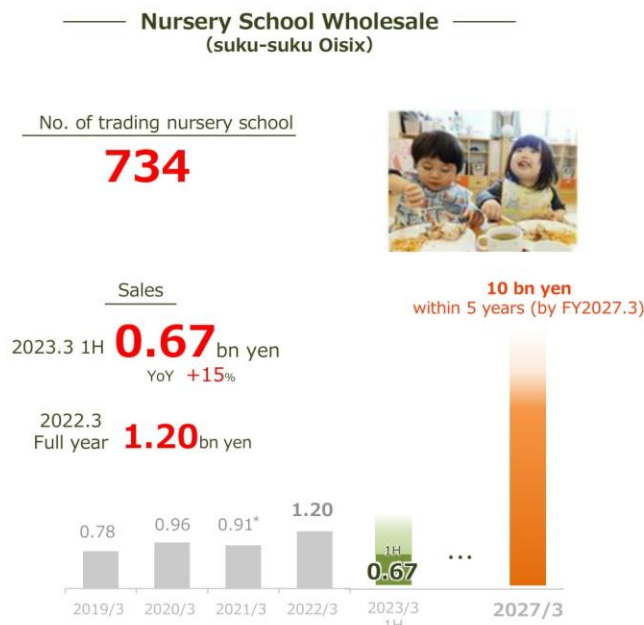
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Nursery School Wholesale (suku-suku Oisix)

DomesticB2C	Overseas B2C
DomesticB2B	
Next generation food	

The number of trading nursery school with which the company does business has increased to 734, and the company will begin test sales of "Commercial Meal Kit" in June to build up its services. The company aims to achieve sales of 10 bn yen within 5 years (by FY2027.3) by reducing the workload of meal preparation and providing value.



Oisix ra daichi

*In the 2021/3 period, the nursery school was closed one after another due to COVID-19, resulting in an irregular decrease in sales. 39

We are planning to develop two specific projects, one of which is wholesale for daycare centers, which we have been doing for some time.

The number of nursery schools is now up to 734, and so far, we have only wholesaled food ingredients, but in the future, we will create meal kits for commercial use and wholesale those as well.

Retention and recruitment of cooks and dietitians is a very big management issue for daycare centers, so we will reduce that burden for them.

We would like to grow our business by delivering safe and secure food that can be handled by a few people, but also meal kits for commercial use.

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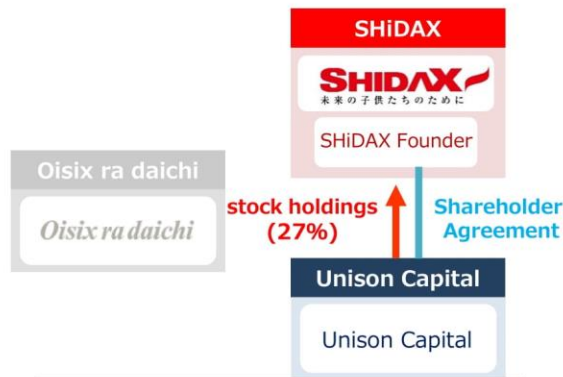
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Acquisition of shares in SHiDAX CORPORATION and Consider collaboration

Domestic B2C	Overseas B2C
Domestic B2B	
Next generation food	

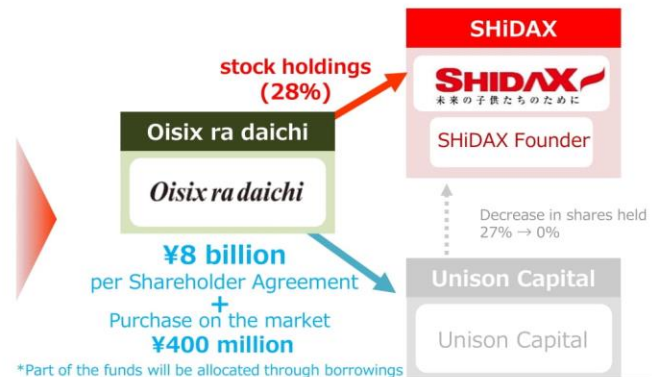
Via tender offer, the acquisition of shares in SHiDAX CORPORATION, announced in June, was completed in Oct. Going forward we look to utilize the assets of both companies to contemplate collaboration in the food and social service businesses among others.

◆ Before stock acquisition



- ✓ Since 2019, Unison Capital has participated in the management of SHiDAX and promoted the implementation of management reforms. Unison Capital holds preferred stock (Preferred Stock Class B: 4.0 billion (equivalent to 27% after conversion of common stock), Class C: 2.5 billion)
- ✓ The founding family of SHiDAX and Unison Capital reached a "Shareholder Agreement" that included the right to exercise sale of the company.

◆ Present



- ✓ The founding family of SHiDAX exercised its right to sell SHiDAX shares with Oisix ra Daichi as the transferee under the Shareholder Agreement. At the request of Unison Capital, the TOB was the acquisition method chosen for execution.
- ✓ TOB was completed on Oct. 25. Acquired all 27% of SHiDAX common shares held by Unison Capital for ¥8.4 billion (¥541/share) as per Shareholder Agreement.

Oisix ra daichi

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Then, there is our collaboration with SHiDAX.

We see SHiDAX as a company that provides B2B subscription services.

We went through various formalities this summer and fall and finally became a 28% shareholder of SHiDAX, including the shares held by Unison. We are now in the process of finalizing the specifics of the collaboration.

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Share acquisition of SHiDAX and collaboration

NEW

DomesticB2C	Overseas B2C
DomesticB2B	
Next generation food	

SHiDAX and ORD has started the discussion in preparation for the establishment of a Special Committee in SHiDAX. Business segments executives from each parties are discussing potential collaboration areas to realize business synergies in the food business segments as a 1st step of the collaboration between SHiDAX and ORD

Oisix ra daichi 	SHiDAX 
<ul style="list-style-type: none"> • Network of 4,000 producers nationwide that enables stable supply of high-quality food ingredients • Utilizing B2C subscription knowledge and manufacturing commercial meal kits • Digitization skills 	<ul style="list-style-type: none"> • More than 60 years of industrial food service know-how since its establishment • Hospitals, senior care facilities, schools, childcare, etc. Wide range of food service business • Network of approximately 1,800 facilities in operation 

◆ Direction of collaboration discussion in the food area

- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Meal kits for commercial use, Improving productivity and value addition at Food services sites
Prepared food using safe and secure ingredients are provided to nurseries and senior living communities | 2 Strengthen added value in the sustainable field
Strengthen added value through efforts to reduce food losses. Develop meal menu utilizing vegan menu and sustainable food |
| 3 Joint procurement and delivery of food ingredients
Strengthen purchasing power of high-quality food by leveraging stable ingredients needs of SHiDAX and ORD | 4 Food service for discharged patients
Offering easy and healthy meals to discharged patients |

By January-end, we aim to compile a list of potential business collaboration initiatives beginning with those ideas having concrete footing.

Oisix ra daichi

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Discussion are just beginning, but we have already identified four collaboration areas.

One, two, and three all concern food procurement.

The first topic is the promotion of semi-cooked and fully cooked products which can be used to both B2C and B2B.

The second topic is green procurement, which we have already mentioned several times. We are trying to create an environment that enables the development of green procurement for SHiDAX customers.

The third topic is the reduction of costs through the organizing and streamlining of our infrastructure.

The fourth topic is slightly different and concerns B2B2C. We are thinking of patients who eat hospital meals and follow the nutritionist's instructions in the hospital. They may want to eat proper meals at home after being discharged, and find themselves in a difficult situation. We believe our Oisix home delivery service can be used to develop a service for hospital patients so that they can eat nutritionally managed food both at the hospital and at home.

There are certainly other topics but these four are the ones we are discussing during this initial stage. We will continue to consider a wider range of areas in the future, and we aim to settle on the feasible ideas by the end of January.

This concludes our presentation of our B2B strategy.

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Entry to next generation food manufacturing and sales business

NEW

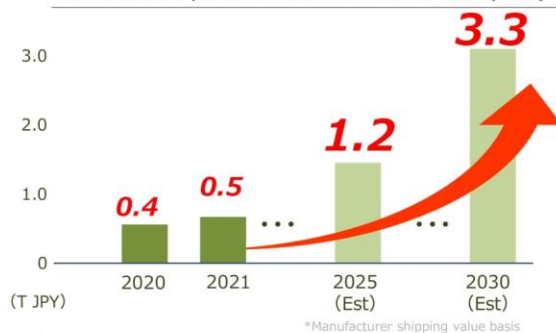
Domestic B2C	Overseas B2C
Domestic B2B	
Next generation food	

Entering growing next generation food manufacturing and sales business to realize “Sustainable Retailing”. Especially Aiming for creating domestic market for alternative protein market where rapid market expansion is expected

-Alternative protein market overview

- ✓ A market that promises rapid growth along with world population growth
- ✓ As a result of COVID-19, interest in alternative foods has risen and market expansion has accelerated

Alternative protein market size trend (est.)



-Synergies with existing businesses

◆Social Issues

- ✓ In addition to conventional food products, sourcing of sustainable food is a must
- ✓ There are few alternative food products that pursue deliciousness and they are not readily accessible.



◆our strengths

- ✓ Marketing know-how to expand new food culture such as Meal Kit
- ✓ Know-how on product development and adjustment of seasonings that suits Japanese food culture
- ✓ Relations with customers who are sensitive to the latest food trends

Oisix ra daichi

*出展：矢野経済研究所「2022年版 代替タンパク質 <代替肉（植物由来肉・培養肉）・昆虫食>の将来展望 〜フードテックが解決する持続可能な食の未来〜」

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Next are innovative products, and more specifically, alternative proteins, which are our focus.

We sell alternative protein products, but compared to other countries, it is difficult to say that a market has been established in Japan yet. We are trying to create a domestic market.

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Next generation food

NEW

Domestic B2C	Overseas B2C
Domestic B2B	
Next generation food	

Expanding business portfolio to “Next generation food” including alternative protein market by leveraging food tech. Aiming for further growth by creating new market demand of next generation food by supplying to offline channel such as supermarkets, restaurants and hospitals in addition to online

Oisix ra daichi

- ✓ Marketing know-how to expand new food culture
- ✓ Direct contact with customers and product development capabilities

- Online

Overview

Offering varieties options

- ⇒ Deliver ingredients, meal kit, pre-cooked dish at Oisix as a first step
- ✓ At reasonable price range
- ✓ Easy to use (e.g., pre-cooked dish)

Plan

Launching first product mid December

- Offline (Real)

Overview

Creating opportunities to try Sustainable food

- ⇒ supermarkets, restaurants and hospitals
- ✓ Good taste
- ✓ Flexible to cooking methods

Plan

Start B2B sales during this fiscal year



Nestlé. Good food, Good life

- ✓ Global No.1 Food player
- ✓ Active investments to innovative food

Started the collaboration with Nestle Japan to develop next generation food that matches Japanese lifestyle

Oisix ra daichi

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We want to start the production and sales of alternative protein products.

Of course, we will sell our products through Oisix, but we would also like to do wholesale for general supermarkets and restaurants.

As part of this effort, we are currently in talks with Nestlé Japan to start a collaboration that would leverage Nestlé's technological capabilities and our marketing and sales network.

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Promoting the reduction of consumer problems among the elderly

Utilizing Tokushimaru, a mobile supermarket platform, we are participating in the Consumer Affairs Agency's "Advanced Model Project on Local Consumer Administration." Launched a survey on consumer issues faced by the elderly.



- Regular visits twice a week
- "watch activities" of customers in addition to face-to-face sales



- Consultation on daily life
- Consultation on consumer problems

Mainly customers around 80 years of age



Studies on consumer issues faced by the elderly have been initiated and in tandem with the Consumer Affairs Agency, we are promoting measures to address such issues.

Oisix ra daichi

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Finally, I would like to mention two ESG topics.

Tokushimaru now operates over 1,000 vehicles, and we are working with the Consumer Affairs Agency to find ways to avoid consumption issues among the elderly.

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WeSupport Family

We operate "WeSupport Family" which is a food support platform for children's distressed families. Our support started from 2021 and the number of support households has greatly increased to 90,000 households.

In addition, food aid for Ukrainian displaced persons visiting Japan has begun this year.

子どもたちの栄養を考えた食支援
WeSupport Family

Food support platform for poor households with children, mainly single parents.

WeSupport

Food support for Ukrainian evacuees coming to Japan through the WeSupport platform

Amount of donations
(cumulative)

2.7bn yen

Recipient of support

90,000 households

✓ Provided food for approximately 1,500 evacuees from Ukraine



Oisix ra daichi

(2022年11月4日時点) 47

WeSupport Family is a platform originally created during the pandemic to provide meals for hospital healthcare workers. I think this mission has now been completed.

However, since we have created this platform, we have decided to use it for other purposes as well, so we are providing support for single-parent households that do not have enough food to eat.

In H1, the number of supported households increased to about 90,000, and several food companies joined us and provided food.

In monetary terms, donations were just under JPY300 million and with that amount we delivered food to 90,000 households.

We are also using this platform to provide food assistance to Ukrainian evacuees.

That is all I have to report regarding H1. Thank you very much.

Shibamoto: Thank you very much, Director Takashima.

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Question & Answer

Shibamoto [M]: Now, let's move on to the question-and-answer session. Questions from investors will be followed by questions from the media.

Let's begin. First, we will take questions from investors.

Mr. Sumi? Please ask your questions.

Sumi [Q]: Thank you. This is Sumi from the Tokai Tokyo Research Institute. I would like to ask two questions.

First, I would like to talk about the results for H1 and your plans for the full fiscal year. In terms of the growth of Oisix subscribers, the full year plan is 398,000. If we subtract the H1 figure, that means you plan to attract about 42,000 new members in H2. Isn't this a little ambitious? Do you think it is possible to reach this goal with promotions for example?

My second question. I understand that your B2B business is currently focused on childcare facilities, but I understand you will also be developing other areas such as elderly care and hospitals in the future. Your company plans to sell high-value-added products in the B2B business, but how much room do you have for growth? SHiDAX is mainly working on these areas, so I wonder if there is a purpose for your company to conduct sales in these areas as well. You have mentioned the situation of the overall market, but how big do you think your particular high value-added market is?

Takashima [A]: Thank you very much. Regarding your first question, we will do the best we can.

As you said, it won't be easy. Q1 coincides with many life changes, especially for Oisix. People move, children start attending elementary school or kindergarten. Therefore, Q1 is usually very important, but it wasn't very good this year. So there's quite a gap there. Q2 is usually more challenging, but we were able to gain more subscribers than expected. It won't be very easy to bridge this gap, but it won't be absolutely impossible.

Q1 was not so good due to the fact that we were not able to promote as much as we had hoped because of our distribution issues. However things are picking up and we hope we can reach our target.

Regarding the B2B area, in some facilities, the price is already predetermined, so products are not limited to high value-added products.

We have to be cost-competitive anyway, and we can offer some of those ingredients as well. I believe that the Food Rescue center I mentioned earlier can address this cost issue, and this is a function we want to develop.

Hospitals, schools, company cafeterias, nursing homes, and various other types of facilities exist as targets. We think it's better for us to learn quickly and develop services, including through partnerships with SHiDAX, rather than strictly stick with our know-how acquired in nursery schools and start from scratch.

In terms of marketing, there are marketing synergies with the current Oisix members among mothers at daycare centers, so we started there. We are also looking for marketing synergies with some hospitals and company cafeterias.

From a marketing standpoint we believe it makes sense to start with the most likely area where customers might use our delivery service, which is the home. The scale of the project is still to be determined.

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Thank you very much, Mr. Sumi.

Sumi [M]: Thank you very much. That's all from me.

Shibamoto [M]: Thank you very much, Mr. Sumi.

We will now take questions from the media. Mr. Mori, please go ahead.

Mori [Q]: I am Mori from the Nihon Keizai Shimbun. I have two questions.

First of all, with the current inflation, I think more and more people are cutting back on spending on food, including at supermarkets. I would like to know your thoughts on this, given the decrease of your sales. Or do you think this is unrelated and another factor caused the decrease?

My second question. In your explanation of the collaboration with SHiDAX, you mentioned that the discussions will be finalized by the end of January of next year. I would like to confirm what exactly will be done at the end of January. Will you share the four topics you mentioned with SHiDAX in a more concrete way, or will you actually start conducting some type of operation?

Takashima [A]: Thank you, Mr. Mori. Regarding your first question, we are raising prices, and that generates more cancellations, which means fewer subscribers. Of course, a certain number of customers cancel their subscriptions due to the price increase, but the total number of customers has increased a little. We don't think the impact has been really strong and we continue to increase our numbers.

On the other hand, what accounts for the slight 1% decrease in sales is that sales per capita have dropped, and this is simply due to the fact that people eat at home less often. Customers are eating out more often and eating at home less often than during the pandemic.

However, they still eat at home more than before the pandemic, and the price per person is between the pre-coronavirus level and the during-coronavirus level. Rather than inflation, we believe that the number of meals eaten at home is closely related to sales, and COVID-19 and remote work are definitely influential.

As for SHiDAX, we have only been able to discuss for a short period of time. I don't mean to imply that we are on bad terms at all, we have a very good relationship, but I'm still not sure how it will turn out in response to your second question.

We have been discussing what we originally planned to do at the site level as recently as this time last year, and we have some ideas about what we definitely want to do so we might be able to start ahead on certain topics. Basically, we think it is important to materialize our plans.

For example, there is a business called Human Service in which SHiDAX collaborates with local governments, and there is a strong affinity between this activity and Tokushimaru's activity, so we have discussed synergies there. We will come up with concrete proposals for collaboration, including the four topics mentioned as well as other possibilities.

However, the schedule for the collaboration will probably vary depending on the topic. Some initiatives should start soon while others will start in the next fiscal year.

Mori [M]: I understand. Thank you very much.

Shibamoto [M]: Thank you very much, Mr. Mori. Mr. Yamashita, please go ahead.

Yamashita [Q]: My name is Yamashita from Asahi Shimbun.

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I would like to ask you about the SHiDAX collaboration as well. While the TOB was approved this time, through discussions with the founding family and SHiDAX, I believe that they have agreed to fairly consider collaborations with other companies and not simply Oisix. What do you think about this decision? Is this different from your initial understanding?

Takashima [M]: Is this your only question?

Yamashita [M]: Yes, for now.

Takashima [A]: Understood. Yes, I understand that the general goal of a negotiation is to find common ground.

What was special this time, however, was that the negotiation process was open and we were not allowed to retain insider information during the TOB period, making it very difficult to engage in conversation. I think it's a difficult environment, but the openness is what made it special. I believe we have both made concessions in order to find common ground.

Naturally, our initial assumptions were different, but we believe that concessions can be made in this area. Since SHiDAX is not selling the food business, we are not competing with other companies on that front. Because we are now a shareholder, even if this was the case, we would not kill the proposal, regardless of whether we also form a special committee or not. So I don't think it is such a big topic.

However, I understand that SHiDAX's Board of Directors prefers a clear and open situation. Even without their insistence on openness, we wouldn't have behaved in a way that might have concerned them. In any case, we have accepted their conditions and settled the matter.

Yamashita [M]: I understand. Thank you. That's all from me.

Shibamoto [Q]: Thank you, Mr. Yamashita. We will now move on to written questions. Here is the first one.

"I have the impression that the acquisition of SHiDAX's shares will not be positive for your company in terms of branding and profitability. With so much work to be done, such as the green shift and overseas initiatives, please tell us why you are allocating resources to the acquisition of shares before these initiatives takes shape in an industry where profitability is so hard to maintain. Thanks."

Takashima [A]: This is pretty hard to explain. This may be difficult, but I would like to try to explain once again.

Originally, as I mentioned earlier, there is a considerable affinity between the B2C domain and the B2B domain.

In terms of infrastructure, we can do a lot, such as sharing ingredients and logistics. We are promoting the green shift in B2C, and I believe it will be effective in the B2B area as well, but it will be very difficult and time-consuming for us to do this starting from zero. In that sense, I believe that working together will overwhelmingly speed up the process.

Opinions can differ regarding whether we should have provided capital before or after the materialization of our collaboration, but basically, I do not think the timing of the capital alliance was for us to choose.

As has been the case with Daichi, Radish Boya, Tokushimaru, and Purple Carrot in the past, each project has its own schedule, and either we can accommodate that schedule or we cannot. It's difficult for us to impose our own schedule.

You are correct, it would look better if, as you say, the green shift and overseas operations were to be settled in about three years and B2B could then finally be implemented afterwards, but realistically I don't think that will happen.

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We have options regarding the long term, but there are things we would like to do as soon as possible and things we would be happy to do a little later. We are trying to move forward taking into account good timing and good relationships.

It can definitely feel premature, as you say, but I think that when we look back five years from now, we will be glad we did it. That's all from me.

Shibamoto [M]: Thank you very much. Is there any other question?

Takashima [M]: It looks like we have another one.

Shibamoto [Q]: That's right. I will read it out.

"The optimization of the distribution center will be felt in H2, resulting in a 1% improvement in profit margin. This may depend on the assumption of ARPU, but is it correct to understand that ARPU is expected to be on par with H1?

Also, should we roughly assume that a 1% improvement in H2 would result in a 0.5% overall improvement in the profit margin? If possible, I would also like to know your target for ARPU."

Takashima [A]: I will answer. As you say, we use an ARPU assumption. ARPU should be close to H1 level, but it is inevitably higher in Q3, especially at the end of the year. December will have a considerable impact on Q3, and that impact will show up in the short-term numbers. But basically, I think the ARPU will be around the current level.

As you mentioned, Oisix sales are about 50% of total sales, so a 1% improvement in profit from Oisix would mean a 0.5% improvement in company-wide profit.

As for the future ARPU, we are trying to increase it, but I think this will happen starting from the next fiscal year rather than this fiscal year, so it's difficult to state a target at this point. Thank you.

Shibamoto [Q]: Thank you very much. Let's move on to the next question.

"I have the impression that upcycled products are expensive to manufacture. Will the 3% cost reduction due to the full-scale operation of the Food Rescue Center be achieved mainly through purchasing? Is it possible to reduce costs at the manufacturing stage? Thank you."

Takashima [A]: Thank you very much. As you said, upcycling, which is transforming usual food waste into food products, can be difficult. For example, daikon peels are produced when making pickled daikon radish, and a large amount of daikon peels are thrown away, but since we have to control the temperature and sanitize them, the cost is considerably higher than a simple disposal.

However, we have found that we have been able to sell quite a bit through this initiative since last year. If we can sell the product, it will not cost as much as it does now as long as we create and optimize the workflow from the start.

We don't know yet whether costs will be half of what they are now, or two-thirds, or one-third, but we do know that they are very high at the moment and we can definitely lower them. We would like to reduce the cost price by at least half compared to current upcycled products, and that should lead to them becoming more popular.

As for the cost ratio of the Food Rescue Center, the process is a manufacturing process, as you pointed out. I think our main focus will be to reduce costs in the manufacturing process of kits and frozen foods. Thank you.

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Shibamoto [Q]: Thank you very much. Let's move on to the next question.

"I understand that the broad medical food category for hospitals, care facilities, and recuperating patients is a fragmented market in Japan. Could you please share your strategies regarding manufacturing and customer acquisition in order to gain an advantage over existing businesses? Thank you."

Takashima [A]: We are not yet working with SHiDAX on specifics regarding how to expand our hospital business and care facility ingredients business. However, we are in the nursery school business. Nurseries are the most fragmented market, and most of the players, in food service as well as food ingredients, are major companies.

We are probably the second largest player, with around JPY1.2 billion. SHiDAX might be a bit larger and reach the number one spot, but anyway, the market is very fragmented. From now on, we think providing solid value is more important than differentiation.

In this context, what we take into account at nurseries is the rates of food completion and consumption. Whether the children eat their lunch or leave it behind is a very big factor.

Another indicator is the labor. There is the time and effort of the cooks and nutritionists when they prepare the food, but when they have to submit data on nutritional management to local governments.

We can reduce this time and effort, and create value because the children eat more. We are focused on achieving both of these goals. We are now serving about 730 nursery schools, and we have received many comments about how well the children eat.

In addition, we have learned a lot from meal kits. When making meal kits for commercial use, we know that children may not eat depending on the color, size, or texture, so we plan to use what we've learned from B2C meal kits in B2B meal kits for preschools.

The situation is probably different in hospitals and nursing homes, but even then, simply offering nutritional management is not enough. I think that by finding ways to increase the percentage of meal completion, we can create hospital meals that lead to a high probability of success in treatment.

We would like to discuss this with SHiDAX, although it will be a little more in-depth than what I have just said. That's all from me.

Shibamoto [M]: Thank you very much. There is no question left, so we will now conclude the briefing. Thank you very much for taking time out of your busy schedule to join us today. Goodbye.

Takashima [M]: Thank you very much.

[END]

Document Notes

1. Portions of the document where the audio is unclear are marked with [Inaudible].
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