



President Masahiro Miyamoto

PICKLES CORPORATION (2925)



Corporate Information

Stock Exchange	TSE 1st Section
Industry	Food products (manufacturing)
Representative	Masahiro Miyamoto
Address	7-8, Higashisumiyoshi, Tokorozawa-shi, Saitama
Accounting term	February
URL	http://www.pickles.co.jp/

Stock Information

Share Price	Shares Outstanding (Excluding Treasury Shares)		Total Market Cap	ROE (Actual)	Trading Unit
¥2,348	6,397,743 shares		¥15,021million	10.4%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥30.00	1.3%	¥208.32	11.3x	¥2,017.79	1.2x

*Share price is as of closing on April 24. Number of shares outstanding is as of the end of the most recent quarter, and does not include treasury shares.

Consolidated Earnings Trend

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	EPS	DPS
February 2017 Act.	35,801	780	867	548	105.63	22.00
February 2018 Act.	37,616	1,131	1,233	872	144.81	25.00
February 2019 Act.	40,670	1,409	1,561	920	143.88	28.00
February 2020 Act.	41,417	1,871	1,973	1,290	201.67	30.00
February 2021 Est.	43,000	1,905	2,028	1,332	208.32	30.00

*The estimated values were provided by the company. Unit: Million-yen, yen

This Bridge Report presents PICKLES CORPORATION's overview of the financial results for the Fiscal year ended February 2020 and describes the earnings forecast for the term ending February 2021.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Fiscal Year ended February 2020 Earnings Results](#)

[3. Fiscal Year ending February 2021 Earnings Forecasts](#)

[4. External environment and main measures for the future](#)

[5. Conclusions](#)

[<Reference: Regarding Environment, Society, and Governance \(ESG\) Activity >](#)

[<Reference: Regarding Corporate Governance>](#)

Key Points

- **In the term ended February 2020, sales and operating income grew 1.8% and 32.8%, respectively, year on year. Although the product sales dropped 6.6% year on year due to the recoil from the previous term's sales, etc., the sales of products such as asazuke lightly pickled vegetables, kimchi, and delicatessen increased 7.3% year on year, indicating that the sales increased for 10 consecutive terms. The company increased profit for 3 consecutive terms thanks to the favorable increase in sales of products, the stable price of raw ingredients, and the improved profitability of Saga Factory. As the company's fiscal year ends in February, there were no major effects of the coronavirus crisis. The dividend is to increase 2 yen per share to 30 yen per share. (The dividend will increase for the 6th consecutive term and the payout ratio is 14.9%.)**
- **In the term ending February 2021, sales and operating income are estimated to grow 3.8% and 1.8%, respectively, year on year. It is difficult to predict the effects of the spread of COVID-19, thus the company did not estimate it. However, the company considers the effects to be minor for the time being. The sales of asazuke lightly pickled vegetables and kimchi products are projected to increase 11.2% year on year and the sales of delicatessen, whose sales increased significantly during the previous term, are estimated to grow 2.4%, which raises the expectations for a favorable trend. Although the opening of the new business (OH!!!) is expected to require an increase in expenses, the increase in sales will cover it. Sales and profit are expected to continue hitting a record high. The term-end dividend is estimated to be 30 yen/share.**
- **It should be kept in mind that the performance of the company group might get hit by the effects of COVID-19 in case it extends for a prolonged time or gets more severe. However, currently, there are no major concerns, and as a result of self-isolation, more people are having meals at home, which is beneficial for the company. As many corporations have kept their forecasts undetermined, we would like to pay attention to Pickles Corporation as a company that responsibly set its course of action for the term ending February 2021.**

1. Company Overview

PICKLES CORPORATION engages in production and sale of asazuke lightly pickled vegetables, kimchi, and delicatessen, and procurement and sale of Japanese-style pickles through a nationwide production and sales network that it has built up in cooperation with its 17 consolidated subsidiaries, including PICKLES CORPORATION Sapporo, PICKLES CORPORATION Kansai, and Food Label Co., Ltd., and 3 affiliated companies accounted for by the equity method. The theme color of the company, green, represents freshness under a slogan of "We deliver the vitality of vegetables." The company's own products are produced using vegetables grown and harvested mainly in Japan by contracted farmers so that their traceability is ensured (about 80% of the vegetables used are supplied by contracted farmers), and no preservatives or synthesized food colorings are used. Furthermore, the company has displayed "an absolute commitment to food safety" at its production sites as demonstrated by such endeavors as thorough temperature control at the factories, checkups of the clothes and health of all the employees before they enter the factories, devotion to the 5S activities (5S represents sorting, setting-in-order, shining, standardizing, and sustaining the discipline) and acquisition of the certification of FSSC22000 and JFS-B.

By product, sales from the products (produced at the company's own factories) accounted for 63.9% (41.8% from asazuke lightly pickled

vegetables and kimchi products, 20.1% from delicatessen, and 2.0% from old pickled vegetables), and those from products such as Japanese-style pickles, including the products of a consolidated subsidiary, Food Label, made up 36.1% (produced at factories other than the company's own ones) in the term ended February 2020. By sales channel, sales at mass retailers and wholesalers made up 74.9%, those at convenience stores accounted for 15.9%, and those through other distributors accounted for 9.2%.

【Corporate Philosophy】

PICKLES CORPORATION's philosophy is "We deliver tasty and safe foods to consumers and aim at eco-conscious corporate management." Under the corporate philosophy, it is pursuing the following management policies: (1) quality control for producing safe and delicious food products, (2) environmentally friendly corporate management, and (3) arrangement of a working environment that puts instillation of morals and the principle of safety and health first. Following these policies, the company is working on international standards for food safety, including FSSC22000 and JFS-B, and international standards for environmental control such as ISO14001. In addition, it focuses on training and education of its employees through various approaches, such as enrichment of the personnel system and education programs. PICKLES CORPORATION would like to maintain its fundamental attitude as a food company, which is provision of "safe and quality" foods, in order to earn trust of consumers and contribute to society by being devoted to corporate activities on the basis of these policies.

1-1 Strength

PICKLES CORPORATION's strengths are the capability of developing products that enables it to release new products seamlessly, such as the product line of "Gohan ga Susumu Kimchi (kimchi that goes well with rice)" that has been a big hit and various other delicatessen, and the sales, production, and logistics network covering all the regions of Japan.

There is a multitude of methods and flavorings for making kimchi products. The company has been continuing to increase sales by enriching the lineup of its kimchi products with its product development capability, which is one of its strong points, and it achieved the sales of products related to Kimchi over 7 billion yen in the term ended February 2019. This capability of product development has been utilized also in the delicatessen business that is thriving as a business pillar next to the business of asazuke lightly pickled vegetables and kimchi. Utilizing combination with the enrichment of the lineup of deli items and the continuous improvement of the existing products, it allows the company to prospect for sales floors at a number of distributors such as supermarkets. Furthermore, the corporate group is the only company in the pickles industry that has built a nationwide network. This has enabled it to supply the same kind of pickles product and delicatessen item to each store of the company's clients that have branch stores all across Japan, which is one of the company's selling points on business.

BRIDGE REPORT



(Taken from the reference material of the company)

1-2 New businesses

The consolidated subsidiary Piene Corporation utilizes fermentation with lactic acid bacteria and Koji Rice to bring out the natural rich flavors of vegetables and releases its products under the brand name, “Piene.” The “Piene” brand offers a new lifestyle through eating habits by providing products that utilize the fermentation properties of the company’s own lactic acid bacteria, Pne-12, which was discovered thanks to research and development, and Koji Rice, as they bring out the natural tastiness of vegetables.

Currently, the company runs the e-commerce site “Piene Online Shop,” which also serves as a marketing channel, however, in its plan to start a retail business, it launches sales in actual stores for a limited time. The company operated a pop-up store in Hikarie ShinQs Shibuya (Shibuya-ku, Tokyo) from Sep. 12 to 25, 2019 and started the brand’s first sales activity of delicatessen and Bento (lunch boxes). Further, they released new products such as Koji Rice sauce and Koji Rice seasonings simultaneously with the opening.

Piene Online Shop: <https://www.piene.co.jp/>

The pop-up store in Hikarie ShinQs Shibuya and its products



● Delicatessen



● Bento (lunch boxes)



(Taken from the reference material of the company)

● Koji Rice sauce



● Koji Rice seasonings



(Taken from the reference material of the company)

The lactic acid bacteria “Pne-12”

It is the company’s own lactic acid bacteria, which was discovered through research and development. The group uses it in many products including “Gohan ga Susumu Kimchi” and the Piene brand products (patent acquired in October 2015 under the registration number: 5830569)

Characteristic (1): It produces tasty fermented vegetables.

•It is lactic acid bacteria of vegetable origin derived from rice bran; it is finely selected from numerous lactic acid bacteria in order to make the vegetables tasty after fermentation.

Characteristic (2): It supports health from the stomach.

The pre-clinical mouse testing confirmed that it increases the amount of the intestinal antibody (IgA).

(IgA is one of the antibodies produced by the immune system to protect the body and prevent infections from viruses and bacteria.)

Effective for reducing body fat and improving bowel movement and gut flora (gastrointestinal microbiota)

As a result of studying the effect of reducing body fat, it was confirmed that the intake of Pne-12 and FOS (fructooligosaccharide) reduces body weight, BMI, and the overall fat area except for obese individuals. Moreover, when comparing the states before and after the intake, a reduction in body weight, BMI, visceral fat area, subcutaneous fat area, and the overall fat area was confirmed.

Further, as a result of studying its effects on intestinal functions, when people with a defecation frequency of 3 to 5 times per week took Pne-12 and FOS, the content of Bifidobacterium in their feces showed an upward trend, moreover, when compared to their state before the intake, their defecation frequency increased.

Furthermore, Fructooligosaccharides (FOS) is one of the digestion-resistant oligosaccharides. It is not digested by gastric acid and enzymes inside the human small intestine, but arrives in the large intestine and becomes food for what’s known as the good bacteria including lactic acid bacteria and Bifidobacteria.

2. Fiscal Year ended February 2020 Earnings Results

2-1 Consolidated Business Results

	FY 2/ 19	Ratio to sales	FY 2/ 20	Ratio to sales	YoY	Revised estimate in the 2Q	Estimate comparison
Net Sales	40,670	100.0%	41,417	100.0%	+1.8%	42,716	-3.0%
Gross profit	9,612	23.6%	10,560	25.5%	+9.9%	10,481	+0.8%
SG&A expenses	8,202	20.1%	8,688	21.0%	+5.9%	8,628	+0.7%
Operating income	1,409	3.5%	1,871	4.5%	+32.8%	1,853	+1.0%
Ordinary income	1,561	3.8%	1,973	4.7%	+26.4%	1,996	-1.1%

Profit attributable to owners of parent	920	2.3%	1,290	3.1%	+40.2%	1,312	-1.7%
---	-----	------	-------	------	--------	-------	-------

* Unit: million yen

Sales and operating income grew 1.8% and 32.8%, respectively, year on year.

The sales were 41,417 million yen, up 1.8% year on year. As products made for convenience stores were the main drivers for the sales of delicatessen products to grow 12.7% year on year, the effects of sales promotion activities helped the asazuke lightly pickled vegetables and kimchi products, mainly the “Gohan ga Susumu” series, grow sales favorably 5.4% year on year. The asazuke lightly pickled vegetables and kimchi products suffered a sales drop in supermarkets due to unseasonable weather in July and August and as a result, sales increased only 0.1% year on year for the first half. However, in the second half, thanks to the sales promotional activities accompanying the 10th anniversary of releasing “Gohan ga Susumu Kimchi” (broadcasting a new commercial, launching a giveaway campaign, launching a website to commemorate the 10th anniversary, etc.), sales grew 11.3% year on year. As for the products, sales decreased 6.6% year on year due to the aggregation of products and the recoil from the increased sales of dried Japanese plums as it was consumed as a countermeasure to prevent heatstroke in the previous term.

Operating income was 1,871 million yen, up 32.8% year on year. Gross profit increased 9.9% year on year thanks to the increased sales ratio of products, the stable prices of raw vegetable ingredients, and the efficiency improvements of Saga factory after 1 year has passed, etc. (the cost of sales ratio dropped from 76.4% to 74.5%). The increase in SG&A expenses, including logistics and personnel costs, was covered.

Sales by Food Item

	FY 2/19	Composition ratio	FY 2/20	Composition ratio	YoY	Revised estimate in the 2Q	Estimate comparison
Asazuke pickles /kimchi	16,420	40.4%	17,308	41.8%	+5.4%	17,181	+0.7%
Delicatessen	7,382	18.1%	8,321	20.1%	+12.7%	8,649	-3.8%
Old pickled vegetables	854	2.1%	831	2.0%	-2.7%	843	-1.4%
Product (above totals)	24,656	60.6%	26,462	63.9%	+7.3%	26,674	-0.8%
Product (pickles, fruits and vegetables, etc.)	16,012	39.4%	14,955	36.1%	-6.6%	16,041	-6.8%
Total	40,670	100.0%	41,417	100.0%	+1.8%	42,714	-3.0%

* Unit: million yen

The sales of asazuke lightly pickled vegetables and kimchi products increased 5.4% year on year. In the first half, it suffered a sales drop in supermarkets due to unseasonable weather in July and August and as a result, sales increased only 0.1% year on year. In the second half, thanks to the sales promotional activities accompanying the 10th anniversary of releasing “Gohan ga Susumu Kimchi”, sales grew 11.3% year on year. As for delicatessen, sales increased 12.7% year on year thanks to the good performance of products made for convenience stores (the seventh pickles product). As for products, sales decreased 6.6% year on year due to the aggregation of products, the decrease in demand on dried Japanese plum, which had risen due to the special demand in the same period last year, etc.

Sales by Sales Channel

	FY 2/19	Composition ratio	FY 2/20	Composition ratio	YoY	Revised estimate in the 2Q	Estimate comparison
Mass retailers/wholesalers	31,132	76.5%	31,030	74.9%	-0.3%	32,262	-3.8%

BRIDGE REPORT



Convenience stores	5,288	13.0%	6,587	15.9%	+24.6%	6,346	+3.8%
Restaurants/others	4,250	10.4%	3,799	9.2%	-10.6%	4,107	-7.5%
Total	40,670	100.0%	41,417	100.0%	+1.8%	42,715	-3.0%

* Unit: million yen

Changes in the price of raw vegetable ingredients

At the beginning of the term, the air temperature in Ibaraki Prefecture, which is a major production area, was higher than usual. Thus, Chinese cabbage tended to be larger and the shipment amount increased, and the price started at almost 40% lower than that in the same month of the previous year, and although it rose afterward, the price of Chinese cabbage was nearly unchanged from the same month of the previous year.

The price of cucumbers was 10-20% higher than that in the same month of the previous year in the beginning and end of the term (prices soared as the harvest from major production areas such as Miyazaki Prefecture was insufficiently grown due to the lack of sunlight). However, during the summer, it was 10-30% lower than that in the same month of the previous year, as the weather in Fukushima and Iwate Prefectures, which are major production areas, was favorable, thus the price was overall lower than that in the same months in the previous year.

Changes in Chinese cabbage and cucumber prices (FY 2/16 = 100)

	FY 2/ 16	FY 2/ 17	FY 2/ 18	FY 2/ 19	FY 2/ 20
Chinese cabbages	100	107	111	99	92
Cucumbers	100	105	100	109	106
Gross profit margin	22.5%	21.8%	23.0%	23.6%	25.5%

*Based on the company's documents

Monthly changes in Chinese cabbage and cucumber prices (the same month of the previous year = 100)

	March	April	May	June	July	August	September	October	November	December	January	February
Chinese cabbages	62	97	100	96	100	97	101	87	97	102	105	102
Cucumbers	111	113	92	100	89	72	82	83	115	92	126	127

*Based on the company's documents

Breakdown of SG&A Expenses

	FY 2/ 19	Ratio to sales	FY 2/ 20	Ratio to sales	YoY	Revised estimate in the 2Q	Estimate comparison
Logistics cost	4,078	10.0%	4,248	10.3%	+4.2%	4,263	-0.4%
Personnel cost	2,422	5.9%	2,630	6.3%	+8.6%	2,516	+4.5%
Advertising cost	280	0.7%	326	0.8%	+16.4%	409	-20.3%
Others	1,421	3.5%	1,483	3.6%	+4.3%	1,438	+3.1%
Total SG&A expenses	8,202	20.1%	8,688	21.0%	+5.9%	8,628	+0.7%

* Unit: million yen

Although the logistics cost was affected by raised prices, etc., the increase was kept at 4.2% year on year thanks to the revision of the transportation routes from the second half, etc. In this area, along with the business expansion, personnel expenses increased 8.6% year on year and advertising and promotional expenses increased 16.4% year on year due to the sales promotional activities conducted in the second half.

2-2 Financial Conditions and Cash Flow

Financial conditions

	Feb.19	Feb.20		Feb.19	Feb.20
Cash	2,835	3,309	Payables	2,905	3,484
Receivables	3,925	4,998	ST Interest-Bearing Liabilities	2,619	2,439
Inventories	601	621	Current liabilities	7,916	8,444
Current Assets	7,509	8,990	LT Interest-Bearing Liabilities	1,381	1,857
Tangible Assets	12,931	13,661	Noncurrent liabilities	2,311	2,810
Intangible Assets	796	733	Net Assets	11,904	13,016
Investments and Others	893	885	Total Liabilities and Net Assets	22,132	24,271
Noncurrent Assets	14,622	15,280	Total Interest-Bearing Liabilities	4,000	4,297

* Unit: million yen

Term-end total assets were 24,271 million yen, up 2,138 million yen from the end of the previous term. Cash and bank deposits increased owing to good business performance and the decrease in capital investments, thanks to which free CF was 526 million yen, and increased debts. Moreover, tangible assets increased due to the construction of a factory for Piene Corporation. Equity ratio was 53.2% (53.5% at the end of the previous term).

Cash flows (CF)

	FY 2/ 19	FY 2/ 20	YoY	
Operating cash flow (A)	1,577	2,303	+726	+46.0%
Investing cash flow (B)	-2,630	-1,777	+853	-
Free Cash Flow (A + B)	-1,053	526	+1,579	-
Financing cash flow	81	-52	-133	-
Cash and Equivalents at the end of term	2,835	3,309	+474	+16.7%

* Unit: million yen

The company secured an operating cash flow of 2,303 million yen, as the profit before taxes was 1,882 million yen (1,540 million yen in the same period of the previous year), depreciation and amortization expenses were 838 million yen (690 million yen in the same period of the previous year), income taxes were 615 million yen (423 million yen in the same period of the previous year), etc. The investing cash flow mainly came from the acquisition of tangible assets, while the financing CF came from dividend payments, etc.

Moreover, capital investments were 1,769 million yen owing to the establishment of a new factory for Piene, the renovation of the factory of Tegara Foods, and other equipment upgrades (2,681 million yen in the previous term owing to the construction of a new Saga factory and other facility renewals).

Reference: ROE Analysis

	FY 2/16	FY 2/17	FY 2/18	FY 2/19	FY 2/20
ROE	9.79%	6.50%	8.57%	8.03%	10.43%
Net Profit Margin	2.30%	1.53%	2.32%	2.26%	3.11%
Asset Turnover Ratio	1.85	2.02	1.90	1.88	1.78
Leverage	2.31	2.10	1.95	1.89	1.88

* ROE = Net Profit Margin × Asset Turnover Ratio × Leverage

3. Fiscal Year ending February 2021 Earnings Forecasts

3-1 Business Results

	FY 2/ 20 Act.	Ratio to sales	FY 2/ 21 Est.	Ratio to sales	YoY
Sales	41,417	100.0%	43,000	100.0%	+3.8%
Gross profit	10,560	25.5%	10,953	25.5%	+3.7%
SG&A	8,688	21.0%	9,047	21.1%	+4.1%
Operating Income	1,871	4.5%	1,905	4.4%	+1.8%
Ordinary Income	1,973	4.7%	2,028	4.7%	+2.8%
Net Income	1,290	3.1%	1,332	3.1%	+3.3%

* Unit: million yen

Sales and operating income are estimated to grow 3.8% and 1.8%, respectively, year on year.

Sales are projected to be 43 billion yen, up 3.8% year on year. The sales of asazuke lightly pickled vegetables and kimchi products, especially its mainstay asazuke lightly pickled vegetables and “Gohan ga Susumu Kimchi (kimchi that goes well with rice),” are estimated to increase 11.2% year on year and the sales of delicatessen, whose sales increased significantly during the previous term, are forecasted to grow 2.4%, which raises expectations for a favorable trend.

Operating income is estimated to be 1,905 million yen, up 1.8% year on year. Although the opening of the new business (OH!!!) will entail an increase in expenses, the increase in sales will cover it and operating income is estimated to hit a record high.

It was difficult to predict the effects of COVID-19 when the financial results were announced; thus, the company did not estimate it. However, the company considers the effects to be minor for the time being.

The term-end dividend is to be 30 yen/share (The estimated payout ratio is 14.4%).

Sales by Food Item

	FY 2/ 20 Act.	Composition ratio	FY 2/ 21 Est.	Composition ratio	YoY
Asazuke pickles/kimchi	17,308	41.8%	19,253	44.8%	+11.2%
Delicatessen	8,321	20.1%	8,519	19.8%	+2.4%
Old pickled vegetables	831	2.0%	841	1.9%	+1.1%
Product (above total)	26,462	63.9%	28,614	66.5%	+8.1%
Product (pickles, fruits and vegetables, etc.)	14,955	36.1%	14,385	33.5%	-3.8%
Total	41,417	100.0%	43,000	100.0%	+3.8%

* Unit: million yen

Sales by Sales Channel

	FY 2/ 20 Act.	Composition ratio	FY 2/ 21 Est.	Composition ratio	YoY
Mass retailers/wholesalers	31,030	74.9%	32,661	76.0%	+5.3%
Convenience stores	6,587	15.9%	6,791	15.8%	+3.1%
Restaurants/others	3,799	9.2%	3,547	8.2%	-6.6%
Total	41,417	100.0%	43,000	100.0%	+3.8%

* Unit: million yen

Breakdown of SG&A Expenses

	FY 2/ 20 Act.	Composition ratio	FY 2/ 21 Est.	Composition ratio	YoY
Logistics cost	4,248	10.3%	4,387	10.2%	+3.3%
Personnel cost	2,630	6.4%	2,774	6.5%	+5.5%
Advertising cost	326	0.8%	313	0.7%	-4.0%
Others	1,483	3.6%	1,573	3.7%	+6.1%
Total SG&A expenses	8,688	21.0%	9,047	21.0%	+4.1%

* Unit: million yen

4. External environment and main measures for the future

Policies from the next term

The company will expand business fields through enhancement of product development, expansion of sales areas, increase of sales partners, and the launch of new businesses. For product development, it will reinforce the development of new delicatessen products while considering diversifying needs, such as “eating alone” and “ready-made meals,” and forge ahead with the development of new types of food items, including products related to the Pn-12 lactic acid bacteria. It will also continue developing new Asazuke (lightly pickled vegetables) and kimchi products and renewing their existing product lines. In order to expand sales areas, the company will enhance sales in the Kinki, Chugoku and Shikoku regions by making the most of the supply capability of Hiroshima Factory of PICKLES CORPORATION Kansai, which now has capacity enough to spare for production thanks to Saga Factory that has been in operation and Tegara Foods, which factory has been renovated and expanded. For increasing clients, the company will focus on taking a bigger share at the section of the delicatessen in department stores and supermarkets, and seek food delivery service providers such as drugstores that have been expanding the selling floor for food items and food delivery services aimed at aged people. Concerning new businesses, the company operates 2 e-commerce websites, which are “Piene Online Shop” (selling products developed using lactic acid bacteria) and “YAWATAYA Online Shop” (selling authentic Japanese-style pickles), and a restaurant and retail business (a theme park promoting fermentation and health, “OH!!! Magic of Fermentation, Health, and Food” to be opened in July 2020) primarily by OH Co., Ltd, which was established as a subsidiary in March 2019.

In addition, it will implement business strategies by utilizing its nationwide network, which is the only network built up in Japan by a pickle manufacturer, and focus on advertising activities, including not only the conventional ones such as TV commercials, ad-wrapped buses, and outdoor signs, but also advertisements via social media.

4-1 Product development

Asazuke lightly pickled vegetable/kimchi product

The scale of the pickles market was 320 billion yen in 2018 (according to the estimate by PICKLES CORPORATION). The shrinking amount of rice consumption due to diversifying eating habits, and the aging society decrease the scale of the pickles market from 500 billion yen in 1998 to 380 billion yen in 2008, and even to 320 billion yen in 2018. The market of asazuke lightly pickled vegetables and kimchi products, which are the mainstays of the company, is stable. Despite the effects of the shrinking amount of rice consumption and the change in eating habits, the entire market seems to have bottomed out thanks to the good performance of kimchi, etc. THE JAPAN FOOD NEWS reported that the share of each pickles product in the market (the estimated ratio of shipment by item in 2018) was as follows: asazuke lightly pickled vegetables and kimchi accounted for 26%(27% in 2017) and 23%(21% in 2017), respectively, followed by umeboshi salted plums making up 15%(14% in 2017), takuwan pickled radishes accounting for 12%(12% in 2017), suzuke vinegar pickles that made up 10%(11% in 2017), kizamizuke chopped pickles which accounted for 7%(6% in 2017), and others accounting for 7%(8% in 2017.) Asazuke lightly pickled vegetables and kimchi together made up around 49% (48% in 2017.)

According to the rankings of sales prepared by PICKLES CORPORATION based on an article published by THE JAPAN FOOD NEWS, the company is the top with consolidated sales of 41.4 billion yen, followed by Tokai Pickling Co., Ltd. of 19.5 billion yen, AKIMOTO FOODS Co., Ltd. of 12.2 billion yen, and Bingo Tsukemono Co., Ltd. of 11 billion yen. These 4 companies are the only ones that have achieved sales of over 10 billion yen; however, even PICKLES CORPORATION that has pulled far ahead of the other 3 companies in terms of sales has taken only 12.9% of the market share, and the market share held by the top 10 companies, including PICKLES CORPORATION, has made up merely 42.5%(41.5% in 2017). Many of pickling enterprises are small- and medium-sized. These small pickling businesses are being sifted and reorganized in the wake of not only the difficulty in finding a successor, but also a required capability to develop products based on such keywords as health consciousness, capacity to provide delicatessen, and appealing functionality, not to mention the severe quality control. The company has set a goal of having a market share of 15% for the time being and will endeavor to increase the share through myriad approaches, including M&A.

In FY 2/21, the sales of “Gohan ga Susumu Kimchi” series are expected to increase from 7,395 million yen to 8 billion yen. In March, the company released “2 packages of single-serving Gohan ga Susumu Kimchi” and “Gohan ga Susumu Spicy Okra.” “2 packages of single-serving Gohan ga Susumu Kimchi” is a product packaged in subdivided packages suitable for people living alone and it is prepared in a single-serve size to make it easy to enjoy kimchi casually. It is characterized by using a mixed stock made from bonito and konbu, which gives it the Japanese richness and a mouth-watering taste. In addition, it contains the company’s own plant-based Pne-12 lactic acid bacteria. As for “Gohan ga Susumu spicy okra,” it is a time-limited product of the “Gohan ga Susumu” series available from March to September. Pickled okra of a whole piece of okra rich in Japanese stock and seasoned with spicy yangnyeom. It hits two birds with one stone thanks to the okra being rich in mouth-watering umami, so it can be enjoyed as a side dish or as a snack. In addition, it contains the company’s own plant-based Pne-12 acid bacteria.

“2 packages of single-serving Gohan ga Susumu Kimchi”



“Gohan ga Susumu spicy okra”



(Source: the company)

Delicatessen

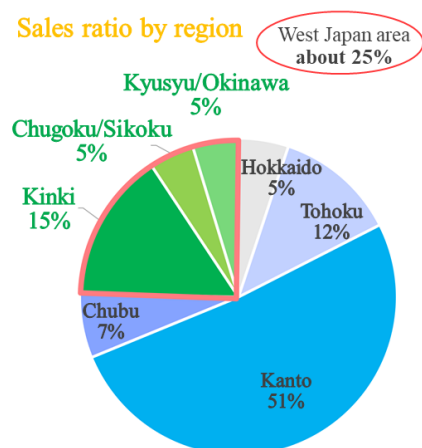
According to the material prepared by the company (surveyed by Japan Chain Stores Association), the scale of the delicatessen market (Japanese-, Western-, and Chinese-style delicatessen, bento box meals, delicatessen such as sandwiches) stood at 1,050,800 million yen in 2019 (1,035,700 million yen in 2018). It continues expanding on the background of the rising number of one-person households, the graying population, the growing number of working women, the increasing interest in food such as health and nutritional balance, and the rising needs for simpler household chores and time saving. In this field, PICKLES CORPORATION will have to vie with such listed companies as Fujicco Co., Ltd. (sales of 64.1 billion yen, net income of 4,180 million yen), KENKO Mayonnaise Co., Ltd. (sales of 73.9 billion yen, net income of 2,290 million yen), and Ebara Foods Industry, Inc. (sales of 51.3 billion yen, net income of 1,640 million yen), and subsidiaries of listed companies, including Deria Foods Co., Ltd. (subsidiary of Kewpie Corporation) and Initio Foods Inc. (subsidiary of Nissin Food Products Co., Ltd.).

Although PICKLES CORPORATION is a new comer in the industry (in 2003), it increased sales of delicatessen from 6,384 million yen in fiscal year 2018 to 7,382 million yen in fiscal year 2019 and further to 8,321 million yen in fiscal year 2020 by focusing on mindful sales activities unique to a company that sells products directly and on delicatessen cooked mainly using vegetables that satisfy health-conscious people. The company has estimated sales for fiscal year 2021 at 8,519 million yen, with weight attached to the development of salads (such as Japanese-style salads and salad appetizers), appetizer products, and new products (warm food items).

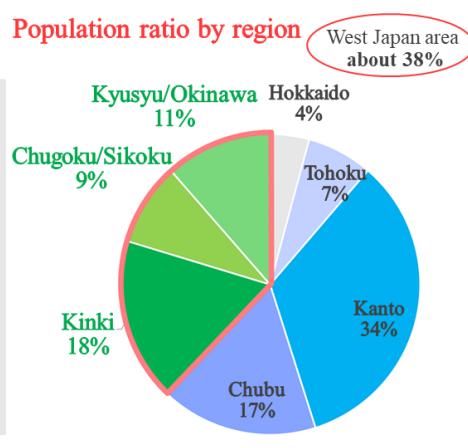
4-2 Expansion of sales areas

Sales in the Kanto region make up 51% of total sales. Meanwhile, sales in the Chugoku, Shikoku, Kyushu, and Okinawa regions remain at 5% each of the total sales. Considering the population ratio in each region, there is significant room for growth in areas other than the Kanto region and the company aims to earn sales of 30% or more of the total sales in western Japan (Kinki, Chugoku and Shikoku, Kyushu, and Okinawa regions) by including the Kinki region, whose sales comprise 15% of total sales.

Sales ratio by region



Population ratio by region



*Data in CY2015

Focus on expanding sales in Western Japan (Kinki, Chugoku/Shikoku, and Kyushu) (target 30% or more)

※ Sales ratio by region in fiscal year ended February 2020

(Source: the company)

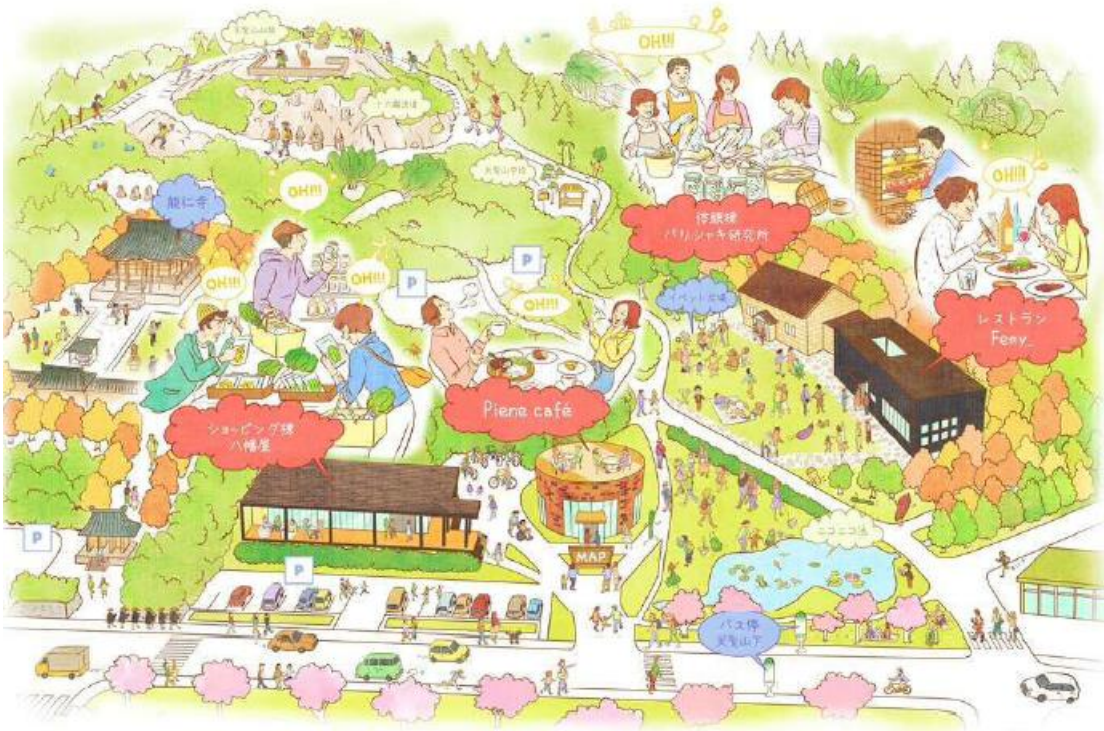
4-3 New businesses

The company opened 2 e-commerce websites in April 2018, which are “Piene Online Shop” and “YAWATAYA Online Shop” as new businesses. It sells products developed using the company’s own Pne-12 lactic acid bacteria via “Piene Online Shop” and offers authentic Japanese-style pickles, which are produced based on an absolute commitment to using ingredients cultivated in Japan and not adding synthetic seasonings, on “YAWATAYA Online Shop.” The company completed the construction of a factory for products related to the Pne-12 lactic acid bacteria in April 2019 and began shipment of products in June 2019. Thanks to the operation of this factory, Kouji Amazake products, etc., which used to be refrigerated products, can now be handled at room temperature.

Moreover, OH Co., Ltd., the company established in March 2019 as a subsidiary, will begin a restaurant and retail business by opening a theme park promoting fermentation and health, “OH!!! Magic of Fermentation, Health, and Food” in July of 2020 (Hanno City, Saitama Prefecture).

This is a B to C business that can also serve as an enlightenment activity on fermented food items, and the company expects support from Hanno City. The company plans to construct 4 buildings, including one for shopping, one for a restaurant, one for a café where visitors can enjoy Piene-related food menus, and one for hands-on learning and workshops, in part of the premise of the “No-nin-ji,” a temple of Soto School of Zen Buddhism with a sango title of Buyosan, which was a leading figure that received a stamp for its 50 koku of rice production as the main temple of 20 branch temples in Hanno region in the Edo period. (A groundbreaking ceremony was held on August 23, 2019). The company also plans to make capital investment of 1 billion yen in fiscal year 2021, expecting that the sales will reach 240 million yen.

Layout (Image)



Restaurant



Fermentation make you ...



Wood-fired and fermented restaurant



Shopping building



八幡屋
YAWATAYA
since 1932



Selected Fermented Foods from all over Japan as a souvenir



Piene café



Fermented Delica Cafe with vegetables, lactic acid bacteria and koji rice



Hands-on learning/workshop building



Experience the Power of Fermentation!



Hanno City successfully invited the theme park of Moomin, “Metsa,” making it the world’s first Moomin theme park in a country other than its home country, Finland. The city opened “Metsa Village” where visitors can experience the life in Northern Europe in November 2018 and “Moomin Valley Park” at which people can feel the world of Moomin in March 2019. (About 10 minutes by car from “OH!!! Magic of Fermentation, Health, and Food”)

4-4 Advertising and promotion activities

The company planned collaborative products to increase awareness of its “Gohan ga Susumu” brand. Additionally, it will continue to make efforts in advertisement activities such as TV and radio commercials, outdoor signboards (MetLife Dome), SNS campaigns, and ad-wrapped buses.

On April 20, 2020, the consolidated subsidiary Food Label Co., Ltd. launched a nation-wide “Buy! Eat! Drink! Gyu-Kaku product series

and get rejuvenated giveaway campaign” (until June 30). The campaign, which runs under the theme “Buy! Eat! Drink! Gyu-Kaku product series and get rejuvenated” has 3 giveaways (meat giveaway, gut-energy giveaway, and toast giveaway). The “meat giveaway” will give 300 people high-quality meat cut with a strong sweet taste, “300-g Yonezawa beef special short rib produced by Yamagata Prefecture,” while the “gut-energy giveaway” will give 100 people “6 flavors of vegetables Koji Rice Amazake and 4 types of seasonings” produced by the consolidated subsidiary Piene Corporation. Finally, the “toast giveaway” will give 100 people a “tumbler and chopsticks set” comprised of a stainless tumbler and chopsticks, which is seen in Yakiniiku restaurants and such. Moreover, the company will pick 500 of the people who did not win the above lottery and giveaway “special rice set for Karubi.” A total of 1000 people will win in this campaign.

As for the collaborative products, the company released “Gohan ga Susumu mackerel kimchi stew” as a collaborative product between “Gohan ga Susumu Kimchi” and the well-established canned food products manufacturer, Shida Kanzume Co., Ltd. “Gohan ga Susumu mackerel kimchi stew” uses the apple sweetness and the umami of fish such as Katsubushi of “Gohan ga Susumu Kimchi” as a base for seasoning canned mackerel. Shida Kanzume Co., Ltd will manufacture and market the products.

4-5 Efforts at production

The company is propelling forward adoption of energy-saving machines, such as automatic packaging machines and automatic weighing machines, in order to deal with labor shortages and cut reduction of employment costs. In addition, it will reconsider the process of procuring vegetables (such as procurement activities in each region) and materials (reducing the weight of packages and changing film thickness) loss reduction (provided to food banks). Also, it has been reconsidering the facilities to which it outsources the treatment of industrial waste. As for changing film thickness, using thinner films for “Gohan ga Susumu Kimchi” is expected to reduce the annual amount of plastic usage by about 4 tons (streamlining costs and reducing the impact on the environment.) Taking into account how to secure human resources, the company will endeavor to enrich the welfare and personnel systems.

4-6 Adopting the shareholder benefits system

The company started applying the shareholder benefits system to shareholders as of the last day in February 2020. The company will give away, every year, an assortment of the company’s products (worth 1,500 yen) as shareholder benefits to those who hold 100 shares or more of the company’s stock and are registered in the shareholders’ registry as of the last day in February. Further, shareholders can opt for donating instead of the assorted products set (1,500-yen worth; donation to Ashinaga Foundation)

【Assorted product set (worth 1,500 yen)】



Piene set (5 bottles of Koji Rice Amazake)

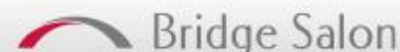
Piene set (3 seasoning)

Yawata set

4-7 Medium-Term Management Plan

	FY 2/ 20 Act.	FY 2/ 21 Est.	YoY	FY 2/ 22 Plan	YoY	FY 2/ 23 Plan	YoY
Sales	41,417	43,000	+3.8%	44,350	+3.1%	45,700	+3.0%
Gross profit	10,560	10,953	+3.7%	11,211	+2.4%	11,463	+2.2%
SG&A	8,688	9,047	+4.1%	9,206	+1.8%	9,380	+1.9%

BRIDGE REPORT



Operating Income	1,871	1,905	+1.8%	2,005	+5.2%	2,083	+3.9%
------------------	-------	-------	-------	-------	-------	-------	-------

* Unit: million yen

		FY 2/ 20 Act.	Ratio to sales	FY 2/ 23 Plan	Ratio to sales	Compared to FY 2/ 19
Product	Asazuke pickles/kimchi	17,308	41.8%	20,936	45.8%	+21.0%
	Delicatessen	8,321	20.1%	9,391	20.5%	+12.9%
	Old pickled vegetables	831	2.0%	873	1.9%	+5.1%
Product (pickles)		14,955	36.1%	14,498	31.7%	-3.1%
Total		41,417	100.0%	45,700	100.0%	+10.3%

* Unit: million yen

Regarding the sales and profit goals for FY 2/23, it aims to achieve sales of 45,700 million yen and an operating income of 2,080 million yen. The company breaks it down per product group as follows: up until FY 2/23, it estimates the sales of asazuke lightly pickled vegetables and kimchi products to grow 21% year on year and predicts that the sales of delicatessen will grow 12.9% year on year. As for FY 2/21, the company plans to open the fermentation and health theme park, "OH!!! Magic of Fermentation, Health, and Food," in July 2020, thus SG&A expenses, especially personnel expenses, will rise. however, it will be offset by the increase in sales and will maintain a growing profit trend.

Regarding capital investments in the above mentioned period, the company plans to make a capital investment of 1,900 million yen in the construction of OH facilities, equipment upgrade, etc. in FY 2/21 (depreciation expense will be 893 million yen), a capital investment of 1,352 million yen in the expansion of Chukyo Factory, equipment upgrade, etc. in FY 2/22 (depreciation expense estimated at 680 million yen), and a capital investment of 1,080 million yen in equipment upgrade in FY 2/23 (depreciation expense estimated at 609 million yen).

5. Conclusions

At the time of announcing financial results, it was difficult to predict the effects of COVID-19, thus the company did not estimate it. The company considers the effects to be minor for the time being. However, it should be kept in mind that the performance of the company group might get hit by the effects of the novel coronavirus in case it extends for a prolonged time or gets more severe. Nonetheless, currently, there are no major concerns, and as a result of self-isolation, more people are having meals at home, which is beneficial for the company. As many corporations have kept their forecasts undetermined, we would like to pay attention to Pickles Corporation as a company that responsibly set its course of action for the term ending February 2021.

<Reference: Regarding Environment, Society, and Governance (ESG) Activity>

Environmental preservation activities

PICKLES CORPORATION is the first company in the food industry that obtained the certification of ISO14001 collectively for all of its offices in August 1999. Based on the environmental policies formulated by the management, it is aiming to become a more environmentally friendly corporate group through multifarious approaches, including efforts to reduce resource and energy waste, cut down on industrial wastes, comply with environment-related laws and regulations, educate the employees, and support environmental preservation organizations.



(Taken from the reference material of the company)

【Contribution to society】

The company has made donations following its concept to “return some of the revenue to society as part of the social contribution activity.” It plans to donate a sum of roughly 1% of the net income each year to a host of organizations, including ones that support orphans who lost their parents in disasters and ones that advocate environmental protection.

Major organizations to which PICKLES CORPORATION made donations in FY 2/20

WWF Japan, The MICHINOKU Future Fund, KOTSUIJI IKUEIKAI, Ashinaga Foundation, Chance for Children, Kids’ Door, and Saitama Inochi no Denwa.

【Measures to attain sustainable growth】

Based on the concept of “without gaining the trust of society including consumers and clients, we can’t guarantee sustainable growth of the company,” it established the “pickles corporation group’s code of conduct” where it summarizes the sincere and appropriate behavior, with which every employee must comply, every day, and be aware that the company is part of the society. In addition, it established “compliance regulations” as compliance measures for the entire group and adopted the “internal reporting system.”

Moreover, the company employs measures such as designing the company structure to allow all employees to express their opinions to the president directly either by email or through documents, holding an annual briefing session aimed at all employees to explain the company policy, and having the president himself explain the management policy and the fiscal year policy. These measures will make the company a fulfilling workplace for its employees, communicate with them, and motivate them with an in-house awards system.

In addition, the company employs measures to support better work-life balance and it was Platinum certified as a “Company that practices diverse work styles” by Saitama Prefecture in 2013.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	7directors, including 2 from outside
Auditors	4directors, including 3 from outside

©Corporate Governance Report (Updated on May. 31, 2019)**Basic Policy**

Our company considers corporate governance to be the important issue of business management for acting in conformity with the law and social norms, realizing the management policies, and achieving continuous growth.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>**【Principle 1-4. Strategically held shares】**

In principle, our company does not possess shares of any listed companies; however, if we have decided to hold shares of a listed company for a reasonable managerial purpose for maintaining and strengthening a transaction partnership, we will regularly check that we hold the shares in a manner to fulfill the purpose. We will consider how to verify the appropriateness of holding strategically held shares of individual companies and how to disclose the details of the verification. We will make judgment on whether or not we should exercise the voting rights of the strategically held shares of individual listed companies, and exercise the voting rights when necessary after comprehensively judging if doing so contributes to medium- and long-term improvement of the value of our company and the corporations in which we have invested.

【Supplementary Principle 4-10-1】

Our company appoints 2 independent outside directors, and they give opinions from the independent, objective standpoint at meetings of the board of directors, etc. so that our management supervision system is highly effective, but we do not have an independent advisory committee. From now on, we will discuss the establishment of independent advisory committees, such as nomination and remuneration committees, who are composed of mainly independent outside directors, under the board of directors.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>**【Principle 5-1. Policy for promoting constructive dialogue with shareholders】**

Our company endeavors to expeditiously disclose information on the basis of transparency, fairness, and continuity so that shareholders and investors can correctly understand our company. We strive to disclose information in accordance with the associated laws and regulations, such as Financial Instruments and Exchange Act, and the rules on timely disclosure stipulated by the financial instruments exchange, and disclose information that we have judged to be useful for shareholders and investors to have a better idea of our company in a more proactive manner through an appropriate method.

Specifically, we hold financial results briefings twice a year and explanatory meetings for individual investors as necessary, and the president and the public and investor relations division deal with individual interviews as much as possible. In addition, we have established the public and investor relations division as a department responsible for investor relations activities, and posted our disclosure policy on our website.

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

Copyright(C) 2020 Investment Bridge Co., Ltd. All Rights Reserved.