



President Naoji Kageyama

PICKLES HOLDINGS CO., LTD. (2935)

We deliver the vitality of vegetables.



Corporate Information

Stock Exchange	TSE Prime Market
Industry	Food products (manufacturing)
Representative	Naoji Kageyama
Address	7-8, Higashisumiyoshi, Tokorozawa-shi, Saitama
Accounting term	February
URL	https://www.pickles-hd.co.jp/en/

Stock Information

Share Price	Shares Outstanding (Term-end)		Total Market Cap	ROE (Actual)	Trading Unit
¥1,067	12,858,430 shares		¥13,719 million	6.7%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥24.00	2.2%	¥96.49	11.1x	¥1,438.45	0.7x

*Stock price is the closing price on October 9. The number of outstanding shares, DPS, and EPS were taken from the brief report on financial results in the second quarter of the fiscal year ending February 2025. ROE and BPS are the results in the previous fiscal year.

Consolidated Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
February 2021 Act.	46,020	2,711	2,829	1,832	142.96	17.50
February 2022 Act.	45,006	2,942	3,068	2,128	165.59	20.00
February 2023 Act.	41,052	1,538	1,650	1,138	88.80	22.00
February 2024 Act.	43,028	1,668	1,771	1,175	94.29	24.00
February 2025 Est.	43,500	1,700	1,780	1,200	96.49	24.00

*Results for PICKLES CORPORATION until fiscal year ended February 2022, and results and forecasts for PICKLES HOLDINGS CO., LTD. after that. Unit: Million-yen. Net income is the net income attributable to owners of the parent company. The same applies below. EPS and DPS are retroactively adjusted for the 1:2 stock split implemented on September 1, 2021. Since the first quarter of the fiscal year ended February 2023, the accounting standards for revenue recognition, etc. have been applied.

This Bridge Report presents PICKLES HOLDINGS' summary of Financial Results for the second quarter of the Fiscal Year Ending February 2025 and Earnings Forecasts of the Fiscal Year Ending February 2025.

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Key Points

- In the second quarter of the fiscal year ending February 2025, sales declined 6.1% year on year to 21,694 million yen. The sales of products for convenience stores declined from the healthy sales in the same period of the previous year, while consumers became frugal due to the rise in commodity prices. Operating income dropped 12.7% year on year to 1,117 million yen. Gross profit decreased, as SG&A expenses was unchanged year on year, but sales dropped and the prices of vegetables used as ingredients, such as Chinese cabbage and cucumbers, rose significantly due to the warm winter, the abnormal weather at the beginning of the spring, and other weather conditions. In the second quarter (June to August), sales declined but profit grew year on year, and sales and profit both increased quarter on quarter for the second consecutive quarter.
- There are no changes to the earnings forecasts. For the fiscal year ending February 2025, the company forecasts a 1.1% year-on-year increase in sales to 43.5 billion yen, a 1.9% year-on-year increase in operating income to 1.7 billion yen, and a 6.1% year-on-year increase in EBITDA to 2,766 million yen. Sales are expected to grow, thanks to sales promotion campaigns, the development of clients and expansion of their loyalty, etc. Profit is projected to rise, thanks to sales growth, the integration and review of products, the improvement of production costs, etc. despite the effects of a new factory in Ibaraki, which is scheduled to start operation in December 2024, and the augmentation of expenses for advertisement and distribution. The company decided to disclose and explain EBITDA, partly due to depreciation expenses resulting from the start of operations of the Ibaraki factory. The company plans to pay a dividend of 24.00 yen per share, the same level as the previous fiscal year. It will pay an interim dividend from this fiscal year. The company's expected dividend payout ratio for the full year is 24.9%.
- Regarding the medium/long-term management strategies, they will implement the priority strategies: “to improve profitability,” “business administration conscious of capital efficiency,” and “to launch new products and enter new fields” while considering the managerial issues: “to improve profitability to cope with the rise in raw material prices and personnel expenses,” “to improve PBR,” and “to expand the business scale of the corporate group by creating a new growth driver.” They aim to realize an ideal state and improve their corporate value. The goal for the fiscal year ending February 2027 is to achieve “sales of 44.5 billion yen and an operating profit of 1.74 billion yen.”
- The company's PBR had been above 1 until the fiscal year ended February 2022, but due to the reactionary decline against the demand from housebound consumers, it has been less than 1. The cost of shareholders' equity is estimated to be around 5.5% to 7.0%. ROE has been less than 8% from the fiscal year ended February 2023 to the fiscal year ended February 2024. The company aims to improve its PBR to over 1 by raising ROE, achieving its medium-term management plan, enhancing IR activities, and strengthening shareholder returns.
- In the interim period, sales and profit decreased like in the first quarter, and the progress rate toward the full-year earnings forecast is 49.9% for sales and 65.7% for operating income, being low compared with the averages like in the first quarter. However, sales and profit increased quarter on quarter for the second consecutive quarter. As consumers remain budget-minded, the business environment is harsh, but we would like to expect the rebound from the third quarter.

- **The basic stance for the medium/long-term management strategy seems to be not so different from that for previous strategies, but it seems that they have set clearer and more concrete policies and measures. We would like to pay attention to the progress toward the goal of achieving “sales of 44.5 billion yen and an operating income of 1.74 billion yen” in the fiscal year ending February 2027.**

1. Company Overview

As a holding company, PICKLES HOLDINGS CO., LTD. has established a nationwide production and sales network, with PICKLES CORPORATION, which is engaged in the production and sales of lightly pickled vegetables, kimchi, and delicatessen, as well as the purchase and sale of pickles, etc., PICKLES CORPORATION SAPPORO, PICKLES CORPORATION KANSAI, FOOD LABEL CO., LTD. and other group companies.

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 “a 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.

【1-1 Corporate Philosophy and Vision】

PICKLES HOLDINGS’ 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. In accordance with this policy, they follow FSSC22000, which is the standard for food safety, JFS-B, and ISO14001, which is an international standard for environmental management. In addition, they put energy into the education of employees while enriching systems for human resources, education, etc. and make efforts to foster the stance and corporate culture for encouraging employees to take on challenges.

The company focuses also on SDGs and sustainability management, and prepares ESG reports with the aim of introducing its efforts and challenges related to ESG and its stories of enhancing the corporate value.

「ESG Bridge Report」

https://www.bridge-salon.jp/report_bridge/archives/2024/03/240326_2935.html

Under the corporate philosophy, they pursue a “general maker of vegetables, fermented food, and health” that keeps creating new value as an ideal state in the medium/long term.

【1-2 Market environment】

(1) Lightly pickled vegetables and kimchi

According to the sales ranking in the field of pickled foods produced by the company with reference to the articles of the Shokuhin Shinbun, the company occupies the largest share with consolidated sales of 43 billion yen, followed by Tokai Pickling with sales of 23.8 billion yen, Akimoto Foods with sales of 13 billion yen, Bingo Tsukemono with sales of 12.4 billion yen, and Yamamoto Shokuhin with sales of 10.7 billion yen. Only five companies earn sales of over 10 billion yen.

Due to the changes in eating habits and a decline in demand for meals with rice, the scale of the market of pickles shrank from 480 billion yen in 2000 to 320 billion yen in 2022. The number of enterprises has been declining, and integration has been progressing, but the shrinkage of the entire market is subsiding. Under such an environment, lightly pickled vegetables and kimchi account for about 50% of the market of pickled foods, so the market scale is stable.

The market share of the company is 13.4%, much higher than that of the second company, and they have been aiming to increase it to 15%.

The POS data show that the unit purchase price of lightly pickled vegetables has increased over the previous year. Still, the quantity of pickles purchased has decreased, affected by a decrease in the number of items purchased by consumers due to rising prices. Market trends for the company's mainstay products, lightly pickled vegetables and kimchi are on the same trend.

The company will keep enhancing product development and strive to expand its market share.

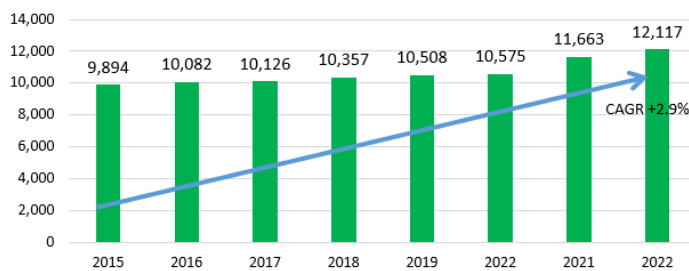
(2) Delicatessen

According to the company's data (researched by the Japan Chain Stores Association), the market size of the delicatessen market (Japanese, Western, and Chinese deli foods, boxed meals, sandwiches, etc.) in 2022 was 1.2117 trillion yen, growing at a CAGR (Compound Annual Growth Rate) of 2.9% since 2015.

The growth is believed to be driven by factors such as an increase in single-person households, an aging population, the advancement of women in society, heightened interest in health and nutritional balance, and the need for convenience and time-saving in household chores.

In this field, they are competing with some listed companies, including Fujicco (sales: 55.7 billion yen, net income: 1.1 billion yen in the previous fiscal year), KENKO Mayonnaise (sales: 88.7 billion yen, net income: 2.7 billion yen), and Ebara Foods Industry (sales: 45.2 billion yen, net income: 1.8 billion yen), and subsidiaries, etc. of listed companies, such as Deria Foods (the Kewpie Group) and initio foods (the Nisshin Seifun Group).

Delicatessen market trend (Unit: 100 million yen)

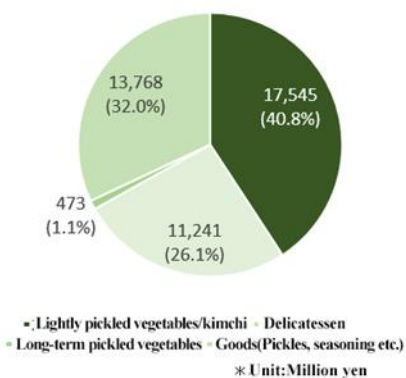


(Prepared by Investment Bridge Co., Ltd. based on disclosed material.)

【1-3 Business Description】

In the fiscal year ended February 2024, sales from products (manufactured by PICKLES CORPORATION at its own factories) accounted for 68.0% (40.8% from lightly pickled vegetables and kimchi, 26.1% from delicatessen, and 1.1% from long-term pickled vegetables), and those from products of a group company, FOOD LABEL CO., LTD., and products purchased from outside companies made up 32.0%.

Sales by Food Item(FY2/24)



(Produced by Investment Bridge Co., Ltd. based on the company's reference material)

(1) Product and Goods overview

◎Lightly pickled vegetables and kimchi

The company offers a lineup of lightly pickled vegetable, which can be eaten like a salad, according to the season of the vegetables. In recent years, as consumers have become more health-conscious, the company has been selling "low-sodium lightly pickled vegetable," which is lower in salt than conventional products.

As the holdings emphasizes the provision of safe and secure food, the main ingredients, such as Chinese cabbage and cucumber, are produced in Japan. No preservatives or synthetic coloring agents are used.

“Gohan ga Susumu Kimchi (kimchi that goes well with rice),” which was released in October 2009 and became a long-selling core product for all generations as the cumulative sales quantity of 3 major products has exceeded about 500 million packs, was embodied based on an idea of a young employee: “kimchi that can be enjoyed by all family members because it is not so spicy” under their stance of taking on challenges, while breaking away from the conventional mindset that kimchi is spicy.

While most kimchi products have a capacity of 300 to 400 grams, the new product is 200 grams so that a family can eat it all, making it easier to buy and more affordable. In addition, the package was designed to be slim enough to fit in the refrigerator, and the main color of the package was black instead of red or orange. As a result, the new product was well received by women and children.

They have developed some products in collaboration with some characters and food makers, and expanded the domain of products by utilizing the brand power of the “Gohan ga Susumu Kimchi” series, including delicatessen, seasonings, frozen food products, and long-life food products.

Lightly pickled vegetables and kimchi are made mainly from vegetables and are being reevaluated as low-calorie foods rich in dietary fiber, and future growth in demand is expected.



Gohan ga Susumu Kimchi

(Source: the company)



JOJOEN Pogi Kimchi



4 Kinds of Bran-flavored vegetables

◎Delicatessen

The company began handling delicatessen in August 2002 and has been steadily increasing its sales. In recent years, consumers have become more budget-conscious and have been cutting back on eating out, resulting in a growing trend toward eating in at home by buying delicatessen, as well as a change in eating styles due to the increase in the number of elderly people, single-person households, and dual-earner households.

Demand for delicatessen is expected to continue to grow in the future. The corporate group is developing products based on the keyword "vegetables," which is one of its strengths, and currently Salad and other products are doing well. In addition, the corporate group is developing products with originality and added value to its delicatessen, for example, by focusing on different varieties of vegetables and developing salad dressings in-house, etc. In addition, the company utilizes technologies such as pH control to prevent discoloration of green vegetables.



4 kinds of Namul Set

(Source: the company)



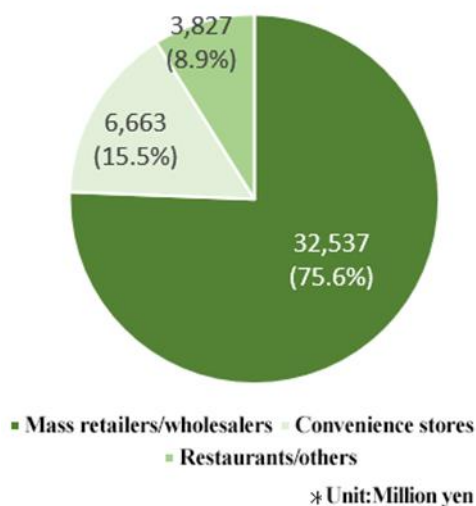
Protein-rich Bangbangji Salad



Cabbage Salad with Umami Salt

(Sales Destination)

Mass merchandisers, retailers, and wholesalers throughout Japan are the sales destinations, with 75.6% of the total sales channels being mass merchandisers and wholesalers, 15.5% being convenience stores, and 8.9% being restaurants and others as of fiscal year ended February 2024.

Sales by Sales Channel (FY2/24)

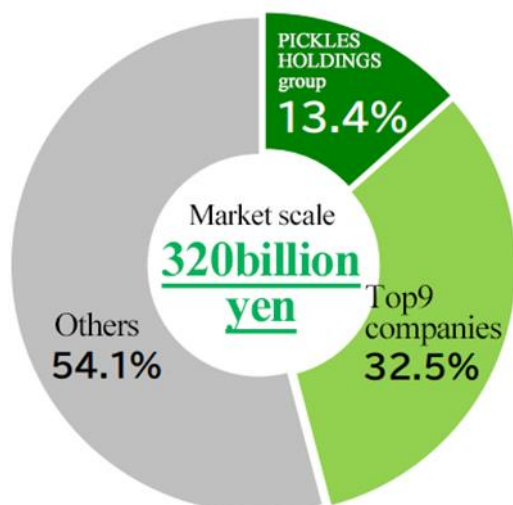
(Prepared by Investment Bridge Co., Ltd. based on the company's materials)

【1-4 Features, Strengths, and Competitive Advantages】

The company has the following features, strengths, and competitive advantages.

(1) Top share in the pickles industry

According to the ranking of companies that generate good sales in the pickles industry as presented by PICKLES HOLDINGS CO., LTD. based on THE JAPAN FOOD NEWS articles, PICKLES HOLDINGS group ranked first with consolidated sales of 43 billion yen, pulling far ahead of the other companies with a market share of 13.4% while endeavoring to attain its target of a market share of 15% through M&A etc.



(Source: the company)

(2) Highly unique product development capabilities

In order to swiftly and flexibly develop about 400 items per year, they have organized development and marketing teams for respective business partners, including convenience stores, mass retailers, and restaurants, to reflect the opinions of clients in product development and differentiate our products from competitors'. The company promotes development from multiple aspects, from the selection of ingredients such as vegetables and seasonings to processing methods, taste, and packaging.

Development personnel are assigned to business establishments around Japan, so that local needs can be grasped and met.

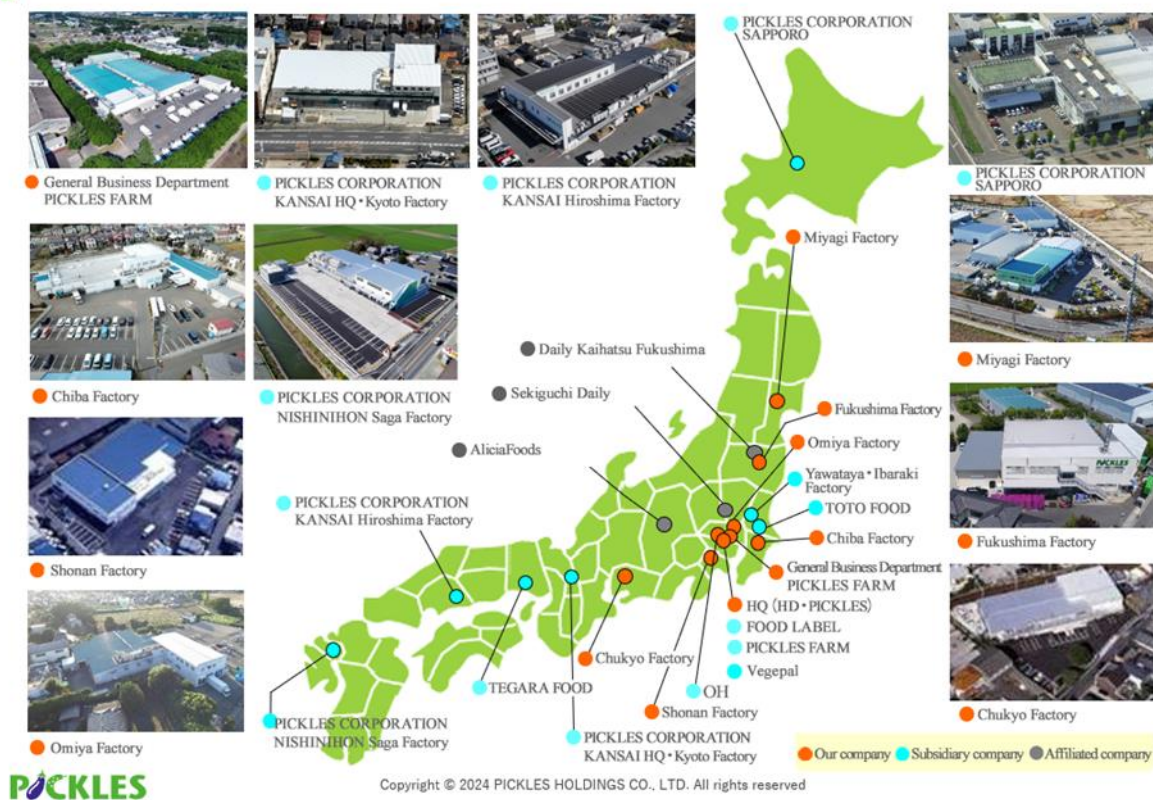
The Research and Development Laboratory, which is responsible for basic research, is engaged in future-oriented initiatives, including research on lactic acid bacteria, such as the plant-derived lactic acid bacteria Pnc-12 (Pene lactic acid bacteria), which the company has developed on its own.

(3) Production and distribution system covering the entire country

There are about 20 production sites, and they can produce about 600,000 packs per day. Group companies, mainly PICKLES CORPORATION, cover the entire Japan, and can produce and ship products 365 days a year. It is the only company in the pickles industry that has established a nationwide network of manufacturing, distribution, development, and sales functions. As a result, the company is able to provide the same lightly pickled vegetables, kimchi, and delicatessen to all of its customers' stores nationwide, which is a major selling point for the company.

For production, they have adopted FSSC22000 and JFS-B as the standards for food safety, and produced an HACCP plan for each factory for pickles and delicatessen, to supply safer and more worry-free products.

Production and distribution system covering the entire country



(Source: the company)

(4) Proposal-Based Sales with Close Relationships to Customers

There are a broad range of clients, including leading nationwide chains and local small-sized retailers. Their sales offices scattered around Japan had about 60 marketing staff members as of March 2024, who conduct proposal-based marketing for each region and each client and make direct transactions based on the trusting relationships and sales networks they have developed for many years.

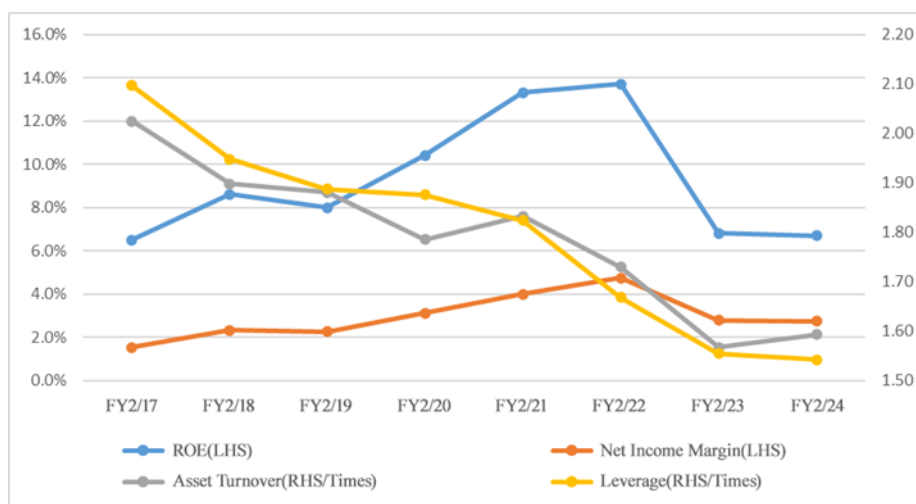
In addition to the mainstay lightly pickled vegetables and Kimchi products, the company is enhancing its product lineup for the delicatessen section, and its sales representatives are proposing sales methods, creating sales areas, holding pickle fairs, and considering various approaches to consumers together with the customers. In addition, information obtained from communication with customers is fed back to the company and used for product development based on consumer trends.

(5) Vendor functions to meet the needs of customers

The company has two functions: one as a manufacturer of its own products such as lightly pickled vegetables, kimchi, and delicatessen, and the other as a wholesaler of products such as pickled plums that cannot be manufactured at its own factory, which it purchases from pickle manufacturers throughout Japan. By taking advantage of its vendor function, which allows it to offer both its own products and those of other companies at the same time, the company is able to propose total sales floor development that meets the needs of its customers.

【1-5 ROE Analysis】

	FY 2/17	FY 2/18	FY 2/19	FY 2/20	FY 2/21	FY 2/22	FY 2/23	FY 2/24
ROE (%)	6.5	8.6	8.0	10.4	13.3	13.7	6.8	6.7
Net Profit Margin (%)	1.53	2.32	2.26	3.11	3.98	4.73	2.77	2.73
Total Asset Turnover (times)	2.02	1.90	1.88	1.79	1.83	1.73	1.57	1.59
Leverage (times)	2.10	1.95	1.89	1.88	1.83	1.67	1.55	1.54



*Prepared by Investment Bridge Co., Ltd. based on disclosed material.

ROE exceeded 10% for three consecutive fiscal years until the fiscal year ended February 2022, but in the fiscal year ended February 2023 and the fiscal year ended February 2024, it fell short of 8%, which is generally considered a target for Japanese companies. Profitability and asset efficiency need to be improved.

2. Financial Results for the second quarter of the Fiscal Year Ending February 2025

2-1 Consolidated Business Results

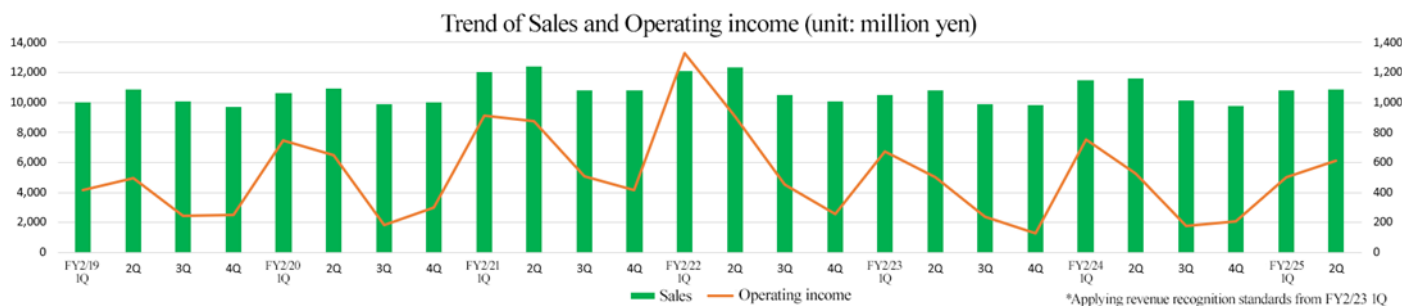
	FY 2/24 2Q	Ratio to sales	FY 2/25 2Q	Ratio to sales	YoY	Compared to the forecast
Sales	23,111	100.0%	21,694	100.0%	-6.1%	-5.0%
Gross profit	4,795	20.7%	4,620	21.3%	-3.7%	-
SG&A expenses	3,515	15.2%	3,502	16.1%	-0.3%	-
Operating income	1,280	5.5%	1,117	5.2%	-12.7%	-15.7%
Ordinary income	1,355	5.9%	1,171	5.4%	-13.6%	-14.1%
Quarterly net income	915	4.0%	798	3.7%	-12.8%	-12.7%
EBITDA	1,741	7.5%	1,557	7.2%	-10.6%	-

*Unit: million yen.

Sales and profits decreased

Sales declined 6.1% year on year to 21,694 million yen. The sales of products for convenience stores declined from the healthy sales in the same period of the previous year, while consumers became frugal due to the rise in commodity prices.

Operating income dropped 12.7% year on year to 1,117 million yen. Gross profit decreased, as SG&A expenses was unchanged year on year, but sales dropped and the prices of vegetables used as ingredients, such as Chinese cabbage and cucumbers, rose significantly due to the warm winter, the abnormal weather at the beginning of the spring, and other weather conditions.



In the second quarter (June to August), sales dropped and profit grew year on year, and sales and profit both increased quarter on quarter for the second consecutive quarter.

① Trends by Food Item and Sales Channel

◎Sales by Food Item

	FY 2/23 2Q	Composition ratio	FY 2/24 2Q	Composition ratio	FY 2/25 2Q	Composition ratio	YoY
Product	14,535	68.2%	15,721	68.0%	14,819	68.3%	-5.7%
Lightly pickled vegetables /kimchi	9,088	42.7%	8,852	38.3%	8,354	38.5%	-5.6%
Delicatessen	5,209	24.4%	6,608	28.6%	6,254	28.8%	-5.3%
Long-term pickled vegetables	237	1.1%	260	1.1%	210	1.0%	-19.1%
Goods	6,773	31.8%	7,390	32.0%	6,874	31.7%	-7.0%
Total Sales	21,308	100.0%	23,111	100.0%	21,694	100.0%	-6.1%

*Unit: million yen. Year-on-year is not stated due to the applying Accounting Standard for Revenue Recognition from the first quarter of the fiscal year ended February 2023.

◎Sales by Sales Channel

	FY 2/23 2Q	Composition ratio	FY 2/24 2Q	Composition ratio	FY 2/25 2Q	Composition ratio	YoY
Mass retailers/wholesalers	16,293	76.5%	17,265	74.7%	16,664	76.8%	-3.5%
Convenience stores	3,175	14.9%	3,691	16.0%	3,240	14.9%	-12.2%
Restaurants/others	1,839	8.6%	2,154	9.3%	1,789	8.3%	-17.0%
Total Sales	21,308	100.0%	23,111	100.0%	21,694	100.0%	-6.1%

*Unit: million yen. Year-on-year is not stated due to the applying Accounting Standard for Revenue Recognition from the first quarter of the fiscal year ended February 2023.

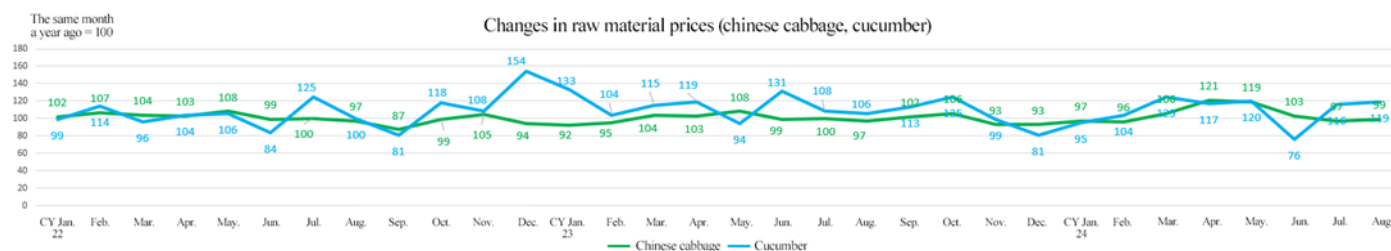
②Gross profit margin and situation surrounding vegetable prices

(Price of Chinese cabbages)

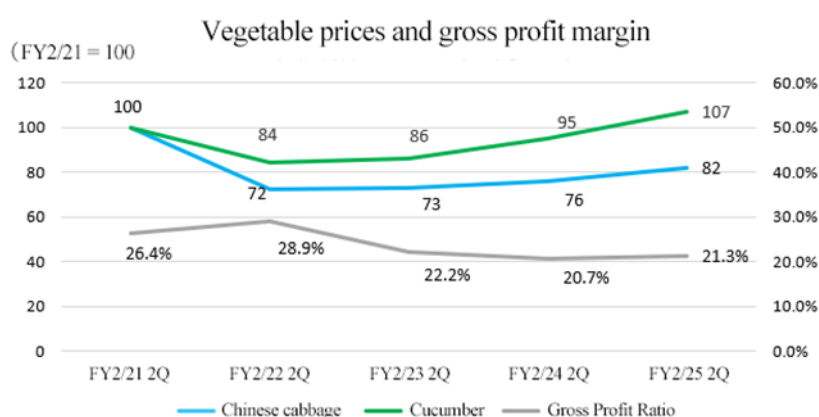
In the spring, the market price skyrocketed, as growth and shipment progressed in production areas in the warm winter, but growth was delayed due to the low temperatures from late March, decreasing shipment volume. In the summer, the extreme heat delayed growth, decreasing shipment volume and increasing the market price significantly.

(Cucumber price)

In the spring, growth was sluggish in production areas due to the low temperatures from March, and shipment was postponed, decreasing shipment volume, so market price soared. In the summer, shipment volume declined and market price skyrocketed, due to the low temperatures at the time of planting and the extreme heat in production areas.



The company continuously strives to improve the gross margin rate on a continuous basis by entering into contracts with more farmers and cementing its relationship with them.



2-2 Financial Conditions and Cash Flow

Financial conditions

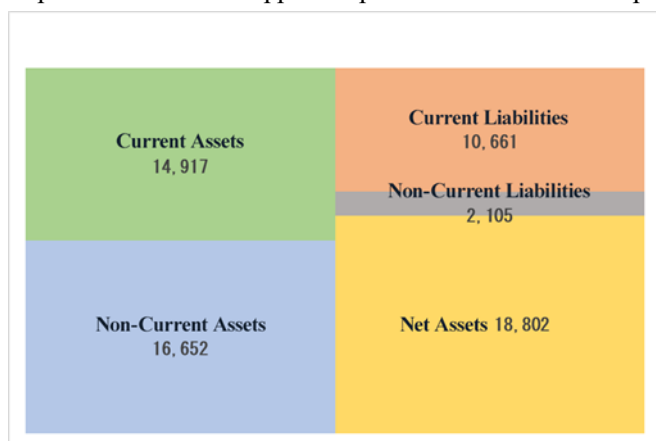
	End of Feb. 2024	End of Aug. 2024	Increase/ Decrease		End of Feb. 2024	End of Aug. 2024	Increase/ Decrease
Current Assets	12,622	14,917	+2,295	Current liabilities	6,668	10,661	+3,993
Cash	7,754	8,322	+568	Payables	2,892	4,157	+1,265
Receivables	4,119	5,738	+1,619	ST Interest-Bearing Liabilities	1,505	2,548	+1,043
Inventories	662	803	+141	Noncurrent liabilities	2,791	2,105	-685
Noncurrent Assets	15,091	16,652	+1,560	LT Interest-Bearing Liabilities	1,634	936	-698
Tangible Assets	13,436	15,037	+1,601	Total Liabilities	9,459	12,767	+3,308
Intangible Assets	326	256	-70	Net Assets	18,254	18,802	+548
Investments and Others	1,327	1,358	+31	Total Liabilities and Net Assets	27,713	31,570	+3,856
Total Assets	27,713	31,570	+3,856	Equity Ratio	64.6%	58.3%	-6.3pt

*Unit: million yen. Interest-bearing liabilities include lease liabilities.

Total assets grew 3.8 billion yen from the end of the previous fiscal year to 31.5 billion yen, due to the increase in accounts receivable and the growth of tangible fixed assets through the construction of Ibaraki Factory of PICKLES CORPORATION. Total liabilities augmented 3.3 billion yen from the end of the previous fiscal year to 12.7 billion yen, due to the increase in accounts payable.

Net assets increased 500 million yen from the end of the previous fiscal year to 18.8 billion yen.

Capital-to-asset ratio dropped 6.3 points from the end of the previous fiscal year to 58.3%.



Prepared by Investment Bridge Co., Ltd. based on disclosed material.

3. Fiscal Year Ending February 2025 Earnings Forecasts

Consolidated Earnings Forecast

Major income statements

	FY 2/24	Ratio to sales	FY 2/25 Est.	Ratio to sales	YoY	Progress rate
Sales	43,028	100.0%	43,500	100.0%	+1.1%	49.9%
Gross profit	8,637	20.1%	8,929	20.5%	+3.4%	51.7%
SG&A	6,969	16.2%	7,228	16.6%	+3.7%	48.5%
Operating Income	1,668	3.9%	1,700	3.9%	+1.9%	65.7%
Ordinary Income	1,771	4.1%	1,780	4.1%	+0.5%	65.8%
Net Income	1,175	2.7%	1,200	2.8%	+2.1%	66.5%
EBITDA	2,608	6.1%	2,766	6.4%	+6.1%	56.3%

*Unit: million yen. EBITDA is calculated by operating income + depreciation.

There are no changes to the earnings forecasts, expected to increase in sales and profit.

There are no changes to the earnings forecasts. The company forecasts a 1.1% year-on-year increase in sales to 43.5 billion yen, a 1.9% year-on-year increase in operating income to 1.7 billion yen, and a 6.1% year-on-year increase in EBITDA to 2,766 million yen.

Sales are expected to grow, thanks to sales promotion campaigns, development of new clients and expansion of existing clients' loyalty, etc. Profit is projected to rise, thanks to the effect of sales growth, the integration of products, review of unprofitable products, the improvement of production costs, etc. despite the effects of a new factory in Ibaraki, which is scheduled to start operation in December 2024, and the augmentation of expenses for advertisement and distribution.

The company decided to disclose and explain EBITDA, partly due to depreciation expenses resulting from the start of operations of the Ibaraki factory.

The company plans to pay a dividend of 24.00 yen per share, the same level as the previous fiscal year. In order to improve the liquidity of the shares, the company will pay an interim dividend from this fiscal year. The company's expected dividend payout ratio for the full year is 24.9%.

(Price revisions)

They recognize the necessity to revise prices, but they refrained from raising the price of the core product “Gohan ga Susumu Kimchi (kimchi that goes well with rice),” considering the fact that the sales of some products dropped considerably after the price hike. However, seeing the augmentation of various costs, they started the negotiation for prices with some clients in September. For products other than kimchi, they revised the prices of lightly pickled vegetables, delicatessen, etc. when products were replaced, but the augmentation of costs progressed at a rapider pace than the price hike, so they will keep revising prices. Also, for core products that are sold all the year round, they will raise their prices and revise their specs.



◎Sales by Food Item

	FY 2/24	Composition ratio	FY 2/25 Est.	Composition ratio	YoY	Progress rate
Product	29,259	68.0%	29,396	67.6%	+0.5%	50.4%
Lightly pickled vegetables /kimchi	17,545	40.8%	17,571	40.4%	+0.2%	47.5%
Delicatessen	11,241	26.1%	11,357	26.1%	+1.0%	55.1%
Long-term pickled vegetables	473	1.1%	467	1.1%	-1.3%	45.0%
Goods	13,768	32.0%	14,103	32.4%	+2.4%	48.7%
Total Sales	43,028	100.0%	43,500	100.0%	+1.1%	49.9%

*Unit: million yen.

Due to the rising cost of raw materials, the sale of products including Chinese yams was suspended in the second half of the previous fiscal year, but is scheduled to be resumed in the second half of the fiscal year.

◎Sales by Sales Channel

	FY 2/24	Composition ratio	FY 2/25 Est.	Composition ratio	YoY	Progress rate
Mass retailers/wholesalers	32,537	75.6%	32,834	75.5%	+0.9%	50.8%
Convenience stores	6,663	15.5%	6,870	15.8%	+3.1%	47.2%
Restaurants/others	3,827	8.9%	3,795	8.7%	-0.8%	47.1%
Total	43,028	100.0%	43,500	100.0%	+1.1%	49.9%

*Unit: million yen.

The forecast sales to convenience stores are based on the assumption that fairs will continue in the current fiscal year.

◎Plan of SG&A Expenses

	FY 2/24	Ratio to sales	FY 2/25 Est.	Ratio to sales	YoY	Progress rate
Total SG&A expenses	6,969	16.2%	7,228	16.6%	+3.7%	48.5%
Logistics cost	2,283	5.3%	2,375	5.5%	+4.0%	48.4%
Personnel cost	3,066	7.1%	3,058	7.0%	-0.3%	49.6%
Advertising cost	34	0.1%	254	0.6%	+647.1%	7.5%
Others	1,585	3.7%	1,539	3.5%	-2.9%	53.0%
Sales	43,028	100.0%	43,500	100.0%	+1.1%	49.9%

*Unit: million yen.

The company plans to increase advertising expenses significantly.

Logistics expenses are projected to increase 4.0% year on year. In response to the 2024 logistics problem, the company will implement various measures to improve logistics efficiency, including switching from store-by-store deliveries to consolidated deliveries, which will improve loading efficiency and reduce the number of delivery trips, switching to new delivery providers, and restructuring the group's logistics network following the operation of the new factory in Ibaraki.

4. Medium/Long-Term Management Strategy

4-1 Overall picture

Taking into account management challenges such as the “improvement of profitability considering the soaring prices of raw materials and personnel costs,” the “improvement of PBR” and “expansion of the business scale throughout the group by creating new growth drivers,” the company will promote the priority strategies of “elevation of profitability,” “management conscious of capital efficiency” and “endeavoring to develop new products and enter new fields.” They will realize their vision and work toward elevating their corporate value.

4-2 Priority strategies

(1) Elevation of profitability

The company will focus on the “improvement of operating income margin” and the “reduction of costs.”

As a concrete step toward the improvement of operating income margin, they will “narrow down items” and “revise selling prices in response to soaring costs.”

Their concrete measures for the reduction of costs are “streamlining and automation of the production system” and “revision and streamlining of raw material procurement.”

① Improvement of operating income margin

<To narrow down items>

The number of items has continued to increase as a result of responding to the respective needs and requests of regular customers, utilizing the forte of the company which allows for production of a wide variety of items in small lots.

On the other hand, as costs keep soaring, the consolidation and reduction of items which are produced in small quantities and have low profitability are becoming an unavoidable challenge.

Amid such situation, the company will promote the following initiatives to work toward maintaining and elevating sales while focusing on highly profitable items.

*To work on reduction and consolidation from the perspective of production efficiency by gradually reviewing items with a small sales volume which are produced in small quantities or based on orders, while taking into consideration the details of the transactions with regular customers.

*To promote initiatives for elevating the productivity of mainstay items, aiming for the expansion of sales.

*To forge ahead with the development of a national brand that allows for centralized manufacturing, for example in the asazuke (lightly pickled vegetables) product category. To establish a brand that will be a successor to the “Gohan ga Susumu Kimchi” series.

*To enhance the development of products allowing for planned production and stocking while preventing the disposal of waste by utilizing manufacturing technologies such as technologies for extending shelf life.

<To revise selling prices in response to soaring costs>

For the company’s products, the selling prices tend to fluctuate less compared with the changes in raw material prices. Furthermore, taking into consideration that consumers are becoming more oriented toward saving money due to recent price hikes, sales may decrease if prices are raised.

As a result, the company will take into consideration market trends, but their policy is to raise prices as the costs of raw materials have strikingly increased.

Two patterns are assumed with regard to how prices will be raised.

- To raise the price while the volume remains unchanged.
- To reduce the volume while the price remains unchanged.

They will take into consideration the timing and market trends when determining the pattern and the extent to which they will make changes.

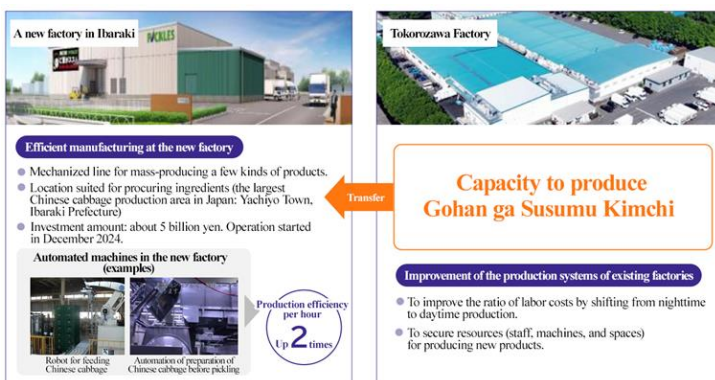
② Reduction of costs

<Streamlining and automation of the production system>

The company will forge ahead with the mechanization and automation of the manufacturing process of Chinese cabbage products such as kimchi at the new Ibaraki plant, in which the company invested about 5 billion yen and which is scheduled to start operation in December 2024. Hourly production efficiency is projected to at least double from the previous state.

At the same time, as the production of “Gohan ga Susumu Kimchi” will be transferred from Tokorozawa Plant to the new plant, the company will arrange the production system by securing personnel, machinery and space to sustain the production of new products, in addition to working toward the improvement of the ratio of payroll costs to revenue by making a shift from nighttime production to daytime production at existing plants.

The company intends to spread the new mechanized and labor-saving production line, which will be installed at Ibaraki Plant, to other existing plants in future.



(Source: the company)

<Revision and streamlining of raw material procurement>

Each division in charge of raw material procurement will recognize respective challenges and forge ahead with revisions and streamlining.

◎Vegetables: Ingredient Section

The section's policies are the procurement of vegetables that takes into account weather risks and the establishment of a system for procuring locally grown vegetables.

With regard to Chinese cabbage, the main ingredient, they will develop a market that is not overly focused on pricing in preparation for expanding sales in autumn and winter. Regarding weather risks, they will store Chinese cabbage in spring and make pricing transactions to lower the price while striving to broaden production areas in summer. In addition, they will work on establishing a system allowing for market purchase by cultivating the fruit and vegetable market.

◎Seasonings: Food Product Material Section

The section's policy is to make stable purchases that take into account the information on production areas, exchange rates and prices of raw materials.

In order to achieve this, they will consider exchange rates, reconsider suppliers and sales channels by making direct transactions with producers, etc. and engage in procurement that makes use of the group scale and regional characteristics.

◎Packaging: Packaging Material Section

The section's policies are to decrease supply costs through timely negotiations and to thoroughly reduce waste by revising the manufacturing process.

Concretely, they will engage in stable procurement by collecting information from existing and new partners and controlling the stock in packaging manufacturers and plants; price negotiations considering the prices of crude oil and naphtha, exchange rates, etc.; reduction of waste from disposal through cooperation with marketing and development sections and reduction of waste in the company's manufacturing process based on the cooperation between plants and the equipment department.

(2) Management conscious of capital efficiency

Regarding the "Measures to realize management that is conscious of capital costs and share prices" requested by the Tokyo Stock Exchange, the company's analysis and future initiatives are as follows.

(Analysis of the current situation)***PBR**

PBR had been above 1 until the fiscal year ended February 2022, driven by strong performance due to the demand from housebound consumers during the COVID-19 pandemic. However, it has been less than 1 due to the reactionary decline against the demand from housebound consumers.

***Cost of Capital**

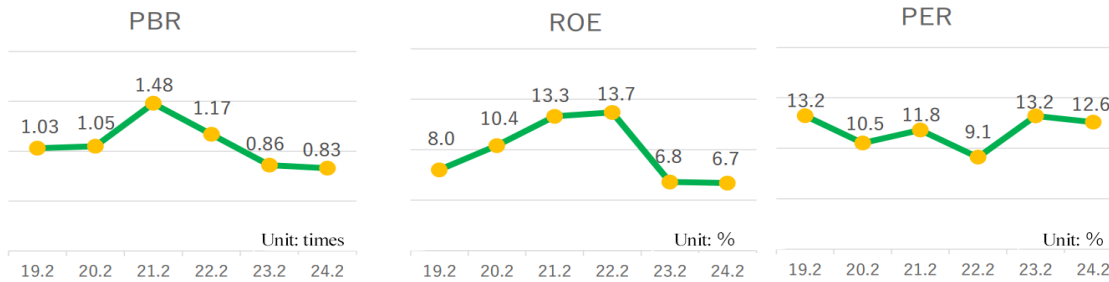
The company estimates that the cost of shareholders' equity is estimated to be around 5.5% to 7.0%.

***ROE**

ROE had been above 8% until the fiscal year ended February 2022, but has been below 8% in the fiscal year ended February 2023 and the fiscal year ended February 2024.

Although the company has not set a target, it hopes to return ROE to above 8% in the future.

<Annual variations in indicators>

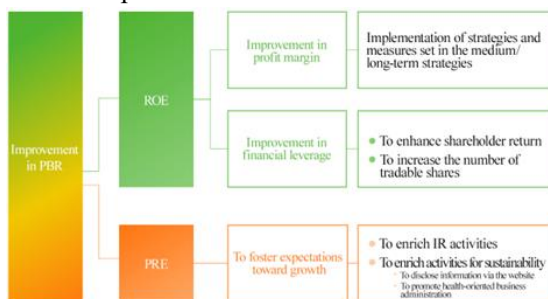


(Source: the company)

(General measures)

The company is aiming for the recovery of PBR to 1.0 or higher, through the improvement of ROE based on the medium/long-term strategy.

They believe that the improvement of ROE and elevation of PER are necessary for the improvement of PBR and they will strive to “elevate profit margin” and “elevate financial leverage” in order to improve ROE and focus on “fostering expectations for growth” in order to improve PER.



(Source: the company)

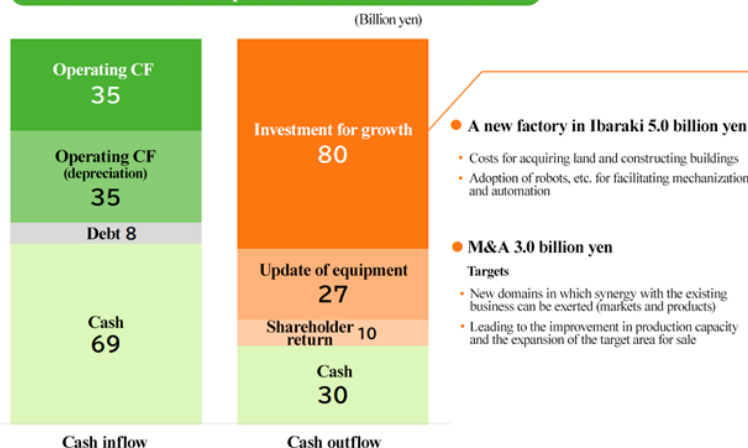
Regarding “Measures to realize management that is conscious of capital costs and share prices,” the company recognizes that the demonstration of cash allocation to investors and enhancement of return to shareholders are important challenges.

◎ Capital allocation

The company will invest 8 billion in growth during the three years from the fiscal year ending February 2025 to the fiscal year ending February 2027.

These investments are broken down into 5 billion for the new Ibaraki plant and 3 billion for M&A. Regarding M&A, they will target new fields (markets and products) which allow for synergy with existing businesses and business opportunities leading to the elevation of production capacity and expansion of sales areas.

Cumulative results in the period from FY 2/2025 to FY 2/2027



(Source: the company)

◎ Enhancement of return to shareholders

The company will enrich return on profit by combining dividends and shareholder benefits.

(3) Endeavoring to develop new products and enter new fields

It is important how the company will develop “new” fields both in terms of the market and products in order to expand the business scale throughout the group.

		Products	
		Existing	New
Markets, sales channels, and selling spaces	New	<ul style="list-style-type: none"> ● To expand sales in western Japan ● To supply more products to new selling spaces 	<ul style="list-style-type: none"> ● To promote the “OH!!!” business ● To cultivate overseas markets ● To discuss M&A in fields that have an affinity with their products
	Existing	<ul style="list-style-type: none"> ● Sales promotion of delicatessen foods ● Sales promotion of lightly pickled foods ● To brush up the Gohan ga Susumu Kimchi series 	<ul style="list-style-type: none"> ● To develop and promote sweet potato products ● To develop and promote frozen food-related products ● To develop and promote long-life delicatessen foods packaged with a modified atmosphere

(Source: the company)

① Development and sales promotion of sweet potato products

The company has been involved in the development and sale of sweet potato products, such as growing sweet potatoes and Japanese mustard spinach in Saitama Prefecture at Pickles Farm Co. Ltd. since March 2022 and developing products using sweet potatoes produced by Pickles Farm Co. Ltd. at Vegepal Co., Ltd., a joint venture company founded in September 2023. However, seeing that sales are small, the company will work toward expanding sales by forging ahead with “stable procurement of high-quality sweet potatoes, including procurement from external sources,” “product development utilizing group synergy and the establishment of a production system for respective product categories” and “the establishment of marketing foundations.”

Concretely, they will launch a wide variety of products, such as raw sweet potatoes, dried slices of steamed sweet potato and frozen baked sweet potato, processed products such as paste for sweets and pastries and dried slices of steamed sweet potato for pets.

② Development and sales promotion of frozen food-related products

The demand for frozen food products shows a slowly increasing trend and stable growth is expected from now on as well, as consumption costs hit a record high in approximately 10 years as a result of advantages such as shortening meal preparation time and allowing for significant reduction of food waste.

Amid such situation, the company will distribute frozen “Gohan ga Susumu Kimchi” fried rice and hotpot series as well as “Top Seal” delicatessen to the frozen food sections of mass marketers. In addition, they will promote sales of frozen delicatessen such as kimchi and Namul for business use among restaurants.

③ Promotion of the “OH!!!” business

The group company OH Co., Ltd. has been operating dining business and retail business at “OH!!! Fermentation, Health, Food Magic!!!,” a fermentation and health-themed complex (Hanno City, Saitama Prefecture), since October 2020.

A restaurant, bakery, shopping and experience classes are available at the complex, offering the opportunity to introduce the group’s products and approach to production from many aspects through each facility.

In March 2024, the café building was renovated and reopened as “Hanno Bakery POCO-POCO.”

The complex has been supported by a wide variety of visitors from local customers to tourists and its sales keep increasing with every passing year.

From now on, the company will demonstrate group synergy through this complex as a facility that represents their “vision” and utilize it as a platform for giving a concrete shape to the endeavor to develop new products and enter new fields. Moreover, they will aim to increase the number of visitors and improve recognition through their own events and initiatives in line with community-based events. They will also engage in building a robust organizational structure, aiming for opening more stores.

④ Other

*Expansion of sales in western Japan

The sales composition of consolidated sales by region shows that the Kanto region accounts for 50.0%, while the Western Japan area (Kinki, Chugoku-Shikoku, Kyushu-Okinawa) makes up about 25%.

In contrast, the population ratio is 34.4% in Kanto and about 38% in the West Japan area. Considering the population, there is significant room for sales expansion in the Western Japan area. Therefore, the company is focusing on expanding sales in this area by increasing sales of products for commercial use and increasing sales of high-unit-price products at mass merchandisers to raise the sales composition ratio of the Western Japan area to over 30%.

Taking advantage of the supply capacity of Western Japan Factories and Saga Factory of PICKLES CORPORATION NISHINIHON and TEGARA FOOD CO., LTD., the corporate group will reinforce production and sales in the Kinki region, the Chugoku and Shikoku region, and the Kyushu region.

The corporate group will leverage the strength as the only company in the industry with a nationwide network to cultivate the market.

*Enhancement of sale of products in new selling spaces

While increasing its market share in the selling spaces for pickles and delicatessen at convenience stores and mass retailers, restaurants, etc., the company will concentrate on selling products in new selling spaces for tofu, natto, sauces, dressings, processed food products, and frozen food products in addition to the selling spaces for pickles and delicatessen, at drugstores that actively sell food products and mass retailers.

The company is actively engaging in the expansion of its products beyond existing sales areas. This strategy is advantageous as it leverages existing sales channels and enhances the loading efficiency of delivery vehicles. Consequently, this initiative is expected to lead to improvements in both marketing and logistics efficiency.

4-3 Medium-Term Management Plan

	FY 2/24	Ratio to sales	FY 2/25 (Plan)	Ratio to sales	FY 2/26 (Plan)	Ratio to sales	FY 2/27 (Plan)	Ratio to sales	CAGR
Sales	43,028	100.0%	43,500	100.0%	44,000	100.0%	44,500	100.0%	+1.1%
Gross Margin	8,637	20.1%	8,928	20.5%	8,972	20.4%	9,221	20.7%	+2.2%
SG&A expenses	6,969	16.2%	7,228	16.6%	7,372	16.8%	7,481	16.8%	+2.4%
Operating Income	1,668	3.9%	1,700	3.9%	1,600	3.6%	1,740	3.9%	+1.4%
Ordinary Income	1,771	4.1%	1,780	4.1%	1,670	3.8%	1,810	4.1%	+0.7%
Net income	1,175	2.7%	1,200	2.8%	1,120	2.5%	1,220	2.7%	+1.3%

*Unit: million yen. CAGR is the average annual growth rate from the fiscal year ended February 2024 to the fiscal year ending February 2027. Calculated by Investment Bridge Co., Ltd.

	FY 2/24	FY2/27 (Plan)	CAGR
Lightly pickled vegetables /kimchi	17,545	18,321	+1.5%
Delicatessen	11,241	11,613	+1.1%
Old pickled vegetables	473	507	+2.3%
Product	13,768	14,056	+0.7%
Total	43,028	44,500	+1.1%

*Unit: million yen. CAGR is the average annual growth rate from the fiscal year ended February 2024 to the fiscal year ending February 2027. Calculated by Investment Bridge Co., Ltd.

	FY 2/22	FY 2/23	FY 2/24	FY 2/25 (Plan)	FY 2/26 (Plan)	FY 2/27 (Plan)
Capital Expenditure	718	883	951	6,400	940	400
Depreciation	963	980	940	1,056	1,325	1,315

* Unit: million yen.

(Sales and profit)

For the fiscal year ending February 2026, the company expects a decrease in profit due to the depreciation burden incurred by the Ibaraki factory. Operating income margin is also projected to decline.

Lightly pickled vegetables and kimchi are expected to drive sales.

(Capital investment, etc.)

The company is planning a capital investment of 7.7 billion yen over the next three years.

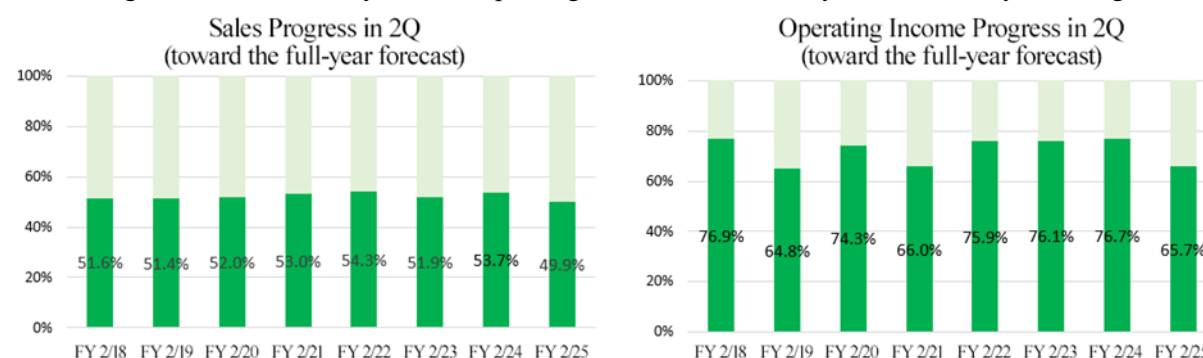
The main items are: "Fiscal year ending February 2025: Ibaraki factory, facility upgrade, etc.," "Fiscal year ending February 2026: facility upgrade, etc.," "Fiscal year ending February 2027: facility upgrade, etc."

Regarding the new factory in Kansai, which was originally scheduled to be built in the fiscal year ending February 2026, the company decided to remove it from the current capital investment plan. This is due to rising construction costs and the need to consider the future business environment of the group. Instead, the company will explore options such as M&A or acquiring an existing factory.

5. Conclusions

In the interim period, sales and profit decreased like in the first quarter, and the progress rate toward the full-year earnings forecast is 49.9% for sales and 65.7% for operating income, being low compared with the averages like in the first quarter. However, sales and profit increased quarter on quarter for the second consecutive quarter. As consumers remain budget-minded, the business environment is harsh, but we would like to expect the rebound from the third quarter.

The basic stance for the medium/long-term management strategy seems to be not so different from that for previous strategies, but it seems that they have set clearer and more concrete policies and measures. We would like to pay attention to the progress toward the goal of achieving "sales of 44.5 billion yen and an operating income of 1.74 billion yen" in the fiscal year ending February 2027.



* FY 2/18...FY 2/24: Composition of full-year results

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	8 directors, including 3 from outside (including 3 independent directors)
Auditors	4 directors, including 3 from outside (including 3 independent directors)

◎Corporate Governance Report (Updated on May 31, 2024)

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: Policy Retention Co.]

In principle, our company will not hold the shares of listed companies. However, if we hold shares for a reasonable purpose, such as the maintenance or strengthening of transaction relationships, we regularly check whether the purpose is satisfied.

We will discuss methods for examining the appropriateness of strategic shareholding and disclosing the detailed information on strategic shareholding.

Regarding the exercise of voting rights for strategically held shares, we judge each case individually. We appropriately exercise voting rights, while comprehensively considering whether they would contribute to the improvement in mid/long-term corporate value of our company and invested companies.

【Supplementary Principle 2-4-①】

Our group promotes highly motivated and skilled employees to management posts (division chiefs or higher) regardless of age, nationality, gender, etc. Regarding the promotion to management posts, the ratio of female managers is 10.1%, and we will increase this ratio. The percentage of women in management positions above is based on the values of PICKLES CORPORATION (our main subsidiary). For non-Japanese employees, the ratio of them is low, so we have not set a goal for them. For mid-career workers, we promote them to management posts while comprehensively considering their experiences, abilities, etc., so we have not set a goal for them.

With the aim of honing the ability of each employee, we make efforts to foster the stance of learning voluntarily, adopting systems for supporting self-development, incentives for acquiring qualifications, etc. In addition, we recognize the development of a comfortable working environment as an important management issue, so our corporate group has adopted refreshing holidays, overtime-free working days, etc.

【Supplementary Principle 3-1-③】

Regarding sustainability, we recognize the environment, safety, reliability, etc. as important issues, and take initiatives. As the investment in human capital, we develop educational systems and pursue a comfortable working environment for employees, and as the investment in intellectual property, we research lactic acid bacteria, etc. These are disclosed via our ESG reports and IR documents, which are available in our website. For more information about our corporate group's sustainability efforts, please visit our website.

We will consider disclosure based on the TCFD, a globally established disclosure framework, or an equivalent framework, going forward.

<Disclosure based on the Principles of the Corporate Governance Code (Excerpts)>

【Principle 3-1 Enrichment of information disclosure】

- (1) Our corporate philosophy and policy are disclosed in our website, etc.
- (2) Our basic policy for corporate governance is disclosed in this report.
- (3) The basic policy for our directors' remuneration is to contribute to the sustainable improvement in corporate performance and value and set the remuneration of each director at an appropriate level according to each post. In detail, the remuneration of each executive director is composed of the basic remuneration, which is fixed, a bonus, and a stock option. The remuneration of each outside director is composed of only the basic remuneration, because of their duties. The details of the policy and procedure for determining the remuneration of each director are disclosed in this report.

(4) The board of directors choose candidates for internal directors from those who possess expertise in their respective fields and can respond to changes in the business environment swiftly and accurately, and candidates for outside directors from those who can oversee our business administration from an objective, independent standpoint without seeking the benefits of the management or specific stakeholder. Candidates for auditors are chosen by the board of auditors from those who possess plenty of experience and advanced insight, and then determined by the board of directors after having discussions and reaching an agreement. If the above policy for appointing directors cannot be fulfilled or a director violates or is suspected of violating a law, a regulation or the articles of incorporation, the board of directors will discuss the dismissal of said director.

(5) The reasons for choosing candidates for directors and auditors are disclosed in convocation notices for a general meeting of shareholders.

【Supplementary Principle 4-11①】

The board of directors of our company is composed of directors who possess technical knowledge and plenty of experience in respective fields, such as business administration and finance, while securing an appropriate scale and diversity of gender, work history, and age so that the board can fulfill its roles and duties effectively. The policy and procedure for appointing directors are as described in Section (4) of “Principle 3-1.”

This report discloses the skill matrix, which lists the knowledge, experience, abilities, etc. of each director. Independent outside directors include those who have the experience of business administration in another company.

【Principle 5-1. Policy on Constructive Dialogue with Shareholders】

With a basis in transparency, fairness, and continuity, we strive to disclose information promptly so that our shareholders and investors can understand our company correctly.

We will strive to disclose information based on related laws and regulations such as the Financial Instruments and Exchange Act as well as the timely disclosure rules established by financial instruments exchange, and to actively disclose information that can be considered effective for understanding our company with appropriate measures.

In detail, a financial results briefing sessions is held twice a year, and a briefing session for individual investors is held when necessary, and the representative director and president gives explanations. Individual interviews are handled by the publicity/IR division.

【Measures to realize management that is conscious of capital costs and stock prices】

Regarding measures to realize management that is conscious of capital costs and stock prices, these measures are described in the reference material for the session for briefing the financial results for the fiscal year ended February 2024 held on April 19, 2024 (pp. 33-34). This material is disclosed on the company's website (<https://pickles-hd.co.jp/ir/>).

In this material, the company aims to demonstrate the growth trajectory of the group by implementing initiatives such as “Initiatives to Achieve Medium-term Management Targets,” “Enhancement of IR Activities,” “Enhancement of Sustainability Activities,” and “Strengthening Shareholder Returns.” Through the implementation of these initiatives, the company strives to enhance corporate value and increase stock price by improving profitability and asset efficiency. It also aims to improve its PBR through these initiatives.

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