

KENKO Mayonnaise (2915)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2012		51,878	2,144	2,073	1,029	72.5	20.0	949.4
FY03/2013		54,533	2,778	2,574	1,409	99.2	21.0	1,041.5
FY03/2014CoE		55,500	2,720	2,580	1,420	99.9	21.0	-
FY03/2013	YoY	5.1%	29.6%	24.1%	36.8%	-	-	-
FY03/2014CoE	YoY	1.8%	(2.1%)	0.2%	0.8%	-	-	-
Consolidated Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2013		27,388	1,594	1,531	772	-	-	-
Q3 to Q4 FY03/2013		27,145	1,184	1,043	637	-	-	-
Q1 to Q2 FY03/2014CoE		28,100	1,560	1,480	830	-	-	-
Q3 to Q4 FY03/2014CoE		27,400	1,160	1,100	590	-	-	-
Q1 to Q2 FY03/2014CoE	YoY	2.6%	(2.2%)	(3.4%)	7.4%	-	-	-
Q3 to Q4 FY03/2014CoE	YoY	0.9%	(2.0%)	5.5%	(7.4%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (30 July 2013)

Pursuit for New Business Formats

KENKO Mayonnaise, involved with development, manufacture and sale of mayonnaise & dressings, salads & delicatessen (such as long-life salads) and processed egg products as a professional-use food manufacturer, is currently in the process of pursuit for new business formats in order to improve own long-term growth potential. While the existing business model has a potential to see steady earnings growth in a long-term view, prospective improvements from new business formats are to bring some positive add-ons. The contents are that the Company sees increasing number of stores for its operations to face-to-face sell salads, self-developed and self-manufactured, in Salad Cafe business and that the Company is increasingly exposed to operations overseas.

In FY03/2013, sales came in at ¥54,533m (up 5.1% YoY), recurring profit ¥2,574m (up 24.1%) and recurring profit margin 4.7% (up 0.7% points). Effectively, overall earnings here are accounted for by the existing business model to sell professional-use foods mainly to food service industry and market for home-meal replacement while the earnings growth has a lot to do with the Company's successful strategy to incorporate growth on the home-meal replacement side. In regards to improving recurring profit margin, falling procurement costs for raw materials were a positive factor. It is not hard to estimate the bulk of cost of sales with the Company relates to costs of raw materials procurement while those associated with cooking oils came down in particular. Meanwhile, improving productivity also contributed to improvements of recurring profit margin.

As for FY03/2014 Company forecasts, meanwhile, it is incorporated that procurement costs associated with cooking oils are on the rise and thus the overall procurement costs. While the decreases of procurement costs equated to increases of recurring profit ¥333m in FY03/2013, the increases of procurement costs are expected to equate to the decreases of recurring profit ¥543m in FY03/2014, according to the Company. Nevertheless, H2 procurement costs remain unfixed and are to be affected by near future market trends and forex rates. On top of this, positive impacts from scheduled price hikes for own products have not been incorporated in Company forecasts.

IR Representative: Akihiko Watanabe (ir@kenkomayo.co.jp)

2.0 Company Profile

A Leader of Mayonnaise & Dressings and Long-Life Salads

Company Name	KENKO Mayonnaise Co., Ltd. Company Website (English to be available in the middle of August 2013) IR Information (Japanese only) Share Price	
Established	1 March 1958	
Listing	1 November 1994 (OTC; currently, Tokyo Stock Exchange JASDAQ: Ticker 2915) 30 March 2012 (Tokyo Stock Exchange 1 st Section)	
Capital	¥2,180m (As of the end of March 2013)	
No. of Shares	14,211,000 shares, including 91 treasury shares (As of the end of March 2013)	
Main Features	<ul style="list-style-type: none"> ● No. 2 in the domestic market for mayonnaise & dressings ● No. 1 in the domestic market for long-life salads ● On top of professional-use foods, being increasingly involved with face-to-face sale of salads and overseas markets to enhance long-term growth potentials 	
Businesses	I . Seasonings & Processed Food Business II . Side-Dish-Related Business III. Other Businesses	
Top Management	President & CEO: Takashi Sumii	
Shareholders	T & A Co., Ltd. 8.8%, Nippon Life Insurance Company 5.3%, The Dai-Ichi Life Insurance Company, Ltd. 5.3% (As of the end of March 2013)	
Headquarters	Suginami-ku, Tokyo JAPAN	
No. of Employees	Consolidated: 2,936, Unconsolidated: 522 (As of the end of March 2013)	

Source: Company Data

3.0 Recent Trading & Prospects

FY03/2013 Results

In FY03/2013, sales came in at ¥54,533m (up 5.1% YoY), operating profit ¥2,778m (up 29.6%), recurring profit ¥2,574m (up 24.1%) and net profit ¥1,409m (up 36.8%). Meanwhile, recurring profit margin came in at 4.7% (up 0.7% points). Compared with Company forecasts as of Q2 (29 October 2012), sales were exceeded 2.1%, operating profit 4.8%, recurring profit 3.0% and net profit 10.1%.

As far as we could see, the overshoots for sales and earnings came from better-than-expected performance to incorporate growth in the market for home-meal replacement in particular, as a result of successful appealing to customers by business field and of aggressive menu proposals for them through joint trial manufacture in own facilities for menu proposals. On top of falling procurement costs, meanwhile, improving productivity contributed to improving recurring profit margin as well as improving utilization rates in manufacturing facilities. To large overshoots at the net level, did lower-than-expected tax rates contribute, stemming from efficient use of loss carried forward.

By business segment, the mainstay Seasonings & Processed Food Business (84.2% of sales and 97.4% of recurring profit before elimination) accounted for the bulk of the Company's sales and earnings. Contents of businesses here relate to sale of salads & delicatessen (29.5% of sales) including long-life salads for which the Company holds the No.1 position in Japan, mayonnaise & dressings (30.8%) including sauces where the Company sees steady increases in penetration and processed egg products (22.0%) including egg salads for sandwiches and bread rolls, eggs for Japanese hotchpotches (oden), flavored eggs etc. Compared with the previous year, trading amount rose 6.1% as a whole, while selling prices came down 1.4%, having resulted in a 5.2% growth in sales for this business segment. Meanwhile, recurring profit margin came in at 5.5% (up 1.3% points).

In regards to Side-Dish-Related Business (13.8% of sales), sales rose 3.1% and recurring profit margin came in at 4.3% (up 0.6% points). The Company runs consolidated subsidiaries, across the nation, to manufacture fresh delicatessen (such as fresh salads and Japanese-style delicatessen) mainly for mass merchandisers represented by supermarket stores on a consignment basis, which are the contents of businesses here. The Company saw series of successful new customer developments, having enhanced sales of mainstay items such as potato salads, pasta salads and burdock salads. This business segment accounted for 12.5% of recurring profit before elimination.

Meanwhile, Other Businesses (2.0% of sales) comprising Salad Cafe business and overseas business, both positioned as the driver to boost long-term earnings growth potential with the Company, suffered from a major adjustment. Recurring loss increased ¥254m to ¥255m from ¥1m in the previous year. Costs associated with startup for Hangzhou plant in China and new openings and renewals for Salad Cafe stores were incurred, having ended up with increased loss.

Sales of this business segment consist exclusively of those of Salad Cafe business to run own stores, located on food floors of department stores and/or in shopping malls, where the Company is involved with

face-to-face sale of self-developed salads. Sales grew nicely up 15.9% from the previous year in line with two renewal openings for stores in October 2012 and two new openings at the same time, having increased the number of stores up to 16 in total as of the end of FY03/2013.

In regards to overseas business, the Company is involved with manufacture and sale of salads and sauces in Dongguan (China) and mayonnaise & dressings and sauces in Hangzhou through a joint company, 50% held by the Company, tying up with a local one. This operation is incorporated in the Company's accounts as an equity-accounted affiliate and thus sales here are not included in the Company's accounts, e.g., segmented information, while equity in net income of affiliates is included as a part of recurring profit for this segment and thus the accounts as a whole, as taken for granted. The joint company saw sales ¥270m up from ¥100m in FY03/2012.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	03/2012	03/2012	03/2012	03/2012	03/2013	03/2013	03/2013	03/2013	03/2013	
Sales	12,476	25,846	39,651	51,878	13,447	27,388	41,872	54,533		+2,655
CoGS	9,288	19,194	29,292	38,253	9,639	19,761	30,291	39,628		+1,375
Gross Profit	3,187	6,651	10,358	13,624	3,807	7,627	11,580	14,904		+1,280
SG&A	2,846	5,699	8,609	11,480	3,026	6,032	9,182	12,126		+646
Operating Profit	340	952	1,749	2,144	781	1,594	2,398	2,778		+634
Non Operating Balance	4	(17)	(30)	(71)	(28)	(63)	(114)	(204)		(133)
Recurring Profit	344	935	1,719	2,073	753	1,531	2,284	2,574		+501
Extraordinary Balance	(27)	(33)	(70)	(83)	0	(166)	(169)	(186)		(103)
Pretax Profit	317	902	1,649	1,990	753	1,365	2,115	2,388		+398
Tax Charges etc.	166	404	771	960	319	593	911	979		+19
Net Profit	151	498	878	1,029	434	772	1,204	1,409		+380
Sales YoY	(1.1%)	+1.6%	+2.7%	+2.5%	+7.8%	+6.0%	+5.6%	+5.1%		-
Operating Profit YoY	(54.2%)	(37.7%)	(24.1%)	(22.7%)	+129.7%	+67.4%	+37.1%	+29.6%		-
Recurring Profit YoY	(53.3%)	(37.3%)	(23.7%)	(22.7%)	+118.9%	+63.7%	+32.9%	+24.2%		-
Net Profit YoY	(62.2%)	(39.4%)	(30.5%)	(22.0%)	+187.4%	+55.0%	+37.1%	+36.9%		-
Gross Profit Margin	25.5%	25.7%	26.1%	26.3%	28.3%	27.8%	27.7%	27.3%		+1.1%
(SG&A / Sales)	22.8%	22.0%	21.7%	22.1%	22.5%	22.0%	21.9%	22.2%		+0.1%
Operating Profit Margin	2.7%	3.7%	4.4%	4.1%	5.8%	5.8%	5.7%	5.1%		+1.0%
Recurring Profit Margin	2.8%	3.6%	4.3%	4.0%	5.6%	5.6%	5.5%	4.7%		+0.7%
Net Profit Margins	1.2%	1.9%	2.2%	2.0%	3.2%	2.8%	2.9%	2.6%		+0.6%
Tax Charges etc. / Pretax Profit	52.4%	44.8%	46.8%	48.2%	42.4%	43.4%	43.1%	41.0%		(7.2%)
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	03/2012	03/2012	03/2012	03/2012	03/2013	03/2013	03/2013	03/2013	03/2013	
Sales	12,476	13,370	13,805	12,227	13,447	13,941	14,484	12,661		+434
CoGS	9,288	9,906	10,098	8,961	9,639	10,122	10,530	9,337		+376
Gross Profit	3,187	3,464	3,707	3,266	3,807	3,820	3,953	3,324		+58
SG&A	2,846	2,853	2,910	2,871	3,026	3,006	3,150	2,944		+73
Operating Profit	340	612	797	395	781	813	804	380		(15)
Non Operating Balance	4	(21)	(13)	(41)	(28)	(35)	(51)	(90)		(49)
Recurring Profit	344	591	784	354	753	778	753	290		(64)
Extraordinary Balance	(27)	(6)	(37)	(13)	0	(166)	(3)	(17)		(4)
Pretax Profit	317	585	747	341	753	612	750	273		(68)
Tax Charges etc.	166	238	367	189	319	274	318	68		(121)
Net Profit	151	347	380	151	434	338	432	205		+54
Sales YoY	(1.1%)	+4.3%	+4.7%	+1.8%	+7.8%	+4.3%	+4.9%	+3.5%		-
Operating Profit YoY	(54.2%)	(22.1%)	+2.8%	(16.0%)	+129.7%	+32.8%	+0.9%	(3.8%)		-
Recurring Profit YoY	(53.3%)	(21.8%)	+3.2%	(17.5%)	+118.9%	+31.6%	(4.0%)	(18.1%)		-
Net Profit YoY	(62.2%)	(18.0%)	(14.0%)	+174.5%	+187.4%	(2.6%)	+13.7%	+35.8%		-
Gross Profit Margin	25.5%	25.9%	26.9%	26.7%	28.3%	27.4%	27.3%	26.3%		(0.5%)
(SG&A / Sales)	22.8%	21.3%	21.1%	23.5%	22.5%	21.6%	21.7%	23.3%		(0.2%)
Operating Profit Margin	2.7%	4.6%	5.8%	3.2%	5.8%	5.8%	5.6%	3.0%		(0.2%)
Recurring Profit Margin	2.8%	4.4%	5.7%	2.9%	5.6%	5.6%	5.2%	2.3%		(0.6%)
Net Profit Margins	1.2%	2.6%	2.8%	1.2%	3.2%	2.4%	3.0%	1.6%		+0.4%
Tax Charges etc. / Pretax Profit	52.4%	40.7%	49.1%	55.4%	42.4%	44.8%	42.4%	24.9%		(30.5%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2012	Q1 to Q2 03/2012	Q1 to Q3 03/2012	Q1 to Q4 03/2012	Q1 03/2013	Q1 to Q2 03/2013	Q1 to Q3 03/2013	Q1 to Q4 03/2013		
Seasonings & Processed Food	10,463	21,724	33,354	43,618	11,425	23,237	35,407	45,894		+2,276
Side-Dish-Related	1,784	3,658	5,583	7,298	1,760	3,630	5,635	7,526		+228
Others	228	462	713	960	261	521	830	1,113		+153
Sales	12,476	25,844	39,651	51,878	13,447	27,388	41,872	54,533		+2,655
Seasonings & Processed Food	331	825	1,503	1,829	704	1,472	2,172	2,502		+673
Side-Dish-Related	16	125	230	264	99	173	279	320		+56
Others	0	(4)	0	(1)	(45)	(99)	(168)	(255)		(254)
Elimination	(3)	(10)	(15)	(18)	(4)	(15)	0	6		+24
Recurring Profit	344	935	1,719	2,073	753	1,531	2,283	2,574		+501
Seasonings & Processed Food	3.2%	3.8%	4.5%	4.2%	6.2%	6.3%	6.1%	5.5%		+1.3%
Side-Dish-Related	0.9%	3.4%	4.1%	3.6%	5.6%	4.8%	5.0%	4.3%		+0.6%
Others	0.0%	(0.9%)	0.0%	(0.1%)	(17.2%)	(19.0%)	(20.2%)	(22.9%)		(22.8%)
Elimination	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.1%)	0.0%	0.0%		+0.0%
Recurring Profit Margin	2.8%	3.6%	4.3%	4.0%	5.6%	5.6%	5.5%	4.7%		+0.7%

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2012	Q2 03/2012	Q3 03/2012	Q4 03/2012	Q1 03/2013	Q2 03/2013	Q3 03/2013	Q4 03/2013		
Seasonings & Processed Food	10,463	11,261	11,630	10,264	11,425	11,812	12,170	10,487		+223
Side-Dish-Related	1,784	1,874	1,925	1,715	1,760	1,870	2,005	1,891		+176
Others	228	234	251	247	261	260	309	283		+36
Sales	12,476	13,368	13,807	12,227	13,447	13,941	14,484	12,661		+434
Seasonings & Processed Food	331	494	678	326	704	768	700	330		+4
Side-Dish-Related	16	109	105	34	99	74	106	41		+7
Others	0	(4)	4	(1)	(45)	(54)	(69)	(87)		(86)
Elimination	(3)	(7)	(5)	(3)	(4)	(11)	15	6		+9
Recurring Profit	344	591	784	354	754	778	752	291		(63)
Seasonings & Processed Food	3.2%	3.8%	4.5%	4.2%	6.2%	6.3%	6.1%	5.5%		+1.3%
Side-Dish-Related	0.9%	3.4%	4.1%	3.6%	5.6%	4.8%	5.0%	4.3%		+0.6%
Others	0.0%	(0.9%)	0.0%	(0.1%)	(17.2%)	(19.0%)	(20.2%)	(22.9%)		(22.8%)
Elimination	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.1%)	0.0%	0.0%		+0.0%
Recurring Profit Margin	2.8%	3.6%	4.3%	4.0%	5.6%	5.6%	5.5%	4.7%		+0.7%

Source: Company Data, WRJ Calculation

Cash flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2012	Q1 to Q2 03/2012	Q1 to Q3 03/2012	Q1 to Q4 03/2012	Q1 03/2013	Q1 to Q2 03/2013	Q1 to Q3 03/2013	Q1 to Q4 03/2013		
Operating Cash Flow	-	1,256	-	3,132	-	1,524	-	2,822		(310)
Investment Cash Flow	-	(979)	-	(1,360)	-	(514)	-	(2,003)		(643)
Operating CF + Investment CF	-	277	-	1,772	-	1,010	-	819		(953)
Financing Cash Flow	-	(927)	-	(3,312)	-	338	-	1,082		+4,394

Source: Company Data, WRJ Calculation

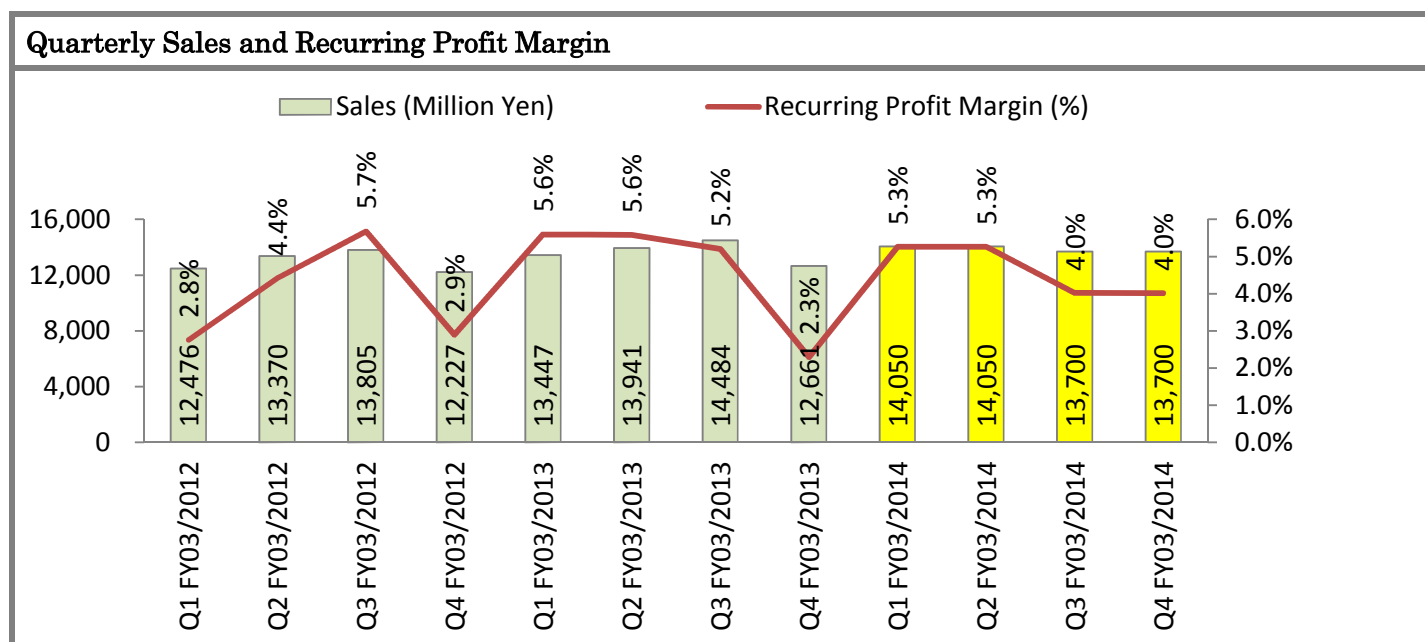
Balance Sheet (Quarterly)

Balance Sheet	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	Net Chg.
	03/2012	03/2012	03/2012	03/2012	03/2013	03/2013	03/2013	03/2013	03/2013	
Cash & Deposit	4,993	4,907	5,293	4,017	4,103	5,365	4,462	5,919		+1,902
Accounts Receivables	8,223	8,679	10,479	9,650	10,313	10,482	11,207	9,907		+257
Securities	1,906	2,002	1,956	1,971	2,026	2,156	2,268	2,058		+87
Others	510	460	607	469	539	461	634	519		+50
Current Assets	15,632	16,048	18,335	16,107	16,981	18,464	18,571	18,403		+2,296
Tangible Assets	11,995	11,850	11,675	11,580	11,444	11,236	12,201	12,355		+775
Intangible Assets	287	296	337	368	384	362	351	384		+16
LT Investment Securities etc.	2,410	2,353	2,314	2,347	2,339	2,493	2,515	2,855		+508
Fixed Assets	14,692	14,500	14,327	14,297	14,167	14,092	15,068	15,595		+1,298
Total Assets	30,325	30,548	32,663	30,404	31,149	32,557	33,639	33,998		+3,594
Accounts Payable	6,482	6,845	8,806	7,997	8,383	8,659	9,115	8,042		+45
Short Term Debt	2,941	2,566	2,487	786	600	962	1,337	995		+209
Others	3,853	4,036	4,037	4,424	5,009	4,774	4,843	5,212		+788
Current Liabilities	13,276	13,447	15,330	13,207	13,992	14,395	15,295	14,249		+1,042
Long Term Debt	2,512	2,310	2,117	1,934	1,731	2,401	2,172	3,183		+1,249
Others	1,955	1,882	1,906	1,771	1,749	1,776	1,846	1,765		(6)
Fixed Liabilities	4,467	4,192	4,023	3,705	3,480	4,177	4,018	4,948		+1,243
Total Liabilities	17,743	17,639	19,353	16,912	17,473	18,573	19,313	19,197		+2,285
Shareholders' Equity	12,540	12,886	13,267	13,418	13,568	13,906	14,196	14,401		+983
Others	41	22	42	74	108	77	129	400		+326
Net Assets	12,581	12,908	13,309	13,492	13,676	13,983	14,325	14,801		+1,309
Total Liabilities & Net Assets	30,325	30,548	32,663	30,404	31,149	32,557	33,639	33,998		+3,594
Equity Capital	12,581	12,908	13,309	13,492	13,676	13,983	14,325	14,801		+1,309
Interest Bearing Debt	5,453	4,876	4,604	2,720	2,331	3,363	3,509	4,178		+1,458
Net Debt	460	(31)	(689)	(1,297)	(1,772)	(2,002)	(953)	(1,741)		(444)
Equity Ratio	41.5%	42.3%	40.7%	44.4%	43.9%	43.0%	42.6%	43.5%		(0.8%)
Net Debt Equity Ratio	3.7%	(0.2%)	(5.2%)	(9.7%)	(13.1%)	(14.4%)	(6.7%)	(12.1%)		(2.4%)
ROE (Net Profit / Average Equity)	4.8%	7.8%	9.0%	7.9%	12.8%	11.2%	11.5%	10.0%		+2.1%
ROA (Net Profit / Average Total Assets)	4.5%	6.1%	7.2%	6.8%	9.8%	9.7%	9.5%	8.0%		+1.2%
Days for Inventory Turnover	18.7	18.4	17.7	20.1	19.2	19.4	19.7	20.1		-
Quick Ratio	100%	101%	103%	103%	103%	110%	102%	111%		-
Current Ratio	118%	119%	120%	122%	121%	128%	121%	129%		-

Source: Company Data, WRJ Calculation

FY03/2014 Company Forecasts

In FY03/2014, Company forecasts are going for prospective sales ¥55,500m (up 1.8% YoY), operating profit ¥2,720m (down 2.1%), recurring profit ¥2,580m (up 0.2%) and net profit ¥1,420m (up 0.8%). Dividend per share is planned at ¥21.0, implying payout ratio 21.0%. Recurring profit is expected to rise only 0.2% in FY03/2014 versus up 24.1% in FY03/2013. Company forecasts in FY03/2014 assume negative factors like decelerating growth rates for sales and increases in procurement costs. Measures are to be implemented to compensate for increases in procurement costs, but are not enough to fully do so.



Source: Company Data, WRJ Calculation

In regards to sales growth rates, Company forecasts are based on a conservative assumption that incorporates a probability for competition to intensify among peers and thus sales may be exceeded as far as we could see. Meanwhile, the Company is trying to maintain the level of recurring profit, despite increases in procurement costs, by means of suppressing increases of fixed costs etc. For example, as future changes in procurement costs are predictable as far as the mainstay cooking oils are concerned in a respect that they correlate to soybean prices in Chicago Board of Trade to be reflected in the Company's procurement costs for cooking oils in six months, the Company had frontloaded the booking of strategic expenses by the end of FY03/2013. Thus, the Company is likely suppressing fixed costs from the previous year with no major problems. On top of this, negative impacts from price erosions stemming from changes in product mix are to decelerate, which is another factor to offset negative impacts from increases in procurement costs. This relates to a situation that frequency for low-price-ranged products to be purchased out of analogous product groups is to come down, compared with the previous year.

Factor Analysis for Recurring Profit Net Changes			
	FY03/2013	FY03/2014	YoY Net Chg.
Changes in Sales	+862	+409	(453)
Changes in Procurement Costs	+333	(543)	(876)
Improvements in Production Efficiency	+289	+334	+45
Price Erosions from Changes in Product Mix	(457)	(194)	+263
Changes in Fixed Costs etc.	(527)	+0	+527
Recurring Profit Net Changes (Million Yen)	+501	+6	(495)

Source: Company Data, WRJ Calculation

In regards to improving production efficiency, the Company is likely benefiting from this even in a long-term view. For example, the Company is to invest collective ¥4,500m in its new “Shizuoka Mount Fuji Factory” whose full-fledged utilization is expected to start up in April 2014, targeting to manufacture baked eggs etc. some 6,000 tons pa. The Company has been involved with manufacture of baked eggs for some time, while the new facilities are to realize improved efficiency in the manufacture. As is seen here, the Company persistently pursues efficiency and productivity and thus is this persistently a factor to boost recurring profit.

Improvements ¥64m are expected to feed through for non-operating balance, suggesting that equity in net income of affiliates associated with overseas business is to improve roughly as much as this. Sales in China are expected to expand nicely up to ¥1,280m in FY03/2014 and up to ¥1,700m in FY03/2015 versus ¥270m in FY03/2013. Meanwhile, the Company set up a joint company on 31 July 2012, 49% held by the Company, with a local company in Indonesia to locally manufacture and sell mayonnaise & dressings as well as sauces. This new operation is to start up in July 2013. Meanwhile, going forward, prospective sales here in FY03/2015 are ¥500m and thus collective sales in China and Indonesia are expected to be ¥2,200m in FY03/2015, although the Company does not book sales here in accounts because these operations relate to those of the Company’s equity accounted affiliates as mentioned earlier.

On the Salad Cafe business side, the Company is to expand the number of stores in line with Midterm Management Plan. Compared with 16 stores as of the end of FY03/2013, the Company has a target to run 30 stores as of the end of FY03/2015. The other thing is that, given some cases in which sales per store fell short of expectations most recently, the Company considers implementing consolidation for some of the stores, prior to eventually achieving the target in Midterm Management Plan.

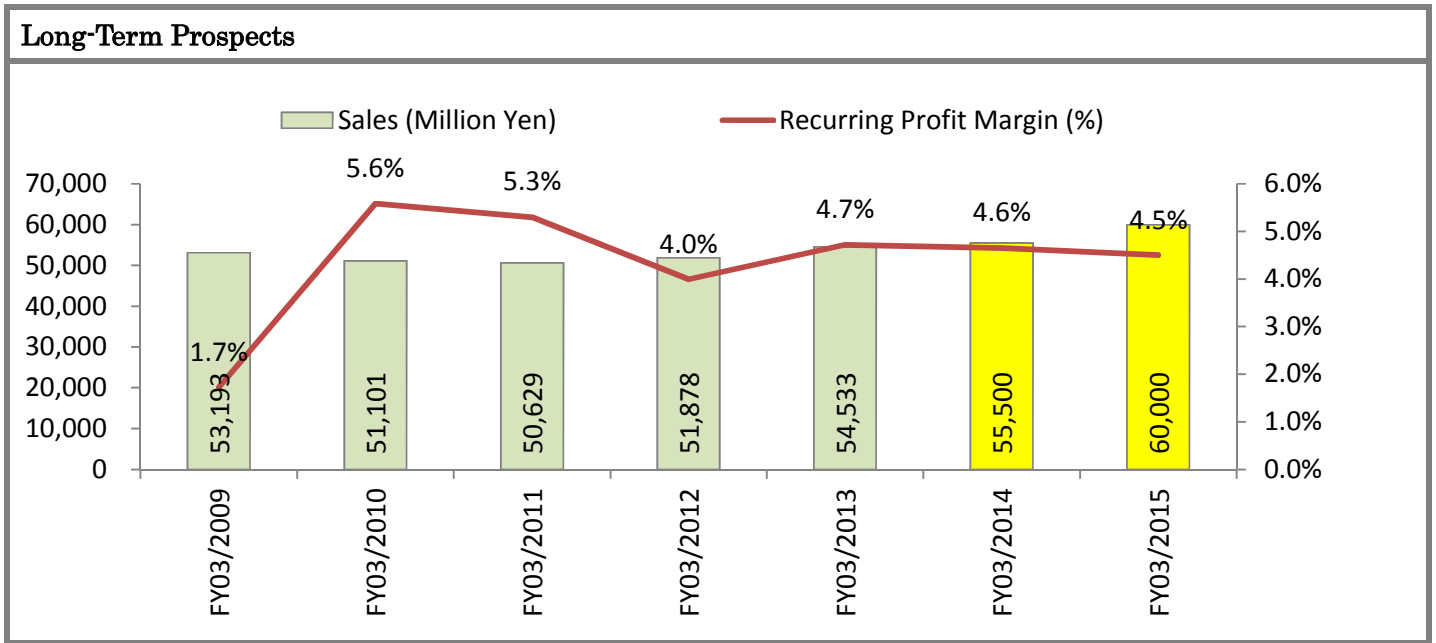
Income Statement

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	03/2009	03/2010	03/2011	03/2012	03/2013	03/2014	Net Chg.
Sales	53,193	51,101	50,629	51,878	54,533	55,500	+967
CoGS	40,897	36,753	36,536	38,253	39,628	-	-
Gross Profit	12,295	14,348	14,092	13,624	14,904	-	-
SG&A	11,318	11,397	11,319	11,480	12,126	-	-
Operating Profit	977	2,951	2,773	2,144	2,778	2,720	(58)
Non Operating Balance	(57)	(98)	(92)	(71)	(204)	(140)	+64
Recurring Profit	920	2,853	2,681	2,073	2,574	2,580	+6
Extraordinary Balance	(183)	(172)	(238)	(83)	(186)	-	-
Pretax Profit	737	2,681	2,443	1,990	2,388	-	-
Tax Charges etc.	444	1,239	1,124	960	979	-	-
Net Profit	300	1,446	1,319	1,029	1,409	1,420	+11
Sales YoY	+0.2%	(3.9%)	(0.9%)	+2.5%	+5.1%	+1.8%	-
Operating Profit YoY	(39.2%)	+202.0%	(6.0%)	(22.7%)	+29.6%	(2.1%)	-
Recurring Profit YoY	(39.8%)	+210.1%	(6.0%)	(22.7%)	+24.1%	+0.2%	-
Net Profit YoY	(57.7%)	+382.0%	(8.8%)	(22.0%)	+36.8%	+0.8%	-
Gross Profit Margin	23.1%	28.1%	27.8%	26.3%	27.3%	-	-
(SG&A / Sales)	21.3%	22.3%	22.4%	22.1%	22.2%	-	-
Operating Profit Margin	1.8%	5.8%	5.5%	4.1%	5.1%	4.9%	(0.2%)
Recurring Profit Margin	1.7%	5.6%	5.3%	4.0%	4.7%	4.6%	(0.1%)
Net Profit Margins	0.6%	2.8%	2.6%	2.0%	2.6%	2.6%	(0.0%)
Tax Charges etc. / Pretax Profit	60.2%	46.2%	46.0%	48.2%	41.0%	-	-

Source: Company Data, WRJ Calculation

Long-Term Prospects

According to “Midterm Management Plan IV(Fourth) 2012-2014”, released on 17 May 2012, the Company goes for prospective sales ¥60,000m, recurring profit ¥2,700m and recurring profit margin 4.5% in FY03/2015. Based on results in FY03/2012, prospective sales are to rise 5.0% pa and recurring profit 9.2% pa in terms of CAGR in three years to FY03/2015. During the same period, recurring profit margin is expected to be up 0.5% points.



Source: Company Data, WRJ Calculation

The gist of “Midterm Management Plan IV(Fourth) 2012-2014” relates to the Company’s strategy to make a changeover to “market-creation-oriented company” from “professional-use food manufacturer” through developments of Salad Cafe business etc. for the sake of long-term growth potential enhancement. That is to say, while the Company remains as it is, as far as the existing business model as food manufacturer is concerned, the Company intends to increase exposure to face-to-face retailing of small-sized long-life salads etc. which is a new business format with the Company. Meanwhile, it has been the case that the Company is almost exclusively exposed to the domestic market and thus it is another new business format to work on overseas business to propel manufacture and sale overseas. In recent trading by FY03/2013, it has been revealed that startup in China was delayed while it was also the case in Indonesia. Still, the Company currently aims at eventually achieving prospective numbers of Midterm Management Plan in terms of both sales and earnings here in FY03/2015.

4.0 Business Model

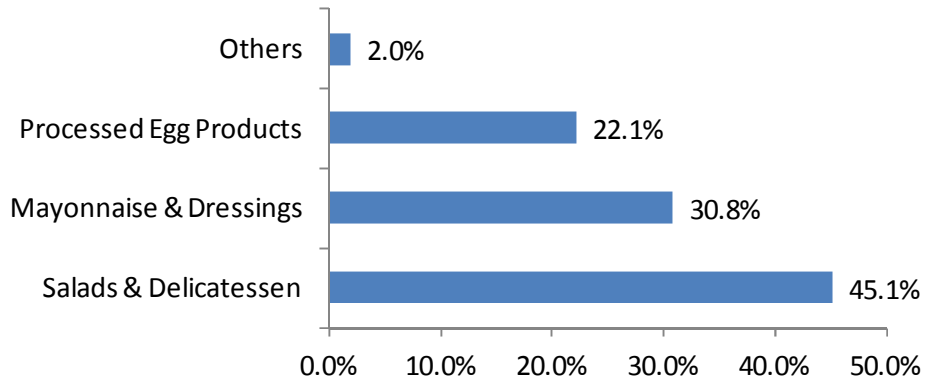
Evolution of KENKO Salad World

The Company is a professional-use food manufacturer and the main operations relate to sale of diversified products, self-developed and self-manufactured, to food service industry (restaurants etc.), supermarket stores (and/or mass merchandisers), convenience stores. As far as the professional-use food industry is concerned, “KENKO Mayonnaise” brand is well recognized. Going forward, the Company increasingly appeals to consumers about “Salad Cafe” brand to quickly enhance its penetrations in them, planning to expand businesses as “market-creation-oriented company”. At the end of the day, the Company has a target to “establish Salad Meal”, while the terminal form in mind is conceptually expressed in the terms evolution of KENKO Salad World”, according to the Company.

Items 1,700 or More

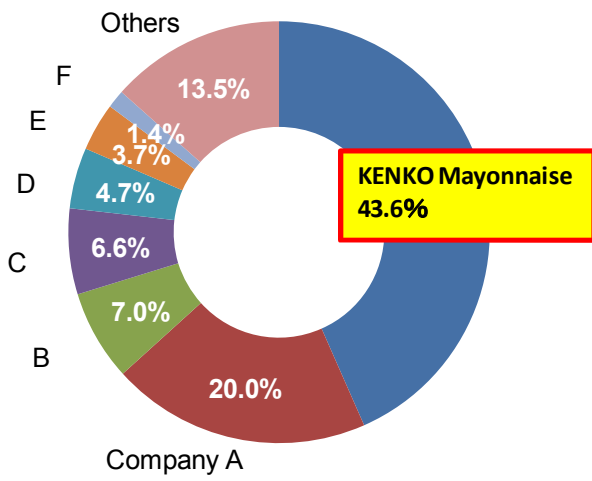
The number of items for the Company to deal with in the market is as many as 1,700 or more, while more than 300 new items per annum are developed and launched in the market. In regards to long-life salads, estimated to account for the bulk of salads & delicatessen, the Company is the pioneer in the market and is currently the largest too. According to the Company’s data, the Company accounted for 43.6% of the domestic market for long-life salads in CY2011, while the second largest 20.0%. On top of this, the Company is one of the largest in the domestic market for mayonnaise & dressings as far as professional-use ones are concerned, while ranked No.2 with a 15.1% share in CY2011 in the market including consumer-use ones versus 57.2% for the market leader.

Sales Breakdown by Product (FY03/2013)

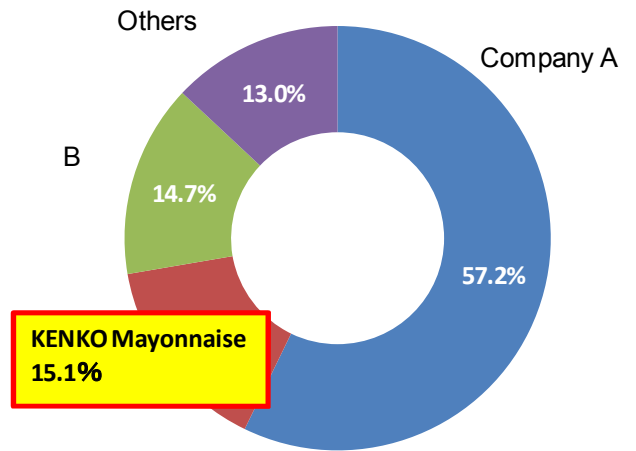


Market Share

Long-Life Salads (CY2011)



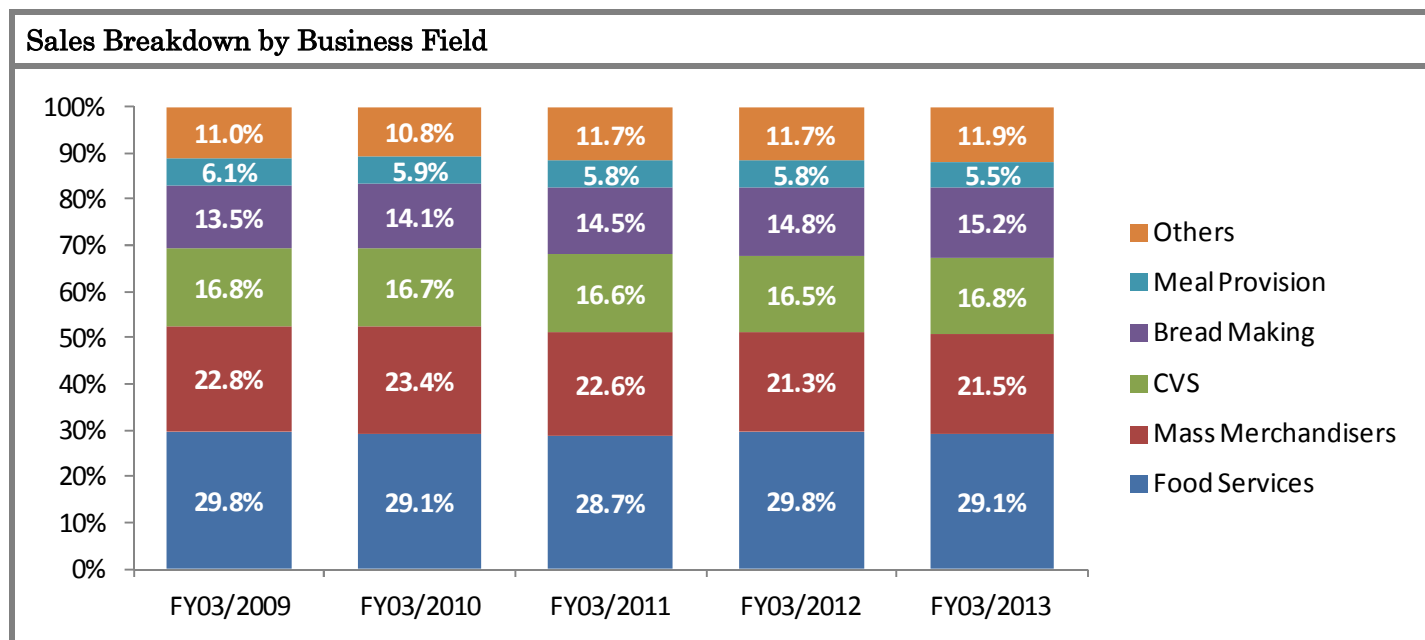
Mayonnaise & Dressings (CY2011)



Source: Company Data

Sales Breakdown by Business Field

The Company's diverse products are sold to food service industry (Food Services, 29.1% of sales in FY03/2013), supermarket stores etc. (Mass Merchandisers, 21.5%), convenience stores (CVS, 16.8%), baking industry (Bread Making, 15.2%), meal-provision-related (Meal Provision, 5.5%) and other businesses fields (Others, 11.9%).



Source: Company Data, WRJ Calculation

Food Services relate to sales of own products to operators of major fast-food chain restaurants including those of hamburgers and beef bowls, of diners or Family restaurants, of Korean barbecue restaurants and of Japanese-style taverns or Izakaya. Mass Merchandisers relate to sales of own products such as salads & delicatessen to operators of supermarket chain stores who run stores nation-wide and/or locally in a region. CVS relates to sales of own products used as foodstuffs and/or ingredients for boxed lunches or bento and sandwiches sold through convenience stores, including those of the 3 major operators.

In the same way, Bread Making relates to sales to major bread manufacturers, retailing bakeries etc. Meal Provision relates to sales associated with diverse business establishments, hospitals, school meals, company cafeteria etc. Others relate to sales to consumer cooperatives, professional-use foodstuff supermarket stores etc.

“Salad Meal”

The Company defines “Salad Meal” as main-dish salads or salads which have been evolved and progressed by means of pursuing for the best combinations between any foodstuffs and any sauces, while the former include vegetables as well as meats, fishes & shellfishes and dairy products. The target set by the Company is to establish “Salad Meal” as a market and to become the leader in there, claiming for “Salads, the main players”, “Salads, the main dishes” and “Salads, the kings”.

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

Company Name: Walden Research Japan Incorporated

Headquarters Office : #1110 4-12-4 Hatchobori, Chuo-ku, Tokyo 104-0032, JAPAN

URL: www.walden.co.jp

E-mail: info@walden.co.jp

Phone : +81 3 3553 3769
