

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%)	-	-	-
Consolidated Quarter (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY03/2013		13,447	781	753	434	-	-	-
Q2 FY03/2013		13,941	813	778	338	-	-	-
Q3 FY03/2013		14,484	804	753	432	-	-	-
Q4 FY03/2013		12,661	380	290	205	-	-	-
Q1 FY03/2014CoE		14,336	913	876	511	-	-	-
Q1 FY03/2014CoE	YoY	6.6%	16.8%	16.3%	17.9%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (25 September 2013)

Increasing Demand for Home-Meal Replacement

KENKO Mayonnaise, involved with development, manufacture and sale of mayonnaise & dressings, salads & delicatessens and processed egg products as a professional-use food manufacturer that endeavors to establish "Salad Cuisine" as a market, steadily incorporates growth associated with increasing demand for home-meal replacement. The Company has a lot to do with supplying convenience store operators which are currently opening new stores while pursuing sales increases in existing stores, together with ongoing increases in demand for home-meal replacement as one of the key drivers. Meanwhile, the Company successfully maintains and/or increases own shares to supply. Thus, the Company benefits from here a lot. On top of this, the Company is starting to see some progresses for new business formats comprising face-to-face sale of salads and overseas operations, while initial costs from here are to be on the decreases.

In Q1 FY03/2014, sales came in at ¥14,336m (up 6.6% YoY), recurring profit ¥876m (up 16.3%) and recurring profit margin 6.1% (up 0.5% points). Basically, the Company's businesses are exposed to

home-meal replacement and food service industry while almost nothing to home meal. Now, the market trend is that home-meal replacement and food service industry are increasing on the expense of home meal, while the Company is competitive enough to incorporate demand increases in the market for home-meal replacement and food service industry, which is the key driver for earnings with the Company. In particular, it appears sales to convenience store operators, the key source to incorporate demand for home-meal replacement, rose some 20% from the same period in the previous year. Meanwhile, gross profit margin with the Company has remained unchanged at 28.3% but the ratio of SG&A to sales came down 0.6% points to 21.9% due to sales increases etc., having raised recurring profit margin with the Company.

In regards to short-term earnings in Q2 and after, it will be a crucial issue to what extent the Company could pass on raw material procurement cost increases to price hikes for own products. Given increasing procurement costs for cooking oils etc., Company forecasts in FY03/2014 assume negative impacts ¥543m at the recurring levels stemming from raw material procurement cost increases, while positive impacts to come from price hikes are not incorporated at all. Meanwhile, the former could not be immune to near-term changes in trends for forex rates and raw material market situations, while the Company suggests that it has been successfully negotiated with customers on the latter. For example, the Company goes for price hikes some ¥40 per kilogram for mayonnaise as far as we could gather.

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2.0 Company Profile

Professional-Use Food Manufacturer, Endeavoring to Establish “Salad Cuisine” as A Market

Company Name	KENKO Mayonnaise Co., Ltd. Company Website (currently Japanese only and English to be available early October 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 June 2013)	
No. of Shares	14,211,000 shares, including 91 treasury shares (As of the end of June 2013)	
Main Features	<ul style="list-style-type: none"> ● No. 2 in Japan for mayonnaise & dressings and No. 1 for long-life salads ● Mainly supplying home-meal replacement and food service industry ● New business formats, i.e., face-to-face sale of salads and overseas operations 	
Businesses	I . Seasonings & Processed Food Business II . Side-Dish-Related Business III. Other Business (face-to-face sale of salads and overseas operations)	
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:2,987, Unconsolidated: 1,367 (As of the end of June 2013)	

Source: Company Data

3.0 Recent Trading & Prospects

Q1 FY03/2014 Results

In Q1 FY03/2013, sales came in at ¥14,336m (up 6.6% YoY), operating profit ¥913m (up 16.8%), recurring profit ¥876m (up 16.3%) and net profit ¥511m (up 17.9%). Meanwhile, recurring profit margin came in at 6.1% (up 0.5% points). Out of Company forecasts in H1, 51.0% of sales have been achieved, while 58.5% in operating profit, 59.2% in recurring profit and 61.6% in net profit.

As far as expecting sales are to sequentially rise from Q1 to Q2 as in previous years, sales have been running ahead of the assumptions to a certain extent and thus earnings presumably more than 10%. Meanwhile, it appears that better-than-expected sales have a lot to do with those associated with convenience store operators that benefit from increasing demand for home-meal replacement. On top of this, sales associated with food service industry appear doing not badly.

While the Company is in charge of supplying to all the major convenience store operators with no exceptions, it appears that the Company just keeps on well surviving persistent and intense competition among peers, often resulting in increases in the shares to supply the largest players in home-meal replacement and food service industry. According to the Company, it works very well for the Company to cope with customer needs by means of customized approaches to each by marketing teams classified in line with categories as well as by means of aggressive menu proposals through own menu proposal facilities.

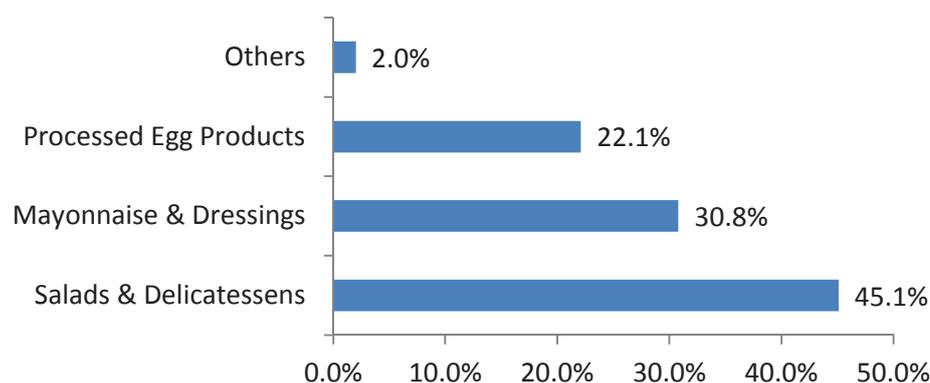
Steady sales increases with the Company, driven by all those positive factors, contributed to improvements of earnings with the Company. Net increases in sales came in at ¥889m while operating profit ¥132m and recurring profit ¥123m, while net increases in recurring profit is accounted for by factors as follows, according to the Company.

Positive factors comprise sales increases ¥185m and productivity increases ¥65m, while negative factors comprise raw material procurement cost increases ¥52m and fixed cost increases etc. ¥76m. Productivity increases mainly stem from increases of capacity utilization rates in own manufacturing facilities in line with increases of production volume, suggesting that increasing sales are the key factor for increasing earnings with the Company to a large extent.

At the moment, raw material procurement costs are on the rise, while this is to be compensated for by upcoming price hikes for own products to some extent. Meanwhile, “fixed cost increases etc.” include those of losses at equity-accounted affiliate balance, i.e., ¥25m (to ¥61m from ¥36m during the same period in the previous year). This came from increasing losses from overseas operations in China. According to the Company, one of the key negative factors here relates to inappropriate pricing to own products to sell in there. More importantly, however, the Company suggests that the pricing has good opportunities to get appropriately adjusted going forward and thus profitability here is likely improving sequentially from now on.

By business segment, Seasonings & Processed Food Business saw sales ¥12,030m (up 5.3%), recurring profit ¥769m (up 9.2%) and recurring profit margin 6.4% (up 0.2% points), while Side-Dish-Related Business ¥2,013m (up 14.4%), ¥182m (up 83.8%) and 9.0% (up 3.4% points), respectively. Meanwhile, Other Business, comprising new business formats, saw sales ¥291m (up 11.5%) and recurring loss ¥56m versus ¥45m during the same period in the previous year.

Sales Breakdown by Product (FY03/2013)



Source: Company Data

In Seasonings & Processed Food Business, development, manufacturing and sale are carried out for “salads & delicatessens” including long-life salads for which the Company holds the No.1 position in Japan, “mayonnaise & dressings” including sauces where the Company sees steady increases in penetration and “processed egg products” including egg salads for sandwiches & bread rolls, eggs for Japanese hotchpotches (oden), flavored eggs etc. In regards to Side-Dish-Related Business, the Company runs operations to manufacture fresh delicatessens (such as fresh salads and Japanese-style delicatessens) mainly for mass merchandisers represented by supermarket stores on a consignment basis. The Company saw series of successful new project developments for the mainstay mass merchandisers, having enhanced sales of mainstay items such as potato salads, pasta salads and burdock salads.

When sales of “salads & delicatessens” in Seasonings & Processed Food Business, sales of Side-Dish-Related Business and sales of Salad Cafe business are all combined to estimate exposure to salads & delicatessens as a whole with the Company, it would be 45.1% in terms of sales in FY03/2013.

In Other Business, relating to operations of new business formats comprising Salad Cafe business to develop face-to-face sale of salads and overseas operations, the Company saw increasing losses due mainly to initial costs on the overseas side. Sales of this business segment consist exclusively of those of Salad Cafe business to run own “Salad Cafe” 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 11.5% from the same period in the previous year, but recurring losses increased to ¥56m from ¥45m during the same period in the previous year.

Sales of Salad Cafe business increased in line with two renewal openings for stores in October 2012 and two new openings at the same time. As the Company did not open any new stores in Q1, the total number of stores has remained unchanged from 16 as of the end of FY03/2013. In regards to Salad Cafe business, steady sales increases led to increases in earnings, although it was more than offset by increasing losses from overseas operations.

In regards to overseas operations to locally manufacture and sell salads and sauces in Dongguan (China) and mayonnaise & dressings and sauces in Hangzhou (ditto) through a joint company, 50% held by the

Company, tying up with a company listed in Taiwan, there are no impacts from here to consolidated sales with the Company but to earnings only, as they are consolidated as an equity-accounted affiliate. Sales here are also on the rise, but selling prices of products are not as appropriately high as planned earlier because operations here are still at their initial stage.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	YoY
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	Net Chg.
Sales	13,447	27,388	41,872	54,533	14,336	-	-	-	+889
CoGS	9,639	19,761	30,291	39,628	10,278	-	-	-	+639
Gross Profit	3,807	7,627	11,580	14,904	4,057	-	-	-	+250
SG&A	3,026	6,032	9,182	12,126	3,144	-	-	-	+118
Operating Profit	781	1,594	2,398	2,778	913	-	-	-	+132
Non Operating Balance	(28)	(63)	(114)	(204)	(37)	-	-	-	(9)
Recurring Profit	753	1,531	2,284	2,574	876	-	-	-	+123
Extraordinary Balance	0	(166)	(169)	(186)	(2)	-	-	-	(2)
Pretax Profit	753	1,365	2,115	2,388	874	-	-	-	+121
Tax Charges etc.	319	593	911	979	363	-	-	-	+44
Net Profit	434	772	1,204	1,409	511	-	-	-	+77
Sales YoY	+7.8%	+6.0%	+5.6%	+5.1%	+6.6%	-	-	-	-
Operating Profit YoY	+129.7%	+67.4%	+37.1%	+29.6%	+16.8%	-	-	-	-
Recurring Profit YoY	+118.9%	+63.7%	+32.9%	+24.2%	+16.3%	-	-	-	-
Net Profit YoY	+187.4%	+55.0%	+37.1%	+36.9%	+17.9%	-	-	-	-
Gross Profit Margin	28.3%	27.8%	27.7%	27.3%	28.3%	-	-	-	(0.0%)
(SG&A / Sales)	22.5%	22.0%	21.9%	22.2%	21.9%	-	-	-	(0.6%)
Operating Profit Margin	5.8%	5.8%	5.7%	5.1%	6.4%	-	-	-	+0.6%
Recurring Profit Margin	5.6%	5.6%	5.5%	4.7%	6.1%	-	-	-	+0.5%
Net Profit Margins	3.2%	2.8%	2.9%	2.6%	3.6%	-	-	-	+0.3%
Tax Charges etc. / Pretax Profit	42.4%	43.4%	43.1%	41.0%	41.5%	-	-	-	(0.8%)
Income Statement	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	Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
Sales	13,447	13,941	14,484	12,661	14,336	-	-	-	+889
CoGS	9,639	10,122	10,530	9,337	10,278	-	-	-	+639
Gross Profit	3,807	3,820	3,953	3,324	4,057	-	-	-	+250
SG&A	3,026	3,006	3,150	2,944	3,144	-	-	-	+118
Operating Profit	781	813	804	380	913	-	-	-	+132
Non Operating Balance	(28)	(35)	(51)	(90)	(37)	-	-	-	(9)
Recurring Profit	753	778	753	290	876	-	-	-	+123
Extraordinary Balance	0	(166)	(3)	(17)	(2)	-	-	-	(2)
Pretax Profit	753	612	750	273	874	-	-	-	+121
Tax Charges etc.	319	274	318	68	363	-	-	-	+44
Net Profit	434	338	432	205	511	-	-	-	+77
Sales YoY	+7.8%	+4.3%	+4.9%	+3.5%	+6.6%	-	-	-	-
Operating Profit YoY	+129.7%	+32.8%	+0.9%	(3.8%)	+16.8%	-	-	-	-
Recurring Profit YoY	+118.9%	+31.6%	(4.0%)	(18.1%)	+16.3%	-	-	-	-
Net Profit YoY	+187.4%	(2.6%)	+13.7%	+35.8%	+17.9%	-	-	-	-
Gross Profit Margin	28.3%	27.4%	27.3%	26.3%	28.3%	-	-	-	(0.0%)
(SG&A / Sales)	22.5%	21.6%	21.7%	23.3%	21.9%	-	-	-	(0.6%)
Operating Profit Margin	5.8%	5.8%	5.6%	3.0%	6.4%	-	-	-	+0.6%
Recurring Profit Margin	5.6%	5.6%	5.2%	2.3%	6.1%	-	-	-	+0.5%
Net Profit Margins	3.2%	2.4%	3.0%	1.6%	3.6%	-	-	-	+0.3%
Tax Charges etc. / Pretax Profit	42.4%	44.8%	42.4%	24.9%	41.5%	-	-	-	(0.8%)

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 03/2013	Q1 to Q2 03/2013	Q1 to Q3 03/2013	Q1 to Q4 03/2013	Q1 03/2014	Q1 to Q2 03/2014	Q1 to Q3 03/2014	Q1 to Q4 03/2014		
Seasonings & Processed Food	11,425	23,237	35,407	45,894	12,030	-	-	-	-	+605
Side-Dish-Related	1,760	3,630	5,635	7,526	2,013	-	-	-	-	+253
Other	261	521	830	1,113	291	-	-	-	-	+30
Sales	13,447	27,388	41,872	54,533	14,336	-	-	-	-	+889
Seasonings & Processed Food	+9.2%	+7.0%	+6.2%	+5.2%	+5.3%	-	-	-	-	-
Side-Dish-Related	(1.3%)	(0.8%)	+0.9%	+3.1%	+14.4%	-	-	-	-	-
Other	+14.5%	+12.8%	+16.4%	+15.9%	+11.5%	-	-	-	-	-
Sales (YoY)	+7.8%	+6.0%	+5.6%	+5.1%	+6.6%	-	-	-	-	-
Seasonings & Processed Food	85.0%	84.8%	84.6%	84.2%	83.9%	-	-	-	-	-
Side-Dish-Related	13.1%	13.3%	13.5%	13.8%	14.0%	-	-	-	-	-
Other	1.9%	1.9%	2.0%	2.0%	2.0%	-	-	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-
Seasonings & Processed Food	704	1,472	2,172	2,502	769	-	-	-	-	+65
Side-Dish-Related	99	173	279	320	182	-	-	-	-	+83
Other	(45)	(99)	(168)	(255)	(56)	-	-	-	-	(11)
Elimination	(4)	(15)	0	6	(19)	-	-	-	-	(15)
Recurring Profit	753	1,531	2,284	2,574	876	-	-	-	-	+123
Seasonings & Processed Food	6.2%	6.3%	6.1%	5.5%	6.4%	-	-	-	-	+0.2%
Side-Dish-Related	5.6%	4.8%	5.0%	4.3%	9.0%	-	-	-	-	+3.4%
Other	(17.2%)	(19.0%)	(20.2%)	(22.9%)	(19.2%)	-	-	-	-	(2.0%)
Elimination	(0.0%)	(0.1%)	0.0%	0.0%	(0.1%)	-	-	-	-	(0.1%)
Recurring Profit Margin	5.6%	5.6%	5.5%	4.7%	6.1%	-	-	-	-	+0.5%

Segmented Information (Million Yen)	Cons.Act	Cons.Act	YoY Net Chg.							
	Q1 03/2013	Q2 03/2013	Q3 03/2013	Q4 03/2013	Q1 03/2014	Q2 03/2014	Q3 03/2014	Q4 03/2014		
Seasonings & Processed Food	11,425	11,812	12,170	10,487	12,030	-	-	-	-	+605
Side-Dish-Related	1,760	1,870	2,005	1,891	2,013	-	-	-	-	+253
Other	261	260	309	283	291	-	-	-	-	+30
Sales	13,447	13,941	14,484	12,661	14,335	-	-	-	-	+888
Seasonings & Processed Food	+9.2%	+4.9%	+4.6%	+2.2%	+5.3%	-	-	-	-	-
Side-Dish-Related	(1.3%)	(0.2%)	+4.2%	+10.3%	+14.4%	-	-	-	-	-
Other	+14.5%	+11.1%	+23.1%	+14.6%	+11.5%	-	-	-	-	-
Sales (YoY)	+7.8%	+4.3%	+4.9%	+3.5%	+6.6%	-	-	-	-	-
Seasonings & Processed Food	85.0%	84.7%	84.0%	82.8%	83.9%	-	-	-	-	-
Side-Dish-Related	13.1%	13.4%	13.8%	14.9%	14.0%	-	-	-	-	-
Other	1.9%	1.9%	2.1%	2.2%	2.0%	-	-	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-
Seasonings & Processed Food	704	768	700	330	769	-	-	-	-	+65
Side-Dish-Related	99	74	106	41	182	-	-	-	-	+83
Other	(45)	(54)	(69)	(87)	(56)	-	-	-	-	(11)
Elimination	(4)	(11)	15	6	(19)	-	-	-	-	(15)
Recurring Profit	753	778	753	290	876	-	-	-	-	+123
Seasonings & Processed Food	6.2%	6.3%	6.1%	5.5%	6.4%	-	-	-	-	+0.2%
Side-Dish-Related	5.6%	4.8%	5.0%	4.3%	9.0%	-	-	-	-	+3.4%
Other	(17.2%)	(19.0%)	(20.2%)	(22.9%)	(19.2%)	-	-	-	-	(2.0%)
Elimination	(0.0%)	(0.1%)	0.0%	0.0%	(0.1%)	-	-	-	-	(0.1%)
Recurring Profit Margin	5.6%	5.6%	5.5%	4.7%	6.1%	-	-	-	-	+0.5%

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 03/2013	Q1 to Q2 03/2013	Q1 to Q3 03/2013	Q1 to Q4 03/2013	Q1 03/2014	Q1 to Q2 03/2014	Q1 to Q3 03/2014	Q1 to Q4 03/2014		
Operating Cash Flow	-	1,524	-	2,822	-	-	-	-	-	-
Investment Cash Flow	-	(514)	-	(2,003)	-	-	-	-	-	-
Operating CF + Investment CF	-	1,010	-	819	-	-	-	-	-	-
Financing Cash Flow	-	338	-	1,082	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

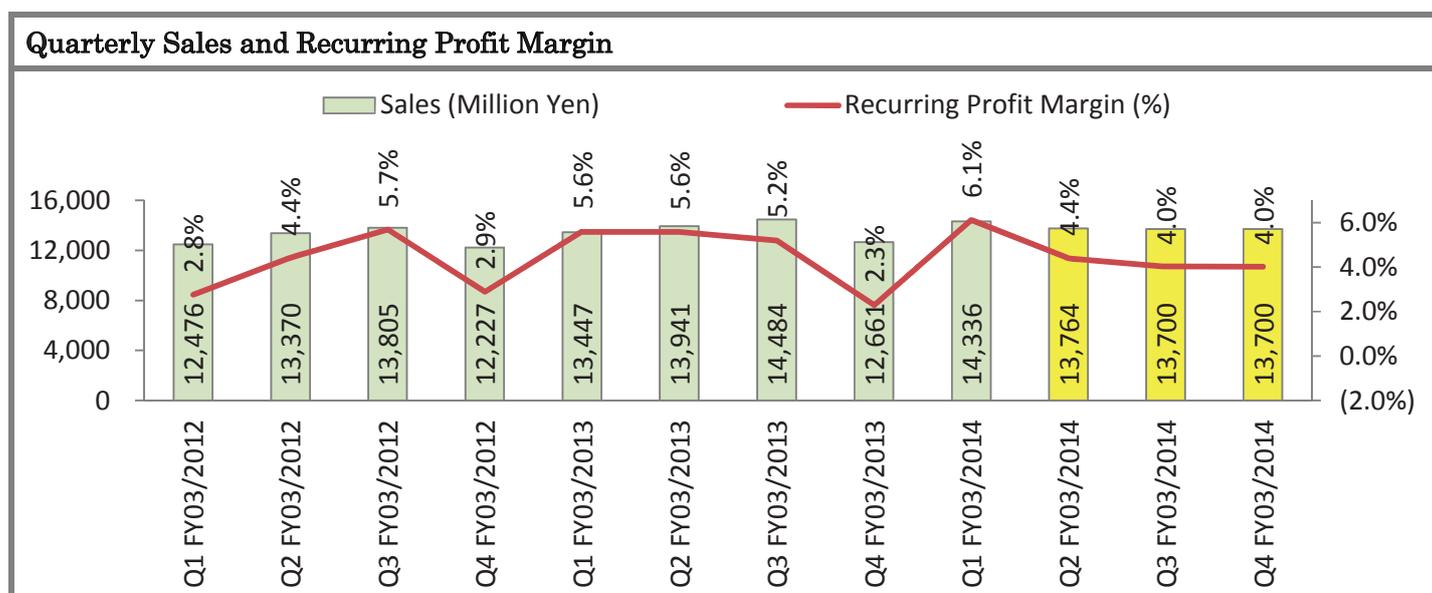
Balance Sheet (Quarterly)

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		Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014		
Cash & Deposit	4,103	5,365	4,462	5,919	5,931	-	-	-		+1,828
Accounts Receivables	10,313	10,482	11,207	9,907	10,923	-	-	-		+610
Securities	2,026	2,156	2,268	2,058	1,917	-	-	-		(109)
Other	539	461	634	519	473	-	-	-		(66)
Current Assets	16,981	18,464	18,571	18,403	19,244	-	-	-		+2,263
Tangible Assets	11,444	11,236	12,201	12,355	13,679	-	-	-		+2,235
Intangible Assets	384	362	351	384	375	-	-	-		(9)
LT Investment Securities etc.	2,339	2,493	2,515	2,855	2,956	-	-	-		+617
Fixed Assets	14,167	14,092	15,068	15,595	17,011	-	-	-		+2,844
Total Assets	31,149	32,557	33,639	33,998	36,255	-	-	-		+5,106
Accounts Payable	8,383	8,659	9,115	8,042	8,735	-	-	-		+352
Short Term Debt	1,422	962	1,337	995	981	-	-	-		(441)
Other	4,187	4,774	4,843	5,212	5,909	-	-	-		+1,722
Current Liabilities	13,992	14,395	15,295	14,249	15,625	-	-	-		+1,633
Long Term Debt	1,731	2,401	2,172	3,183	3,637	-	-	-		+1,906
Other	1,749	1,776	1,846	1,765	1,674	-	-	-		(75)
Fixed Liabilities	3,480	4,177	4,018	4,948	5,311	-	-	-		+1,831
Total Liabilities	17,473	18,573	19,313	19,197	20,936	-	-	-		+3,463
Shareholders' Equity	13,568	13,906	14,196	14,401	14,756	-	-	-		+1,188
Other	108	77	129	400	562	-	-	-		+454
Net Assets	13,676	13,983	14,325	14,801	15,318	-	-	-		+1,642
Total Liabilities & Net Assets	31,149	32,557	33,639	33,998	36,255	-	-	-		+5,106
Equity Capital	13,676	13,983	14,325	14,801	15,318	-	-	-		+1,642
Interest Bearing Debt	3,153	3,363	3,509	4,178	4,618	-	-	-		+1,465
Net Debt	(950)	(2,002)	(953)	(1,741)	(1,313)	-	-	-		(363)
Equity Ratio	43.9%	43.0%	42.6%	43.5%	42.3%	-	-	-		(1.7%)
Net Debt Equity Ratio	(7.0%)	(14.4%)	(6.7%)	(12.1%)	(8.9%)	-	-	-		(1.9%)
ROE (Net Profit / Average Equity)	12.8%	11.2%	11.5%	10.0%	13.6%	-	-	-		+0.8%
ROA (Net Profit / Average Total Assets)	9.8%	9.7%	9.5%	8.0%	10.0%	-	-	-		+0.2%
Days for Inventory Turnover	19.2	19.4	19.7	20.1	17.0	-	-	-		-
Quick Ratio	103%	110%	102%	111%	108%	-	-	-		-
Current Ratio	121%	128%	121%	129%	123%	-	-	-		-

Source: Company Data, WRJ Calculation

FY03/2014 Company Forecasts

FY03/2014 Company forecasts have remained unchanged. The Company goes 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 has also remained unchanged at ¥21.0, implying payout ratio 21.0%. As mentioned earlier, Q1 results were better than expected, but raw material procurement cost increases are likely being more significant than initially assumed in Q2 and after, according to the Company. Still, this is to be compensated for by upcoming price hikes of own products and thus full-year Company forecasts are expected to be met.



Source: Company Data, WRJ Calculation (Q3 and Q4 FY03/2014 figures, half-year Company forecasts pro rata)

Since the beginning of FY03/2014, the Company has been trying to maintain the levels of earnings, despite the increases in procurement costs for raw materials, by means of suppressing increases of fixed costs etc. 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 some 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. 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 for raw materials. 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 improvements in 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 and the new facilities are to realize improved efficiency in the manufacture. As is seen here, the Company persistently pursues efficiency and productivity and thus this is to be a factor to persistently boost recurring profit.

For non-operating balance, improvements ¥64m are expected to feed through, suggesting that equity in net income of affiliates associated with overseas operations 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 started up in July 2013. Meanwhile, going forward, prospective sales here in FY03/2015 are to be ¥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 its 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 by 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.

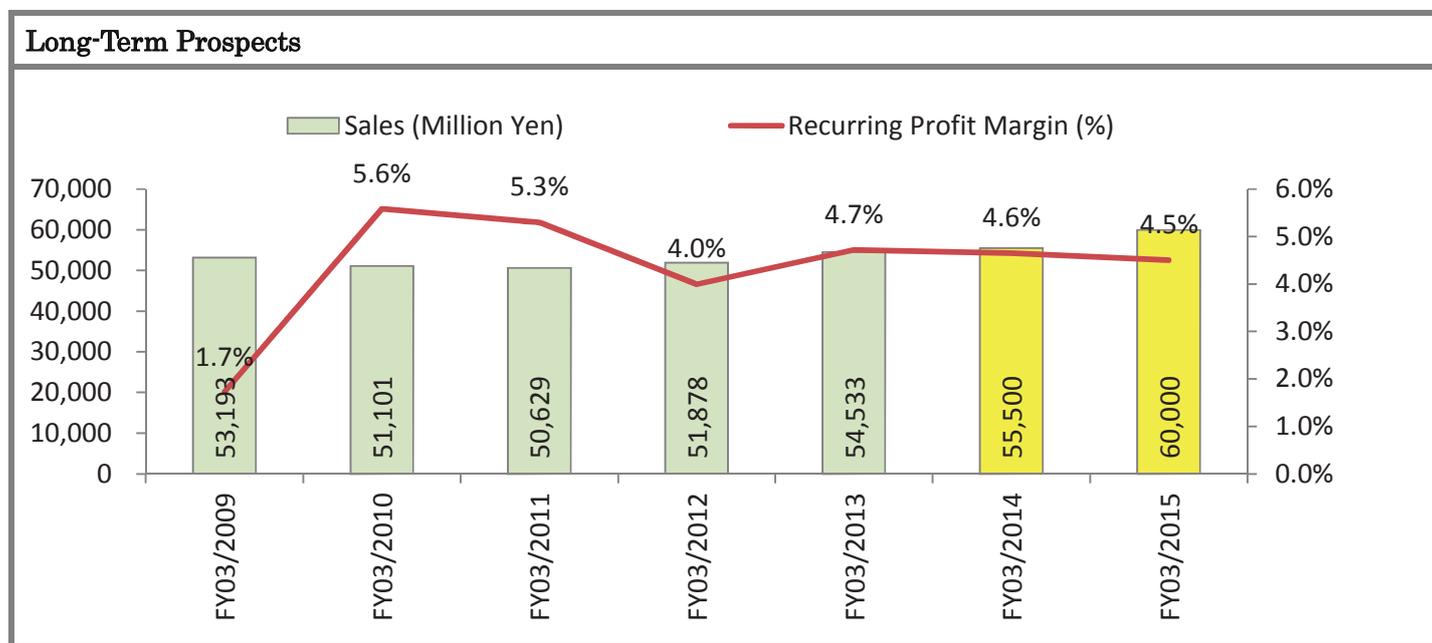
Income Statement

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 03/2009	FY 03/2010	FY 03/2011	FY 03/2012	FY 03/2013	FY 03/2014	YoY 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	-	-
Minorities' Interests	(7)	(3)	-	-	-	-	-
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%)	+209.9%	(6.0%)	(22.7%)	+24.1%	+0.2%	-
Net Profit YoY	(57.6%)	+380.6%	(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 by 5.0% pa and recurring profit by 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 unchanged as far as the existing business model as professional-use food manufacturer is concerned, the Company intends to increase exposure to face-to-face sale of salads etc. which is a new business format with the Company. Meanwhile, it is the case that the Company has been exclusively exposed to the domestic market and thus it is another new business format to work on overseas operations to propel manufacture and sales 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

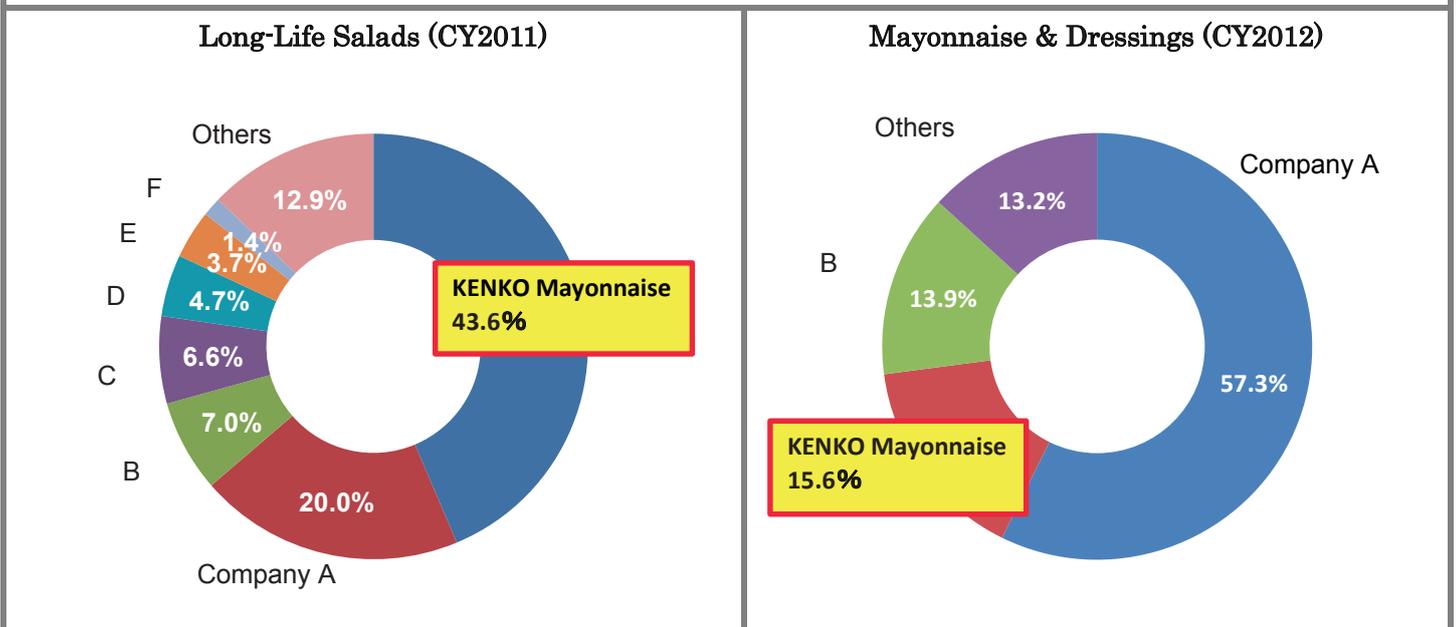
Evolution of KENKO Salad World

The Company is a professional-use food manufacturer, mainly involved with operations relating to sale of diverse products, self-developed and self-manufactured, to food service industry, supermarket stores and convenience stores. As far as the professional-use food market is concerned, “KENKO Mayonnaise” brand has been 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 Cuisine” as a market, while the terminal form in mind is conceptually expressed in the terms “Evolution of KENKO Salad World”, according to the Company.

Items 1,500 or More

The number of items for the Company to deal with in the market is as many as 1,500 or more, while more than 300 new items are developed and launched in the market every year, basically as replacements for existing items. In regards to long-life salads, estimated to account for the bulk of salads & delicatessens, 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 15.6% share in CY2012 in the market including consumer-use ones versus 57.3% for the market leader.

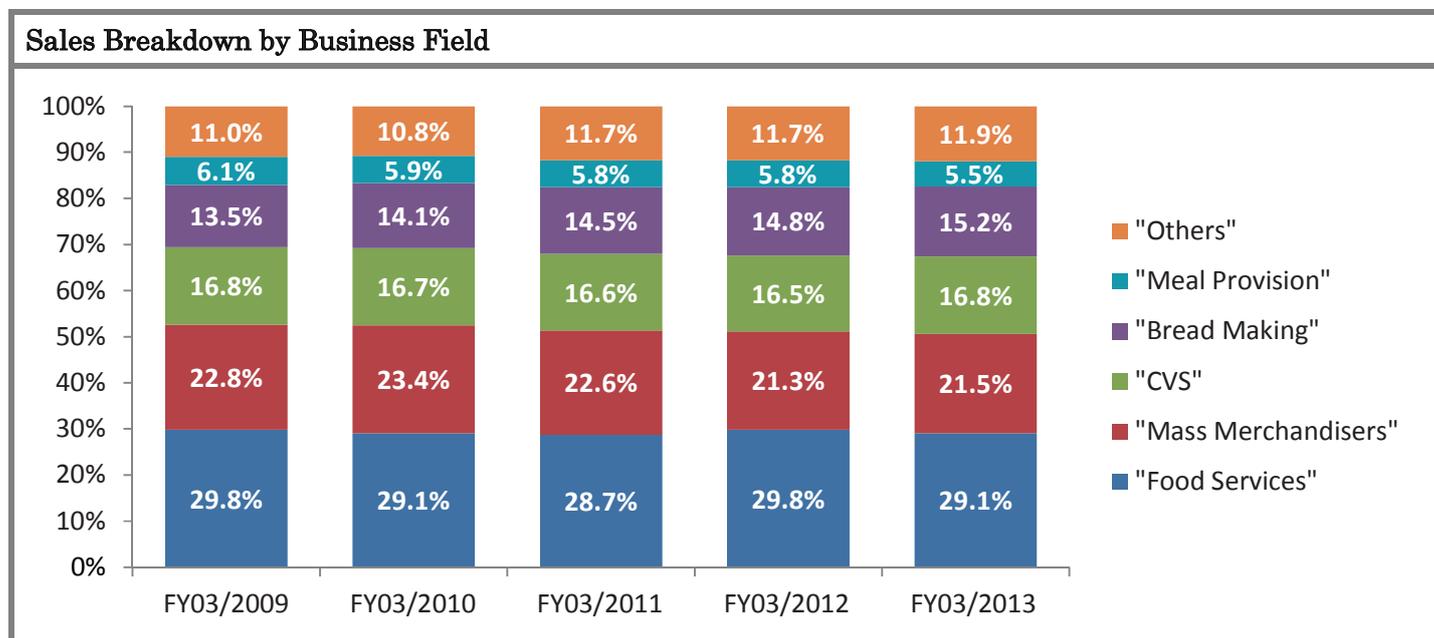
Market Share



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 ("Mass Merchandisers", 21.5%), convenience stores ("CVS", 16.8%), baking industry ("Bread Making", 15.2%), meal-provision-related ("Meal Provision", 5.5%) and other business fields ("Others", 11.9%).



Source: Company Data, WRJ Calculation

"Food Services" relates 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" relates to sales of own products such as salads & delicatessens 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 players.

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

“Salad Cuisine”

The Company defines “Salad Cuisine” as main-dish salads or salads which are evolved and sophisticated by means of pursuing 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 Cuisine” as a market and for itself to become the leader in there, claiming “Salads, the Main Players”, “Salads, the Main Dishes” and “Salads, the Kings”.

“Salad Cuisine”

Classic Burdock Salad



>>>>>



Smartly Arranged



Pumpkin Salad



>>>>>



Innovated Arrangement



Source: Company Data

Diverse Product Line-Up

Products (Items)	Salads & Delicatessens Long-Life Salads, Fresh Salads, Japanese-Style Delicatessens etc.	Mayonnaise & Dressings Mayonnaise, Dressings, Cooking Sources etc.	Processed Egg Products Shredded Eggs, Fresh Eggs, Fried Eggs etc.
	Usage Examples	 <p>FDF®(Fashion Delica Foods) FR&FR(Fresh & Fresh)</p>  <p>Frozen Products etc. Japanese-Style Delicatessens</p>  <p>Long-Life Salads Fresh Salads</p>	 <p>Mayonnaise Sources</p>  <p>Dressings</p>  

Source: Company Data

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.

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