

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 Q1 to Q3 (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY03/2013		41,872	2,398	2,284	1,204	-	-	-
Q1 to Q3 FY03/2014		44,022	2,112	1,989	1,139	-	-	-
Q1 to Q3 FY03/2014	YoY	5.1%	(11.9%)	(12.9%)	(5.4%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (14 March 2014)

No Further Cooking Oil Price Hikes

KENKO Mayonnaise, involved with developments, manufactures and sales of mayonnaise & dressings, salads & delicatessens, processed egg products, etc. as a professional-use food manufacturer, is suffering from procurement price hikes of major ingredients, i.e., cooking oils, eggs, etc. as well as from yen's depreciation, resulting in increasing costs of sales in FY03/2014. However, as far as cooking oils are concerned, their procurement prices have already peaked to date and thus those of cooking oils are to come down over the previous year in FY03/2015, suggesting lower cost rate with the Company over the previous year. Meanwhile, the Company succeeds in incorporating persistently increasing demand associated with the market for ready-made meal, enhancing potentials for the Company to persistently see steady sales growth. In a long-term view, on top of this, earnings with the Company are to see increasing contributions from new business units, i.e., overseas market cultivations and face-to-face sales of salads after frontloaded investments in them so far.

In Q1 to Q3 FY03/2014, sales came in at ¥44,022m (up 5.1% YoY), recurring profit ¥1,989m (down 12.9%) and recurring profit margin 4.5% (down 0.9% points). In order to beef up sales, the Company implements a strategy to pursue appropriate menus to be proposed for customers by business domain, e.g., Food Service, Volume Seller, CVS (convenience store), etc. and even by subdomain of each business domain, which is successful. In particular, sales of CVS by business domain with the Company are growing fast, as this business domain benefits from increasing demand for ready-made meal. Nevertheless, expenses are increasing faster than sales, as the Company aggressively implements frontloaded investments as planned in new business units, etc. on top of suffering from procurement price hikes of cooking oils, eggs, etc. Recent yen's depreciation is another negative factor as the Company procures cooking oils at US\$-based prices. In


regards to mayonnaise & dressings, selling prices have been adjusted in line with changes in procurement prices of cooking oils, while price hikes of eggs have not been reflected in selling prices yet. As a result, it appears that the Company fell short of expectations in terms of earnings in Q3. However, it should be noted that sales are growing faster than expectations.

Short-term earnings with the Company are inevitably affected by changes in prices of ingredients or pure external factors. Lagging remains inevitable, but this is to be corrected longer-term by adjustments to selling prices to a meaningful extent. For example, as mentioned earlier, changes of cooking oil prices generate negative factors for earnings with the Company in FY03/2014 but positives factors to those in FY03/2015 at the end of the day. This suggests that just topline growth would be an appropriate measure for long-term growth potentials with the Company. Over the past five years (FY03/2009 to FY03/2013), sales with the Company grew only 0.5% pa in terms of CAGR versus more than 5% over the previous year in recent trading of FY03/2013 and so far. This could imply sequentially improving growth potentials for prospective earnings with the Company.

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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 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 First Section)	
Capital	¥2,180m (As of the end of December 2013)	
No. of Shares	14,211,000 shares, including 91 treasury shares (As of the end of December 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 ready-made meal and food service● Enhancing new business units, i.e., face-to-face sales of salads and overseas market cultivations	
Businesses	<ul style="list-style-type: none">. Seasonings & Processed Food Business. Side-Dish-Related Business. Other Business (Salad Cafe business to run face-to-face sales of salads and overseas markets cultivations)	
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 December 2013)	
Headquarters	Suginami-ku, Tokyo JAPAN	
No. of Employees	Consolidated: 3,027, Unconsolidated: 1,359 (As of the end of December 2013, including fixed-term employees, etc.)	

Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q3 FY03/2014 Results

In Q1 to Q3 FY03/2014, sales came in at ¥44,022m (up 5.1% YoY), operating profit ¥2,112m (down 11.9%), recurring profit ¥1,989m (down 12.9%) and net profit ¥1,139m (down 5.4%). Recurring profit margin came in at 4.5% (down 0.9% points). The Company has achieved 79.3% of prospective sales in initial full-year Company forecasts (as of 9 May 2013) and 77.1% in recurring profit.

In FY03/2013, the Company achieved 76.8% of sales and 88.7% of recurring profit in Q1 to Q3 out of full-year results. Every year, sales in Q4 are relatively small due to seasonal factors, while expenses are relatively large in Q4 as they are to rise towards the end of the fiscal year. This makes short-term earnings during the same period relatively small. This is the reason why recurring profit in Q4 FY03/2013 accounted for only 11.3% out of full-year recurring profit.

Meanwhile, Company forecasts were exceeded 3.0% in sales and 3.0% in recurring profit in Q1 to Q2. All in all, it is presumed that the Company fell short of expectations in recurring profit in Q3, although prospective sales kept on being exceeded.

Factor Analysis for Recurring Profit Net Changes			
FY03/2014	Q1 to Q3	Q1 to Q4 (CoE)	Progress
Increases of Sales	+372	+326	114%
Changes of Selling Prices	+192	+341	56%
Improvements of Production Efficiency	+121	+334	36%
Changes of Ingrident Prices	(872)	(995)	88%
Increases of Fixed Costs, etc.	(107)	+0	-
Recurring Profit Net Changes (YoY)	(295)	+6	-

Source: Company Data, WRJ Calculation

In Q1 to Q3, recurring profit came down ¥295m YoY to ¥1,989m (down 12.9%). According to the Company's Factor Analysis for Recurring Profit Net Changes, Increases of Sales appears to have materialized positive impacts larger than expected for full-year period. While supplying all the major operators of convenience stores, the Company appears to have successfully increased its shares to supply the largest players of each market by means of persistently wining intense competition with peers. As far as we can gather, the Company did this even better than used to be expected and thus Company forecasts have been exceeded in sales.

Changes of Ingredient Prices generated overwhelming negative impacts, appearing to have generated larger negative impacts than expected. As far as cooking oils are concerned, the negative impacts look having been in line, but those of eggs appear to have been larger than expected. As a result, Changes of Ingredient Prices as a whole appear to have generated larger-than-expected negative impacts. In regards to positive impacts from Changes of Selling Prices, they are to penetrate sequentially more in Q4. Still, the positive impacts from Improvements of Production Efficiency appear to have been smaller than expected, while negative impacts from Increases of Fixed Costs, etc. larger than expected.

By business segment, the mainstay Seasonings & Processed Food Business saw sales ¥36,674m (up 3.6%), recurring profit ¥1,790m (down 17.6%) and recurring profit margin 4.9% (down 1.3% points), while Side-Dish-Related Business ¥6,456m (up 14.6%), ¥363m (up 30.1%) and 5.6% (up 0.7% points), respectively. Meanwhile, Other Business, comprising new business units, saw sales ¥891m (up 7.3%) and recurring loss ¥158m (versus ¥168m during the same periods in the previous year), having come down ¥10m. These figures for recurring balance and the margin are of those before elimination (negative ¥5m) for the Company as a whole.

In Seasonings & Processed Food Business, developments, manufactures and sales 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. As a business segment, sales were on the rise but earnings came down due to exposure to mayonnaise that substantially suffered from negative impacts that stemmed from changes of prices for ingredients.

In Side-Dish-Related Business, the Company manufactures fresh delicatessens (such as fresh salads and Japanese-style delicatessens) through 7 consolidated subsidiaries that run collectively 10 production bases across Japan. Given increasing demand from supermarket stores as well as other volume sellers, i.e., the key customer base in here, sales of the mainstay products like potato salads, pasta salads, burdock salads, etc. were buoyant. Earnings in this business segment surged, being hardly exposed to changes in prices of ingredients, while benefiting from economies of scale in line with buoyant sales.

Other Business comprises new business units, i.e., Salad Cafe business to run face-to-face sales of salads and overseas market cultivations to manufacture and sell products in China. Sales of this business segment are all accounted for by those of Salad Cafe business, while recurring balance comprises that of Salad Cafe business and equity-accounted balance associated with overseas market cultivations. Thus, sales ¥891m (up 7.3% YoY) in this business segment are nothing but those of Salad Cafe business. In our estimates, Salad Cafe Business moved into profit, seeing recurring profit ¥12m from recurring loss ¥27m during the same periods in the previous year and/or recurring balance improving ¥39m. The contents of the business in here are 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 sales of self-developed salads.

The Company has been running 16 stores for this business since October 2012 when two stores were renewed on top of two stores newly opened. In Q3, sales of Other Business, i.e., sales of Salad Cafe business came in at ¥304m (down 1.6%), showing a sign of slowing down, as net add-ons associated with all those new openings and renewals for stores hardly persisted, while sales on an existing store basis were negatively affected by adjustments of sales in the flagship store based in ABENO HARUKAS of Kintetsu Corporation due to its palliative operation in a temporary site. Nevertheless, the flagship store has been renewed with 1.2x larger floor space since 22 February 2014 and thus prospective sales in here are expected to be buoyant, going forward.

An issue to be spotted is that this business segment saw improvements ¥10m in recurring balance versus ¥39m for Salad Cafe business. This is due to the fact that overseas market cultivations or the other constituents of this business segment did not see improving recurring balance (equity-accounted balance). Recurring loss in here was reduced in terms of Yuan, i.e., the local currency, but yen’s depreciation generated negative impacts more substantial than the reductions.

Overseas market cultivations are represented by operations to locally manufacture and sell salads and sauces in Dongguan (China) and mayonnaise & dressings and sauces in Hangzhou (China) through a joint company, 50% held by the Company, tying up with a company listed in Taiwan. Sales are buoyant but it is apparent that profitability should be improved. To date, the Company has dispatched own headcount to take over the top management of this joint company, while the Company finds some signs of improvements as a result of structural reform most recently. Meanwhile, the Company has started up new operations in Indonesia based on the same scheme since July 2013, which generates setup costs for the time being, negatively affecting to recurring balance.

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.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
Sales	13,447	27,388	41,872	54,533	14,336	28,951	44,022	-	-	+2,150
CoGS	9,639	19,761	30,291	39,628	10,278	21,089	32,520	-	-	+2,229
Gross Profit	3,807	7,627	11,580	14,904	4,057	7,862	11,501	-	-	(79)
SG&A	3,026	6,032	9,182	12,126	3,144	6,207	9,389	-	-	+207
Operating Profit	781	1,594	2,398	2,778	913	1,655	2,112	-	-	(286)
Non Operating Balance	(28)	(63)	(114)	(204)	(37)	(94)	(123)	-	-	(9)
Recurring Profit	753	1,531	2,284	2,574	876	1,561	1,989	-	-	(295)
Extraordinary Balance	0	(166)	(169)	(186)	(2)	(3)	(11)	-	-	+158
Pretax Profit	753	1,365	2,115	2,388	874	1,558	1,978	-	-	(137)
Tax Charges etc.	319	593	911	979	363	648	838	-	-	(73)
Net Profit	434	772	1,204	1,409	511	910	1,139	-	-	(65)
Sales YoY	+7.8%	+6.0%	+5.6%	+5.1%	+6.6%	+5.7%	+5.1%	-	-	-
Operating Profit YoY	+129.3%	+67.5%	+37.1%	+29.6%	+16.8%	+3.8%	(11.9%)	-	-	-
Recurring Profit YoY	+119.0%	+63.7%	+32.8%	+24.1%	+16.3%	+2.0%	(12.9%)	-	-	-
Net Profit YoY	+186.4%	+55.1%	+37.1%	+36.8%	+17.9%	+17.8%	(5.4%)	-	-	-
Gross Profit Margin	28.3%	27.8%	27.7%	27.3%	28.3%	27.2%	26.1%	-	-	(1.5%)
(SG&A / Sales)	22.5%	22.0%	21.9%	22.2%	21.9%	21.4%	21.3%	-	-	(0.6%)
Operating Profit Margin	5.8%	5.8%	5.7%	5.1%	6.4%	5.7%	4.8%	-	-	(0.9%)
Recurring Profit Margin	5.6%	5.6%	5.5%	4.7%	6.1%	5.4%	4.5%	-	-	(0.9%)
Net Profit Margins	3.2%	2.8%	2.9%	2.6%	3.6%	3.1%	2.6%	-	-	(0.3%)
Tax Charges, etc. / Pretax Profit	42.4%	43.4%	43.1%	41.0%	41.5%	41.6%	42.4%	-	-	(0.7%)
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.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
Sales	13,447	13,941	14,484	12,661	14,336	14,615	15,071	-	-	+587
CoGS	9,639	10,122	10,530	9,337	10,278	10,811	11,431	-	-	+901
Gross Profit	3,807	3,820	3,953	3,324	4,057	3,805	3,639	-	-	(314)
SG&A	3,026	3,006	3,150	2,944	3,144	3,063	3,182	-	-	+32
Operating Profit	781	813	804	380	913	742	457	-	-	(347)
Non Operating Balance	(28)	(35)	(51)	(90)	(37)	(57)	(29)	-	-	+22
Recurring Profit	753	778	753	290	876	685	428	-	-	(325)
Extraordinary Balance	0	(166)	(3)	(17)	(2)	(1)	(8)	-	-	(5)
Pretax Profit	753	612	750	273	874	684	420	-	-	(330)
Tax Charges etc.	319	274	318	68	363	285	190	-	-	(128)
Net Profit	434	338	432	205	511	399	229	-	-	(203)
Sales YoY	+7.8%	+4.3%	+4.9%	+3.5%	+6.6%	+4.8%	+4.1%	-	-	-
Operating Profit YoY	+129.3%	+32.8%	+0.9%	(3.8%)	+16.8%	(8.7%)	(43.2%)	-	-	-
Recurring Profit YoY	+119.0%	+31.6%	(4.0%)	(18.1%)	+16.3%	(12.0%)	(43.2%)	-	-	-
Net Profit YoY	+186.4%	(2.6%)	+13.7%	+35.8%	+17.9%	+18.0%	(47.0%)	-	-	-
Gross Profit Margin	28.3%	27.4%	27.3%	26.3%	28.3%	26.0%	24.1%	-	-	(3.1%)
(SG&A / Sales)	22.5%	21.6%	21.7%	23.3%	21.9%	21.0%	21.1%	-	-	(0.6%)
Operating Profit Margin	5.8%	5.8%	5.6%	3.0%	6.4%	5.1%	3.0%	-	-	(2.5%)
Recurring Profit Margin	5.6%	5.6%	5.2%	2.3%	6.1%	4.7%	2.8%	-	-	(2.4%)
Net Profit Margins	3.2%	2.4%	3.0%	1.6%	3.6%	2.7%	1.5%	-	-	(1.5%)
Tax Charges, etc. / Pretax Profit	42.4%	44.8%	42.4%	24.9%	41.5%	41.7%	45.2%	-	-	+2.8%

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	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 Net Chg.
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
Seasonings & Processed Food	11,425	23,237	35,407	45,894	12,030	24,209	36,674	-	+1,267
Side-Dish-Related	1,760	3,630	5,635	7,526	2,013	4,154	6,456	-	+821
Other	261	521	830	1,113	291	587	891	-	+61
Sales	13,447	27,388	41,872	54,533	14,336	28,951	44,022	-	+2,150
Seasonings & Processed Food	+9.2%	+7.0%	+6.2%	+5.2%	+5.3%	+4.2%	+3.6%	-	-
Side-Dish-Related	(1.3%)	(0.8%)	+0.9%	+3.1%	+14.4%	+14.4%	+14.6%	-	-
Other	+14.5%	+12.8%	+16.4%	+15.9%	+11.5%	+12.8%	+7.3%	-	-
Sales (YoY)	+7.8%	+6.0%	+5.6%	+5.1%	+6.6%	+5.7%	+5.1%	-	-
Seasonings & Processed Food	85.0%	84.8%	84.6%	84.2%	83.9%	83.6%	83.3%	-	-
Side-Dish-Related	13.1%	13.3%	13.5%	13.8%	14.0%	14.3%	14.7%	-	-
Other	1.9%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
Seasonings & Processed Food	704	1,472	2,172	2,502	769	1,360	1,790	-	(382)
Side-Dish-Related	99	173	279	320	182	331	363	-	+84
Other	(45)	(99)	(168)	(255)	(56)	(117)	(158)	-	+10
Elimination	(4)	(15)	0	6	(19)	(13)	(5)	-	(5)
Recurring Profit	753	1,531	2,116	2,574	876	1,561	1,831	-	(285)
Seasonings & Processed Food	6.2%	6.3%	6.1%	5.5%	6.4%	5.6%	4.9%	-	(1.3%)
Side-Dish-Related	5.6%	4.8%	5.0%	4.3%	9.0%	8.0%	5.6%	-	+0.7%
Other	(17.2%)	(19.0%)	(20.2%)	(22.9%)	(19.2%)	(19.9%)	(17.7%)	-	+2.5%
Elimination	(0.0%)	(0.1%)	0.0%	0.0%	(0.1%)	(0.0%)	(0.0%)	-	(0.0%)
Recurring Profit Margin	5.6%	5.6%	5.1%	4.7%	6.1%	5.4%	4.2%	-	(0.9%)

Segmented Information	Cons. Act Q1	Cons. Act Q2	Cons. Act Q3	Cons. Act Q4	Cons. Act Q1	Cons. Act Q2	Cons. Act Q3	Cons. Act Q4	YoY Net Chg.
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
Seasonings & Processed Food	11,425	11,812	12,170	10,487	12,030	12,179	12,465	-	+295
Side-Dish-Related	1,760	1,870	2,005	1,891	2,013	2,141	2,302	-	+297
Other	261	260	309	283	291	296	304	-	(5)
Sales	13,447	13,941	14,484	12,661	14,336	14,615	15,071	-	+587
Seasonings & Processed Food	+9.2%	+4.9%	+4.6%	+2.2%	+5.3%	+3.1%	+2.4%	-	-
Side-Dish-Related	(1.3%)	(0.2%)	+4.2%	+10.3%	+14.4%	+14.5%	+14.8%	-	-
Other	+14.5%	+11.1%	+23.1%	+14.6%	+11.5%	+13.8%	(1.6%)	-	-
Sales (YoY)	+7.8%	+4.3%	+4.9%	+3.5%	+6.6%	+4.8%	+4.1%	-	-
Seasonings & Processed Food	85.0%	84.7%	84.0%	82.8%	83.9%	83.3%	82.7%	-	-
Side-Dish-Related	13.1%	13.4%	13.8%	14.9%	14.0%	14.6%	15.3%	-	-
Other	1.9%	1.9%	2.1%	2.2%	2.0%	2.0%	2.0%	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
Seasonings & Processed Food	704	768	700	330	769	591	430	-	(270)
Side-Dish-Related	99	74	106	41	182	149	32	-	(74)
Other	(45)	(54)	(69)	(87)	(56)	(61)	(41)	-	+28
Elimination	(4)	(11)	15	6	(19)	6	8	-	(7)
Recurring Profit	753	778	585	458	876	685	270	-	(315)
Seasonings & Processed Food	6.2%	6.5%	5.8%	3.1%	6.4%	4.9%	3.4%	-	(2.3%)
Side-Dish-Related	5.6%	4.0%	5.3%	2.2%	9.0%	7.0%	1.4%	-	(3.9%)
Other	(17.2%)	(20.8%)	(22.3%)	(30.7%)	(19.2%)	(20.6%)	(13.5%)	-	+8.8%
Elimination	(0.0%)	(0.1%)	0.1%	0.0%	(0.1%)	0.0%	0.1%	-	(0.1%)
Recurring Profit Margin	5.6%	5.6%	4.0%	3.6%	6.1%	4.7%	1.8%	-	(2.2%)

Source: Company Data, WRJ Calculation

Cash flow Statement (Cumulative)

Cash Flow 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 Net Chg.
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
Operating Cash Flow	na	1,524	na	2,822	na	730	na	-	-
Investment Cash Flow	na	(514)	na	(2,003)	na	(523)	na	-	-
Operating CF + Investment CF	na	1,010	na	819	na	207	na	-	-
Financing Cash Flow	na	338	na	1,082	na	1,200	na	-	-

Source: Company Data, WRJ Calculation

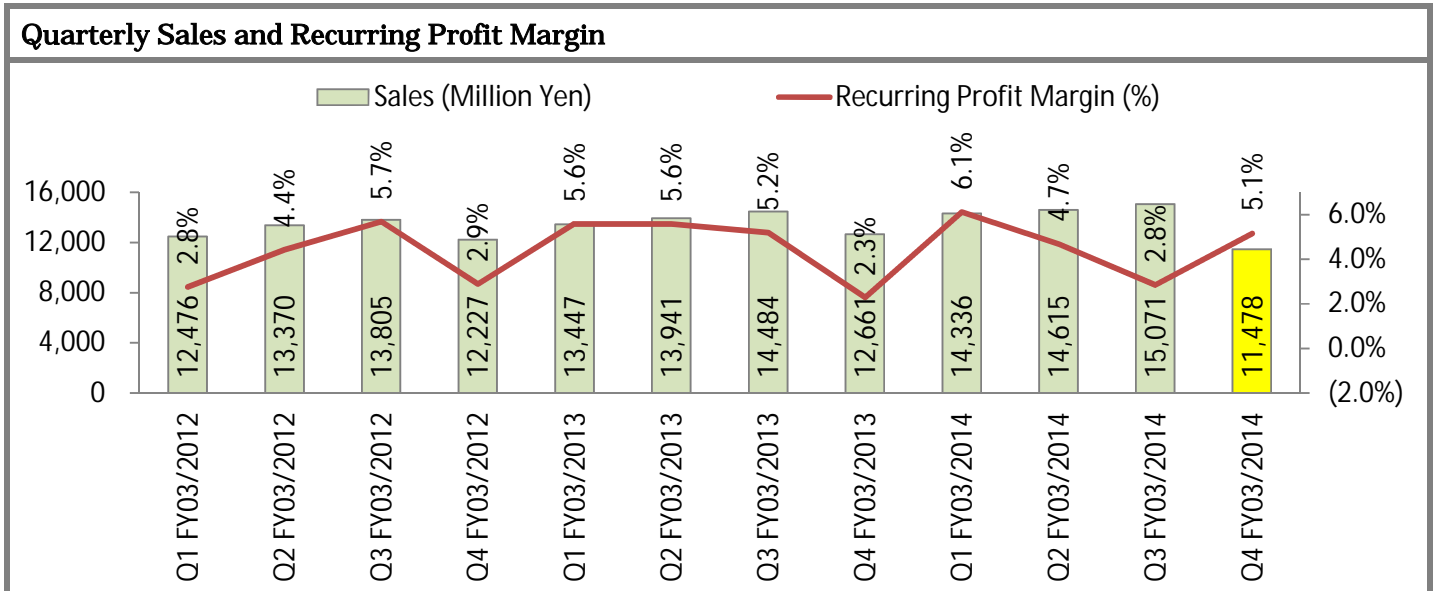
Balance Sheet (Quarterly)

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	Q4	Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
Cash & Deposit	4,103	5,365	4,462	5,919	5,931	7,119	5,993	-	-	+1,531
Accounts Receivables	10,313	10,482	11,207	9,907	10,923	9,524	11,351	-	-	+144
Securities	2,026	2,156	2,268	2,058	1,917	1,983	2,209	-	-	(59)
Other	539	461	634	519	473	513	1,520	-	-	+886
Current Assets	16,981	18,464	18,571	18,403	19,244	19,139	21,073	-	-	+2,502
Tangible Assets	11,444	11,236	12,201	12,355	13,679	13,865	15,926	-	-	+3,725
Intangible Assets	384	362	351	384	375	363	361	-	-	+10
LT Investment Securities etc.	2,339	2,493	2,515	2,855	2,956	2,922	3,554	-	-	+1,039
Fixed Assets	14,167	14,092	15,068	15,595	17,011	17,152	19,842	-	-	+4,774
Total Assets	31,149	32,557	33,639	33,998	36,255	36,292	40,916	-	-	+7,277
Accounts Payable	8,383	8,659	9,115	8,042	8,735	7,381	9,956	-	-	+841
Short Term Debt	1,422	962	1,337	995	981	1,193	1,072	-	-	(265)
Other	4,187	4,774	4,843	5,212	5,909	5,984	7,301	-	-	+2,458
Current Liabilities	13,992	14,395	15,295	14,249	15,625	14,558	18,329	-	-	+3,034
Long Term Debt	1,731	2,401	2,172	3,183	3,637	4,435	4,255	-	-	+2,083
Other	1,749	1,776	1,846	1,765	1,674	1,548	2,437	-	-	+591
Fixed Liabilities	3,480	4,177	4,018	4,948	5,311	5,983	6,692	-	-	+2,674
Total Liabilities	17,473	18,573	19,313	19,197	20,936	20,541	25,021	-	-	+5,708
Shareholders' Equity	13,568	13,906	14,196	14,401	14,756	15,155	15,242	-	-	+1,046
Other	108	77	129	400	562	595	653	-	-	+524
Net Assets	13,676	13,983	14,325	14,801	15,318	15,750	15,895	-	-	+1,570
Total Liabilities & Net Assets	31,149	32,557	33,639	33,998	36,255	36,292	40,916	-	-	+7,277
Equity Capital	13,676	13,983	14,325	14,801	15,318	15,750	15,895	-	-	+1,570
Interest Bearing Debt	3,153	3,363	3,509	4,178	4,618	5,628	5,327	-	-	+1,818
Net Debt	(950)	(2,002)	(953)	(1,741)	(1,313)	(1,491)	(666)	-	-	+287
Equity Ratio	43.9%	43.0%	42.6%	43.5%	42.3%	43.4%	38.8%	-	-	(3.7%)
Net Debt Equity Ratio	(7.0%)	(14.4%)	(6.7%)	(12.1%)	(8.9%)	(9.8%)	(4.4%)	-	-	+2.3%
ROE (Net Profit / Average Equity)	12.8%	11.2%	11.5%	10.0%	13.6%	11.9%	9.9%	-	-	(1.6%)
ROA (Net Profit / Average Total Assets)	9.8%	9.7%	9.5%	8.0%	10.0%	8.9%	7.1%	-	-	(2.4%)
Days for Inventory Turnover	19.2	19.4	19.7	20.1	17.0	16.7	17.6	-	-	-
Quick Ratio	103%	110%	102%	111%	108%	114%	95%	-	-	-
Current Ratio	121%	128%	121%	129%	123%	131%	115%	-	-	-

Source: Company Data, WRJ Calculation

FY03/2014 Company Forecasts

FY03/2014 Company forecasts (as of 9 May 2013) 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%). Prospective dividend per share has also remained unchanged at ¥21.0, implying payout ratio 21.0%.



Source: Company Data, WRJ Calculation

As mentioned earlier, sales in Q1 to Q3 were seemingly better than expected, but it will be indispensable for the Company to achieve exceptionally high levels of earnings in Q4 to meet Company forecasts on the earnings side, having suffered from negative impacts from unexpected price hikes of ingredients, etc. so far.

Meanwhile, 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 processed eggs, etc. some 6,000 tons pa. The Company has been involved with the manufactures of processed eggs for some time, while the new facilities are to realize improved efficiency and quality in the manufactures.

The other thing is, sales in China are expected to expand nicely up to ¥1,100m in FY03/2014 versus ¥270m in FY03/2013. In line with increasing benefits from structural reform in the near future, there should be an ample room for profitability to improve, going forward. Prospective sales in FY03/2015 are ¥1,700m. On top of this, 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 its manufacturing operations in July 2013, while sales in here are expected to be ¥500m in FY03/2015.

Thus, collective sales in China and Indonesia are expected to be ¥2,200m in FY03/2015, although the Company does not book sales from here, because these operations are those of the Company’s equity-accounted affiliates, as mentioned earlier.

Income Statement

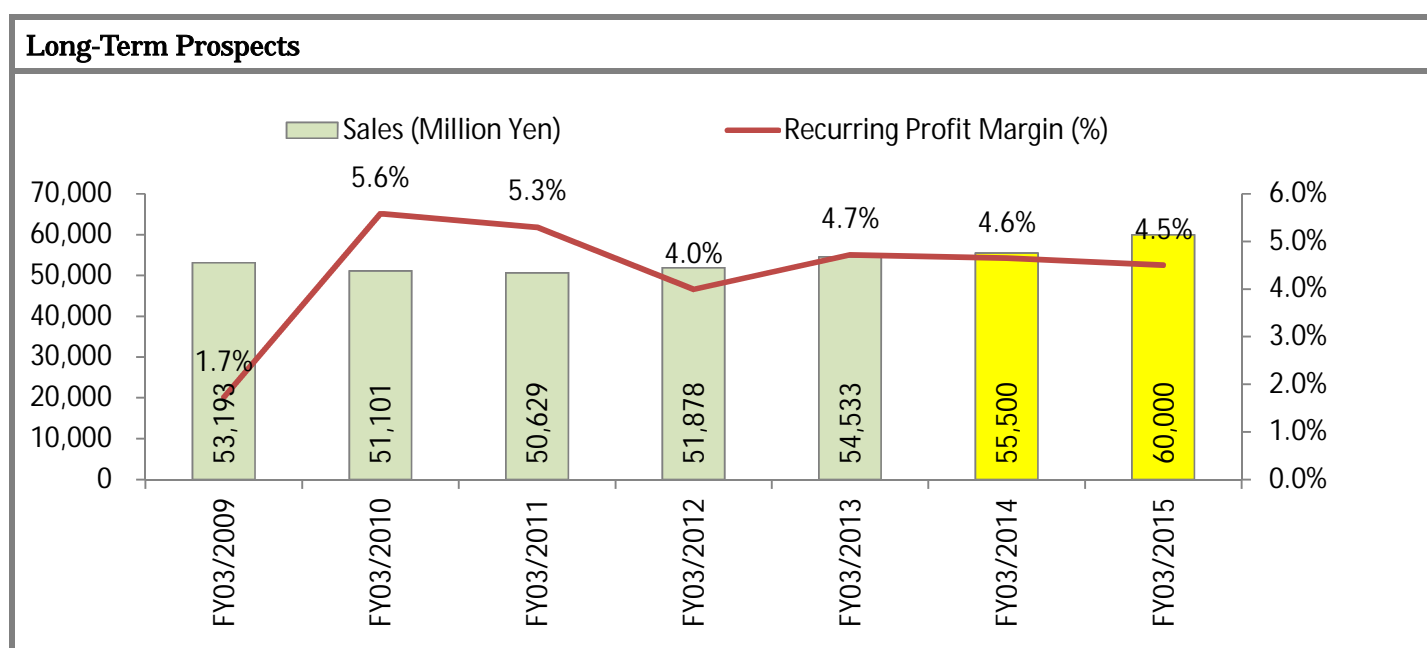
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(Million Yen)	FY	FY	FY	FY	FY	FY	YoY
	03/2009	03/2010	03/2011	03/2012	03/2013	03/2014	Net Chg.
Sales	53,193	51,101	50,629	51,878	54,533	55,500	+967
CoGS	40,897	36,753	36,536	38,253	39,628	-	-
Gross Profit	12,295	14,348	14,092	13,624	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%)	+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 (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. Over the three years through FY03/2013 to FY03/2015, prospective sales are to increase 5.0% pa and recurring profit 9.2% pa in terms of CAGR. During the same periods, recurring profit margin is expected to rise 0.5% points.

Over the past five years (FY03/2009 to FY03/2013), sales with the Company grew only 0.5% pa in terms of CAGR versus more than 5% over the previous year in recent trading of FY03/2013 and so far. This implies that sales are buoyant enough to meet initial expectations.



Source: Company Data, WRJ Calculation

The gist of “Midterm Management Plan (Fourth) 2012-2014” is represented by the Company’s strategy to make a dramatic changeover to “market-creation-oriented company” from “professional-use food manufacturer” through developments of Salad Cafe business, etc. for the sake of enhancement of long-term growth potentials. 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 which is a new business unit with the Company.

When it is reviewed that that the Company had been exclusively exposed to the domestic market until recently, overseas market cultivations to locally manufacture and sell products should be regards as another new business unit. At the moment, the Company is in the process of structural reform in China, having started up new operations in Indonesia on the other hand. The Company is now working hard to achieve initial targets of the midterm management plan, including the overseas market cultivations, in the last year, i.e., FY03/2015.

4.0 Business Model

Evolution of KENKO Salad World

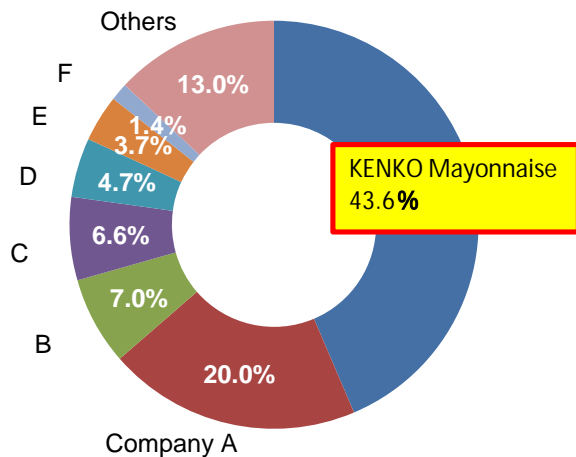
The Company is a professional-use food manufacturer, mainly involved with operations relating to sales of diverse products, self-developed and self-manufactured, for food service industry, supermarket stores and convenience stores. As far as the market for professional-use food is concerned, “KENKO Mayonnaise” 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.

The Number of Items Over 1,500

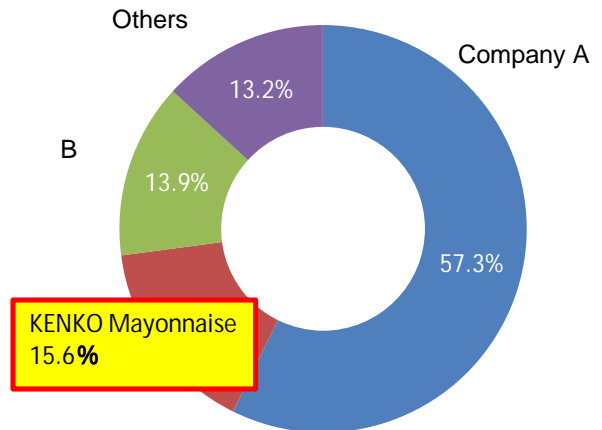
The number of items for the Company to deal with in the market is over 1,500, while more than 300 new items are developed and launched in the market every year, basically as replacements for existing ones. In regards to long-life salads, estimated to account for the bulk of salads & delicatessens, the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

Market Share

Long-Life Salads (CY2011)



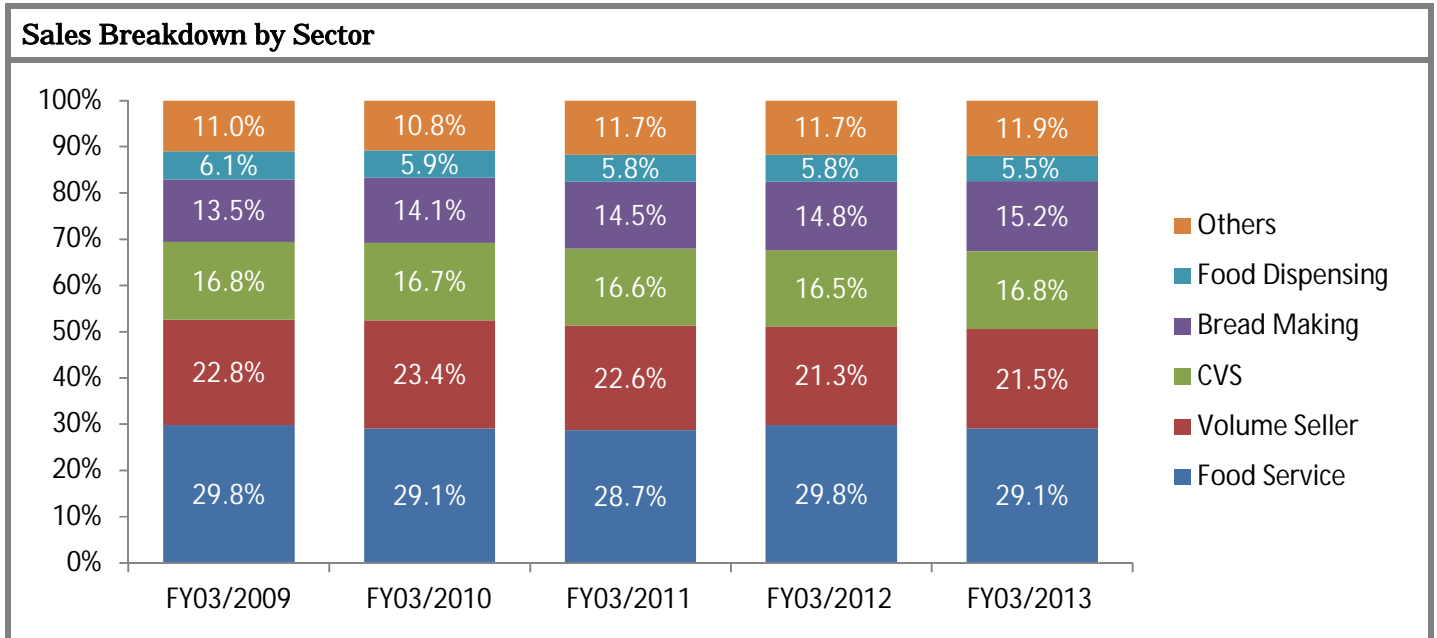
Mayonnaise & Dressings (CY2012)



Source: Company Data

Sales Breakdown by Business Domain

The Company's diverse products are sold to food service industry (Food Service, 29.1% of sales in FY03/2013), supermarket stores (Volume Seller, 21.5%), convenience stores (CVS, 16.8%), bread-making industry (Bread Making, 15.2%), food-dispensing-related (Food Dispensing, 5.5%) and others ("Others", 11.9%) by business domain.



Source: Company Data, WRJ Calculation

Food Service 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. Volume Seller relates to sales of own products such as salads & delicatessens to supermarket chain store operators which 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 at convenience stores, including those of the three major players in the market.

In the same way, Bread Making relates to sales to major bread manufacturers, retailing bakeries, etc. Food Dispensing relates to sales to diverse offices, hospitals, school meals, staff canteen, etc. Others 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. Any food stuffs include vegetables as well as meats, fishes & shellfishes, dairy products, etc. The target set by the Company is to establish “Salad Cuisine” as a market and for itself to become the leader in here, claiming “Salads, the Main Players”, “Salads, the Main Dishes” and “Salads, the Kings”.

“Salad Cuisine”

Classic Burdock Salads



> > > > >



Smartly Arranged



Pumpkin Salads



> > > > >



Innovated Arrangement



Source: Company Data

Diverse Product Line-Up

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