

Food and Beverage Distribution Business Strategies

May 25, 2017
Fuji Electric Co., Ltd.
**Food and Beverage Distribution
Business Group**

■ Business Overview

■ Review of FY2016

■ FY2017 Management Plan

- Business Policies
- Business Plan
- Market Trends
- Priority Measures
- Capital Investment / Research and Development

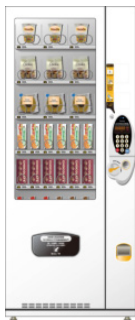
Business Overview

Vending Machines

Top Share in Japanese and Chinese Vending Machine Markets*



Innovative vending machine supplied to JR East Water Business Co., Ltd.



- Can and PET bottle vending machines
- Cup vending machines
- Multi-purpose vending machines
- Vending machines for overseas markets
- Automatic tea servers
- Cold beverage dispensers

Store Distribution



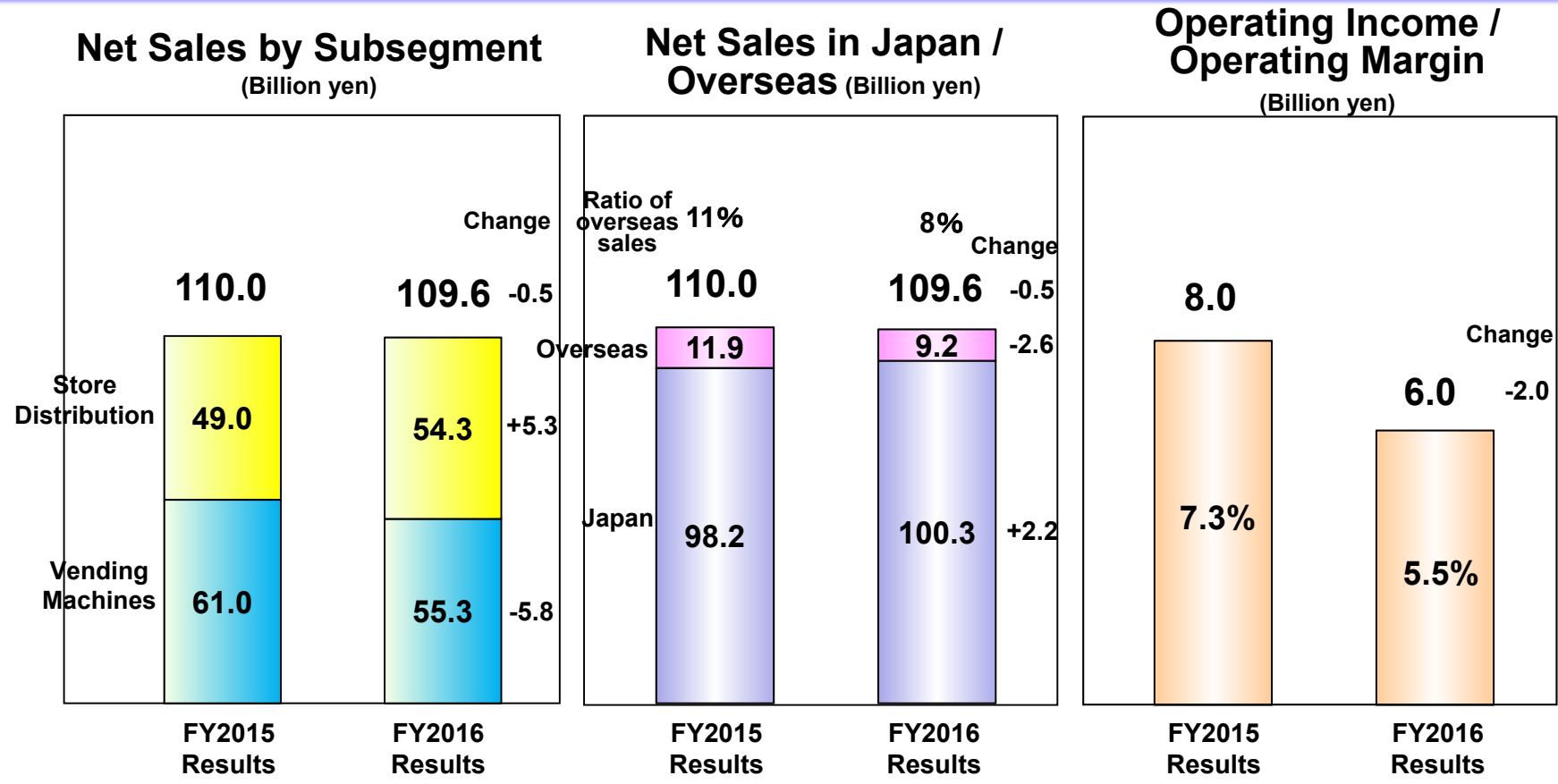
- Total store coordination
- Refrigerated and freezer showcases
- Counter fixtures
- Automatic change dispensers
- Frozen storage containers

* Source: Fuji Electric

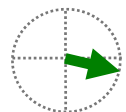


Review of FY2016

Review of FY2016

- Continuation of limited investment among beverage manufacturers in domestic vending machine operations
- Revision of deployment plans among large-scale customers in Chinese vending machine operations
- Rising demand for equipment for convenience stores in store distribution business



Review of FY2016 (Results and Challenges)

Category	Market changes (2015 → 2016)	Measures	Results (Net sales changes)
Vending machines (Domestic)	<ul style="list-style-type: none"> • Vending machine market contraction → Industry reorganization and sluggish investment (Sales down 32% from FY2014 and 17% from FY2015) 	<ul style="list-style-type: none"> • Sales promotions for high-value-added vending machines and cup vending machines 	
Vending machines (Overseas)	<ul style="list-style-type: none"> • Slight contraction of Chinese market → Revision of customers' deployment plans 	<ul style="list-style-type: none"> • Increased market surveys in China • Establishment of operator company in Thailand 	
Store distribution	<ul style="list-style-type: none"> • Diversification of market needs 	<ul style="list-style-type: none"> • Deployment of new counter fixture products • Acquisition of new customers for showcases • Expansion of automatic change dispenser operations 	

[Identified challenges]

- Lower sales volumes in domestic vending machine operations due to industry reorganization and limited investment
- Dependence on existing customers in overseas vending machine operations
- Delay in shift to in-house production of equipment in store distribution business

FY2017 Management Plan

- Further solidify position in existing markets and explore surrounding markets
- Strengthen initiatives and build foundations in overseas and other growth fields

Priority Measures

■ Vending machines :

- Maintain strength and revise structures in domestic operations
- Expand operations centered on China and establish foundations in Southeast Asia

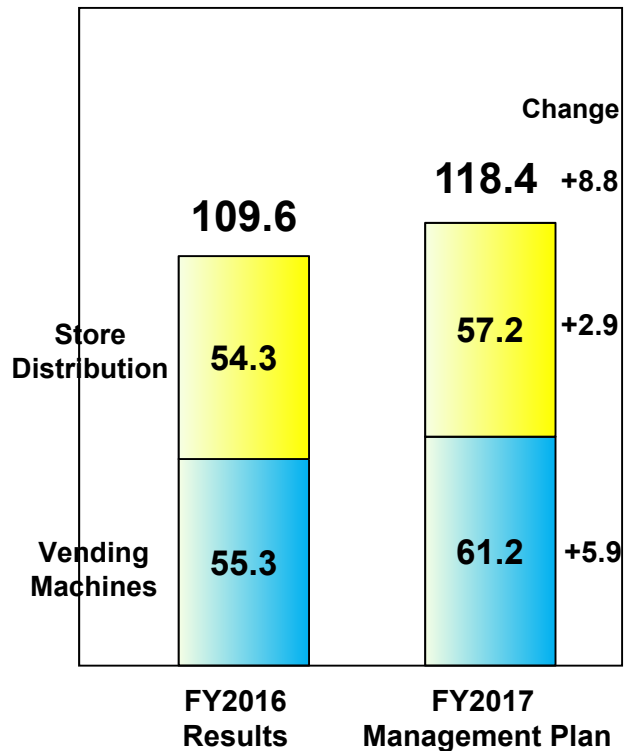
■ Store distribution :

- Formulate development proposals for new labor-saving and energy-efficient products and for new products addressing operating environment changes
- Propose new products focused on compatibility with smart registers

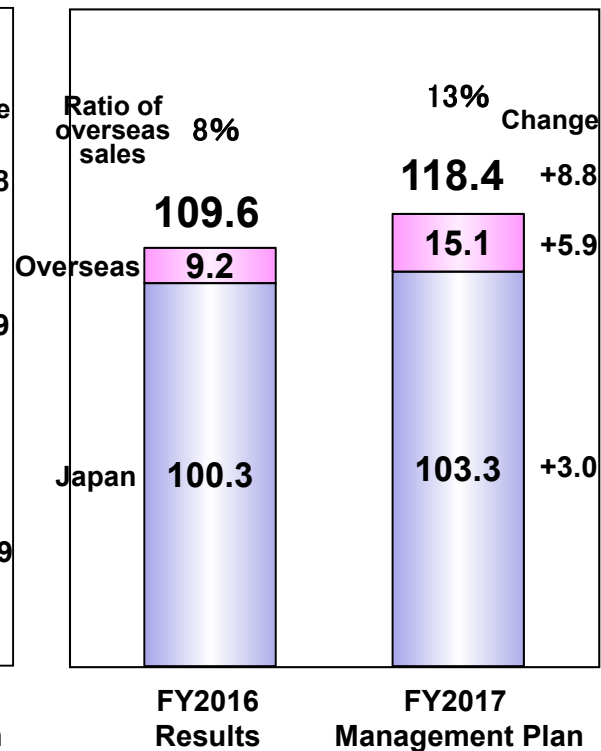
■ Manufacturing :

- Promote in-house production and pursue cost reductions through automation

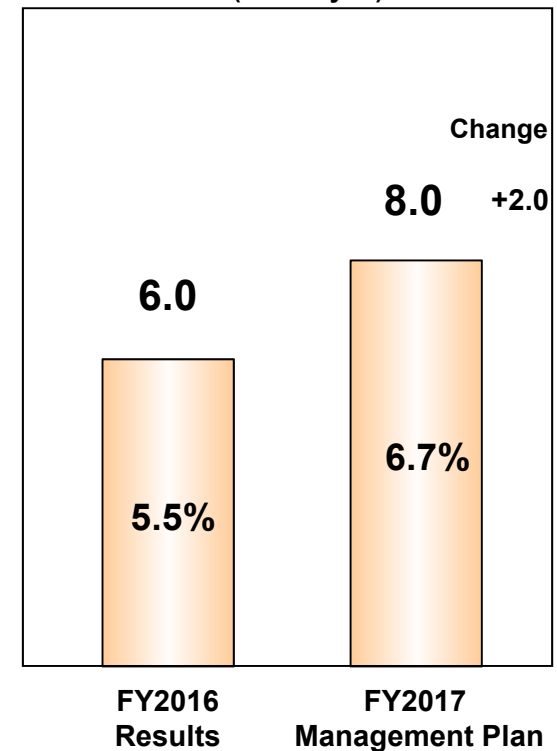
Net Sales by Subsegment
(Billion yen)



Net Sales in Japan / Overseas (Billion yen)



Operating Income / Operating Margin
(Billion yen)

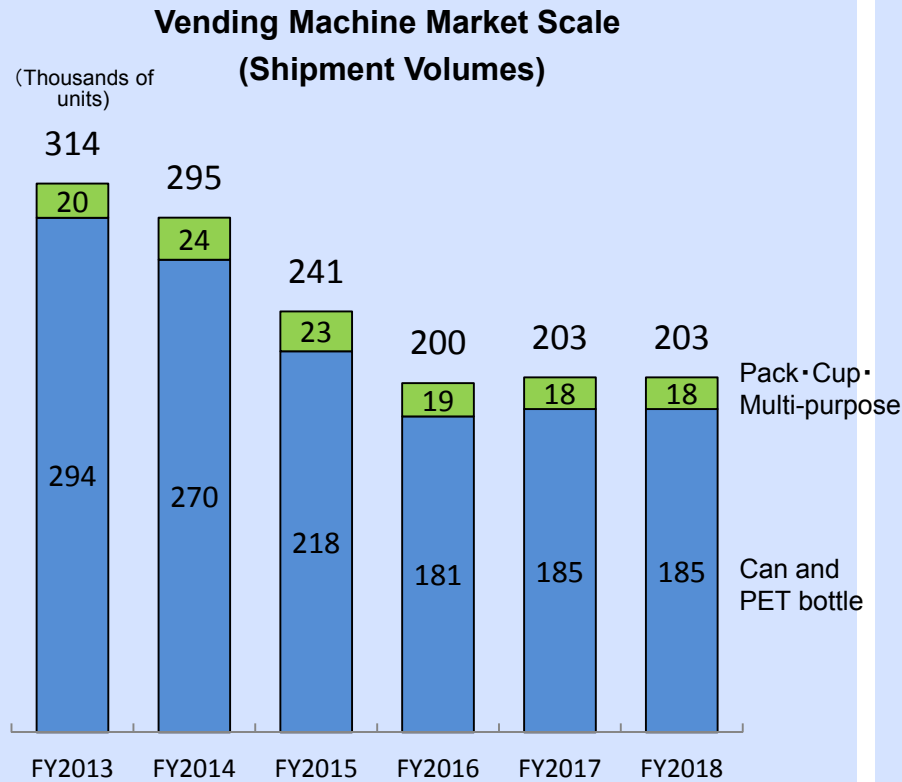


Vending Machines

Vending Machines—Market Trends

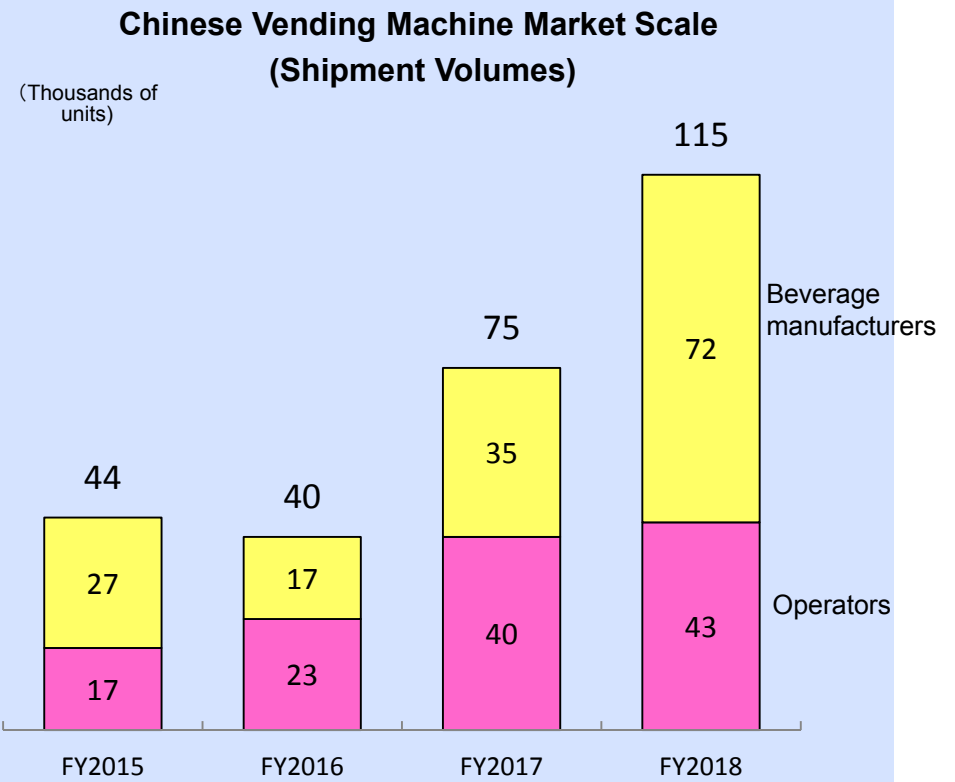
- **Bottoming out in Japan despite market contraction arising reorganizations and limited investment among beverage manufacturers**
- **Contrary to temporary stagnancy seen in FY2016, substantial growth anticipated in Chinese market due to rising demand for automation and cashless payment methods as well as drive to expand sales channels seen among beverage manufacturers**
- **Rising demand for vending machines seen centered on Thailand despite the fact that the overall Southeast Asia market is still taking shape**

Domestic Vending Machine Market



* The Company's estimations

Overseas Vending Machine Market

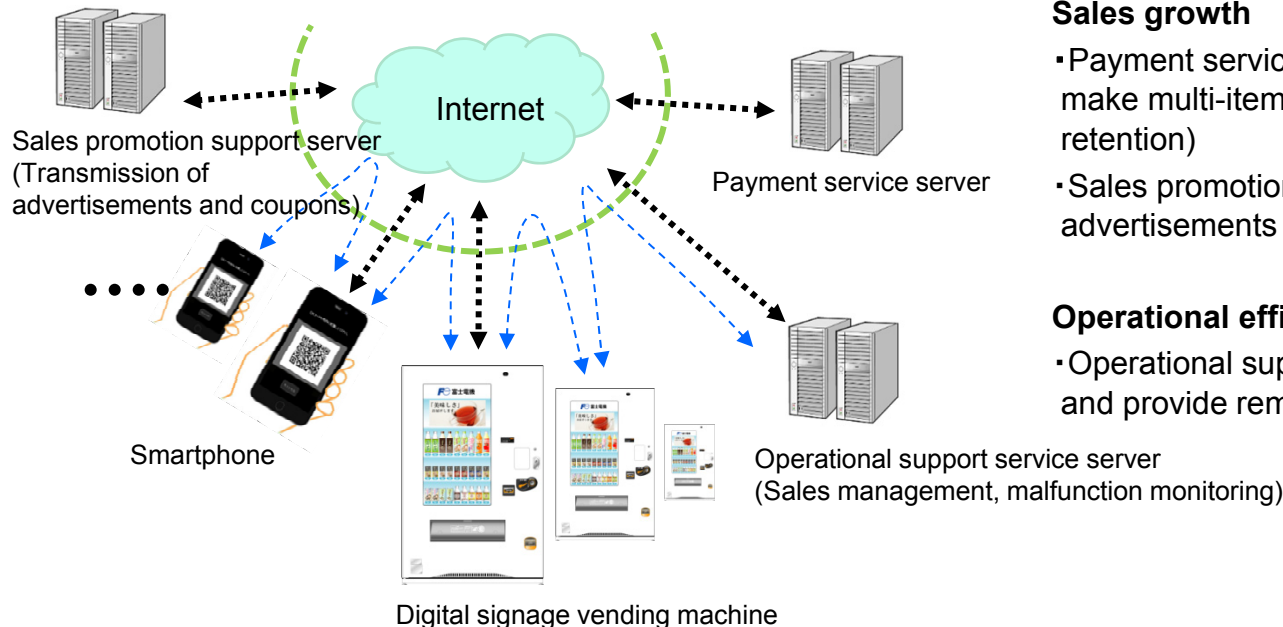


* The Company's estimations

Vending Machines—Priority Measures (Japan)

- Utilize IoT to realize labor savings, support operations, and develop vending machines for growing sales
- Improve productivity (maintain consistent levels of production) and reduce costs with IoT
- Revise further structures

Vending Machine IoT Systems and Services



Characteristics

Sales growth

- Payment services allowing for e-money to be used to make multi-item purchases and buy presents (customer retention)
- Sales promotion support services that entail transmitting advertisements and coupons

Operational efficiency improvement

- Operational support services that make sales projections and provide remote malfunction monitoring services

Vending Machines—Priority Measures (China)

Promote localization of operations

- Enhance production systems, production capacities, and sales and service systems

**Development of production system
capable of manufacturing 100,000 units a year**

First Factory

- Consolidate back-office divisions to enhance functions centered on development
- Utilize as base for providing overhauls and other vending machine services
- Manufacture cup vending machines and other models

Second Factory

- Ensure high productivity and quality by introducing cutting-edge equipment
Introduce integrated production line technologies at use in Mie Factory
- Primarily manufacture can and PET bottle vending machines



【Automation equipment】



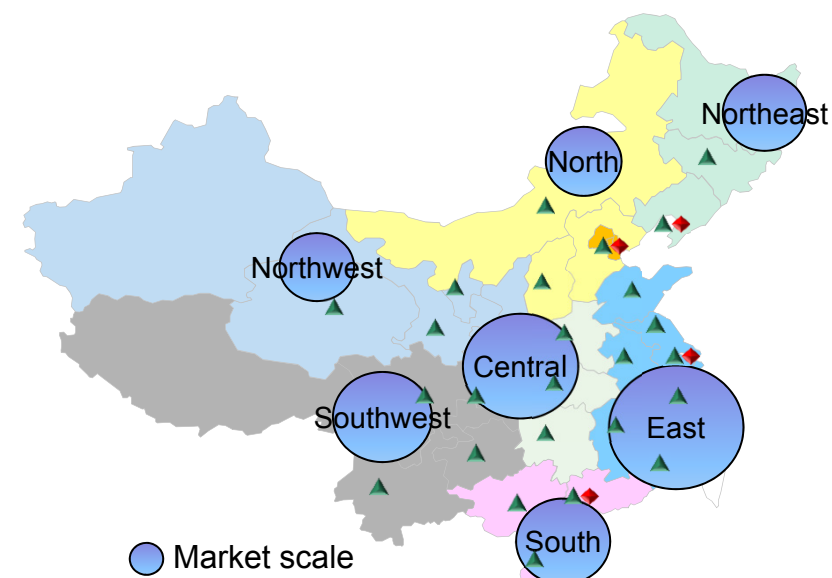
【Second factory of Dalian Fuji Bingshan Vending Machine Co., Ltd.】

Chinese Market Scale and Sales and Service Bases

- Sales and service bases
(9 in 2015 → 26 in 2016 → 31 in 2018)

◆ Sales base ▲ Service base

- Sales agents
(7 in 2015 → 63 in 2016 → 100 in 2018)



Vending Machines—Priority Measures (China)

- Conduct ongoing market surveys and address emerging market and customer needs
- Bolster lineup of new products through tie-ups with customers
- Support the vending machine operations of beverage manufacturers
(operational and vending machine business model support)

Expansion of new product lineup



Digital signage cup vending machine



Traditional Chinese alcohol vending machine



Dairy product vending machine



Food product vending machine



- Payment via smartphone (top)
- Product selection via digital signage (bottom)

Vending Machines—Priority Measures (Southeast Asia)

- Address expansion of demand for new vending machines (Thailand, Malaysia, Singapore)
 - * Cater to need to replace old vending machines with newer models due to government measures for promoting energy savings instituted in Thailand
- Bolster lineup of new products (glass-front vending machines, can and PET bottle vending machines, cup vending machines)
- Expand market by promoting activities of operator companies (Thailand)
- Support vending machine operations of beverage manufacturers and cultivate operators



Vending machines installed at temple in Bangkok, Thailand
[Can and PET bottle vending machine]



Vending machines installed at university in Bangkok, Thailand
[Glass-front boxed meal vending machine]

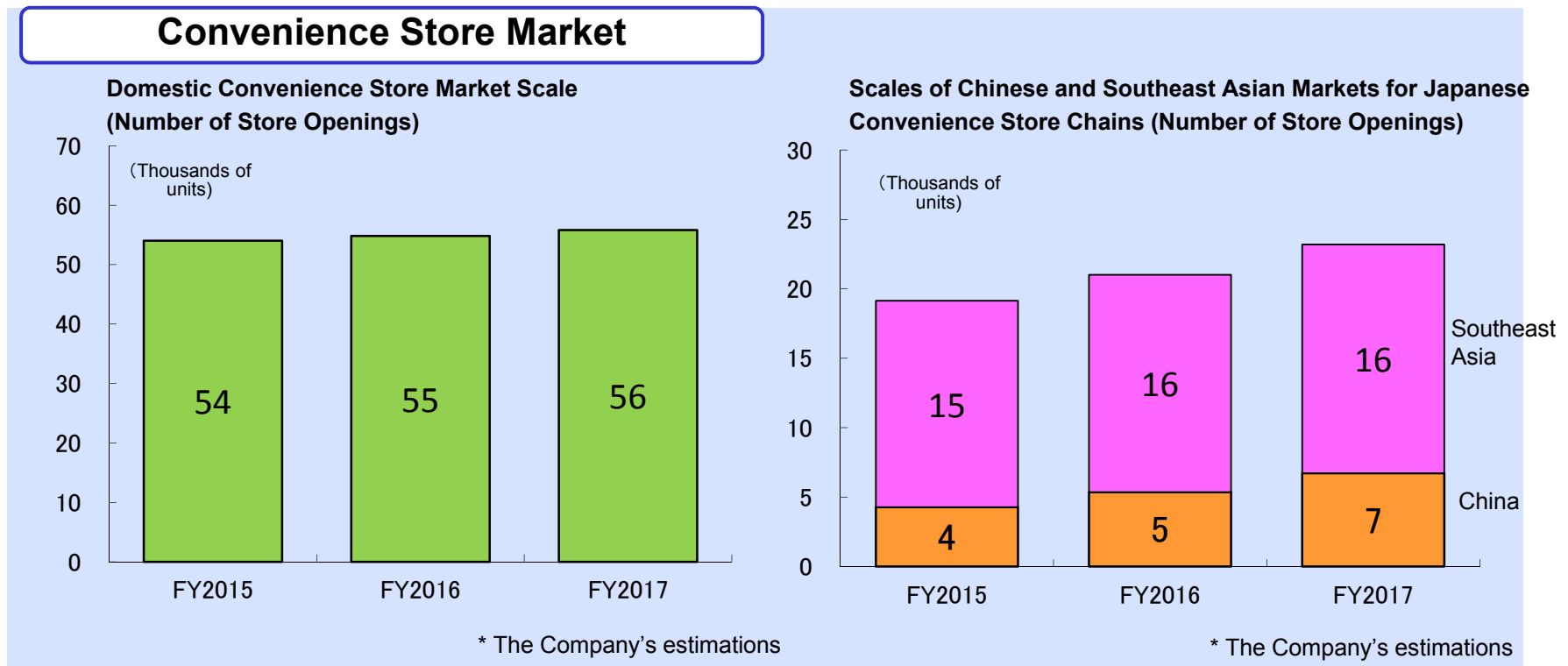


[Cup vending machine]

Store Distribution

Store Distribution—Market Trends

- Ongoing investment in store renovations projected in domestic convenience store market despite absence of robust growth seen previously
Rising needs related to ever more serious labor shortages at stores, changes in customer demographics, and energy saving
- Continuation of overseas expansion by Japanese convenience store operators



Contribute to development of appealing stores

- Address labor saving requirements (labor shortages at stores)
- Provide responses to changes in customer demographics
- Promote further energy savings
- Propose new products for convenience stores

Promote in-house production of equipment

Store Distribution—Priority Measures (Contribute to Development of Appealing Stores)



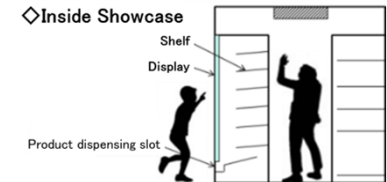
Induction heating super steamer



Tobacco seller



Digital signage,
Non-leak showcase



Automatic change dispenser



Eat-in area



Automated showcase
Back-loading



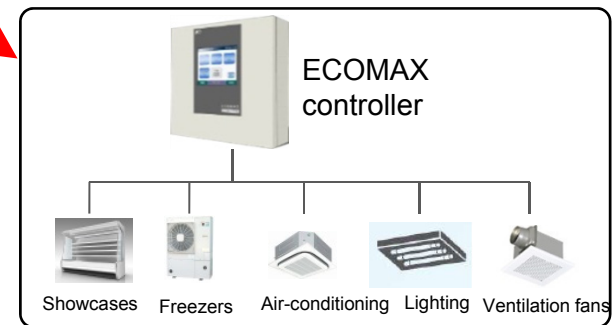
New counter fixtures



Soup dispenser



Highball dispenser



Energy Management

Capital Investment / Research and Development

Capital Investment / Research and Development

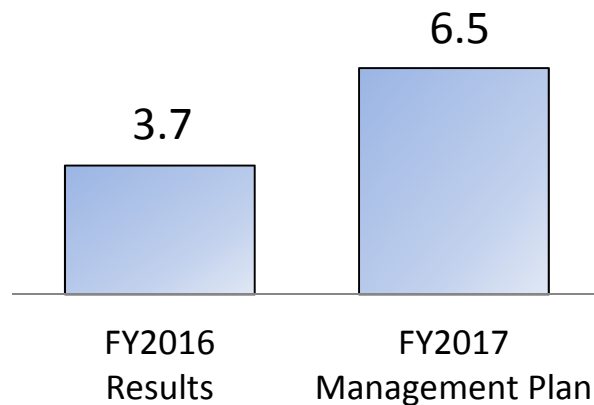
● Capital Investment

- Bolster production capacity in preparation for expansion of Chinese vending machine market
- Improve productivity by automating assembly and expanding in-house production at Domestic production bases

● R&D

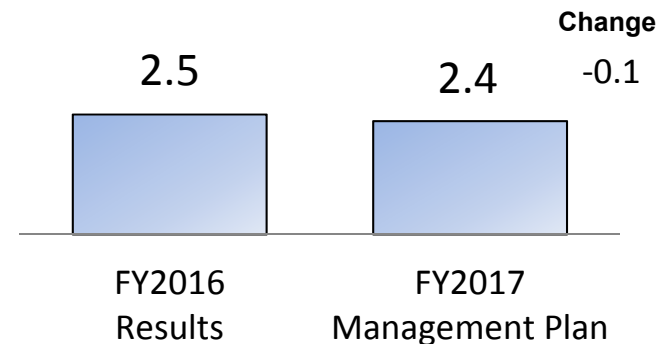
- Develop products and functions based on new product launch plans
- Create fundamental technologies for enhancing existing operations and spreading into new areas
- Develop next - generation vending machines and store equipment utilizing IoT and AI

Capital Investment (Billion yen) Change



- Construction of 2nd vending machine factory in China
- Integrated production system for domestic-use vending machine and store equipment
- Expansion of in-house production of store equipment

Research and Development (Billion yen) Change



- Fundamental technology development to contribute to labor savings
- Development of new modules from a global perspective focused on China and other parts of Asia

• R&D expenditure figures above represent expenditures that have been allocated to segments based on theme and may therefore differ from figures contained in consolidated financial reports.

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