

Overview of Q&A Session at Analysts Briefing for Q4 FY June 2022

This document provides an overview of the Q&A session at the analysts briefing for the second quarter results. Questions and answers have been edited for clarity.

Q1. What is the greatest change from Passion 2030 to Visionary 2025/2030?
What kind of discussions were held with the employees and management?

A: At the time when we announced Passion 2030, the announcement was focused on the absence of linear growth and we did not know what the situation was like with regard to uncertainty. In announcing Visionary 2025/2030, the experience of the COVID-19 pandemic ultimately turned out to be a good thing for us. In fact, the complete evaporation of inbound tourism was a good experience, and we have come to understand uncertainty with a sense of reality over the past two years.

Based on that, communication between the executive officers also increased dramatically, and we implemented and discussed many projects by using online tools during the COVID-19, including discussions with the Founding Chairman. Hence, the difference between this Management Plan and the previous one lies in the fact that we chose what was most important to us. Many of the executive officers are involved in this process.

Q2. What are the key factors, such as sales, gross profit margin, or inventory, that are contributing to the good profits for the DS business? In addition, what are the factors contributing to profit improvements for the GMS and overseas businesses?

A: With regard to Q4, as we have explained during the announcement of the figures for the interim results, improvements in profit margin, inventory management efforts through the “interest expiration date” method, and improvements in productivity do not yield results in the short term; rather, they take time to produce results.

As we have been explaining from the start of the fiscal year, profit margin increased significantly after October as a result of PB renewal, and it was only in Q4 that we came to be on the same wavelength with the frontlines.

We are now able to manage inventory while raising profit margin. With regard to SG&A expenses, we have confronted and addressed the hike in energy prices with all our wisdom, including the creative efforts by the respective store managers. In addition, SG&A expenses have also been impacted by the easing of movement restrictions due to COVID-19.

For the immediate future, we will further promote and advance the effects that have already been

produced. We have also set out the goal of increasing PB ratio to 25% by FY2025 in our Medium-to Long-term Management Plan, and while we only gained a foothold in the first half of the fiscal year, we have finally succeeded in riding on the upward current. The main policy for both the GMS and overseas businesses is to increase PB ratio.

As for improving productivity, we will focus not only on reductions. For the current fiscal year, the business divisions are required to cooperate with each other and share the work so that each individual employee will produce profits. This will in turn contribute to the profits of each business. Regarding overseas business, we are in the process of increasing our stores, and the number of existing stores will also finally increase in the Asian region. This has therefore contributed to the increase in operating profit.

Q3. Please tell us about the future forecast for the GMS business.

A: The GMS business recovered considerably in Q4. However, the most recent number of customers and number of items for July have not yet returned to previous levels. We are taking a conservative forecast on sales for existing stores due to a retroaction of demand for food products because of the COVID-19 pandemic, and because results for clothing have not recovered as well as we had anticipated.

Therefore, whether we are able to control SG&A expenses as well as we did in Q3 and Q4 holds the key to the degree of increase in gross profit margin. For now, we are taking a conservative outlook on this.

Q4. With regard to PB/OEM, the goal is to increase sales composition ratio and gross profit margin. In consideration of the ability to adapt, occasional cases of failure will be observed if we were to think about PB composition ratio from the start. Based on the experience to date, does that mean it will be alright?

A: It is not that we have not made any estimates or calculations. PB underwent a rebranding in February last year, and there is a sense that we have built up a certain degree of knowhow through the process of formulating the figures, such as how to develop the brand. Therefore, we believe that these are not unreasonable figures.

We also consider it timely now, when customers are feeling the inflation and increased cost of living.

Moreover, we are not going to own factories and do everything there. To be precise, with regard to PB, we are considering utilizing OEM, and we are also engaged in various discussions with NB manufacturers. We are not being very aggressive. We have formulated these figures as there is

also an opportunity to change the stores significantly, and there are things we can achieve through the synergistic effect.

Q5. The way PB/OEM grew in Q4 appears dramatic and different from before. Could you tell us your appraisal of this trend?

A: One of the reasons is that Q4 is the period for the introduction of seasonal products. The effect of Q4's figures, in addition to increasing PB, is the decrease in SKU. As we have not really reduced the number of items until now, there was some resistance from the frontlines. However, upon implementation, we can tell from the figures that sales are good. When products perform well in some areas, the effect spreads laterally across the frontlines. The swift rollout and expansion in this way produced significant results in Q4. The products launched for sale in the current fiscal year were effective, and the greatest lateral spread took place during Q4.

Q6. In the plans for this fiscal year, year-on-year growth for existing stores was set at +0.3%, which seems low for considering reopening. Could you tell us the reasons for this?

A: The result was +0.3%. Inbound demand has been largely left out of the budget for the next three years. As a company, we are making announcements on profits rather than sales. On customers' end, as a result of inflation, the tendency is to reduce, rather than increase, the number of items in their basket. This is becoming truly apparent in the GMS business. Hence, the figures reflect these factors.

Q7. With regard to the premises for the plan for FY2023, is it correct to say that the decline in profit in the second half of the year is brought about by challenges in the first half? Could you tell us the breakdown for the 4.8 billion yen drop for the other segments?

A: That is correct. For the other segments, significant factors are predicted expenses related to the digital initiatives, and expenses related to capital investment including expenditures delayed in the current fiscal year.

Q8. With regard to the 6 billion yen increase in profit overseas, is it the result of having completed the cycle of cost outlays for setting up new stores in Asia?

A: In addition to the successful recovery of investment costs for existing stores, we expect gross

profit margin to increase as a result of the recovery of existing stores, PB, and improvements to the supply-chain.

Q9. Looking at North America and Asia, which region is leading in terms of operating profit?

A: Asia is leading in terms of the amount of increase in profit.

Q10. Could you tell us the basic premise behind the Medium- to Long-term Management Plan?
Do you think that the current situation, such as inflation, lack of income growth, decline in purchasing power, and EC trend, will continue? Or do you predict a gradual improvement in consumption?

A: While we are unable to predict what the situation will be like three years into the future, in the short-term, it has been decided from an early stage that purchase costs will increase until November. While inflation may ease to a certain extent, we do not think that prices that have risen will come back down.

With regard to consumers, we believe that disposable income will fall and the consumption mindset will also be austere.

While we have made certain considerations this fiscal year, we are taking a neutral view for the next three years. We are not making any particular assumptions.