February 8, 2023

【Speech Summary for FY2023 Second Quarter Financial Results Briefing】

President & CEO, Representative Director, Naoki Yoshida
Director & Managing Executive Officer, Hideki Moriya
Director & Executive Officer, CFO, Keita Shimizu

1. Overview of FY2023 Second Quarter Financial Results

Director & Executive Officer, CFO, Keita Shimizu

・Report of Financial Results for FY2023 Q2 (presentation p.4)

For the first half of FY2023, net sales were 978.4 billion yen, operating profit was 57.5 billion yen, and net income for the period was 36.8 billion yen. We achieved increases in both sales and profits compared to the previous fiscal year, with increase in net sales of 60.8 billion yen (increase of 6.6% YoY), increase in operating profit of 13.8 billion yen (increase of 31.6% YoY), and net income growth of 6.6 billion yen (increase of 22.0% YoY). We also achieved record highs for both sales and operating profit for 1H and Q2. I am pleased to report that we are making steady progress toward achieving our performance targets for the full year.

・Discount Store Business (presentation p.5)

In the Discount Store (DS) Business, the continued growth in net sales and improvement in GPM for existing stores led to significant increases in sales and profits. Net sales increased by 34.9 billion yen and operating profit increased by 13.2 billion yen year-on-year.

In addition to increased opportunities for going out and the return of event demand, the recovery of inbound demand from Q2 also contributed to net sales for existing stores, rising to 104.0% (102.5% excluding tax-free sales) compared to the previous fiscal year.

Cumulative tax-free sales for 1H, at 8.1 billion yen, had already achieved the forecast set at the beginning of the fiscal year.

Next, GPM continued to improve, registering 26.0% for existing stores. In addition to the boost provided by the strengthening of PB/OEM, the implementation of "interest expiration date" measures also contributed to reducing slow-moving inventory.

While utility costs are still rising, continuous efforts to control costs, alongside the growth in sales, kept the SG&A ratio at the same level as in the previous fiscal year. The SG&A ratio also contributed to the increase in operating profit.

Finally, I would like to add that we are making smooth progress in the opening of new stores toward our full-year target of nine store openings.

・DS Business: Strengthening of PB/OEM (presentation p.6)

As a result of our efforts in 1H, sales composition ratio improved further to 16.8%. Sales also reached a record high in December 2022, boosted by the effects of media exposure.

To explain our initiatives in Q2 briefly, sales composition of PB/OEM improved further due to the growth of travel-related products and party products, such as for Halloween and Christmas. With a view to improving brand recognition, we released a TV commercial in December. The media exposure helped to boost results, including the achievement of record high sales. Specific examples of products that recorded growth as well as examples of media exposure are featured here, so please have a read later.

・DS Business: Progress in store openings/renovations (presentation p.7)

The Don Quijote Yonezawa store is a store where we aggressively advanced efforts to narrow down SKUs and install self-checkouts to improve productivity. For the Don Quijote Nakasu store, we expanded the PB section and strengthened efforts to attract Gen Z and Millennials. Sales progressed well, supported by our success in capturing inbound sales.

・GMS Business (presentation p.8)

In the GMS Business, GPM continued to improve from Q1, resulting in an increase in operating profit of 2.2 billion yen year-on-year. The business is progressing as forecast toward the full-year performance targets.

Net sales for existing stores in 1H landed at 98.1%, maintaining the same level as in 2019. According to our analysis, pricing issues were the reason behind difficulties with improving sales. Hence, starting from Q2, we worked on improving pricing accuracy by introducing the same system as in the DS Business. As we achieved a certain level of success, this will be rolled out full-scale to all stores from Q3 with the aim of improving sales and gross profit through more balanced pricing.

The MD functions of DS and GMS Businesses were integrated with effect from October. Alongside promoting product enhancement, we also worked on improving the efficiency of procurement and management operations. We hope that these efforts will produce results going forward.

GPM for existing stores continued to improve in 1H, rising by 1.6% to 26.6% year-on-year. The growth of the apparel segment in Q2 contributed particularly to GPM improvement.

For SG&A ratio, despite the continued rise in utility costs, labor cost ratio improved by 0.3%. This was accompanied by our success in controlling other costs, which contributed to the increase in operating profit.

・Overseas Business: Performance and progress of new store openings (presentation p.9)

Net sales increased by 31.4% year-on-year while operating profit fell by 1.3 billion yen year-on-year. I shall explain the contents on the following page. This page also introduces the new stores that were opened.

・Overseas Business: Progress in 1H (presentation p.10)

The Overseas Business fell short of the forecast due to the heavy impact of the COVID-19 pandemic. In particular, countries or regions with many downtown urban stores, such as Hong Kong, Singapore, Macau, and Hawaii, were negatively impacted by the prolonged movement restrictions and border controls in each country.

The Asia Business landed with growth in both sales and profit, with net sales up 10 billion yen year-on-year and operating profit up 0.3 million yen year-on-year. Net sales increased by 2.3 billion yen against the forecast, while operating profit fell short of the forecast by 0.8 billion yen.
SG&A ratio increased by 1.9% year-on-year against the backdrop of an external environment of various rising costs. On the other hand, improvement in GPM in each country helped to keep OPM at the same level as in the previous fiscal year. OPM for existing stores continued to exceed 10%.
There were examples of successes in each country, with Thailand registering year-on-year improvements in SG&A ratio and Taiwan turning profitable in 1H for the first time since its store opening. However, Hong Kong and Macau fell short of the forecast operating profit by 0.7 billion yen.
Therefore, there is a need to address the challenges in Hong Kong and Macau.
I shall explain this in detail in the second part of the presentation. For the moment, I will say that sales were impacted by weaker-than-expected recovery in customer traffic, including among tourists, at the downtown

urban stores and other stores. We expect this to recover going forward.
On the other hand, GPM was about 2% lower than Singapore. We believe there is room for improvement in the management of SG&A expenses, including logistics costs and overhead costs, as well as the strengthening of labor cost management. We shall address these moving forward.

The North America Business recorded an increase in net sales of 21.3 billion yen year-on-year and decrease in operating profit of 1.7 billion yen year-on-year. Net sales exceeded the forecast by 11.6 billion yen, while operating profit fell short of the forecast by 1.5 billion yen.
Looking at the breakdown, Gelson's landed with a 7.4 billion yen increase in sales against the forecast, and +/- 0.0 billion yen against the forecast for operating profit. Sales landed higher-than-expected despite an expected reactionary decline in demand for alternatives to eating out at the beginning of the fiscal year.
GPM of MARUKAI (California) also improved by 1.9% year-on-year, while progress in operating profit was generally in line with the forecast.
Therefore, the shortfall in operating profit from the forecast was mainly due to the Hawaii business.
The reason behind this was that inventory management and price control did not go smoothly due to internal difficulties, despite further efforts to integrate store, product-related systems and operations in the Hawaii business. This consequently led to the loss of sales opportunities and decline in GPM (of about 2%). We aim to continue improving store and product-related operations as well as strengthen the supply chain. I shall explain the concrete measures in the second part of this presentation.

・Full-year Forecast of Results (presentation p.11)

Based on the above, the full-year performance forecast remains unchanged. We will continue to work toward achieving operating profit of 94 billion yen in the second half of the fiscal year.

The breakdown by business segment has been revised, based on the progress made by each business in 1H as I have just explained.

Specifically, while we had set an initial target of increasing profits for the DS Business by 3.7 billion yen year-on-year, it had already exceeded this initial target by more than 5 billion yen as of Q2. Hence, we revised the forecast upward to a profit increase of 9.7 billion yen.

The forecast for tax-free sales was also raised to +24 billion yen, and we are working toward expansion.

On the other hand, although the initial target for the Overseas Business had been set at +6 billion yen year-on-year, we were progressing at a shortfall of 2 billion yen from this initial target as of 1H. For this reason, this was revised to the same amount as the previous fiscal year.

The external environment is not expected to make a significant recovery in 2H and we assume that results will largely remain flat. Moreover, we assume that the effects of various measures will only emerge in the next fiscal year and beyond.

As the GMS Business is progressing as initially forecast as of 1H, the targets remain unchanged.

While changes in the external environment could always happen going forward, we will continue to maintain the balance across the Group, and to first work toward reaching our consolidated operating profit target of 94 billion yen for FY2023. I shall explain the specific initiatives in the second part of this presentation.

・Status of Shares (presentation p.14)

As announced at the beginning of the fiscal year, we plan to increase dividends by 1.0 yen for this fiscal year. As for shareholder benefits, we plan to continue to award shareholders with 2,000 yen worth of majica points every half-year. I ask for your continued support.

2. Initiatives for FY2023 3Q and Onwards

Director & Managing Executive Officer, Hideki Moriya

・Initiatives for 2H and onward (presentation p.16)

I shall now explain the initiatives for each business in 2H and onward.

<DS Business>
We will continue to strengthen PB/OEM, which contributed significantly to profits in 1H.
Specifically, we will increase the number of PB/OEM items in each category when we switch out the products for spring/summer. In particular, we will promote the shift to PB for seasonal home appliances and apparel this spring/summer season.
As inbound sales begin to recover and get back on track, and we anticipate border measures to be relaxed further going forward, we will improve systems toward further growing and maximizing sales, particularly

at our flagship stores.

<GMS Business>

Firstly, we aim to improve customer numbers and sales by introducing the pricing model, which has now become established in the DS Business, to all stores and particularly to the food segment, as well as by offering attractive prices.

Furthermore, with the integration of the MD functions of the DS and GMS Businesses, we aim to improve profitability by uncovering cost advantages that leverage on economies of scale and enhanced product appeal, with a focus on non-food products.

We will improve productivity through the continued roll-out of individual store management. Despite the ongoing rise in utility and other costs due to inflation, we aim to control SG&A expenses while absorbing some of the costs.

I will explain the initiatives for the Overseas Business in 2H and beyond as well as details on the Finance Business later.

・2H (Reference) Domestic DS/GMS Business Overview in January (Flash Report) (presentation p.17)

These are the flash report on year-on-year results for existing stores in January, released at 3:00 p.m. today.

The results broadly continue on from the trends of 1H.

The DS Business is performing well, thanks in part to the growth in PB/OEM products due to media exposure and the last-minute surge in demand just before the February 2022 price hike for many items. In the GMS Business, food products have been on a recovery trend since 1H, posting results above 100% due to the snowfall and last-minute surge in demand before price hikes. For non-food products, we struggled with the sale of toys due to the reactionary decline from the previous fiscal year, while apparel sales remained on par with the previous fiscal year due to the growth in seasonal items and recovery in school-items demand.

・DS Business: Initiatives to address the forthcoming recovery in inbound demand (presentation p.18)

Based on the recovery status for inbound demand in 1H, the outlook for tax-free sales for FY2023 was revised upward to 24 billion yen. In anticipation of a further increase in the number of foreign visitors to

Japan in 2H, we will strive to strengthen our systems for welcoming inbound visitors in order to maximize sales.

Specifically, we will advance infrastructural investment such as the installation of additional tax-free checkouts and improving the payment environment, in preparation for an increase in customer numbers and sales due to the further easing of border controls going forward.

We will also review staffing and increase the number of MDs and support staff specializing in inbound operations, so as to secure an adequate supply of products that are in high demand for tax-free shopping.

Furthermore, we will increase the number of employees considerably at our flagship stores and promote the editing of layouts and product shelves, moving from a sales floor oriented toward domestic demand to one that is inclined toward inbound demand.

・Overseas Business: Initiatives for 2H and onward (presentation p.19)

I will first talk about the Asia Business.
The Asia Business, which started in December 2017, has continued to open new stores even during the COVID-19 pandemic, reaching 33 stores in six countries/regions over five years with sales growing to more than 80 billion yen.
As we have achieved a certain scale, the President of Singapore operations will take leadership of the entire business in Asia, and work toward improving profits through the introduction and roll-out of success stories from each country to other countries in the region.
An example of success in Singapore is the improvement of GPM by strengthening the delicatessen segment and building a scheme for introducing direct foreign trade products. In Thailand, the greatest advancement is in the system to manage working hours at stores. By proactively introducing these successful initiatives in Hong Kong and Macau, we aim to improve GPM and enhance cost efficiency, as well as improve profitability. Going forward, we expect sales to recover at the downtown urban stores of each country as human flow recovers further with the easing of ongoing border controls due to the COVID-19 pandemic. We also expect the shift of “new stores” to “existing stores” this fiscal year to contribute to profit growth in the future.

Next, let us look at the North America Business.
In Hawaii, we are working on developing and restructuring the supply chain with the aim of correcting the unit control system that captures the true cost of products in real-time, which is the strength of our company. Since February 2023, we have been working on improving pricing accuracy based on unit control, with a

view to realizing improvements in sales and GPM and reducing logistics costs including demurrage.
In California, we will further improve GPM and cost efficiency through the joint operation and integration of warehouses between Gelson’s and existing businesses, central kitchen operations, integration of suppliers, and other initiatives.

・“CV+D+A” Update through Evolution of “Customer Touchpoint” (presentation p.20)

The number of majica app members has reached 11 million while credit card members exceed 3.1 million. Our membership base is developing steadily.

Unlike the point strategy adopted by platformers, we will move beyond the stores, products and majica app, update our unique “CV+D+A” that combines digital “customer touchpoints” including social media, improve customer experience, and expand our earnings opportunities.

・Finance business: Basic strategy for payment and marketing (presentation p.21)

I will now explain about the Finance Business, which plays an important role in expanding our earnings opportunities.

Our basic strategy is to expand the percentage of customers using our in-house payment system from the current ratio of about 40%, to over 50% by FY2025. Through this, we aim to increase financial revenue opportunities and reduce costs.

We will work toward increasing the number of customers using the in-house payment system by strengthening a three-pronged approach of top-up, points, and coupons.

With regard to the app update that we are currently making preparations for, we will enhance customer services as described in the presentation materials, such as by strengthening payment functions and promoting external use. At the same time, we will also offer our unique services to our stores, which is one of our strengths, and to corporate clients around our stores.

・Case study: Exclusive measure for majica members at the pre-opening of the Beppu store (presentation p.22)

This is an example of a service provided exclusively to majica members at the pre-opening of a store.

Our new stores and renovated stores offer many deals and various exciting, enjoyable elements in the aspects of different layouts in each store, surprising products, and attractive prices. By incorporating such experiences into services that are exclusive to app members at the pre-opening of stores, we aim to encourage customers to register and top-up, and lead to the expansion of the customer base using our in-house payment system. At the Beppu store, majica payment ratio more than doubled compared to previous pre-openings, while customer numbers were also very high. Going forward, we plan to implement similar measures for other new and renovated stores.