

Overview of Q&A Session at Analysts Briefing for Q3 FY June 2023

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

Q1. The third quarter results are better than anticipated. Could you supplement the information, in as much detail as possible, with the progress when looking at the results by business segment and when breaking it down by PL items?

A: We are seeing a continued trend from the second quarter. Looking at the results by business segment, the Discount Store (DS) Business is a significant driver of the strong performance, while the GMS Business recorded a slight improvement as shown in the presentation. The Overseas Business remains year-on-year negative, while “other” businesses generated a slight increase in profits. Overall, on a consolidated basis, we are making progress with approximately 2 billion yen ahead of our forecast.

Looking at the PL, sales are doing well, and the GPM ratio is also slightly above the budget. The amount of SG&A expenses is largely in line with the budget while the SG&A ratio has improved slightly.

Q2. What are your thoughts on the external environment for the DS Business? After Q4, how do you plan to capture the sales share?

A: In urban areas, the flow of people increases during periods such as the spring holidays and Golden Week. Our company’s strength lies in products related to the demand for outings in urban areas. As suburban stores are affected by price increases brought about by rising raw material prices and other factors, we are thinking of attracting customers by strengthening sales promotion efforts, such as by setting and offering prices that customers will support. As there are multiple store formats, we will leverage on that strength, and bring about profit increases by using a combination of product categories that customers are withholding purchases for and products with demand that is stimulated by outings.

Q3. I believe that you have been working on efforts to improve the GPM ratio since the third quarter of last year, and the margin of improvement is even greater than in the previous year. Could you give us more detail about how you are producing effects, such as by comparing actual results to the plans?

A: In addition to the improvement in the GPM ratio during the previous fiscal year, further improvements in PB/OEM composition ratio are also contributing to the figures for the DS, GMS, and Overseas Businesses. As for inventory, I think that we are controlling it smoothly, as mentioned at the beginning of the fiscal year.

Q4. During the briefing on the Q2 results, it was mentioned that the contribution to profits increased in the first half related to inventory appraisal, but the effect from the first half will in turn be offset by a decrease in contribution to profits in the second half. Is this understanding correct?

A: Yes, that is the correct understanding. As inventory reduction in the first half was more successful than planned, the contribution to profit was greater than anticipated. As a result, however, profit contribution in the second half fell accordingly, so we believe there will be a smaller impact on profit when compared with the second half of the previous fiscal year.

Q5. With regard to Asia in the Overseas Business, I believe that Asia was significantly impacted by COVID-19 because the proportion of food in the overall composition in Asian stores is high. When will the downward slide come to an end? Could you also tell us about the progress in the transformation of the cost structure?

A: We expect the Asian market to show signs of improvement from the first half of the next fiscal year. New stores will contribute to profit as they transition to become existing stores. While demand for eating at home due to the COVID-19 pandemic will continue to dissipate until around the second half of Q2 next year, we expect demand for outings particularly in the urban areas to have a positive effect. In addition, we are making progress in streamlining the indirect functions of the head office, which we anticipate will also contribute to profits.

Q6. Looking at the full-year forecast, will the 3.7 billion yen increase in operating profit come from the DS Business?

A: As you have rightly stated, the DS Business contributes greatly to profits. Additionally, other businesses, apart from GMS and retail sales, are expected to record slight profits. As for the

Overseas Business, the profit decrease seems to be larger than the forecast revised in Q2.

Q7. During the briefing for the Q2 results, it was mentioned that conditions are difficult in Hong Kong and Macau. Has there been a recovery in the flow of people?

A: Tourists from China hold the key to the flow of people in Hong Kong and Macau. As such, there are no significant signs of recovery during the third quarter. The flow of people is showing signs of recovery starting from April this year.

Q8. In the United States, around when will measures begin to take effect?

A: Measures in the United States will take time to produce effects. Pricing measures do not take effect immediately, but rather, are expected to start contributing to the profit base from the later part of the first half of the next fiscal year. On the other hand, we have also injected large investments in new stores in Guam and Hawaii, so there will be positive effects from the measures and negative effects from opening the new stores.

Q9. For the Overseas Business, the forecast at the beginning of the fiscal year was revised downward in Q2. If performance is expected to decline even further from there, what are the reasons for that?

A: The forecast is even lower than in Q2. We have lowered the forecast, especially for Asia. In addition to slow sales recovery, we have also identified items that need to be improved on as we work on the business with the new management system. For example, confirming inventory valuation losses while we expand or shrink merchandise categories, and so on. I hope that you can understand this as a part of the process of making improvements toward recovery from the next fiscal period.

Q10. GMS is producing profits, but sales conditions remain severe. During the briefing for the Q2 results, you mentioned that the cause was attributed to pricing, but what are the aspects that are different from the plan?

A: We are working to improve pricing accuracy, yet it will take time for the number of customers to recover. However, there are also some categories where the effects of the measures are becoming apparent, particularly in the food categories.

With regard to the differences from the plan at the beginning of the fiscal year, the reactionary decline brought about by COVID-19 as well as the price increases for food products were greater than expected, and the estimated figures for apparel, housing-related products, and miscellaneous household goods (interior goods, bedding) were different.

Q11. There used to be the opinion that rather than customers flowing to the DS business format, a trade-down is occurring in terms of products and categories. Looking at the sales situation until Q3, have there been any changes?

A: The flow of customers purchasing NB products toward PB/OEM is observed not only in the DS Business but also in the GMS Business. This is also one of the reasons for the upswing in the figures in our PB/OEM plans. In this respect, we can say that a trade-down is occurring. On the other hand, we could say it is contributing to profits by securing the profitability of PB/OEM products and helping us to control SG&A expenses.