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【Speech Summary for FY2023 Third Quarter Financial Results Briefing】

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1. Overview of FY2023 Third Quarter Financial Results

Director & Executive Officer, CFO, Keita Shimizu

・Report of Financial Results for FY2023 Q3 (presentation p.4)

For the cumulative third quarter of FY2023, net sales were 1,457.2 billion yen, operating profit was 81.7 billion yen, and net income for the period was 51.5 billion yen.
We achieved increases in both sales and profits compared to the third quarter of the previous fiscal year, with increase in net sales of 86.4 billion yen (increase of 6.3% YoY), increase in operating profit of 18.6 billion yen (increase of 29.5% YoY), and net income growth of 5.5 billion yen (increase of 12.0% YoY). We also achieved record highs in our business performance for the third quarter alone and cumulatively. In view of these results, we have revised our full year financial results forecast upwards. I shall explain this shortly.

・Discount Store Business (presentation p.5)

The Discount Store (DS) Business recorded significant increases in sales and profits, with year-on-year increases in net sales of 54.4 billion yen and operating profit of 19 billion yen in cumulative Q3. Monthly net sales figures are disclosed every month. In Q3, in addition to greater demand for outings and increased human flow in urban areas, tax-free sales also continued to recover. This resulted in strong performance for the existing stores, which registered net sales of approximately 105% year-on-year.
Tax-free sales increased to 21 billion yen in cumulative Q3 due to strong sales during the Chinese New Year period, an increase in the number of flights, and other factors, further exceeding our revised targets announced in Q2.
Gross profit margin in cumulative Q3 also increased by 1.8% year-on-year due to continued improvements in PB/OEM ratio and growth in non-food categories, associated with the increased demand for outings and people embarking on a new chapter of life, among other factors.
Although utility costs have continued to rise, we have maintained SG&A expenses at the same level as the previous cumulative Q3 due to an improvement in labor cost ratio in line with the strong sales. Hence, I think we

can say that we have continued to control SG&A successfully.
These results have contributed to the significant growth in operating profit that I touched on at the start of this presentation.

・DS Business: Progress of various initiatives (presentation p.6)

With regard to the strengthening of PB/OEM, increased media exposure as well as the strong performance of products made in collaboration with manufacturers boosted sales composition ratio to 17.0%, up 2.9% from the previous cumulative Q3. As you can see from the examples of the products that have been rolled out, we continue to see progress at levels slightly surpassing the budget set at the beginning of the fiscal year. Toward realizing further growth in the next fiscal year and beyond, we are also starting to work on product development, sales promotion, and infrastructure development such as systems.
Tax-free sales are making good progress at about 13 billion yen in Q3, recovering to 73.5% of pre-COVID levels and further surpassing the rapid recovery achieved up till December. As a result, we are currently expecting full year sales to exceed the revised target of 24 billion yen announced in Q2 and to continue at a pace toward exceeding 35 billion yen.
As for tax-free sales composition by nationality, "South Korea" remains in the top position from Q2, while "Taiwan" has increased due to an increase in visits to Japan during the Chinese New Year period. "China" has not yet made a significant recovery. Going forward, in preparation for the recovery in the number of Chinese visitors to Japan, we will work on further expanding the number of cash registers as well as securing personnel and merchandise.

・GMS Business (presentation p.7)

Following on from Q2, we continued to improve gross profit margin and control SG&A expenses, and the GMS Business is progressing at a slightly higher level than the budget with operating profit increasing by 3.7 billion yen compared to the Q3 cumulative period last year.
Sales for existing stores landed at 97.1% year-on-year partly due to the impact of price rises, but maintained a level above 100% compared to pre-COVID levels. As set out in the First Half Results, measures to improving pricing accuracy were implemented at all stores from Q3. Alongside efforts to strengthen MD, we are injecting efforts into expanding sales in the next fiscal year and beyond.
Gross profit margin in cumulative Q3 for existing stores increased by 1.5% year-on-year, and we were also able to control SG&A expenses within the budget. As a result, operating profit in cumulative Q3 increased by 3.7 billion yen year-on-year.
In addition to the growth in spring apparel and out-of-home apparel sales in Q3, the gradual increase in PB/OEM ratio also contributed to gross profit margin. I would like to add that PB/OEM ratio grew to 20.2% in cumulative

Q3.

Despite the rise in utility costs, we were able to control SG&A expenses within the budget and keep them at roughly the same level as last year, through efforts such as improving labor costs by reviewing staffing and streamlining other expenses.

・Overseas Business (presentation p.8)

In Q3, which covers the accounting period from October to December, the Overseas Business landed with an increase in sales but decline in profits as in Q2.

For the Asia Business, Q3 cumulative sales increased by 13.1 billion yen year-on-year, while operating profit remained at the same level as for last year.

We continued to achieve above 10% operating profit margin for existing stores, and also continued to expand the Asia Business in Q3 with the opening of four new stores—three in Singapore and one in Malaysia.

In cumulative Q3, seven new stores were opened. As a result, we incurred a certain amount of store-opening costs during this fiscal year. However, these new stores will become existing stores from the next fiscal year and are expected to contribute to profits going forward. As explained in the announcement of the First Half Results, we are launching the new management structure across the whole of Asia, and we are working on business expansion and profit growth for the next fiscal year and beyond. I will explain this further in the second part of this presentation.

Next, the North America Business registered higher sales and lower profits as in Q2, with an increase of 30.8 billion yen in Q3 cumulative sales and a decrease of 2.7 billion yen in operating profit.

Although operating profit fell by 1 billion yen in Q3, the 0.6 billion yen drop for QSI, which is focusing on improving issues, was the primary reason. Hence, we are gradually producing a certain level of results, which I shall explain shortly.

In other aspects of the North America Business, Gelson's was down 0.43 billion yen. However, it has also been successful in areas such as partially absorbing the increase in hourly wages by improving productivity, and as a result, made positive progress compared to the budget.

・Forecast of Results (presentation p.10)

In light of the above, the full year forecast has been revised upward as follows: net sales of 1,920 billion yen, operating profit of 97.7 billion yen, recurring profit of 94 billion yen, and net income of 62 billion yen.

As you are aware, as of the first half of the fiscal year, operating profit was progressing at a level of about 3.7 billion yen above the budget, so the full year forecast will carry over that surplus. While progress in Q3 is also slightly above the budget, we have set the cumulative total for the second half as originally budgeted as we anticipate an increase in various expenses in Q4, such as the continued rise of utility costs and increase in labor costs.

Recurring profit and net income have been revised in consideration of the foreign exchange situation and other factors, in addition to the impact of the upward revision of operating profit. As exchange rates could continue to fluctuate going forward, please note that the numbers shown below the recurring profit are reference values.

2. Initiatives for Q4 and future growth

Director & Managing Executive Officer, CSO, Hideki Moriya

・Flash Report of Domestic DS/GMS Business in April (presentation p.14)

Broadly speaking, the trends up till the third quarter have continued.

Domestic retail sales are growing for both the DS and GMS Businesses, driven by demand for outings. In particular, the DS Business is boosting the figures significantly and keeping them at a high level.

Although the GMS Business is down from the previous fiscal year, results have remained steadily above pre-COVID levels.

In Q4, for both the DS and GMS Businesses, we will continue to strengthen sales promotion measures in relation to product prices with a view to attracting more customers.

We plan to push out CRM measures and highly discounted products in the DS Business, and to implement plans for integrated buildings that include tenants as well as strengthen price appeal for majica members in the GMS Business, thereby leading to future growth.

・Overseas Business: Initiatives for future growth (presentation p.15)

I will talk about the initiatives toward the future growth of the Overseas Business.

<Asia Business>

In the Asia Business, we will focus on four broad initiatives.

(1) Profit contribution from new stores by absorbing store-opening-related costs

With regard to the eight stores opened this fiscal year, despite the losses generated in the early stages of their launch, they are expected to contribute to profits from the next fiscal year and beyond.

(2) Increase sales and gross profit through category expansion and contraction

While the shopping floor has been tilted toward accommodating the demand for alternatives to eating out during the COVID-19 pandemic, we will work on expanding categories, such as non-food items and confectionery, to accommodate increased opportunities for outings and tourism demand, with a view to increasing sales and profits.

(3) Further improvement of gross profit margin

We will promote two main initiatives to improve gross profit margin.

Firstly, we will roll out gross profit measures that were successful in Singapore this fiscal year, across the whole of Asia.

Secondly, we will work on expanding direct trade and PB/OEM.

These initiatives have produced an effect of +2.1% year-on-year as of Q3 this fiscal year, and we will continue to achieve further improvements in the next fiscal year and beyond.

(4) Control and improve SG&A expenses

We will improve labor cost ratio by reviewing store staffing and streamlining back-office organizations.

<North America Business>

In the North America Business, we will promote three initiatives.

(1) Hawaii: Start improving operations and gross profit margin

Inventory management has been flagged as an issue since Q2 in Hawaii, but we have improved operations by putting an item-by-item management system in operation. This has contributed to profits by reducing inventory loss by about 0.35 billion yen. In addition, we aim to improve sales and gross profit margin in the next fiscal year and beyond by improving pricing accuracy, enhancing delicatessen and sushi products through the expansion of our in-store kitchens, and other measures.

(2) Strengthen response to cost inflation

By expanding direct trade and strengthening PB, we will strengthen differentiation from competitors with a focus on Hawaii and Gelson's, and strive to improve profit margin. We will also enhance efforts to improve productivity and promote labor-saving by streamlining store operations through the introduction of self-checkout systems, and putting a central kitchen into operation in California.

(3) Preparation for business scale expansion by opening new stores

We are making preparations toward expanding our business scale for the future, with plans to open new stores in Guam and Hawaii, as well as for Gelson's. In particular, large-scale projects in Guam and Hawaii will incur upfront costs at the time of their launch, but we will work toward ensuring that they contribute to business profits from the second year onwards.