August 16, 2023

【Speech Summary for FY2023 Financial Results Briefing】

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

1. Overview of Financial Results for Fiscal year ended June 30, 2023

Director & Executive Officer, CFO, Keita Shimizu

・Summary of the full-year results for FY2023 (presentation P.2-3)

We marked our 34th consecutive year in which we achieved increases in both sales and profits, with net sales of 1.9368 trillion yen which was an increase of 105.5 billion yen year-on-year, operating profit of 105.3 billion yen which was an increase of 16.6 billion yen year-on-year, and net income of 66.2 billion yen which was an increase of 4.2 billion yen year-on-year).
In particular, regarding operating profit, we exceeded 100 billion yen for the first time as PPIH, and the operating profit margin also recovered to 5.4%, exceeding 5% for the first time in five years.

In terms of the details, it can be said that the factors for our favorable sales were our ability to adapt to changes in the external environment and to offer "CV+D+A" to gain and improve popularity, as well as the rapid recovery in tax-free sales after our early start in focusing on this area.
With regard to gross profit, our gross profit margin grew to 31.0% (up 1.3% year-on-year), as a result of various measures, including our efforts to improve product procurement capabilities, which can be said to be our company's strength, despite rising procurement costs, expansion of PB/OEM, improved pricing accuracy, and improvement of inventory turnover ratio.
We were also able to curb the rise in SG&A expenses by improving productivity and controlling costs appropriately, despite many rising costs, such as labor and utility costs.
In summary, we believe that we achieved results through the reform of our earnings structure, which we have been working on for several years, and that this was a year that proved our earning power.

Based on this, from FY2024, we intend to achieve further growth while continuing to maintain an operating profit margin of 5% or higher.
Specifically, in the DS business, in addition to further increasing tax-free sales, we will actively introduce new products and prices that focus on "popularity" to attract more customers to existing stores. In addition,

we will open new stores more aggressively than before to further expand the business.
In the GMS business, we succeeded in strengthening the profitability of the business in FY2023, and aim to increase the number of customers and sales by implementing new sales promotions by business format and by customer, as well as strengthening non-food merchandising toward FY2025. In addition, we will promote further reforms such as integrating the Tenant Division and the Merchandise Development Division along with the expansion of PB and OEM product development.
The overseas business is on track to resolve short-term issues. We will now enter an aggressive phase of business development through a series of hypotheses and verifications, and hope to achieve significant growth while opening new stores in the Asia business and North America business.
We will continue to grow as a profitable retail company that is not only "deflation-proof" but also "inflation-proof" in order to achieve an operating profit of 120 billion yen, as raised in our Visionary 2025 medium-to-long term management plan.

・Evolution into a "profitable retailer" through management reform (presentation P.6)

This slide shows the results of management reform over a slightly long time frame.
Despite changes in the external environment such as COVID-19 and cost inflation, our sales and profits have continued to grow substantially. It is notable that we have been able to increase profits even more than sales. This situation has been particularly remarkable in the past two years, as we were able to strengthen our earning power, with gross profit increasing as much as over 100 billion yen.
In addition, by working to curb the rise in SG&A expenses, we achieved an operating profit margin of over 5% for the first time in five years with our new composition ratio.
We believe that we can describe FY2023 as a year in which we proved our earning power and achieved reforms in our earnings structure.

・Discount Store Business (presentation P.7)

Net sales totaled 1.17 trillion yen and operating profit was 55.6 billion yen, which was a significant increase in both sales and profit and a major driver of our overall consolidated results.
We achieved strong net sales from existing stores, which were up 105.2% year-on-year due to increased demand for going out, continued recovery of tax-free sales, growth in seasonal products, and other reasons. Our gross profit margin was also up 1.5% year-on-year to 26.0%, thanks to PB/OEM expansion, strengthened procurement capabilities, and reduction of slow-moving inventory.
In addition, SG&A expenses increased due to the continuous rise in utility costs and an increase in labor costs resulting from the revision of the HR system in April. However, the SG&A to sales ratio improved by 0.6% due to productivity improvements and cost controls in line with sales growth, contributing to higher

profits.

・Discount Store Business: Progress of initiatives (presentation P.8)

I would like to briefly explain about progress in both the strengthening of PB/OEM and tax-free sales, which are the factors contributing to our increased profit.
First, with regard to PB/OEM, the sales composition ratio increased to 17.3% for the full year, up 3.1% year-on-year, thanks to increased brand recognition and the development and sales of products that meet demand.
In December 2022, we aired our first-ever TV commercial, strengthened our social media communication, and gained considerable exposure in various magazines and TV programs. The increased awareness of the brand contributed to higher sales, together with efforts to strengthen in-store promotions.

Tax-free sales also sharply recovered to 38.3 billion yen for the full year.
Since the easing of restrictions on entry into Japan, we have been aggressively working on sales recovery, through increasing the number of cash registers and strengthening staffing to boost sales. In addition, business expansion in Asia has also contributed to raised awareness of our products, and in addition to improved brand recognition, the strengthening of overseas development of PB products has also led to strong PB product sales by foreign visitors to Japan, creating a synergistic effect throughout the PPIH Group.
While the recovery rate of foreign visitors to Japan as a whole in June was just over 70%, the fact that we were able to achieve a level even higher than before the COVID-19 pandemic is the result of our various efforts, and we will continue to aim for further sales growth going forward.

・GMS Business (presentation P.10)

The GMS business showed strong performance, with operating profit growing to 28.1 billion yen, up 2.5 billion yen year-on-year and 2.1 billion yen over the budget.
Sales at existing stores were 97.8% of the previous year's level, but gross profit was maintained throughout the year due to the shift to a sales promotion method that refrained from excessive price reductions amid the external environment of high prices of commodities. In addition to the promotion of pricing and sales promotion methods that emphasize added value, the PB/OEM composition ratio grew to 20.9%, up 3.0% year-on-year, resulting in a gross profit margin of 26.9% at existing stores, an increase of 1.4% year-on-year.
As for SG&A expenses, despite rising utility costs, we were able to reduce SG&A expenses by 2.9 billion yen year-on-year by reviewing personnel allocation, including integration of merchandise categories, and continued control by individual stores, which contributed to the increase in operating profit.

It can be said that we achieved results from our promotion of profit-oriented measures in light of the external environment, including soaring procurement prices and cost increases. We will work to increase sales and customer numbers based on these efforts from the next fiscal year.

・Overseas Business (presentation P.11)

As reported during the fiscal year, our full-year operating profit declined due to the severe external environment and issues to be addressed. Operating profit was up 500 million yen from the previous quarter in Q4, and progress was made as expected against the budget revised in Q3.

Firstly, in the Asia business, while net sales continued to grow with a 13.4 billion yen increase year-on-year, operating profit was at the same level as the previous year, due to the impact of a less-than-expected recovery in the movement of people, mainly in Hong Kong and Macau, as well as increased costs during the inflationary situation.

As for the issues that we have been discussing throughout the fiscal year, we have started to make various improvements under a new management structure since the beginning of the year. This includes organizational changes to strengthen merchandising, competing against our competitors using NB products and new products, and the horizontal expansion of the ordering and inventory management system currently in operation in Singapore.

We have opened eight new stores in four areas, continuing to expand the scale of our business. In addition, we maintained an operating profit margin at existing stores of over 10% in Singapore and Hong Kong, as in the previous fiscal year, and achieved profitability in Taiwan.

Although new stores incur upfront costs when they are launched, they are expected to make a steady contribution to profits from the following fiscal year. We intend to increase profits in FY2024, in conjunction with the recovery of existing stores.

Next, in the North America business, net sales increased 35.1 billion yen year-on-year, but operating profit fell by 2.2 billion yen year-on-year, resulting in an increase in sales but a decrease in profit.

Although QSI, which was mentioned as an issue during the fiscal year, saw its operating profit decrease by 900 million yen year-on-year, the gross profit margin improved from 26.9% in Q3 to 30.4% in Q4 as a result of steady progress in inventory control and other measures, resulting in an improvement in Q4 operating profit of 800 million yen year-on-year.

Gelson's also finished on budget, with operating profit down 1.1 billion yen year-on-year but up 100 million yen from the budget. Gelson's will continue to focus on improvement in FY2024, and will also open new stores for future business expansion.

・Status of Shares (presentation P.14)

As released today, we plan to increase the year-end dividend for FY2023 from the initial forecast of 18 yen per share to 20 yen per share in light of the strong performance. This marks the 20th consecutive year of dividend increases. For FY2024, we expect to further increase the dividend to 21 yen per share, marking the 21st consecutive year of dividend increases.

We will continue to strive to return profits to shareholders based on continuous profit growth while balancing investment in growth, with a progressive dividend policy and a dividend payout ratio of 20% or more over the medium term.

Furthermore, we will continue to provide shareholders with 2,000 yen worth of majica points every half year as a shareholder benefit.

2. Fiscal year ending June 30, 2024 targets and initiatives

Director & Managing Executive Officer, CSO, Hideki Moriya

・Earnings Forecasts for FY2024 (presentation P.16-17)

For FY2024, the second year of the Visionary 2025 medium-to-long term management plan, we are targeting net sales of 2.0621 trillion yen and operating profit of 111 billion yen, aiming to maintain the operating profit margin of over 5% as well as achieve 35 consecutive years of increased sales and profit.

Firstly, in addition to more than 25 new store openings in Japan and 12 new overseas store openings, the year-on-year sales growth for existing stores is expected to be 104.0% in the DS business and 101.0% in the GMS business. Furthermore, we aim to achieve tax-free sales of over 80 billion yen in the DS business.

Next, the gross profit margin is targeted to be 31.4%, up 0.4% year-on-year. We plan for the DS business gross profit margin to increase by 0.1% year-on-year to 26.5%, and to have the GMS business gross profit margin increase by 0.7% to 35.1%.

As for the SG&A ratio, we will control the amount according to the top line of sales, and it will be maintained at 26.1%, up 0.5% year-on-year.

As for the main reason for the increase in SG&A expenses, the DS business is affected by an increase of about three billion yen in labor costs due to the new HR system adopted from April.

In addition, in the North America business, we expect to incur about two billion yen in preparation and start-up costs for new stores, as well as upfront investments in warehouses, central kitchens, human resources at the head office, and more.

Despite the large changes in the external environment, particularly the sharp rise in procurement costs and

the increase in SG&A expenses, we have firmly improved our "earning power," and as a result, we expect our operating profit margin to remain at over 5% this fiscal year, the same as in FY2023.
Furthermore, capital expenditures are expected to be about 70 billion yen.

・Domestic Retail Business Initiatives for FY2024 (presentation P.18)

In the domestic business, operating profit in FY2024 will be driven by the domestic retail business, centered on the DS business.

For the DS business, we are strengthening sales centered on existing stores.
In the second half of FY2023, we have been working to improve infrastructure and invest in personnel at shopping district stores in urban areas that have had large tax-free sales in the past, as well as to change merchandising to focus on tax-free sales. In FY2024, we will further expand the number of target stores, and aim to achieve sales of over 80 billion yen to surpass the pre-COVID-19 sales peak.
In addition, we will also focus on increasing the number of customers during the current fiscal year. We will use gross profit from PB/OEM initiatives as funding for measures to strategically attract customers. In addition to the sales promotions for majica members we have had through now, we will strengthen the introduction and development of new products and strategically-priced products with a focus on "popularity."
Next, in terms of new stores, we plan to open more than 25 new stores, a significant increase over the previous fiscal year, based on our judgment that there is sufficient room for growth in the business. We will aggressively open new stores to further expand our business scale.
As for SG&A expenses, we are still in a phase of rising costs due to the increase in labor costs as explained earlier, the continued increase in utility costs, and other reasons. However, we are fully in control of overall SG&A expenses and will maintain the operating profit margin at the same level as in FY2023.

With regard to the GMS business, in FY2023 we discontinued company-wide sales promotions which had been led by the headquarters. In FY2024, we will implement individual sales promotions tailored to the business type and scale of Apita, Piago, and other business formats. In addition to these efforts, we will uncover loyal customers and improve sales by bolstering sales promotions centered on the majica app and UCS card members.
In addition, we will continuously improve the gross profit margin in the current fiscal year. In particular, we will strengthen PB/OEM centered on non-food products.
As for SG&A expenses, we aim to increase gross profit margin by 0.4% year-on-year by continuing to control SG&A expenses in the current fiscal year through efforts centered on labor costs, including the integration of the Merchandise Development Division and Tenant Division which has been underway since

the second half of the previous fiscal year, and productivity improvements through optimization of personnel at each store.

・Overseas Retail Business Initiatives for FY2024 (presentation P.19)

In order to respond to changes in the external environment, the Asia business will make major changes in shopping floor composition during the current fiscal year, including expansion/contraction and reform of merchandise. In particular, we will aim to improve gross profit margins and increase sales at existing stores by capturing non-food and tax-free sales and strengthening PB/OEM and direct trade products.
In addition, we plan to continue business expansion through new store openings during the current fiscal year. We plan to open 10 new stores in the current fiscal year under a more cost-cutting store-opening model than in the past.
In FY2024, we will review various SG&A expenses, including productivity improvements by optimizing personnel allocation and more. We will also work to improve the operating profit amount and operating profit margin by steadily building up operating profit as new stores opened in FY2023 turn into existing stores.

The North America business will seek to increase profits on an existing store basis by elevating sales through strengthening prepared foods and improving gross profit margin through expansion of PB/OEM and direct trade products.
On the other hand, in FY2024, we will make upfront investments to expand the scale of business and improve operations going forward. Firstly, we plan to open new Gelson's stores in California as well as a store in Guam, which in particular is expected to become the largest store in the Group. We expect to incur about two billion yen because we plan to prepare for new stores from FY2025 onward. Moreover, we expect full-year operating profit to fall below the previous year's level due to the anticipated costs of establishing central kitchen and warehouse expansion in California and Hawaii respectively, as well as hiring human resources at each headquarters location.
Although operating profit will temporarily fall below the previous year's level due to several major upfront investments in the current fiscal year, we will aggressively promote these investments as they are aimed at business growth and operating profit expansion from FY2025 onward.

・Flash Report of Domestic DS/GMS Business in July (presentation P.20)

The trends from the second half of FY2023 continued in July. During the month, the number of domestic retail customers exceeded the previous year's level, and sales in both the DS and GMS businesses were higher than the previous year.

Both the DS and GMS businesses were driven by sales of summer seasonal products. The DS business had sales growth due to demand for going out, events, travel, homecoming trips, and more. Tax-free sales also contributed to the DS business.

On the other hand, the GMS business is seeing sales growth mainly for products that help us live comfortable everyday lives.

In both the DS and GMS businesses, the main factor behind the strong performance in July was efforts to respond to changes in the customer needs of each business.