

Overview of Q&A Session at Small Meeting for Sell-Side Analysts for Q1 FY June 2026

This document provides an overview of the Q&A session at the small meeting for sell-side analysts for the first quarter results. Questions and answers have been edited for clarity.

Q1. Did each business perform in line with the forecast in Q1?

- As we communicated in the forecast that operating income would be flat for H1, overall results were broadly on track, with operating income up ¥0.3 bn from FY6/25. While there were some fluctuations by business, overall performance remained in line with the plan.

Q2. Given the weaker consumer sentiment, is it fair to say you have been able to maintain your key financial metrics and market share?

- We believe that the discount format and its products will continue to expand across the market. Within that trend, we have improved our operational structure and productivity, maintained an operating margin of 7%, and built a foundation resilient to industry consolidation.
- As for seasonal items, customer behavior has been shifting due to climate change, making July through September a difficult period to evaluate. September used to mark the start of autumn and winter, but now it is positioned as summer. Summer items tend to peak earlier in June, while winter items are delayed. Therefore, we evaluate performance across all four seasons as a whole.

Q3. Were Q1 results for the UNY business in line with the initial forecast? And what are the specific factors behind the cost reduction?

- Gross profit margin was below the initial forecast. We have not made any excessive cuts to SG&A expenses.
- UNY's personnel evaluation system was unified with the same system used in the Discount Store business in April this year. As the integration of this system progressed, store productivity improved, delivering results that exceeded expectations.
- To drive growth investments, including a new format, we have consolidated personnel within PPIH. Although SG&A, including labor costs, appears to have decreased, this reflects an optimization of staffing for future growth.

Q4. Do you think changing the personnel evaluation system alone can actually change people's behavior?

- Whether it truly changes behavior depends on the individual, but we believe evaluation categories must adapt to environmental changes. We will clarify evaluation standards and place particular emphasis on labor distribution ratio, assessing productivity.
- With the changes to the personnel evaluation system, productivity has already improved and we expect this trend to continue. Looking ahead, we plan to unify the approach across domestic retail and allocate more resources toward growth investments.

Q5. UNY business performed very well. What initiatives are planned to move into the next phases?

- In the next phase, we aim to broaden our customer base by strengthening non-food categories. We will focus on newly formed families and expand assortments tailored to their needs, which we believe will attract a wider range of customers.
- As the customer base grows, we expect to convert some stores into Mega Donki locations and shift UNY and Piago stores toward the food-focused format. Over the long term, we anticipate that the boundaries between store brands will disappear, which will lead to greater integration across formats.

Q6. Customer traffic in the Discount Store business was flat, and excluding visiting foreign customers, it appeared weak. What are the differences and challenges compared to the UNY business?

- There is no significant difference from the UNY business. In the Discount Store business, we have reconfigured sales floors to capture demand from visiting foreign customers. For example, at road-side locations, about 15% of the sales floor has been converted for these customers, so evaluating traffic excluding them could be misleading.
- Maintaining traffic remains an ongoing challenge. To address rising price sensitivity, we continue leveraging initiatives such as “Maji-kakaku” and “Maji-voice.”
- In particular, for items like food where prices had increased, keeping prices unchanged drove unit sales to 1.5 to 2 times the previous level, indicating that consumer price tolerance has shifted. We see this as a turning point to adapt to these changes in consumer behavior.

Q7. With the growth in tax-free sales from visiting foreign customers, you have been reducing floor space for Japanese customers. Is it still possible to maintain domestic sales?

- We believe reallocating floor space from categories that still maintain a certain level of

sales but are in a shrinking market to merchandise for visiting foreign customers, where demand is growing, is the most rational approach.

- As part of merchandise switching, we have been flexibly expanding or reducing assortments as needed based on situation.
- We view tax-free sales as one distinct and significant merchandise category, and we have entered a phase where we aim to capture market share in tax-free sales across the entire Discount Store business, including regional stores.

Q8. What drove the faster pace of merchandise implementation in the Asia business?

- The key factor was that we did not limit ourselves to direct imports from Japan. By incorporating local sourcing, we expanded product selection and established a more flexible procurement structure.
- On the talent side, the new team members have grown, and relationships for product supply have been built. As a result, the benefits of building out operations have started to show in the results.

Q9. Based on Q1 results, is it correct to understand that net sales came in above expectations and operating income was in line with the forecast?

- That's correct. At the planning stage, we had expected operating income to be negative in Q1. While the gross profit margin declined slightly, we were able to secure productivity in SG&A to offset that impact.

Q10. Was the fluctuation in gross profit margin mainly driven by the reversal of last year's earthquake alert-related demand and seasonal factors? Does it require any change in strategy?

- That's correct. With a decline of this magnitude in gross profit margin, there is no need to change our strategy or plan.

Q11. How is the progress on strengthening Tokyo Central, given that you are improving operations in Hawaii and Guam in your North America business?

- Operations in Hawaii and Guam have been improving as we build and enhance processes. Tokyo Central is moving on a different track.
- Since FY6/25, we have opened 2 new stores under the Tokyo Central banner, and overall progress has been steady. We are now addressing issues identified at the new stores and verifying the effectiveness.

Q12. How did you implement the DS business personnel evaluation system in the UNY business?

- We reclassified the categories into 6 MDs, excluding fresh products, from the 3 traditional categories of food, clothing, and housing, similar to the DS business, and reviewed the scope of responsibility.
- For personnel evaluations, instead of the typical relative evaluation used in GMS, we adopted an absolute evaluation system like the DS business. This allows everyone to be recognized when overall results are strong, encouraging team-based efforts.
- Previously, UNY lacked this framework, and reforming evaluations was the biggest challenge, so we took time to implement it. While we saw no clear impact at the start, results began to gradually emerge after 6 months.

Q13. Was the high inventory growth rate mainly due to seasonal factors?

- Autumn and winter products have already been manufactured, but we are adjusting the timing of rollout flexibly based on temperature changes. Because of the lingering heat, some items have not yet been placed in stores.
- We evaluate inventory based on overall turnover and the annual amount of stagnant inventory. While inventory levels may increase to some extent going forward, stagnant inventory has been reduced for several years, and turnover has improved. Based on these 2 indicators, we see no issues.