

Overview of Q&A Session at Analysts Briefing for Q2 FY6/26

This document summarizes the Q&A session from the second-quarter financial results briefing. Some questions and responses have been edited or supplemented for clarity.

Q1: Six months have passed since the new management structure was launched. What areas have you seen the greatest progress in, and what will be your key priorities going forward?

A: “At the time of the leadership transition, not a single person within the organization came to a standstill.” From business heads to frontline staff, responsibilities were handed off seamlessly in a relay-style manner, enabling us to maintain our operational speed. We believe this capability to keep business moving forward is one of the areas where our approach is functioning effectively in driving sustainable growth.

Meanwhile, we recognize that our key challenge going forward is market development. Specifically, this means defining the market in broader terms—focusing on customer segments and the occasions that drive consumer behavior—and expanding these market opportunities. Building on these two areas we have successfully grown to date, our task is to further leverage them to achieve broader market expansion.

Q2: What customer segments do your existing customers fall into? And which segments will be more difficult to capture as you enter new markets?

A: Precisely because we are currently facing rising costs, we are adopting an aggressive pricing approach to drive both net sales and customer traffic. This approach is helping us attract repeat customers in marketing areas such as roadside locations and stores handling fresh food, and we are seeing clear positive results. Initiatives targeting younger customers are also showing measurable outcomes, giving us similar confidence in their effectiveness.

Moreover, in our Food-Focused Donki, we are revisiting the fundamentals of product development to better address the needs of elementary and middle school students, who we expect will become key customer groups in the future. We are advancing the development of product lineups that can effectively reach this prospective segment. We recognize that addressing this total addressable market (TAM) is our highest priority at present.

Q3: For H2, you mentioned both an expected improvement in gross margin ratio and a stronger focus on competitive pricing. Which do you place more emphasis on: gross margin (%) or gross profit?

A: Our basic stance is to place priority on gross profit. Rather than looking at the SG&A expense ratio, we assess operations through the labor share ratio. Specifically, we evaluate productivity using an indicator that measures how much value is generated per yen, based on the balance between gross profit and labor costs.

Since the beginning of this fiscal year, we have also explained that gross margin can be improved in H2. As part of these efforts, we have planned to focus on the PB/OEM development

in the spring and summer seasons, and we expect these efforts to contribute to results in H2.

Q4: In the overseas business, you noted that large-scale growth strategies and investments will take time, although the North America and Asia businesses have been revised upward. What issues do you foresee as you further expand these operations?

A: Our ongoing initiatives do not face any specific bottlenecks, but we have not yet reached a stage where we can scale this model with full confidence. That said, some existing stores are delivering strong performance. Meanwhile, building an unshakable operational foundation is essential for the significant expansion of our overseas business. Steady improvements have been made, but this foundation is still in the process of being completed.

Moreover, in the current phase of building popularity—as reflected in net sales and customer traffic—we have moved past the most challenging period and are beginning to see tangible progress. However, we still do not have a clear answer to this question: What our target segment is, what product we should offer, and for what occasions customers will choose to use our stores. Once these points are clearly defined, we will be able to make investment decisions and enter a phase of full-scale store expansion.

Q5: We recognize that the operating income for H1 exceeded the plan by ¥4.2 billion, and it appears that the primary driver of this outperformance was the others business. Could you provide more details on this?

A: Both overseas and others businesses exceeded the plan. Specifically for the others business, the outperformance reflects ¥0.8 billion from the consolidation impact of Kanemi Co., Ltd., and ¥0.6 billion from the tenant leasing business resulting from the strong performance of the retail business. Additional positive contributions came from the external sales, marketing, and hotel businesses.

Q6: How do you view the changes in the external environment, given that topics such as reduced consumption tax on food and refundable tax credits are being discussed?

A: In the context of changes in the external environment, we have been noting signs of shifts in consumer behaviors since early last year. Price rises in food and beverages, along with broader changes in the economic environment, have accelerated these shifts, causing consumer behaviors to change at an increasingly rapid pace. We view that improvements in real wages will take more time, and consumer behaviors may move in a trade-down direction. Therefore, we expect consumers to show increasingly clear shifts towards what can be described as “selective consumption.”

Under these circumstances, we are reflecting on the kind of acceptance and support the discount business model has earned from customers to date. Consumers certainly seek low prices, but low prices alone are not enough. What matters is offering low prices that deliver value from each customer’s perspective. This value can be both absolute and relative, and also depends on the choices consumers make within their own wallet share. Our basic policy is to provide “value in price” that responds to these consumer expectations.

In this context, we made a strategic decision to shift towards expanding our market share in terms of net sales, as we believe it is essential to firmly execute this value proposition over the next one to two years. This policy shift reflects our strong intention to pursue this direction.

Q7: While the strategy of focusing on enhancing customer traffic and expanding market share is expected to impact business results, do you pursue this while securing profit, or should this be regarded as an adjustment phase in the long-term business plan?

A: As explained in our long-term business plan, we may enter an adjustment phase due to large-scale investments going forward. However, the earnings forecast revision for this fiscal year is based on a plan to steadily move forward while securing profit, and therefore we do not see cause for excessive concern. Moreover, our earnings power has been steadily strengthening, and with our PPIH Operational Excellence we presented today, we believe we have reached a stage where we can execute strategies while maintaining a certain level of profitability.