

Overview of Q&A Session at Small Meeting for Sell-Side Analysts for Q2 FY June 2026

This document summarizes the Q&A session from the second-quarter small meeting for sell-side analysts. Questions and answers have been edited for clarity.

Q1: As one of the factors behind the revision to the full year forecast, the UNY business noted that it had not assumed the factor-based tax at the beginning of the fiscal year. Meanwhile, there was no such comment for the Discount Store business. Did the Discount Store business include the factor-based tax at the beginning of the fiscal year?

A: We recorded roughly ¥3.2 billion in factor-based tax in Q4 of FY6/25 for the Discount Store business. We are recording a little over ¥0.3 billion per month in FY6/26.

UNY did not book this item at the end of FY6/25. Since the timing of the year end recognition was uncertain when we formulated the FY6/26 plan, we did not include it in the initial forecast. We revised the forecast because we determined that year end recognition is now feasible.

Q2: Regarding the H2 forecast, aside from the impacts from consolidating Kanemi Co., Ltd. and reflecting the factor-based tax at UNY, are there any other major changes versus the original plan?

A: In revising the H2 forecast, we reflected roughly ¥1.8 billion increase from the consolidation of Kanemi Co., Ltd. and a ¥1.7 billion decrease from the factor-based tax at UNY, both of which had not been assumed at the beginning of the fiscal year. As a result, we raised our operating income forecast by roughly ¥0.5 billion. Net sales, gross profit margin, and the SG&A ratio were also updated in line with the management policy communicated in the earnings presentation.

Q3: Regarding the gross profit margin at UNY, what is the reason for planning a full year decline despite expecting some improvement in H2? And should we expect the gross profit margin to continue declining in future years?

A: The Discount Store business and the UNY business have different structures, and their gross profit margin trends differ. The Discount Store business has a higher non-food mix and benefits more from PB/OEM. UNY has a higher fresh food mix and is more exposed to cost inflation. The rollout of PB items that are performing well in the Discount Store business has just begun at UNY, so the impact remains limited.

Given these factors, we expect some improvement in H2, but the full year will be down versus FY6/25.

We do not plan to drive sales in FY6/27 by lowering the gross profit margin. Our strategy is to expand PB and strengthen non food to create headroom to improve the margin, while allocating some of the gains to price investments in a balanced manner.

Q4: What is driving the expected improvement in the gross profit margin in H2, and what is the strategy behind it? Is it because PB/OEM introductions are concentrated in H2, or because of progress on long-term initiatives such as NPB?

A: PB/OEM has been growing steadily YoY. For further expansion, we determined that we need to

clarify, by category, which items should be developed as PB/OEM, and we are rebuilding our PB/OEM organization accordingly.

We are advancing product development in untouched categories and introducing new items in existing categories, and the results are expected to materialize more fully in H2.

We are also refreshing the performance and design of long-selling items. PB/OEM initiatives are being driven through both new product development and updates to existing items.

Q5: How will you expand OEM for long-selling items going forward? And will you further strengthen the PB portfolio?

A: We are advancing OEM as part of our switching strategy for the standard shelves, starting with categories where replacement is feasible, such as smartphone accessories and pet supplies. We are switching these items to OEM products without attaching our distinctive brand mark.

We are also developing PB/OEM in categories where we had not yet taken action. In addition, we will roll out NPB items that leverage the unique characteristics of Don Quijote starting in spring to drive further differentiation.

Q6: Regarding the sales and gross profit model for Food-Focused Donki, why is the gross profit contribution from fresh food set relatively high and that of processed food relatively low compared with typical supermarkets?

A: We intentionally set a lower gross profit margin for processed food (non fresh) because our strategy is to strengthen prices in this category to drive traffic. As a result, the sales mix of processed food increases due to the price appeal.

At the same time, we are strengthening prepared meals, which are positioned within the fresh food category, to make them a key profit source and lift the overall gross profit contribution from fresh food.

Our model for the food category is to drive sales with processed food and secure gross profit through fresh food by enhancing prepared meals.

Q7: Why did you select Piago Jimokuji as the first store to convert into a Food-Focused Donki? What criteria do you use to select stores for conversion, and what is the approximate timeline until the format begins to show results?

A: We selected Piago Jimokuji based on the characteristics of its catchment area, its roadside location, and the fact that it can operate on a single floor with a size of 500 to 700 tsubo (approximately 1,650 to 2,310 sqm). We identified five stores that meet these criteria as candidates for format conversion.

We plan to refine the format through repeated hypothesis testing and on-site verification. We expect the format to take roughly one year to come together and begin showing a stable operating model.

Q8: Why is the operating margin target of 6% for Food-Focused Donki based on a five-year timeline? What is the rationale behind that assumption, and what process do you expect?

A: Our standard planning framework for new stores and new formats is based on the profitability level we aim to reach in five years. The target of an operating margin of 6% in five years follows that same framework.

We are starting with the conversion of five Piago stores, while keeping future new stores and potential M&A opportunities in view. By establishing the model for the store sizes we expect to roll out over time through the Piago conversions first, we can broaden our expansion options.

On merchandising, we expect to improve the gross profit margin by developing new PB items and strengthening the supply chain. At the same time, building new operations, including fresh food processes, will require a certain amount of time.

Q9: Do you plan to host store tours for analysts and investors for Food-Focused Donki?

A: Our IR team is planning to host store tours around late June to early July. As we expect strong interest, we are considering holding multiple sessions depending on demand.

Q10: Regarding the overseas business, which aspects are not yet in place and remain challenges today?

A: There are three aspects we have consistently highlighted as critical for overseas growth: building a clear business model, establishing stable operations, and developing strong leadership.

Among these, the area that remains the most behind is the establishment of the basic merchandising and store-development framework tailored to each country's commercial practices and customer needs, which sits within "building a clear business model." In addition, the organizational capabilities required to support future expansion, including development talent, are not yet fully in place to raise the likelihood of success to the same level as in Japan.

Operations are steadily improving and profitability is recovering; however, decision-making for major growth initiatives and investment remains time-consuming.

Q11: What drove the more than ¥2.0 billion outperformance in H1 for the others business?

A: The outperformance in the others business reflects roughly ¥0.8 billion from the consolidation impact of Kanemi Co., Ltd., and about ¥0.6 billion from the tenant leasing business supported by the strong performance of the retail business. Additional positive contributions came from the external sales business, the marketing business, and the hotel business.

Q12: What changes will result from consolidating Kanemi Co., Ltd.?

A: We had lacked sufficient speed in menu development, including prepared meals, but consolidation has already improved execution speed.

For prepared meals at Food-Focused Donki, we are developing the assortment around items

priced at ¥500 or below.

To deliver this ¥500 prepared-meal lineup, we are overhauling raw material procurement and rebuilding the supply chain in coordination with the meat, produce, and other fresh departments.

Q13: Seasonal items struggled in December due to the warm winter, but did the drop in temperature in the latter half of the month lead to a solid winter-goods performance in January? And regarding inventories being up 16% YoY at the end of Q2, should we view this as manageable at this point?

A: For seasonal items in Q2, it is appropriate to assess performance across both December and January, and January monthly sales were healthy. Results have been tracking within our expectations.

As for the inventory increase at the end of Q2, we will adjust levels appropriately in H2. We use inventory turnover as one of our key indicators, and the variance versus our full-year turnover plan is expected to remain minimal. We do not view the current level as a concern.