

### Overview of Q&A Session at Small Meeting for Sell-Side Analysts for Q3 FY6/26

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

Q1: While cost inflation persists, despite declining gross margins, profits are currently being supported by sales growth. But eventually, I believe that gross margins will bottom out and will then need to recover at some point. How do you think about the timing and trajectory of margin improvement in Domestic business?

A:

- In the current environment, we are seeing increased uncertainty driven by geopolitical risks, which can trigger temporary demand patterns such as bulk purchasing. In such situations, it is critical for us to respond with agility on the supply side. Even in periods when customer price sensitivity becomes more pronounced, we place a strong emphasis on meeting customer expectations.
- Our fundamental approach is to prioritize the maximization of gross profit in absolute terms, while implementing price pass-through where appropriate. Importantly, the continued expansion of PB/OEM products sales is providing support to gross margins, and we expect this to help maintain margins within a controlled band going forward.

Q2: With procurement costs expected to rise due to the situation in the Middle East, and as price pass-through progresses across the industry, do you plan to further strengthen price competitiveness to drive customer traffic, or maintain the current pricing?

A:

- Our policy remains unchanged: since the announcement of our long-term business plan, we have positioned customer traffic and customer support as our top priority, with a clear emphasis on “absolute term over margin.” This strategy—prioritizing market share expansion over short-term profitability—is already proving effective, as reflected in the positive trend of customer traffic.
- In response to the further increase in customers’ price sensitivity driven by the situation in the Middle East, and based on the assumption that customers are making purchasing decisions within constrained household budgets, we have expanded our “maji-kakaku” assortment from approximately 60 items to 80 items, with the aim of enhancing price reassurance and strengthening customer support.
- Our purchase analysis of “maji-kakaku” products shows that, while gross margins decline, basket size increases and gross profit expands. Accordingly, we will continue to prioritize the maximization of gross profit over gross margin improvement.

Q3: If the situation in the Middle East becomes prolonged, when do you expect impacts on costs such as PB/OEM procurement and utilities to emerge, and what is the current situation?

A:

- At present, although we are seeing some increases in costs for certain materials and partial supply constraints in areas such as utilities and PB/OEM procurement, the overall impact remains limited. As such, we do not expect a material effect on earnings for this fiscal year at this stage.
- That said, fluctuations driven by geopolitical risk can be significant and may change rapidly over short periods. We therefore view the situation as highly fluid and will continue to monitor developments carefully, gather relevant information, and implement appropriate measures as needed

Q4: How do you assess the differences in price sensitivity and category roles between food and non-food, and how are these differences incorporated into your pricing strategy?

A:

- From a consumer behavior perspective, it is natural that food and daily necessities account for a larger share of spending. However, rather than prioritizing at the category level, we design our strategy around price-sensitive items within each category.
- This approach extends across all categories, including non-food. By capturing pricing opportunities broadly and executing optimal pricing strategies on a cross-category basis, we leverage our wide product assortment to drive overall competitiveness.

Q5: As of Q3 FY6/26, to what extent are net sales and operating profit exceeding the full-year plan, by segment?

A:

- Both net sales and operating profit are tracking on plan with slight upward in the DS business and overseas business. Overall, performance remains broadly in line with the plan at the consolidated level.

Q6: Assuming that profits target will be achieved, is it correct to understand that any upside will be prioritized toward growth investments such as pricing initiatives and new store openings?

A:

- While we have high confidence in achieving our full-year plan, our priority is clearly on future growth rather than short-term profit maximization. Accordingly, we intend to allocate any upside—including excess profits—toward investments in new store openings and organizational improvement.
- As we invest ahead of approximately 40 store openings, costs may rise temporarily in the fourth quarter. However, we view this as a rational investment ahead of growth to support accelerated growth from the next fiscal year onward.

Q7: Within the DS and UNY businesses, where SG&A expense control is progressing, were there any notable initiatives or outcomes in Q3?

A:

- Personnel and labor costs are being managed within the budget framework. As a result, when net sales exceed expectations, the SG&A ratio naturally declines, creating a structure in which incremental gross profit translates directly into operating income.
- In addition, the labor cost ratio based on gross profit has become well embedded in our management and evaluation processes. Combined with PPIH's strength in delegation of authority, this has enabled stable SG&A expense control and contributed to improvements in productivity.

Q8: Regarding tax-free sales, are customer traffic and sales growth trends being maintained in line with the plan? Additionally, have there been any changes in best-selling products or in the product mix of strong sellers, particularly in response to shifts by country?

A:

- Tax-free sales are progressing steadily against the upwardly revised plan set at Q2 results. Although tax-free sales from mainland China is somewhat weak, this is being offset by other East Asia and Western regions, allowing overall momentum to be maintained.
- We have not observed any significant changes in best-selling products. During March and April, cherry blossom-related items performed strongly. In addition, PB products targeting international visitors to Japan are steadily expanding. While still small in scale at present, these are expected to become a driver of gross margin improvement over the medium-to-long term.

Q9: On overseas business, could you provide an update on recent progress in Asia and other U.S. regions, excluding Hawaii and Guam?

A:

- In Asia, operational improvements are progressing sequentially across markets, expanding from Thailand to Hong Kong and Macau, and further into Singapore. As a result, operating margin for Q3 on a standalone basis has improved to approximately 7%. While the business model for high-traffic urban locations has been established, further growth acceleration will depend on developing an optimal merchandising model for suburban store formats.
- In North America, operational improvements are progressing with roughly a one-year lag relative to Asia, and the business is gradually moving past its worse phase. Guam is showing improvement; Hawaii remains in the process of recovery, and Marukai CA is performing well with strong new store performance and visible expansion potential. Meanwhile, Gelson's continues to face challenges due to trade-down pressures amid changing market conditions, making its turnaround the highest priority.

Q10: Regarding non-food categories in Robin Hood, where improvement potential has been indicated, what are the specific challenges and how do you plan to address them?

A:

- In the initial phase, the non-food mix is tracking in line with the 25% target. While cosmetics and apparel are currently underperforming versus plan. But since it is the first Robin Hood store, it is premature to draw conclusions. As this is still the first store, it is premature to draw firm conclusions. That said, we do not view these issues as structural. Rather, we believe improvements in store layout and adjustments to product assortment will unlock further growth.

Q11: For Robin Hood, while fresh food appears to demonstrate synergies between UNY and DS, is the integration of the apparel supply chain more challenging?

A:

- While strategies vary across apparel categories, we have already built sufficient experience at the upstream (procurement) level through early-stage PMI integration with UD Retail. Synergies are being realized, and we see no issues at this stage.