

Domestic Discount Store Business



Main points of our strategy

- Increase existing store sales by capturing tax-free sales and actively introducing products that attract customers
- Plan to open more than 25 new stores towards expanding business scale
- Maintain operating profit margin by controlling SG&A expenses while expecting increases in labor and utilities costs

Reflecting on FY2023

Overview

The discount business achieved a significant increase in both sales and profit, with net sales of 1.1775 trillion yen (a 76.7 billion yen increase year on year) and operating profit of 55.6 billion yen (a 19.3 billion yen increase year on year). In the fiscal year ended June 30, 2023, expectations for a recovery in inbound tourism demand increased after the relaxation of border control measures for foreign visitors to Japan in October 2022. On the other hand, consumers became thrifter in Japan due to the ongoing depreciation of the yen as well as high commodity prices associated with surging raw material and energy prices which led to price hikes for a variety of products, including food and daily necessities. Despite this environment, the discount business drove overall consolidated performance due to factors including the increased PB/OEM sales composition ratio and the rapid recovery in tax-free sales.

The existing stores transitioned to strong performance with net sales up 5.2% year on year thanks to increased demand for going out, continued recovery in tax-free sales, and growth in seasonal products. In addition, the existing store gross profit margin improved to 26.0% (a 1.5% increase year on year) due to success in terms of the increased PB/OEM ratio, enhanced merchandise procurement capabilities, and reduction in accumulated inventory by using our company's unique indicator "interest expiration date." Furthermore, although various costs such as utility and labor expenses rose, productivity improvements and cost controls in conjunction with sales growth resulted in a 0.6% improvement year on year in the SG&A ratio of existing stores, contributing to growth in operating profit.

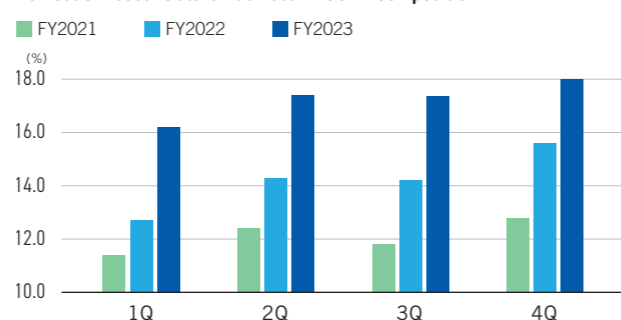
Progress of various initiatives

(1) Strengthening of PBs/OEM

With regard to strengthening of PB/OEM products, one of the key measures in our medium-to-long term management plan "Visionary 2025/2030," we increased the PB/OEM sales composition ratio to 17.3% (a 3.1% increase year on year), which exceeded the target set at the beginning of the fiscal year, by improving brand recognition and developing and selling products that meet demand.

In addition to strengthening our development system to capture customer demand by enhancing our ability to respond to trends and speeding up development, we aired a TV commercial for our PB JONETZ in December 2022 to improve its brand recognition, which was the first-ever TV commercial for our PB, and also significantly reinforced our social media communications and media exposure. These efforts have attracted public attention and rapidly increased

Domestic Discount Store Business: PB/OEM composition

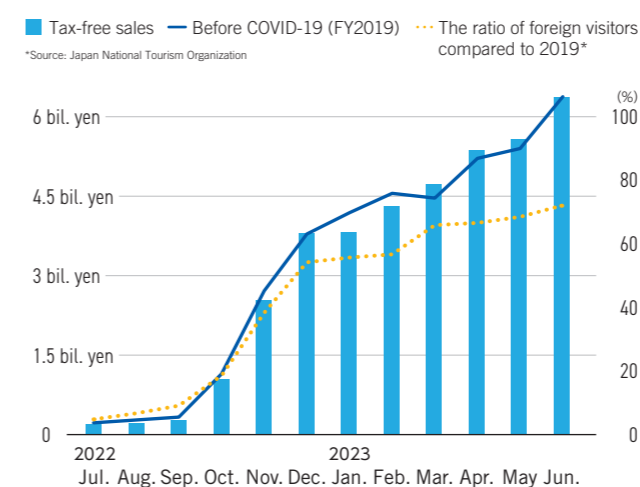


brand recognition of JONETZ. Together with our active product development in stores, this has contributed significantly to sales and profits.

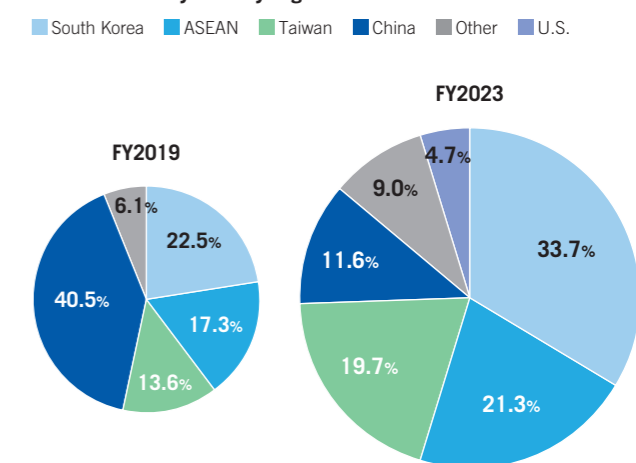
(2) Recovery of tax-free sales

Tax-free sales exceeded our forecast during the fiscal year, and rapidly recovered to 38.3 billion yen for the full fiscal year. Even before the full-fledged recovery of inbound tourism demand, we had been proactively working on infrastructure improvements, such as strengthening personnel allocation and increasing the number of cash registers, and changing store layouts oriented toward inbound tourism de-

Domestic Discount Store Business tax-free sales



Tax-free sales by country/region



Future strategy

Strengthening inbound tourism business

With the increase in inbound tourism demand, tax-free sales are becoming a major source of strength for achieving the goals of our medium-to-long term management plan "Visionary 2025/2030." We will view inbound tourism-related sales as one of our businesses, and will build a structure for its future business growth by improving customer satisfaction through further enhancement of operations and securing products so that our stores are definitely chosen by customers visiting Japan.

In the fiscal year ending June 2024, we aim to achieve sales of over 80 billion yen, exceeding the peak of tax-free sales before the COVID-19 pandemic, by continuing to review the infrastructure environment as appropriate and actively introducing products that attract customers.

Strengthening of PBs/OEM

We will strengthen our efforts to further improve quality and suppress costs by beginning to improve infrastructure, including reviewing our product development process such as

mand, mainly at our tax-free flagship stores in front of train stations. In addition, we are creating a synergistic effect throughout the Group. For example, the expansion of the scale of our Asia business has increased awareness of our company in the six regions we have entered, and strengthening of PB products at local stores has led to strong performance of PB products among inbound tourists to Japan. As a result of these efforts, our tax-free net sales have already exceeded the level before the COVID-19 pandemic, while there is a just over 70% overall recovery rate in inbound tourists to Japan compared to 2019 before the pandemic (as of June 30, 2023).

factories and raw materials, and streamlining direct trade logistics. We expect the PB/OEM sales composition ratio to be 21.1% in the fiscal year ending June 30, 2024 (a 3.8% increase year on year), aiming for this to further contribute to gross profit margin.

Control of SG&A expenses

Although we assume there will be higher investment in labor costs due to the revision of the new personnel system effective from April 2023 and continued increases in utility costs, we plan to maintain the SG&A ratio at the same level as in the fiscal year ended June 2023 by continuing to control SG&A expenses.

Opening new stores

In the fiscal year ending June 2024, we plan to open more than 25 new stores, a significant increase over the previous fiscal year. We will expand the scale of our business by stepping up store openings.