

Overview of Q&A Session at Analysts Briefing for Q1 FY June 2022

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

Q1. To verify the figures, could you tell us about the figures for which actual results fell below expectations at the stage of operating profit for each business format, as well as the overview for overall sales and gross profit margin from the perspective of the financial indicators?

A: For operating profit, we were about 3 billion yen below the supposition. This was due to the difficult time that we had in August.

Gross profit margin was influenced by the application of revenue recognition standards and an actual decline. The latter was mainly brought about by the loss in sales for seasonal products and products generating high gross profits in the domestic discount store business and GMS business.

Figures for the discount store business levelled out again in October, and we believe it will change from this point on. As we incurred less Selling, General, and Administrative (SG&A) expenses than expected, the 3 billion yen represents the amount that we recovered in that respect.

Q2. Is it possible to recover, to some extent, in the direction of the planned figures for the first half through reopening?

A: In the first quarter, profits were adversely impacted by the significant reduction in income and gross profit in August. On the other hand, looking at actual results for October, the respective companies in the domestic business are showing signs of recovery with a margin of increase of about 5 to 7 points in comparison with the first quarter. The year-on-year margin of improvement for gross profit recovered by about 10 points compared to the first quarter, and we will regain the first quarter's under-performance from the second quarter and after.

Q3. There are several measures for the discount store business. What effect will these measures have after the reopening?
How about the effects of progress in productivity improvement and sales measures (such as "private brands" (PB))?

A: With regard to productivity improvements, we achieved 800,000 hours out of 3 million hours in the preceding period. The important aspect is for frontline staff to get a real sense of the reduction in work burden. Going forward, we will continue to advance efforts by positioning the introduction of order support systems at each store and the adjustment of ordering and delivery frequency as the important pillars for the current period.

As for the progress status for PB, as of the first quarter, the figures are moving steadily in line with the budget toward our commitment of 250 billion yen. This is contributing to improvements in gross profit margin.

In particular, we will incorporate PB into the renovations of existing roadside stores, allocate new items to regular shelves, and narrow down the product items. We believe these efforts will also contribute to profit margins in the second quarter and after. For PB, the production of some new products has been delayed, but we are progressing toward achieving our target of 250 billion yen for the current period.

The respective measures will vary in intensity depending on the time axis. While there are measures that we can implement immediately, we are in the experimental phase in the current period with regard to product development. In the medium- to long-term, we will need to strengthen the financial and digital aspects in order to respond to changes in the customers. While we are making smooth progress toward that, it does not necessarily mean that we will complete the measures in the current period and produce significant results.

On the other hand, short-term measures are in place to recover the shortfall in the first quarter.

Q4. Is the current gross profit margin the result of price competition with our competitors?

A: We are continuing to advance the price competition efforts from the preceding period, so the profit margin reflects these efforts.

Q5. Concerning the financial business, could you be more specific on the changes to majica in the future? Also, could you tell us what "Financial Products/Member Store Business" under operating profit refers to?

A: A major change to majica is that the majica balance has also become usable outside the Group through Visa. Another change is in the top-up methods. We will launch top-up from bank accounts and postpaid top-up, which had not been possible before. We hope that enabling the instant issuance of credit cards through the majica app will stimulate greater use of credit cards.

The materials state that operating profit from the majica money business is 3 billion yen. We aim to achieve this through income from merchant fees with the use of majica outside the Group through Visa Prepaid, as well as through income from fixed fees from customers when they use the postpaid top-up service.

Q6. As it will be necessary for card issuance to be prioritized at the beginning, should investment in systems and other areas be considered a stumbling block at the start?

A: We are planning to carry out the investment during the current period, and this has been included in the business plan.

From the next period and after, we are reviewing the costs necessary for member acquisition. However, since UCS is currently operating with budget of several billions yen to acquire members, we aim to proceed through integration between groups.

Q7. Concerning gross profit margin, could you tell us about the actual results for Q1 and outlook for Q2 and after in relation to other variable factors excluding the revenue recognition standards?

A: With regard to gross profit margin, Gelson's generates a very high profit margin among the overseas operations. Although profit margin is falling for North America as a whole, Gelson's is leading the figures. However, as its sales are about 20 billion yen, it is not at a level for boosting the gross profit contribution to the Group as a whole.

On the other hand, although domestic purchasing in North America was impacted by negative factors such as soaring material costs, the entry of Gelson's has mitigated this impact to just about 0.8 points.

In Japan, the decline in the sale of seasonal products in August affected both the discount store business and the GMS business. Profit margin fell due to the drop

in sales in two seasonal product categories—clothing, and sporting and leisure goods.

With regard to expansion of PB, we are at the stage of implementing during the first quarter, so they are not contributing sufficiently to give a strong boost to overall gross profit yet. However, the impact of PB cuts across many different areas. In the aspect of countering competitors, we believe it is effective in halting the drop in gross profit.

As for the outlook from the second quarter and after, profit margin is higher than that in the previous year, and we believe this is partly the result of the gradually emerging effects of PB. We are expanding PB with the aim of reaching the initial target of contributing to improvements in gross profit by about 0.4% against the overall.

As for Gelson's contribution to profit, soaring material costs year-on-year for the whole of North America will have an impact, so we anticipate that it will be difficult for the profit margin for the North America business for the current period to exceed that of the preceding period.

Q8. Has the disposal of clothing and sporting and leisure goods as a result of the poor weather in August been completed?
Also, is PB the main measure for recovery from the second quarter onward?
Could you tell us if there are other measures?

A: We suppressed purchasing due to forecasts of poor weather, since the beginning of August. Rather than disposing of the products that are regular good sellers every year, we are holding them to sell in the next fiscal year. Apart from these, we are discounting and carrying out sales as usual for other sell-out seasonal products. We will not hold inventory as a result of this slump. In the discount store business, inventory for existing stores in the first quarter fell by about 1.5 billion yen year-on-year.

PB is progressing smoothly when compared against the target for the current period, but we believe additional efforts are needed to achieve recovery in the second quarter and after. An example is the 100-Day project, which has continued to produce results. The results for the regular shelves in this project are also

producing effects in other stores in the first quarter. We will continue to expand the roll-out, move forward with the introduction of products, and strengthen the products themselves. The strengthening of products spans diverse areas, but an example that we are implementing is the acceleration of efforts to capture event demand.

Q9. The aim for FY2023 is to achieve operating profit of 100 billion yen. Does this goal remain unchanged?

A: This figure was established before the COVID-19 pandemic struck. It includes the recovery of inbound demand, and while we have no comment at this point, we will monitor the situation closely including the recovery of inbound demand, then provide an explanation of the situation.

Q10. Regarding the North America business, are the sales and operating profit levels for Gelson's higher than expected?

A: We perceive these to be progressing smoothly. On the other hand, if there are rebound to the reopening, it will give negative impact on the coming fourth quarter. Note that operating profit of 1.6 billion yen does not reflect goodwill amortization.

Q11. With the intensifying price competition in Japan and abroad, will it be possible to achieve the annual profit settings? Concerning SG&A in the second quarter and after, will it be pushed back and reported later than planned in the yearly plan?

A: Price competition is always ongoing in the discount store business, so it has been incorporated into the plans. On the other hand, due to the impact of soaring material costs, there are sections where price increases are anticipated going forward. Hence, we will continue to monitor the impact on profit margins. We have incurred less SG&A than expected. Within SG&A, there are parts deferred to another period and parts used in accordance with the situation. Therefore, rather than using all the remaining allocation, we will consider and assess the appropriateness for the final allocation.