Domestic GMS Business

Main points of our strategy

- Continuing to improve gross profit margin through PBs/OEM strengthening and other means
- Strengthening sales promotions throughout our entire buildings, including tenants, to increase sales and customer numbers
- Continuing to control SG&A expenses, centered on labor costs, as a measure to improve operating profit

Reflecting on FY2023

Our GMS business achieved net sales of 461.9 billion yen (a 10.8 billion yen decrease year on year) and operating profit of 28.1 billion yen (a 2.5 billion yen increase year on year).

Although sales at existing stores declined because of the impact of customers' reluctance to make purchases due to rising prices, operating profit increased significantly as we changed direction on sales promotion policy to refrain from excessive price reductions, which secured gross profit throughout the year. Moreover, in addition to the promotion of pricing and sales promotion methods that emphasize added value, the PB/OEM sales composition ratio expanded to 20.9% (a 3.0% increase year on year), which also contributed to the operating profit increase. SG&A expenses were successfully reduced by 2.9 billion yen from the previous fiscal year at existing stores by reviewing personnel allocation and continuing control of SG&A expenses, even in the face of rising utility costs. The SG&A ratio for existing stores also decreased by 0.3% year on year, contributing to the increase in operating profit.

Future strategy

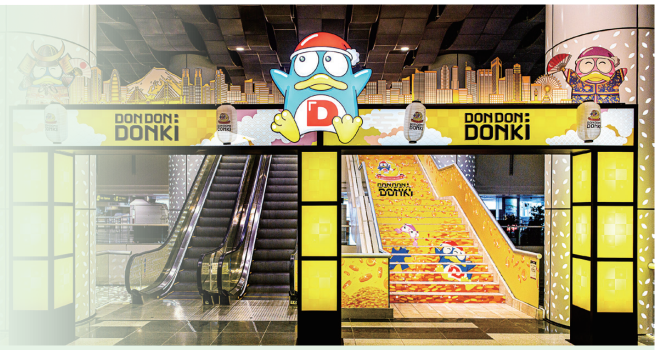
In the GMS business, since UNY became our subsidiary in 2019, we have been gradually promoting a shift away from traditional Headquarters-led store management to individual store operation, where merchandise procurement, pricing, displays, and more are based on judgments by frontline employees in a way that leverages local characteristics and locations.

We particularly focused on strengthening merchandising in the fiscal year ended June 30, 2023, and all stores have implemented measures to improve pricing accuracy as part of these efforts. As a result, we have seen the effect of improved gross profit margins since the first quarter of the current fiscal year.

In addition, in October 2022, the merchandising integration of the discount business and GMS business was implemented in the form of consolidating the deli products division of the domestic retail business in Inazawa and all other divisions in Tokyo. Along with the promotion of merchandising strengthening, we expect synergistic effects through the optimization of procurement that leverages economies of scale and the development of PB products.

In the fiscal year ending June 30, 2024, based on the progress made in improving the profitability of the GMS business through initiatives thus far, we will continue to develop community-rooted stores through individual store operation, and further improve gross profit margin by enhancing pricing accuracy, strengthening merchandising focused on non-food products, and expanding PB/OEM products. Additionally, we will strengthen sales promotions centered on the majica app and UCS card members to uncover loyal customers, which will lead to improved sales and customer numbers. We will continue to control SG&A expenses by improving profitability via optimization of personnel to contribute to operating profit growth.

Overseas Business



Main points of our strategy

- Continue measures to improve gross profit margin at existing stores while expanding business through new store openings
- Work on improvement in each area and each store for future growth in the Asia business
- Implement upfront investments for future growth in the North America business

Reflecting on FY2023

Our Asian business had net sales of 82.5 billion yen (a 13.4 billion yen increase year on year) and operating profit of 1.6 billion yen (a 0.1 billion yen decrease year on year).

Despite the negative impact of high commodity prices and increased demand for eating out, we continued to expand the scale of our business by actively opening eight new stores in four areas. In terms of profit, as a result of our efforts to improve gross profit margins in the countries we have entered, the operating profit margins at existing stores in Singapore and Hong Kong remained above 10%, and our Taiwan stores also achieved profitability.

On the other hand, our North America business saw net sales of 233.4 billion yen (a 35.2 billion yen increase year on year) and operating profit of 8.2 billion yen (a 2.2 billion yen decrease year on year). Although net sales increased due to the weaker yen, SG&A expenses increased due to higher labor costs and various energy costs, which ultimately caused a decrease in operating profit.

* The rise and fall difference of operating profit in the North America business is calculated after deducting Gelson's amortization of goodwill (approx. 3 billion yen in FY2022 and approx. 3.41 billion yen in FY2023)

Future strategy

In our Asia business, we have been able to expand to a certain scale through actively opening new stores; therefore, we will make improvements in each area and store for future growth.

Due to declining demand for eating at home and increasing opportunities related to eating out, we will expand non-food products by deep-diving into our categories and strengthening products that meet the tax-free demand of tourists, as well as PB/OEM products and direct trade products.

To improve sales, we will expand the support system and reinforce personnel both in Japan and internationally. Furthermore, we will control SG&A expenses by improving productivity through measures such as optimizing personnel allocation.

In addition, under the new management structure from January 2023, we are currently working on the horizontal spread of best practices in each country we have entered in order to raise the profitability of the Asia business as a whole. Furthermore, we will start streamlining SG&A expenses by integrating the functions of headquarters located in each country, among other efforts.

In our North America business, we aim to increase profits on an existing store basis by improving sales through strengthening the handling of deli products and improving gross profit margins through expansion of PB/OEM products and direct trade products. We will also make upfront investments to expand the scale of our business and improve operations in the future. In the fiscal year ending June 2024, we plan to open a large store in Guam, which will be the largest in our Group, and a new Gelson's store in California. In addition, we assume an increase in costs of approximately two billion yen to prepare for new stores in the fiscal year ending June 30, 2025 and beyond. We also assume there will be a decrease in full-year operating profit due to expenses for the establishment of the central kitchen in California, warehouse expansion in Hawaii, and hiring of human resources at each headquarters location.

Although operating profit for the fiscal year ending June 30, 2024 will temporarily be lower than the previous fiscal year due to several upfront investments, we will continue to actively promote initiatives to grow our business and strengthen profitability for the fiscal year ending June 30, 2025 and beyond.