Summary of Q&A at FY2024 Q2 Financial Results Briefing

Q1: You explained that the growth rate of existing store sales of Gyomu Super is exceeding the target. Please tell me the growth rate of the number of customers and sales per customer. Also, what is the growth rate of unit prices, and can we assume that the volume growth has increased more than the growth rate of unit prices?

A1: While unit prices of products themselves are rising under inflation, the number of customers has been on a positive trend since last summer and then has been growing steadily. Therefore, the half of the impact is from the number of customers, and the remaining half is from sales per customer.

Inflation in the unit prices of shipped items has been fairly subdued, with an increase of about 4% to 5%. In the current situation, the increase in volume is driving the overall results more than that in unit prices.

Q2: Although the yen does not seem to be appreciating, I think the profit margins are recovering even in the weak yen environment. Do you think you will be able to control the impact of exchange rates in the future as well?

A2: The yen has been weakening considerably for a long period of time, but I think it is unlikely that a similar or greater change will occur in the future compared to the past one or two years of yen depreciation, so we believe that we can ride out this weak yen environment and that it is within our control.

Q3: When will you be revising the prices of imported products in the future? Please tell me whether you expect a significant impact on demand.

A3: Our original forecast for this fiscal year was for the exchange rate to remain between JPY140 and JPY150, so the current level of exchange rate is unexpected.

In response to it, we have raised prices of some products again this spring, and we will continue to revise prices for necessary items while monitoring shipment trends.

Q4: When will you open a franchise restaurant of Premium Karubi? Also, what is your response to the number of franchise openings in the next fiscal year and beyond?

A4: Before we announced our policy on opening the franchise restaurants, we had received requests from many companies.

Although we received a large number of applicants, we do not yet have concrete sites for new stores, so it is difficult to set a target figure at this point. We would like to open a franchise as early as the end of this fiscal year or within the next fiscal year at the latest.

Q5: I remember that you were looking at a greater burden of logistics costs due to Japan’s 2024 problem. How it was in H1 and whether it will be heavier in H2?

A5: The steep rise in labor costs and utility costs has led to requests for the price increases not only in logistics costs but also in warehouse operation costs.

Overall logistics costs are on a rising trend, but we are working to improve our logistics system every year, which has helped to mitigate the cost increase.
As for H2, we think that the costs will not exceed our budget since we expect that the price-increasing trend will continue and have already included excessive SG&A expenses in the budget for this fiscal year.

Q6: Have there been any changes in the willingness to open new franchise stores in Kagoshima Prefecture? Also, is there a possibility that other indirectly managed areas other than Kagoshima will become directly managed areas?

A6: In Kagoshima, we have already received requests to open new stores from the existing owner and other owners. The number of stores in Kagoshima is still small compared to the population, so we believe that more stores will be opened by those other than the current owner in the future.
As for other indirectly managed areas, we will have to make a decision after carefully analyzing whether the direct management will bring enough new store openings to offset the increased cost borne by our headquarters due to the change to direct management. We are not currently planning the change in area categories, but we would like to move it forward in consultation with the owners if there is an area with favorable analysis results.

Q7: To achieve an operating profit margin of 10%, it is necessary to raise the ratio of private label products (PB ratio) of the Gyomu Super business, increase profitability of factories, and grow the restaurant & delicatessen business. What are the current challenges?

A7: We believe that we will steadily increase the PB ratio by developing new products as we have done in the past. In the restaurant & delicatessen business, our existing brands will be able to steadily increase sales and profits.
On the other hand, in the previous fiscal year, the profitability of our factories deteriorated due to the strong impact of inflation, but it has been improving now. The future issue for the factories is supply and production capacity, and we would like to make investments to increase the production capacity.
At the same time, this investment plan is being set back due to the current sharp rise in construction costs, and we are having a hard time making a plan to recoup the investment while taking into account the rising construction costs.

Q8: I understand that PB procurement costs are becoming higher due to the ongoing depreciation of the yen. How are you offsetting the costs? How are your customers' reactions to the price increases?

A8: In the previous fiscal year, prices were being raised all over the world due to inflation, but this has not been the case in the current fiscal year. In particular, in China, our main import country, the economy is in a very bad shape, and manufacturers are aggressively lowering prices in order not to make shipments down. There is a trend toward price reductions of products, more than the effect of exchange rates.
Sales of some products have fallen more than expected while sales of others have increased after price increases. As a whole, we see that both sales and shipments were turning to positive growth compared to the previous year.

Q9: Could you explain the impact of the yen's depreciation on the profitability of Premium Karubi? Please explain whether the profitability is on an improving trend due to product modifications, or on a worsening trend.

A9: Imported meat accounts for the majority of raw material and costs, so it is strongly affected by foreign exchange rates. As a result, it was quite hard to mitigate the impact of the weak yen only by cost saving at each restaurant. Therefore, we have overcome this inflation by revising our menu, raising prices for all items on the menu, and introducing a new price plan. Currently, both sales and profits have exceeded those of the previous fiscal year.

Q10: It appears that the sales trends of listed yakiniku restaurants have slowed down since April. Have there been any changes in existing store sales at Premium Karubi?

A10: All of our 21 Premium Karubi restaurants are doing well. We are receiving very positive feedback from our customers with many of our restaurants achieving record sales, so we will be able to turn a profit for this fiscal year as a whole.

Q11: You said that logistics costs in Q1 were 1.8% of sales. Please tell me about those in Q2.

A11: The logistics cost ratio decreased approximately 0.1 point in Q2. Although logistics costs are rising, we have managed to maintain this level by increasing sales and improving our logistics.

Q12: How much of imported private label products are composed of China?

A12: When China's share was at its lowest, it dropped to approximately 50%, but now it is around 60%. In countries other than China, prices have been rising, and shipments have inevitably been weak. In the meantime, as mentioned in A8, China has been setting aggressive prices, so shipments have been very strong.

Q13: Why does it seem that foreign exchange gains are small in Q2 despite the weak yen phase? Q2 was expected to see non-operating income of approximately JPY1 billion arising from the discrepancy between the cost, which is processed at the average market rate during the period, and the settlement rate, including foreign exchange contracts.

A13: Our original plan was to use forward exchange contracts to cover about 30% of the total settlement amount for imported items.
We had assumed dollar-yen exchange rate of JPY140 to JPY150 for the current fiscal year, so we had been holding off on new contracts because the yen has weakened since this spring.
When the rate exceeded JPY155, it was difficult to decide whether this was a temporary situation or would continue for a while, and we put new contracts on hold, which resulted in small foreign exchange gains.

Q14: I would like to know your initiatives at directly operated Gyomu Super stores.

A14: The Yokohama Izumi store is a fairly large directly operated store that opened in Kanto in October 2023, where we are conducting various tests. For example, some freezing showcases have been fitted with lids to measure the energy-saving effect.

It is generally believed that sales of products in the showcases with lids would drop, but the sales at the Yokohama Izumi store were the same as other stores even with lids. Therefore, we judge that sales will probably not decline even if lids are installed.
We are currently examining the relationship between the energy-saving effect and the increased initial cost by installing lids.
In addition, we are introducing an automated ordering system to stores while continuing to examine any problems with this system at the directly operated store.
The Yokohama Izumi store has also tested self-checkout registers.
The introduction of the registers has not progressed sufficiently in the industry due to problems, such as scanning omissions and machine stoppages since customers have to scan and pay at this register. If we succeed in solving these problems, it will be possible to complete the checkout process without a cashier, which will lead to labor-saving in the future.
However, currently, an employee has to take action to resume the register operation that has been halted due to a customer's operational mistake. We are discussing with our cash register manufacturer to determine if it is feasible to introduce the system into the Gyomu Super stores.

Q15: I assume that both sales and profits have been strong through H1 compared to the Company's forecast for the full year. Are there any particular reasons why you have left the full year forecast unchanged?

A15: Sales and profits were quite strong, but the current exchange rates are just now beginning to reduce the profit margin, so we will continue to raise prices. However, if we are not able to take sufficient action, the profit margin will inevitably decline from H1.
In addition, we decide on product prices based on customer response and shipment results. If shipments slow down significantly by the price increase, we will need to readjust the prices. Therefore, we have left the original forecast unchanged.

Q16: When do you expect the PB ratio to exceed the previous fiscal year's level?

A16: Private label products themselves have been doing well, and we are continuing to strengthen sales of the products as in the past. The key point is how long the current strong performance of national brand (NB) products will continue.
In fact, the shipment volume of NB products has increased considerably because customers flowing in from other stores and new customers were increasing, which can be seen from surveys of store managers.
NB products continue to sell well by capturing great demand from other companies' stores, and we expect that it will take about the whole of this fiscal year for this trend to run its course. That's why we think that the PB ratio will continue to be relatively low during this fiscal year.

Q17: I believe that a rise in the NB ratio reduces profitability because NB products have lower margins. Are there any changes in the NB profitability along with the price increases for NB products?

A17: The source of income for NB products is basically royalties, so raising prices of NB products increases the royalty income, which is a plus.
However, since NB products have lower margins, for example, shifts in demand from PB to NB will lead to lower overall profitability.

Q18: Could you comment on the status of your e-commerce site and your plans for expansion?

A18: Our EC site is currently available only in Tokyo and Kanagawa. Although the number of members is increasing steadily each month, it has not yet had an impact on overall sales and profits.
The biggest factor is that purchasing by case is not user-friendly for the general public. In fact, the Gyomu Super stores have 10% to 20% of the customers as business operators who run restaurants. However, the majority of customers on this EC site are business operators who run various businesses on their own, so the customer base is different from that of brick-and-mortar stores.
They purchase online for convenience, not price, rather than buying at a physical store. Therefore, we do not expect a rapid expansion.

Q19: Are there any initiatives of other domestic and international food supermarkets that you are paying attention to?

A19: I have the impression that other supermarket operators have recently been making considerable efforts to reduce the number of workers and to develop discount-type businesses. In the past three years, we have also seen an increase in the number of imported products in particular at other supermarkets. Looking at what other companies are doing, we are seeing if there is anything we can do in their initiatives.
On the other hand, I do not see any significant changes in overseas supermarkets. Compared to the changes over the past 10 years, the changes over the past one to two years seem to be very small. The only truly new effort is unmanned supermarkets.

Q20: What trends are you noticing in PB products?

A20: There are not any significant changes overall, but for example, an Acai boom is now resurgent, and we have received a number of inquiries about it. Although we could not predict the boom, the trend for only one product seems to have a small impact.

Q21: I get the impression that desserts are strong at your stores. What is the background here?

A21: Desserts are basically the easiest for consumers to pick up, which is easily reflected in sales. On the other hand, desserts rarely become long-selling products perhaps because people get tired of them, which is a worry for us. Although we have a diverse lineup of desserts, the sales growth seems to be slower than in other categories because people tend to refrain from buying desserts when trying to save money.

Q22: What are the challenges for accelerating the opening of the Gyomu Super stores in the 23 wards of Tokyo and central Tokyo areas, and how are they resolved?

A22: If we open new stores in the center of Tokyo, we will inevitably have to pay higher rent and per-square meter prices, so we have no choice but to open a compact store. A compact store has limited sales floor space and a small stockroom, making it difficult to maintain a sufficient stock of products even when there is demand for them.

As of now, we have some small stores in Tokyo and Kanagawa, and although they can generate enough sales and capture further demand, their stockroom and sales floor are too small to hold the enough inventory, which is a detriment to sales growth.
Therefore, if we proceed with small store development going forward, the most important issue is to improve the efficiency of the sales floor area through various means, such as increasing frequency of deliveries and partially changing to piece picking from current distribution in cardboard boxes.

Q23: In the consumption environment, do you expect the trend towards saving to continue in the future?

A23: In my personal opinion, it will continue for quite a while longer. This is because although wage increases have been implemented, the real wage has not risen across Japan. While mainly major companies announced wage increases, small- and medium-sized enterprises, which account for the majority of Japanese companies, probably find it difficult to raise wages as much as major companies.
In addition, until real wages remain positive for some time, consumers will continue to save in the long term.

Q24: How does the increase in construction costs compare to your assumptions? Has this affected your plans for opening new stores and store areas?

A24: We do not have a strong impact on the store openings themselves although there have been delays in planning at some stores. This is because our business has few new construction projects to begin with, and there is a relatively small impact on projects that utilize existing buildings.
However, overall construction costs are now more than double what they were three years ago. The problem now is not about the Gyomu Super business, but rather about factories and warehouses.

Q25: Japanese food is attracting more and more attention overseas, and what kind of your initiatives are you imagining?

A25: We are considering exporting ingredients and food products that are the source of Japanese food.
While it is easy for non-Japanese to pick up sweets that can be eaten immediately after opening the package, On the other hand, we heard that items that require cooking are hard for foreign people to buy them because people do not know about the dish itself or what the correct flavor is.
We would like to locally offer products such as seasonings that can be used to determine the taste of Japanese food to a certain extent with a single item. I think such products will be easily welcomed by people overseas.

Q26: Where would you focus your business if you had more time?

A26: I currently spend the majority of my time on the Gyomu Super business. In particular, I devote considerable time to product development work, which is the core of us, including checking imported PB products and developing products produced by domestic plants. In addition, we believe that there is still room for improvement in the Group's factories, so we would like to visit the sites and take various measures.