Summary of Q&A at FY2024 Financial Results Briefing

Q1: The forecast for FY2025 is that the sales growth is expected to slow significantly compared to the previous fiscal year. Could you explain the background for this?

A1: The forecast for FY2025 is not based on the sales trends of FY2024. While existing store sales in directly managed areas exceeded 105% in FY2024 due to the acquisition of new customers, we expect those for this fiscal year to reach 101-102%, assuming the basically flat number of customers.

Q2: Could you tell us the PB ratio (the ratio of private label products) for Q4 alone?

A2: The PB ratio for Q4 alone is 34.5%.

Q3: Although the Gyomu Super Business segment showed increased profits for FY2024, the growth rate of operating profit slowed from H2 onwards, partly due to the weak yen. Can we assume that the profits of subsidiary factories were more challenging than the previous year from Q3 onwards? Also, how are you looking at factory profitability for FY2025?

A3: Given the current weak yen situation, it is difficult to significantly improve the operating margin for FY2025. We had secured sufficient profits for our subsidiaries up to Q3 FY2024, so we returned the profits to customers through the sale in Q4. For FY2025, the factory profitability is expected to remain strong.

Q4: I understand that you had budgeted higher logistics costs last fiscal year due to the 2024 problem. How are you projecting these costs for this fiscal year?

A4: We have also estimated slightly higher logistics and personnel costs for FY2025. We would like to improve operational efficiency to curb increases in these costs, which are expected to continue in the future.

Q5: What was the rate of increase in case unit price compared to the overall shipment growth rate for all stores in Q4?

A5: The rate accounted for approximately two-third of the overall shipment growth.

Q6: Could you explain why you've been successful in opening stores in Kyushu, which is known as a fiercely competitive area for discount stores, despite the late entry?

A6: We believe that we have a sufficient advantage over competitors in national brand products and private label products and that customers appreciate these aspects.

Q7: While consumers are perceived to continue their thrifty behavior, there's a possibility that upward price pressure on national brand products will also continue. Do you plan to continue raising prices for national brands in FY2025? Also, what's your strategy regarding price decreases or increases for private label products?

A7: Looking at the current economic situation, we expect price increases for national brands to continue as the overall trend. On the other hand, we plan to both raise and lower prices for private label products while considering plant utilization rates and increase in raw material costs.

Q8: What's the outlook for opening the first Premium Karubi franchise restaurant?

A8: We've received numerous requests to join our franchise, but no specific projects have progressed to concrete plans. We would like to open a franchise store as soon as we find a plan that meets multiple conditions, such as recovering the initial costs and securing staff.

Q9: How is the profit composition in the Restaurant and Delicatessen Business divided among Kobe Cook World Buffet, Premium Karubi, and Chisouna? Which brand is contributing most to growth?

A9: We don't disclose the profit composition, but Premium Karubi has shown the most profit growth in FY2024.

Q10: Could you share the challenges in achieving a 10% operating margin and your image of when it might be achieved?

A10: Achieving a 10% operating margin is a long-term goal. We believe it's possible to achieve it if we make a sufficient investment in our plants and equipment and increase sales of our private label products while developing the restaurant business that tends to more easily increase profit margins.

Q11: Why does year-on-year existing store sales growth for H2 FY2024 look weaker compared to that for H1? Could you provide information on the status of both private label categories, products produced by our domestic plants and imported products? Previously, it was mentioned that imported items were price-adjustable and served as profit drivers. Has there been any change in this situation?

A11: The number of customers increased significantly from April 2023 onwards, which makes sales for H2, when the number of customers remained flat or slightly increased, look relatively weak. Both private label products are performing well. Although imported products initially experienced some months with YoY decreases in shipments after price increases, this has stabilized, and sales and profits of imported items are currently very strong. We secured sufficient profits from products produced by our domestic plants by Q3, so our group's plants are also performing well as a whole.
Of the PB ratio of 34.5%, domestic PB is 10.8% and imported PB is 23.7%, so imported PB is still slightly stronger.

Q12: Could you tell us about the initiatives for Gyomu Super stores operating overseas?

A12: We currently have two Gyomu Super stores in Hong Kong, two stores in Malaysia, and 14 stores in Vietnam.
In Hong Kong, the newly opened store in FY2024 is performing very well from the start.
In Malaysia, we're currently working to improve inventory management, which is an issue at the stores.
Vietnam is performing the best among these three countries with store openings progressing well.
Since we export Japanese products, unlike Gyomu Super in Japan, our prices aren't low for local everyday food although we offer Japanese foods at relatively low prices.
Therefore, we're currently exploring business models, including product lineups and price ranges, with our partner companies in each country and region.

Q13: Are there any food categories you want to strengthen by building or acquiring factories? Compared to before, has there been any change in the quantity or quality of M&A opportunities currently available?

A13: While the number of M&A opportunities has increased compared to previous years, we take the approach of searching for the opportunities that suit us among the deals that come up, rather than targeting specific categories.

Q14: Could you explain your approach to price increases and decreases in cases where the yen strengthens or weakens?

A14: In the case of a stronger yen, while securing profits, we plan to strategically implement price reductions for products that need price competition with our competitors. On the other hand, if the yen weakens, we will find the right time to raise prices while checking the actions of our competitors.

Q15: How is the progress of the plan to open small stores in the center of Tokyo?

A15: We're currently looking for a site for a store with a sales floor area of approximately 50 tsubo (165 square meters).

Q16: Could you tell us the exchange rate and gross profit margin assumed in your company plan?

A16: Our plan projects an improvement in gross profit margin of approximately 0.3 points, and assumes an exchange rate of JPY140 to JPY150 to the dollar, the same as in the previous forecast.

Q17: What does Kobe Bussan think is one of the Japan's largest network of Integrated Food Production & Distribution Operations? I'd really like to hear from President Numata on this.

A17: We often use terms "comprehensive food company" or "food infrastructure company."

Although the Gyomu Super Business is and will remain our core business, we aim to develop unique business formats that customers find attractive in various dining situations, including not only retail but also restaurants and delicatessens, as a comprehensive food company.
We also use "food infrastructure company" in order to develop food business formats that customers would say they can't live without Gyomu Super, World Buffet, Premium Karubi, and Chisouna.
Our integrated food production and distribution operations are the means to achieve this goal, and we continue to refine it.

Q18: Are there any updates on the logistics center in Yokosuka-shi?

A18: To address the rise in construction costs, we are reconsidering the plan in view of the return on investment.

Q19: The adjustment amount between segments (including head office expenses) has increased from the past quarterly average of about JPY1.2 billion, to about JPY1.6 billion, in Q4 FY2024. Could you explain the background of this cost increase in Q4?

A19: The major factors for this cost increase include expenses related to stock options, increases in headquarters staff and per-capita personnel costs, and depreciation related to investments in system improvements.

Q20: You usually tend to present conservative plans, but I feel you've presented a solid plan for profit growth this time. With the recent trend of yen depreciation, are there any factors that will contribute to improving profitability from this year?

A20: FY2024 was a very difficult year to generate profits due to the rapid depreciation of the yen, which delayed cost pass-through. The pass-through at the current exchange rate level has already been completed, so we believe it's possible to achieve the profit growth plan we've announced in this fiscal year.

Q21: How much stock option-related expenses have been factored in this fiscal year's plan?

A21: It's around JPY1 billion.