

Financial Results Briefing for FY02/23 Q1

- Q&A Summary -

Date: July 8, 2022, Friday, 10:00-10.30 am (JST) Presenter: Osamu Sato, Director in charge of Finance, Accounting, Investor Relations

Q. Did the operating profit of ¥2.0 billion for the first quarter exceed what was forecast? Also, if you have any concerns about the second quarter and beyond, could you please tell us what these are specifically for both domestic and overseas operations?

A. We have not disclosed operating profit forecast figures for the first quarter. We were relatively conservative in our forecast for the first half of the year, and were equally so for the first quarter. In comparison to our forecast, the results for the first quarter were strong.

Looking ahead to the second quarter, our concerns center around the increase in the number of COVID-19 cases and the sharp rise in prices of raw materials, which includes the impact of exchange rates. These issues are predicted to gradually take effect in the second half of the fiscal year, and we intend to react by restricting product discounts on the sales front.

In addition, there were distribution disruptions in the first quarter as 60 to 70% of our products are purchased from China.

While I believe we will see this improve in the future, the situation will likely be influenced by the spread of COVID-19.

Q. Is it correct to assume that the results of measures to improve profitability - for example, the overhaul of bulk outsourcing of production to trading companies, visualization of raw materials, and so on - have taken effect in the first quarter?

A. We have been able to streamline the flow of goods due to the abolition of the branch office system several years ago, bulk distribution, and the promotion of OMO services that started last year. In sales, we are seeing improvements in gross profit margins due to the restriction of discounts. We have been promoting reforms in supply chain management (SCM), from procurement of raw materials to manufacturing and distribution, which have also been producing results. In addition, we are promoting the introduction of product lifestyle management (PLM).

Q. You mentioned that operating profit was strong relative to the forecast, though it only seems to have exceeded the forecast slightly. It will be difficult for the market to reasonably evaluate these results if you leave the forecast unchanged due to possible risks unless you state by how much it exceeded the forecast. Could you give us a sense of the scale?

A. It is difficult to give specific figures. The first quarter net sales provided in the Summary of Monthly Net Sales showed that net sales at like-for-like stores were 122% of last year's level, while this was 115% at all stores. However, we had conservatively forecast that net sales would be slightly above last year's levels.

If July and August continue at the same levels as the first quarter, operating profit for the first half will exceed our forecast by a considerable amount.

Q. Are you making organizational reforms to strengthen product development with an aim to creating products that capture the interest of customers? Are you making changes such as appointing new designers and pattern makers?

A. We have been developing products that are not part of a department store brand, such as uncrave and #NEWANS, under a new organization staffed by younger employees. These products have been performing well.