Summary of Q&A at FY2026 Q2 Financial Results Briefing

Q1: While valuation losses of foreign exchange contracts had a significant impact in Q1, you made a strong recovery in Q2. Which of the following factors had the most significant impact on the profit increase in H1: improved gross profit in the core Gyomu Super business; control of SG&A expenses; or the reversal of foreign exchange contract valuation gains/losses? Also, can I assume that the profit levels seen in H1 will be sustainable to some extent in H2 as well?

A1: Despite unfavorable exchange rates, our gross profit margin improved by 0.8 percentage points, which has a significant impact on the profit increase. However, since Japan's 2024 logistics problem, we have seen gradual price increases imposed by our logistics partners. While we are certainly taking steps to reduce SG&A expenses, those efforts have not kept pace with price increases.

Regarding valuation gains/losses of foreign exchange contracts, the yen's depreciation environment basically generates profits in the form of foreign exchange gains or gain on valuation of derivatives under non-operating income. In this Q2, we were able to accumulate over JPY3 billion under non-operating income, so we believe this also had a very significant impact.

Whether the yen is weak or strong, we believe it is relatively easy to control gross profit as long as the exchange rate remains fairly stable. On the other hand, we are still in the process of addressing SG&A expenses, and we expect them to generally improve going forward.

Q2: Looking at the progress for H1, you appear to be on track with the full-year plan. If the plan remains unchanged, what risks and cost increases are factored into H2? Could you explain which of the following you are monitoring most closely: foreign exchange rates, SG&A expenses, MEAL HUB and airline catering-related expenses, or the consumer environment?

A2: First of all, we believe there are various risks that have not yet materialized.

As for the foreign exchange market, the main risk factor is that we do not have high expectations for the yen to appreciate.

Although we continue to improve SG&A expenses, we are generally not very optimistic about the current situation, given the current Iran conflict as well as extremely increasing burdens not only on labor costs but also on fuel costs for logistics and warehousing companies.

We also believe that the current consumer environment is in very poor shape. Consumers remain highly cost-conscious, and the impact of rising prices is being further exacerbated by the situation in Iran. The cost increase at various manufacturers —particularly regarding packaging materials— is sometimes passed on to us, and makes some manufacturers unable to supply. Given the issues arising within our supply chain, we believe it’s difficult to be optimistic about raising the full-year forecast.

Q3: While this MEAL HUB project presents a prime opportunity to acquire the APAC airline catering business, which is a sector with high barriers to entry, the market and investors are also concerned about its impact on capital efficiency metrics such as ROIC and ROE, given its scale as a major M&A deal. I would like to know a qualitative overview of the timeframe within which you aim to achieve a return on investment that exceeds the cost of capital after the closing, even after accounting for amortization of goodwill and intangible assets and the deduction of non-controlling interests.

A3: The airline catering business has quite high barriers to entry, so we anticipate that this business will offer a wide range of opportunities once we enter the industry, and will make a significant contribution to our future sales and profits.
At the same time, we are currently calculating how the business can contribute to profits following the closing, as well as the projected payback period for this large investment. As a significant amount of goodwill is expected to be recognized this time, we are still in discussions with our auditors regarding this amortization period. Therefore, whether this will contribute significantly to profits or only marginally will depend on the amortization period.
However, I believe this will likely be a highly profitable business, so our outlook is that it will have a significantly positive impact on the overall P&L of the Kobe Bussan group.

Q4: How did operating profit performance compare with internal projections? Is it correct to understand that the M&A-related outsourcing expenses were not included in the initial plan?

A4: Operating profit was favorable compared to our initial plan. Gross profit improved due to the excellent performance of our group plants, in addition to successful price pass-through in the Gyomu Super business.
As you understand, the M&A costs were not included in our plan, so they had a negative impact on our profits. However, we believe that we have overcome the impact and successfully achieved an increase in profits.

Q5: I would like to ask how MEAL HUB will connect to Kobe Bussan's integrated food production & distribution operations and overseas expansion, rather than simply representing an entry into the airline catering business. Which of these synergies do you expect to first show up in the financial results—procurement of private label products, semi-processed products, and raw material, improved domestic plant utilization rates, or strengthened overseas procurement network?

A5: I do believe MEAL HUB holds a lot of potential. Kobe Bussan's true identity has traditionally been rooted more in food manufacturing and wholesale than in food retail. Our future profits are driven by how we can supply private label products we manufacture to outlets under our control, such as Gyomu Super, the restaurant and delicatessen business, and the new MEAL HUB business. However, the MEAL HUB business will not yield immediate results because it depends on the airline, but there aren't many menu revisions.
First, it is essential that the chefs or decision-makers at each location fully understand our private label. Therefore, in the first year, we will focus our efforts on this, and going forward, we will need to work on incorporating our products into the in-flight meals. we believe we won't be able to monetize this area until at least the next fiscal year.
As for strengthening our overseas procurement network, since coordinating between us and supplier bases and exchanging sample quotes take a considerable amount of time, we think the timeline for this project is likely to be from next fiscal year.

In the short term, the positive impact on our results will simply come from the sales and profits generated by the airline catering business, but we expect other synergies to materialize starting next fiscal year.

Q6: I understand that MEAL HUB's target companies are 15 entities across seven regions. In the post-closing PMI, how do you plan to define the roles and responsibilities of the local management team, the Hong Kong headquarters, Kobe Bussan, and Gourmet Kineya, and in which areas do you intend to begin making improvements?

A6: Since the relationship and roles between the local management team and the Hong Kong headquarters have already been firmly established, we don't think there's any need to change that. While Gourmet Kineya and we will implement some additional governance measures required of Japanese public companies, we believe that decision-making processes will remain largely unchanged from before.

However, we are in the process of launching a team dedicated to implementing on-site improvements more quickly because any truly major decisions will require approval by the Board of Directors. The team will drive these improvements through close collaboration with the headquarters in Hong Kong.

It's very difficult to decide where to start, but we believe the quickest way to see results is to discuss whether we can use our procurement network to improve the quality of the items currently sourced by each location—without making major changes to the existing menu.

Q7: Is the M&A expense the reason why adjustments in segment information for Q2 increased by the approximately JPY600 million?

A7: As you pointed out, M&A expenses of approximately JPY450 million were recorded as outsourcing expenses.

Q8: Among SG&A expenses, by how much have logistics costs and outsourcing expenses increased compared to the same period last year? Also, were SG&A expenses within the planned range?

A8: Although the SG&A expenses included an additional one-time outsourcing fee of JPY450 million related to M&A and other matters, we think an increase of over JPY1 billion is natural based on traditional trends.

At the same time, we have entered into a new contract for a warehouse to reduce distribution and storage costs in Kansai and Kanto regions, which generated rent expenses, while logistics costs per case have been gradually rising. However, we do not view this as a major issue, as we expect cost-cutting once operations of the warehouse become stable.

Q9: You mentioned that profits at your subsidiary plants continued to rise, but didn't the momentum of that growth slow in Q2 compared to Q1?

A9: We could already see that this profit was performing very well as of Q1.

On the other hand, we had expected since before that existing store sales would face significant challenges in Q2. In the sale in March and April, which is held in the same months every year, we set very aggressive sale prices and structured the promotions to prioritize consumer benefits and sales. So, although we saw a slowdown in the profit growth rate, it was not unintended; it had been expected from the beginning.

Q10: How do the profits from the restaurant and delicatessen business as well as the eco renewable energy business, compare to the Company's projections?

A10: Basically, both segments performed well.

As for Premium Karubi, both the franchise and new directly managed locations required a significant initial investment. In particular, the franchise restaurant faced far greater difficulties in securing staff than we had anticipated. This placed a further financial burden on our franchisee, and we also had to deploy additional staff from our own division to provide support. On the other hand, our first store in the Kansai region had better sales than we expected, considered to be performing very well. We do not see any major issues within the segment as a whole.

Although the eco renewable energy business is highly dependent on weather conditions, the results were generally in line with our expectations.

Q11: The current exchange rate is weaker than your company's initial forecast. In addition, it appears that costs have risen due to the impact of the conflict in Iran. Given that the consumer environment is far from robust, will it become more difficult to pass on price increases for private label products starting in Q3?

A11: We don't expect to see an appreciation of the yen as we are seeing events that we did not initially anticipate. While the impact of rising costs caused by the Iran conflict will persist for some time, we believe once the situation is resolved, conditions will gradually return to normal, and we will see costs come down or supply stabilize.

On the other hand, I think the consumer environment itself will remain challenging for a while. Consumer sentiment is still far from the kind of environment typically associated with demand-pull inflation. Therefore, we expect their saving-oriented mindset to remain strong for some time.

However, we don't think the hurdle to passing on price increases for private label products has been high since Q3. Manufacturers of national brand are proactive about raising prices, so we continue to operate in an environment where it is relatively easy for us to pass on costs. Regarding our imported private label products, while a rapid depreciation of the yen places us at a competitive disadvantage, the environment with the yen remaining weak allows us to deal with the exchange rate. If you look at the imported products at various supermarkets and retailers, you'll see that prices have risen significantly, so we believe there is still room for us to raise prices.

Q12: Which factor had a greater impact on the rise in the PB ratio, price pass-through or an increase in shipment volumes? Could you also explain the increase in the unit shipping price per case?

A12: I believe that price pass-through had a greater overall impact, and especially, domestic PB products were very successful in passing on prices. It's not necessarily the case that price pass-through had a greater impact than shipment volume on all products. Some items nearly doubled in the shipment volume.

The unit shipping price per case of our private label products is rising every year in parallel with the considerable progress of inflation in national brands.

Q13: It appears that the growth rate of shipments to Gyomu Super for Q2 is slowing down compared to Q1. Is it correct to understand that shipment volumes slowed due to the impact of price pass-through?

A13: The slowdown in Q2 was somewhat within our expectations. The main reason is that last year's results were exceptionally strong, so the hurdle for exceeding last year's performance was particularly high this period.
In the previous year, rice, in particular, had a significant positive impact on our sales, as we were able to secure the necessary quantities of rice to sell through our early action and saw an increase in unit prices during the rice shortage. Recently, however, rice prices have dropped slightly, and consumer spending has weakened overall. The fact that it is moving in the opposite direction from last year had a significant negative impact on overall sales.
We had anticipated that the overall environment would be challenging, and rice sales have been weaker than expected, so we are currently making up for it in other categories. Rather than saying shipments have slowed due to the impact of price increases, we think it's fair to say that overall shipment volumes are roughly on par with last year.

Q14: You have completed three major M&A deals over the past six months. While you have been cautious about M&A over the past few years, is it possible that you will continue to carry out several M&A deals each year?

A14: It wasn't that we had a specific intention to push all the deals through at once during this period. Our proactive stance toward M&A has not changed. Thanks to various connections, we had a series of large-scale projects this time, and we would like to continue to move forward with promising deals if the good opportunities arise.
We anticipate that there will likely be consolidation and restructuring in various industries with various trends in society shifting, such as the entrenchment of unprecedented inflationary environment. We plan to continue pursuing M&A deals proactively, anticipating that the opportunities will increase under such circumstances.

Q15: How much MEAL HUB-related expenses were incurred in Q2? Could you explain your approach to shareholder returns, particularly share buybacks?

A15: We have recorded approximately JPY450 million in M&A expenses.
Regarding shareholder returns and share buybacks, we are generally committed to pursuing these initiatives proactively if the right opportunity arises. Although our basic policy is to maintain stable dividends, we are working toward the goal of increasing them.

Q16: Will the ratio of domestic private label products continue to rise? Please provide your comments to the extent possible, taking into account production capacity of your existing subsidiaries.

A16: We intend to increase the ratio of our domestic private label products. We are moving forward with a strategy that involves making new capital investments in existing plants to increase production and actively relocating older plants that have become too small. Therefore, we believe these existing companies will be able to grow their sales in the future. Furthermore, as we have a policy of actively pursuing M&A for food manufacturing subsidiaries, such as Uehara Foods Industry and Hakuro Sake Brewery, to strengthen our private label, the ratio is expected to rise basically.

Q17: You have reviewed the franchisee store model, revising operating profit margin upward from 2.1% to 2.4%, and your operating profit from JPY896 thousand to JPY1,226 thousand. Are the franchisees really that profitable? If so, are they becoming more eager to open new stores?

A17: While sales at existing stores are growing, various SG&A expenses are on the rise, particularly personnel costs. The increase in sales at existing stores is more than offsetting these higher expenses.
However, this P&L simulation is based on the assumption of a Gyomu Super only, whereas in reality, there are very few stores with Gyomu Super only. Each franchisee handles fresh produce either directly or by contracting with tenants.
While high costs and staff shortages are certainly negative factors, our understanding is that franchisees' motivation to open new stores has not waned at all, and they are willing to open new locations as long as there is an available property.

Q18: Recently, rising costs have forced both retailers and restaurants to raise prices. However, consumers are growing weary of these constant price hikes, and many people say that companies are finding it far more difficult to pass on these increases than they have in recent years. Under such circumstances, consumers typically cut back on dining out and shift toward eating at home, but, when looking at existing store sales for restaurants and food retailers, restaurants continue to outperform. Does your company have that impression? How do you interpret this?

A18: Our impression is that inflation has become entrenched in both the retail and restaurant sectors, and among them, we think companies that are making an effort to keep price hikes in check are performing particularly well. With many restaurant chains raising their prices significantly, it seems that winners and losers have already emerged, and we find it quite difficult to strike the right balance between retail/supermarkets and restaurants. While both the restaurant industry and the retail sector are performing well, we expect that, in the food retail sector, small and medium-sized retailers, so called local supermarkets, are damaged. If so, we assume that the consolidation of them will occur in the future.

Q19: I believe that the fact that you are able to try for future growth is a sign that your company has matured. Of the things you are trying to do now, what do you feel is the most effective?

A19: While the domestic competitive environment has become somewhat more challenging, we are seeing steady progress in our Gyomu Super business. We now have the financial flexibility to try developing small-format stores as a new initiative in addition to maintaining the existing store format, and our organization is far more resilient than it was. We get the impression that we have become a company capable of trying these new things simultaneously.
The MEAL HUB business is also an industry we've been targeting for quite some time. The aviation industry is a growing sector, and within the industry, our target companies are in some of regions with high global growth rates in the future. We are very excited to see how we can effectively leverage these strengths to grow globally.

Q20: In which quarter do you expect sales from the MEAL HUB business to be included in Kobe Bussan's consolidated results, around Q4 or at the start of the next fiscal year?

A20: While the closing date hasn't been fully determined yet, if we can close the agreement by the end of July, they will be recognized in Q4; if the closing occurs after July, they will be recognized in Q1 of the next fiscal year.

Q21: Is it correct to understand that the launch of the small-format urban store is still some time away, and that you are currently assessing the timing?

A21: We have already found the potential location. However, it looks like the opening will be delayed slightly due to factors such as the timing of the previous tenant's restoration of the property to its original condition and our upcoming construction work.