

## Summary of Q&A at FY2025 Q2 Financial Results Briefing

**Q1:** You have seen fluctuations in the level of foreign exchange between the beginning of the current fiscal year and now. Could you tell me your company's policy on forward exchange contracts at this point in time?

**A1:** We have basically entered into forward exchange contracts to cover approximately 30% of our foreign currency settlements, following the same policy as in the previous period.

**Q2:** The gross profit margin declined from the previous year, but the profit increased by the effect of higher revenues than planned. If the strong savings-oriented attitude of consumers continues, can I assume that increasing sales will help the Company to achieve its full-year profit target from Q3 onward?

**A2:** In Q2 alone, we can see that the improving exchange rate environment has started to have a positive impact on our results. However, our business performance tends to reflect exchange rate fluctuations with a delay of about two months.

At the current exchange rate level, we can expect our profit margin to continue to improve sufficiently from Q3 onward, and since existing store performance remains strong, we also expect to be able to make solid profits due to sales growth.

**Q3:** The profits in the restaurant and delicatessen business decreased for Q2 alone. What is the background to this?

**A3:** This is because the Nikke Park Town Kakogawa restaurant, the first small-sized World Buffet, opened in January 2025. The restaurant is directly managed and has a large number of staff, which led to a factor of reduced profits.

Since this restaurant opened, it has exceeded its sales target and performed well, visited by numerous customers.

**Q4:** Please tell me about the subsidiary factory profit.

**A4:** We don't disclose the amount of profits of our subsidiary factories, but the profits are on a slight downward trend. The major factor includes the continuing sharp rise in raw material prices and recording of two months of the depreciation costs of the Watari plant, Miyagi Seifun's new plant, which started operation in April 2024.

**Q5:** What is your plan to switch to the PB (private label) production at Uehara Foods Industry? Also, what are your plans for capital investment to increase PB production capacity over the next year or so?

**A5:** While continuing production for existing clients, Uehara Foods Industry is scheduled to gradually introduce new equipment and switch to manufacturing our own products, which will mainly produce existing products in short supply, rather than new products.

Regarding the future capital investment, the Watari plant, which was mentioned above, still has excess production capacity, so we plan to use it to manufacture retort pouch foods and popular chilled prepared foods. In addition, another plant in Hokkaido is also preparing to increase

production. Just doing these things is expected to increase production capacity by several percent.

**Q6:** NB (national brand) price increases for food products have continued this year. Until Q2, how has Kobe Bussan handled NB products, PB imports, and domestic PB respectively? Also, please tell me about your thinking for Q3 and beyond.

**A6:** NB manufacturers are facing various price increases, including costs of labor, raw materials, packaging materials, and logistics, and I have the impression that they are more aggressive in raising prices than in the past, so we are willing to accept a reasonable price increase while coordinating with our suppliers on the amount and timing of price increases.

We had a large excess of PB imported products in stock when the Suez Canal temporarily prevented shipping. Now that maritime logistics is stable, we are reducing inventories to an appropriate level from this fiscal year. At the same time, we are developing new business partners for some products whose shipments have increased considerably.

In terms of domestic PB products, we have been focusing on development of new products to be manufactured in the Watari plant, which has excess production capacity, also planning capital investments to produce products in short supply.

**Q7:** Among the growth rate of product shipments to existing stores of 5.5% for H1, please tell me the breakdown of the growth rates of the number of customers and average sales per customer.

**A7:** The number of customers was slightly positive compared to the previous year, but most of the growth was due to the unit price per customer by inflation. This factor was the rise in unit price per item rather than the increase in number of items purchased. In particular, the largest impact was from rice, which has been a recent problem.

**Q8:** The increase in the PB ratio appeared to be seen somewhat mild. Is this due to price hikes for NB products?

**A8:** As you understand, we believe that in addition to receiving requests for price increases for NB products, the impact of rice, as mentioned above, was significantly large. If the selling price of rice is lowered, sales growth of NB products will slow down slightly, and the PB ratio is expected to relatively rise.

**Q9:** You mentioned that the stronger savings-oriented attitude has led to sales increase. Could you tell me about the background behind this decision? Do you see this trend in the lineup of strong-selling products, etc.?

**A9:** From past experience (such as the consumption tax hike), Gyomu Super stores have always achieved positive results in sales when there was an event that the so-called saving-oriented attitude was about to become stronger. This time, we have been seeing this situation for the last year or so. Also, as you asked, many of the selling products have a slightly lower unit price within the same category.

**Q10:** How has Uehara Foods Industry started to improve since joining the Kobe Bussan group? Please also tell me about the expected contribution to the Company's performance in the future.

**A10:** Currently, while the employees continue to manufacture products for the existing clients, we have been explaining how to work in our group to them in order to focus on helping them get used to it. Especially for the upper management, we are discussing renovation of the plant and other matters.

This company isn't in a position to make a significant positive contribution to our profits this fiscal year.

**Q11:** Is there any update on the development of a small urban-type Gyomu Super store?

**A11:** We have been looking at properties, inspecting candidate sites, and negotiating about them. We hope to open a small store in the current or next fiscal year.

**Q12:** Please explain the circumstances regarding the recent recall of frozen vegetables. Is this at a level where the quality control system needs to be revised?

**A12:** We recently received orders to recall frozen daikon (Japanese radish) and frozen shredded green bell pepper. We are recalling them because they were found to contain pesticide residues after the health department collected the items sold at Gyomu Super stores and test them for pesticide residues.

Our current pesticide testing system was also broad, such as pesticides used for each vegetable and those used not only by the farms we purchase from but also on the farms around them. However, given this event, we are discussing internally whether we need to further strengthen our quality control system.

**Q13:** What is your forecast for existing store growth?

**A13:** The current existing store growth rate is well above our target. However, existing store sales have been considerably affected by rice, so it is difficult to imagine that we will see the same growth as in H1. When the rice price is settled, we believe that sales growth will be slightly lower than in H1.

**Q14:** Is your pricing strategy for FY 2025 to raise prices or lower prices?

**A14:** Basically, we think that there will be more products that will increase in price than those that will decrease in price because raw material inflation and rises in logistics and labor costs have continued more than we expected. On the other hand, there are some products for which we have received price reduction offers, and we sometimes lower prices strategically.

**Q15:** Do you have any concrete plans to leverage Gyomuca to contribute to business performance?

**A15:** When we can analyze detailed purchase data in the future, Gyomuca will enable product development based on the data and sales promotion through Gyomuca, which we believe will contribute to our profits.

**Q16:** Where are the priority areas for new store openings?

**A16:** We would like to focus on opening stores in the Tokyo metropolitan area and other areas under our direct management, such as Kansai and Kyushu. In particular, the Tokyo metropolitan area's population is still on the rise, and the number of stores there is small relative to the population.

**Q17:** Please tell me about price reductions due to economic trends in China.

**A17:** We have received price reduction proposals for some products in China since last year, but many manufacturers explained that they were proposing price reductions in order to increase sales, and we don't know whether the true reason is domestic demand weakened by the domestic economy or the impact of sluggish exports to the U.S. Whatever the reason, we feel that there are more price reduction proposals from China than from other countries.

**Q18:** There seemed to be no significant change in the SG&A ratio. How do you see the impact of rising distribution costs?

**A18:** Logistics costs are on a considerable upward trend, especially when transporting goods to distant locations. However, we take the cost improvement measures every year, which has enabled us to offset costs.

**Q19:** Can I expect a sharp improvement in profit margins on PB products due to lower purchase prices from China?

**A19:** The profit margin has basically improved by receiving price reduction proposals from China. At the same time, franchisees are facing higher operating costs, particularly labor costs, and we believe that it is necessary to give even a little back to the store's markup rate. Therefore, I'm not sure that the profit margin will improve rapidly because profits are incorporated into our profits and also returned to the stores' profits.

**Q20:** What is the regional composition of PB product purchases? Also, will you accept changes in the regional composition in the future due to a price reduction proposal from Chinese suppliers?

**A20:** By region, China currently accounts for the largest share of our PB imports. We had strengthened product development in other countries to reduce our dependence on China, but China's share has increased again in the last year or two. That's because Chinese manufactures have proposed price reductions while other countries have been raising prices, and the quality of our Chinese products is stable, so Chinese goods are selling well.

**Q21:** I recognized the strength of your company's stock once again at the time of the Trump shock. Could you tell me about President Numata's own view of your company's stock going forward?

**A21:** I believe that the reason for the rise in our stock price was mainly due to the yen's sudden appreciation led from the Trump shock and the renewed appreciation of domestic demand stocks.

On the other hand, we honestly don't know what is the fair stock price for Kobe Bussan. Basically, we believe that the stock price will converge over the long term as a result of sales and profit growth and business expansion. I think what we can do is bring our stock to that level.

**Q22:** You mentioned strategic price reductions on PB products as well. What specific categories are you planning to reduce prices in?

**A22:** Currently, we haven't decided which category to reduce prices in. However, we watch the situation of competitors, and if similar products are priced better than ours, we may lower the prices, especially for domestic PB products. Sometimes, we proactively reduce prices of seasonal domestic PB products to increase the sales volume. When we want to increase a particular product supply or the operating rate of a particular production line, we reduce prices through spring and fall sales or monthly special sales in other months, which lower prices for limited products and period.

**Q23:** As the franchisor, are you providing any supports to franchisees regarding rising store operating costs? For example, are you allowing an increase in the retail selling price, while leaving the purchase price from you unchanged?

**A23:** We don't provide direct financial supports to franchisees, but as you mentioned, even if our selling price hasn't changed, if there is room to raise the suggested retail price, we will do so. On the other hand, when we receive price reduction proposals from manufacturers, we may make adjustments by lowering the sales price to franchisees without changing the retail price. However, we think that one of our future challenges is to improve overall markup rates and gross profit margins.

**Q24:** Are you planning to expand the delicatessen business? Although I understand that it needs a kitchen room, do you have any plans, such as to set up a mini factory dedicated to delicatessen in a nearby location?

**A24:** Our delicatessen business (Chisouna) will expand in the future because it has strong sales at existing shops and has received many requests to open new shops. One of the important points at Chisouna is to do final cooking steps in-house, so we aren't actively considering building a mini factory exclusively for the business and delivering finished products for sale. However, we believe that the mini factory system is quite feasible for products that don't deteriorate when refrigerated.

**Q25:** Compared to previous years, construction and operating costs have gone up, but what about the willingness of franchisees to open new stores?

**A25:** The willingness of franchisees to open new stores is still high. On the other hand, when we met with franchisee managers, we heard that their biggest concern are construction costs and securing human resources.