



*News Release Dated June 19, 2024*

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### **Action to Implement Management that is Conscious of Cost of Capital and Stock Price**

The AOKI Holdings Board of Directors approved a resolution today concerning a policy for activities to analyze and evaluate the current status of the company regarding management with consciousness of the cost of capital and stock price and improvements for implementing this management. The goal is the sustained growth of business operations and the medium to long-term growth of corporate value.

Please refer to attached documents “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” for details.



# **Action to Implement Management that is Conscious of Cost of Capital and Stock Price**

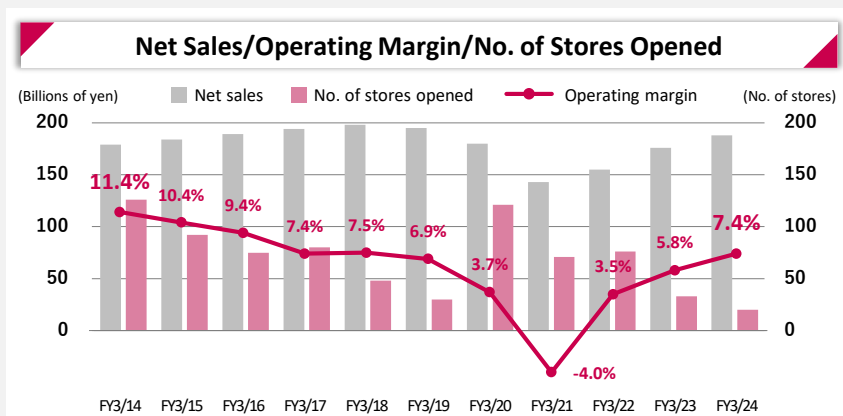
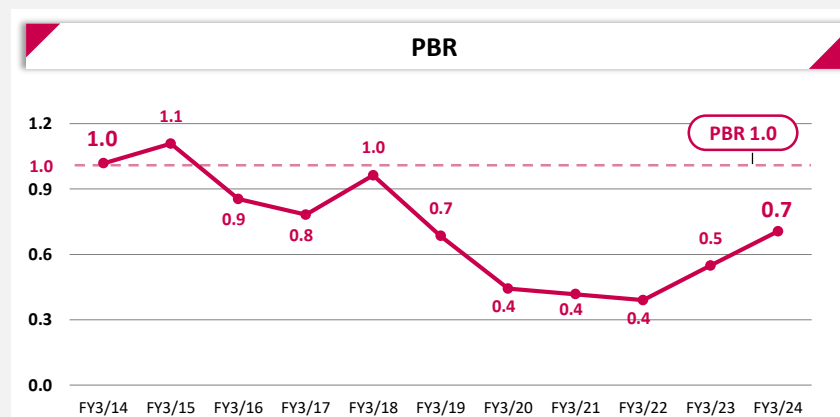
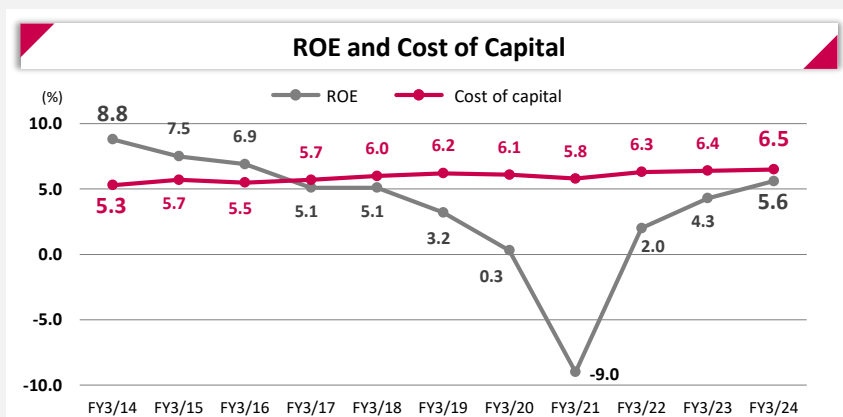
**AOKI Holdings Inc.**

**June 19, 2024**

# Analysis of the Cost of Capital and Return on Equity

**Current Status  
vs.  
Prior Years**

- In FY3/14, Fashion Business earnings rose to a record high in part because of a surge in demand as people rushed to make purchases before a consumption tax hike. The result was an ROE of 8.8% that was well above the cost of capital of 5.3% and a PBR of one.
- In the following years, AOKI Group opened many stores to increase its market share. However, a decline in the operating margin caused in part by a change in the business climate brought down asset utilization efficiency as well as the ROE and PBR.
- Although earnings fell even more during the pandemic, the ROE has been increasing due to measures to reflect changes in the business climate.
- Currently, the PBR is below one, mainly because the operating margin is low and the ROE is below the cost of capital.



### Premise for the Cost of Capital

(Calculated by AOKI Holdings based on the CAPM as of the end of March 2024)

$$\text{Cost of capital} = R_f + \beta \times (R_m - R_f)$$

Cost of capital

**6.5%**

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ROE

**5.6%**

<b>R<sub>f</sub></b>	(Risk-free rate)	Current yield of 10-year Japanese government bonds
<b>β</b>	(Beta value)	60-month average of AOKI Holdings stock historical beta vs. TOPIX
<b>R<sub>m</sub>-R<sub>f</sub></b>	(Risk Premiums)	Average using the historical and implied methods

- To provide guidelines for measures to improve return on equity, AOKI Holdings announced a medium-term plan on May 10, 2024, that covers the three-year period ending in March 2027.
- In the plan's third year, the goals are sales of ¥200 billion, operating profit of ¥18 billion, an operating margin of 9%, an ROE of 7%, and a PBR of one.
- To raise the PBR to one, AOKI Holdings plans to increase distributions to shareholders even more and allocate capital effectively.

\*Please see our website for the Medium-Term Management Plan FY2024-2026 (<https://ir.aoki-hd.co.jp/en/ir/irfiling/management-plan.html>)

## Consolidated Earnings Plan for FY2024–2026

**RISING 2026**

Grow profits by approximately 10% annually to achieve an operating profit of ¥18 billion in three years.

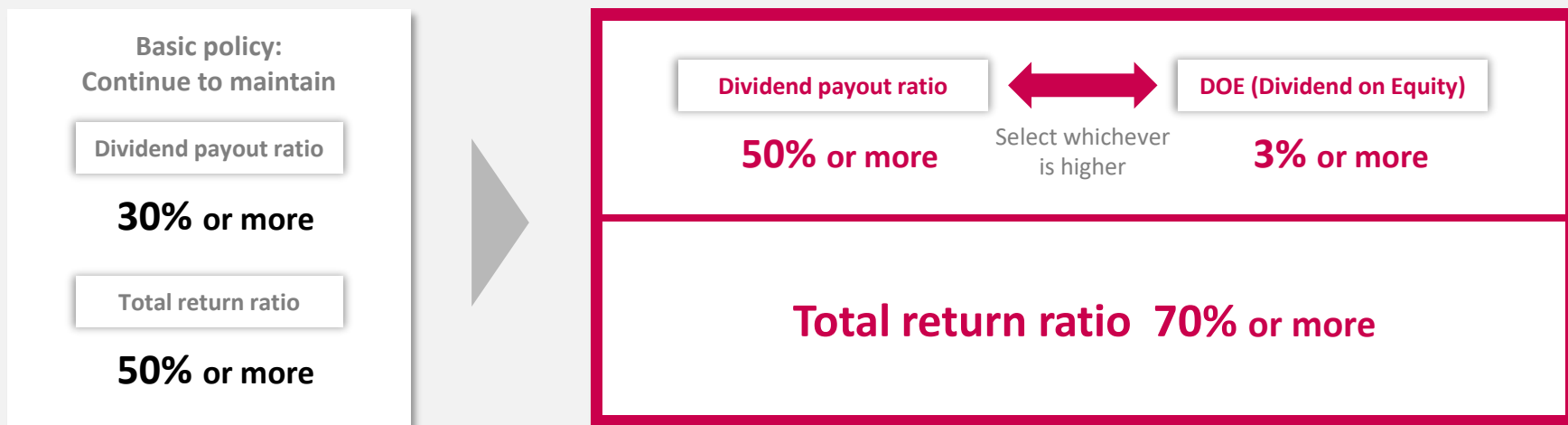
Review each business and develop new businesses to aim for an operating profit of ¥30 billion in ten years.

## Management Targets (FY2026 financial targets)

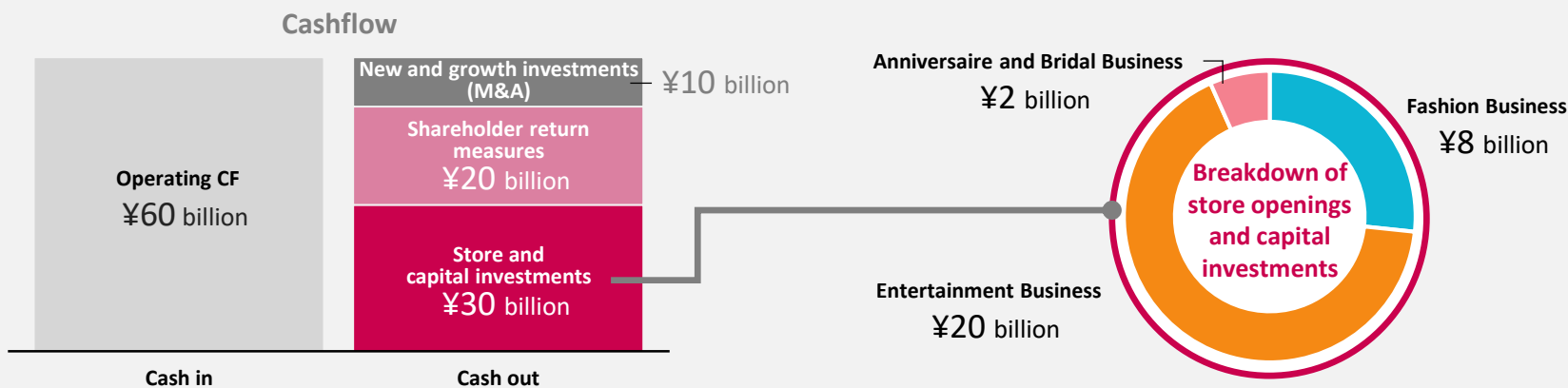
	FY2023 results	FY2026 target	FY 2023 ▶ 2026
Net sales	¥187.7 billion	¥200.0 billion	+ 2.2%/yr *
Operating profit	¥13.8 billion	¥18.0 billion	+ 10.0%/yr *
Operating margin	7.4%	9.0%	+ 1.6pt
ROIC	5.2%	6.7%	+ 1.5pt
ROE	5.6%	7.0%	+ 1.4pt
EPS	90 yen	120 yen	+ 30 yen
PBR	0.7×	1.0×	+ 0.3pt
Group overall store numbers <small>Directly managed stores</small>	1,334 stores	1,434 stores	+ 100 stores

\*Compound Annual Growth Rate (CAGR)

## Medium-term management plan (FY2024 to FY2026) targets to achieve a PBR of 1



### Capital Allocation for the Medium-Term Management Plan Period



## Issues

PBR

Below one

FY3/24

0.7x

ROE below  
cost of capital

FY3/24

Cost of capital

6.5%

ROE

5.6%

## Business strategies/Financial strategies

## Higher ROE

<p><b>Improvement in profitability</b></p>	<ul style="list-style-type: none"> <li>• New products and services that match changes in market conditions and revisions and upgrades to business models</li> <li>• Appropriate responses to rising expenses, provision of value-added products and services</li> <li>• More efficient advertising and marketing and use DX to operate stores efficiently</li> </ul>
<p><b>Improvement in asset efficiency</b></p>	<ul style="list-style-type: none"> <li>• Rebuild store models in every business segment</li> <li>• Reduce investments needed to open stores and improve sales area efficiency (sales per square meter)</li> <li>• Use OMO (online-merge-offline) and other activities to increase inventory efficiency</li> <li>• Reduce assets by selling real estate that is unused, investment securities and other assets</li> </ul>
<p><b>Appropriate financial leverage</b></p>	<ul style="list-style-type: none"> <li>• Keep debt at an appropriate level</li> <li>• Substantial distributions to shareholders, including repurchasing stock, in accordance with the targets of the current medium-term plan</li> </ul>

## Non-financial strategies

## Higher PER

<p><b>More IR/SR activities</b></p>	<ul style="list-style-type: none"> <li>• Increase constructive dialogues with investors and shareholders</li> <li>• Increase the volume and transparency of information disclosed</li> <li>• More English-language materials for overseas investors</li> <li>• Increase the disclosure of non-financial information</li> </ul>
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