Q&A for the Financial Results for the Cumulative Second Quarter of the Fiscal Year Ending October 31, 2024

We have provided this Q&A as a reference for questions you may have regarding the financial results disclosed today for the cumulative second quarter of the fiscal year ending October 31, 2024.

Q1: Why have both sales and operating profit increased significantly year on year?

A1: Due to the continuous improvement in store QSCA (Quality, Service, Cleanliness, and Atmosphere), average monthly sales in existing stores have reached record highs without a drop in the number of customers, even after the price revision. As a result, it has been possible to achieve a significant increase in sales and profits, with the first half results for existing store net sales above expectations at 111.4%, compared to the first half assumed figure of 110% (105% assumed for the full fiscal year) from last year (Please refer to pages 4, 5 and 6 of the Results Briefing Materials for more details).

Q2: The gross profit margin decreased year on year. Was this in line with expectations?

A2: The rise in raw material prices has slowed and the gross profit margin is expected to remain unchanged from 2Q of the previous fiscal year. The results for the first half of the fiscal year were also in line with our assumptions (Please refer to page 13 of the Results Briefing Materials for more details).

Q3: Regarding the price revisions implemented in January 2024, what was the reason for the revision, the revision amount, and the subsequent impact on customer traffic?

A3: On January 1, 2024, we increased the prices of all our brands by an average of around 10 yen (approx. 1% of the previous prices). After the revision, there has been no negative impact on customer traffic, with the customer numbers higher than for the previous fiscal year.

We operate under the policy of revising prices to absorb increased costs incurred from the aspects of both costs and labor costs. In order to secure competitive human resources, we significantly increased wage levels in January 2024 and revised prices to cover the associated increase in operational costs (Please refer to page 7 of the Results Briefing Materials for more details).

Q4: Please explain why you are refurbishing your stores.

A4: Based on our internal assessment, we observed that maintaining soup at a consistent warming temperature resulted in more consistent soup quality. When keeping soup warm, cooking with induction heating (IH) can more easily keep soup at a constant temperature versus cooking with gas, and reduces CO_2 emissions. Therefore, we are advancing introduction of IH. For our leading business Machida Shoten, IH will be used in any new stores, and we are sequentially refurbishing existing stores to introduce IH and a new layout. Our aim is to improve the consistency of soup quality through cooking with IH and to enhance productivity through the new layout (Please refer to page 8 of the Results Briefing Materials for more details).

Q5: Could you describe the progress for the opening of stores?

A5: For the first half of the fiscal year, there was a net increase of 28 company-owned and franchise & produced stores, as the progress was slightly behind the annual target (annual net increase target: 87 stores). However, we are making steady progress in concluding rental agreements for stores managed by KOURAKUEN Holdings Corporation and making steady progress to catch up with our annual store opening plan (Please refer to pages 15 and 16 of the Results Briefing Materials for more details).

Q6: Could you describe the progress status for securing personnel?

A6: We are implementing or planning various measures to secure personnel, and these measures are gradually having an effect. We have updated the recruitment website and increased wages in January 2024. Also, 12 cast (part-time or casual employees) have joined the company as regular employees in the first half of the fiscal year. We have also offered jobs to 10 people during overseas recruitment and are conducting training at local Japanese schools. The retirement rate fell from 20.1% year on year to 17.1% in the first half of the fiscal year, showing a declining trend. We will continue to work on reducing the retirement rate by balancing comfortable work with rewarding work and strengthening our recruitment capability by increasing the number of job applicants and rate of job offer (Please refer to page 10 of the Results Briefing Materials for more details).

Q7: The full-year forecast has been revised. What was the intent of this revision?

A7: There are three major points concerning the intent behind the full-year forecast revision.

① We included the upward swing for the first half of the year.

② There is a disparity in the initial store opening plan and the actual expected store openings, so we made adjustments. In particular, we are planning to open many stores in July and onwards, so we have adjusted for this point.

③ We have reflected the current business trend. More specifically, financial results of overseas subsidiaries are consolidated with a three-month delay and adjusted for elapsed months in which the results are already released. Furthermore, the monthly financial results for May from Japanese subsidiaries have been released, so we have adjusted for this point as well.

We will continue to work on various measures to achieve the revised full-year forecast (Please refer to page 22 of the Results Briefing Materials for more details).

Q8: What is the cost forecast for the second half of the fiscal year and are your efforts to address this?

A8: Although cost increases have slowed in the first half of the fiscal year, we expect various costs to rise as mentioned in newspaper reports and such for the second half of the fiscal year and onwards. We are expecting the price of imported ingredients to rise as the yen weakens, the price of Japanese ingredients to rise due to poor harvests caused by bad weather, increases in utilities expenses (end of measures to mitigate drastic change, increase in levy for renewable energies, the establishment of capacity contribution) and wage increases.

We plan to operate in the future under the policy of revising prices as needed to cover the increased cost of operating stores (Please refer to page 22 of the Results Briefing Materials for more details).

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