

2Q FY2/23 Results Briefing Q&A Session Summary

Q&A Session

Q1: Fashion jewelry for female customers was one of the reasons why sales and profit rose in the first half of FY2/23. Can you elaborate on why it performed well?

A1: Today, more women take the control of consumption. Previously, gift needs among male customers accounted for a significant percentage of the Company's sales. However, we have worked to change our business strategy over the past two years on the assumption that gaining the support of female customers will increase our customer base among couples and, ultimately, male.

In order to gain the support of female customers, we are actively expanding product planning from standard products that meet gift needs to highly fashionable and trendy items. In addition, we are disseminating information in an effort to stimulate buying interest based on the attributes of the approximately 680,000 customers we have attracted through our customer management efforts over the past three years. This has enabled the Company to create opportunities for female customers to visit its stores.

Q2: What exactly does product planning entail? For example, does it include limited edition products like those commemorating 4°C brand's 50th anniversary, and has it attracted more female customers?

A2: Product planning includes collections and themed jewelry such as "Noble of Water". While maintaining the essence of 4°C brand, we are actively proposing new plans for products tailored to customer needs by focusing on trends and coordination for items such as ear cuffs. In fact, we have gained more female customers by aggressively releasing new products targeting this market.

Q3: Did the fading impact of temporary store closures due to COVID-19 help increase sales and profits in the first half of FY2/23?

A3: We saw clear improvement in 2021 versus 2020, when we were forced to close stores for an extended period of time. However, the comparison between 2021 and 2022 has shown only minor differences in normal operation, as store closures were limited. On the other hand, consumption is steadily recovering with restrictions on movement being lifted, and we presume that jewelry has started to be sold accordingly.

Q4: What specifically is fashion jewelry?

A4: Jewelry is divided into three categories: fashion jewelry, gift jewelry and precious jewelry. The purpose of gift jewelry is self-explanatory, while precious jewelry is merchandise made of precious stones and metals that generates asset value. On the other hand, we view fashion jewelry as having a strong fashion element and being geared toward personal demand for items one wishes to buy and wear oneself.

Q5: Bridal jewelry sales in the second half of FY2/23 are expected to be on par with the first half, so what issues do you face amid tough market conditions with no recovery in the number of marriages? In addition, what is the impact of changes in bridal jewelry customer service approaches and store remodeling implemented in the first half?

A5: Bridal jewelry sales in the first half were approximately 90% of the 2021 level and below target. Regretfully, this reflects our misreading of the market. An outside researcher had forecasted marriages to rise 8.3% year on year, but this actually turned out to be flat at +0.1%. Furthermore, this reflects an estimated 3-4% decline in the number of marriages among those in their 20s, our main customers.

In addition, more customers are increasing spending on bridal jewelry and shifting to luxury brands, as they are still refraining from traveling abroad and/or holding wedding receptions. In fact, those brands are currently showing over double-digit percentage sales growth, and this trend will likely continue for some time.

We see challenges for our bridal jewelry particularly for specialty bridal stores, while bridal jewelry sold at department stores continues to remain unchanged. We have a half century's worth of experience in fashion jewelry. In contrast, we began operating bridal specialty stores only 10 years ago in 2009 and now face lack of know-how.

In the second half, the Company will continue to strengthen its marketing capabilities by retooling its customer service approach along with revamping its location strategy. We plan to move to locations that will likely attract more customers and to renovate key flagship stores rather than just regional ones, with the Ginza main store in particular to undergo major renovations next spring.

As for bridal jewelry, the number of stores featuring luxury as well as domestic competitor brands has more than tripled. Against this backdrop, we will make a firm decision in the second half on whether we can compete by concentrating our investments in this area, and we will deliberate further about streamlining.

Q6: Please explain this year's Christmas shopping season. To what degree do you expect the Christmas market to recover compared to before the pandemic, and what specific strategies will you adopt for the Christmas shopping season?

A6: December 23 ceased to be a holiday in 2019, and COVID-19 significantly reduced outdoor activities and events. There has been a clear recovery in department store customers and more opportunities to go out and events compared with the past two years. Above all, we expect sales to improve owing to the Christmas "Golden Calendar" this year and anticipate earnings to recover on par with 2019.

Under these circumstances, the Company will not rely solely on male gift-giving demand, but will take steps to increase the support from female customers. The first initiative focuses on merchandising. We will dynamically increase new items being planned by 140% and volume by 150% year on year. At stores, we will triple display space for fashion jewelry items, which are linked to personal demand. In addition, we will increase jewelry for coordination such as earrings and bracelets by 1.5 times to meet changing consumer needs.

The second initiative focuses on customer strategy. The Company will significantly increase LINE messages to its 680,000 customers to entice more store visits. We will also aggressively approach male customers—who account for about 40% of all customers—just before Christmas, while aggressively

pursuing direct mailouts. We will liven up this year's Christmas sales season mainly by having store staff send heartfelt handwritten letters to convey a sense of specialness to our around 800 loyal customers who make purchases three or more times a year.

Q7: What is new about RUGIADA brand sold online since it was suspended a few years ago, specifically in main price range and number of items in the collection?

A7: RUGIADA was suspended for earnings reasons, yet personal demand was very strong from female customers, who were an earnings stream at the time. The restoration of RUGIADA is intended to demonstrate our approach to debuting very fashionable products with added value that exceeds 4°C brand. The Company is considering broadening its price range in order to gain support from a wide range of customers. We will also maximize our online strength by proposing new product plans as often as possible.

Q8: Please explain your apparel manufacturer business model. Do you own your factory in Bangladesh?

A8: This model involves engaging in consignment production as an original equipment manufacturer (OEM) and making product planning proposals as an original design manufacturer (ODM). In our apparel manufacturer business, we have established multiple production bases overseas, mainly in China, Vietnam, and Bangladesh, and our competitive advantage lies in our ability to offer optimal production and planning tailored to the characteristics and purposes of each client company's brand. This business model ultimately has deep roots in product wholesaling.

We previously owned the production facilities located in China and Vietnam. Operational efficiency is currently increasing owing to the partnership of cooperative factories that strictly manage production to meet our quality standards.

Q9: What kind of store is PALETTE, which operates mainly in Kansai region? Are the business models for competitors such as Shimamura or Uniqlo/GU similar, albeit on a different scale? Also, what is PALETTE's gross profit ratio?

A9: PALETTE's closest peers include Shimamura, as well as Paseos in Kanto region, while PALETTE targets a wider age range than GU, which focuses on young customers. Its gross profit ratio on a merchandising basis is 32-33%.