

FY2/24 1H Results Briefing Q&A Session Summary

Q1. What is the content of the reform measures for bridal jewelry, and the outlook for earnings?

The structural reform for the bridal jewelry business is moving forward, with an emphasis on the bottom line. We expect to complete store closures by the end of FY2/25, which we anticipate will provide a boost to earnings of around ¥100 million annually.

The stores are being reorganized into three formats. These are the consolidation of nearby stores, integration with fashion jewelry in department stores, and the establishment of flagship stores in major metropolitan areas.

This is not a withdrawal from the bridal jewelry business, but rather a strategic initiative to enhance our brand power and restore competitiveness through structural reforms.

Q2. What are your thoughts on this year's Christmas sales season, including looking back on last year? What measures are you taking to capture demand, especially product or sales measures?

The restrictions implemented in the wake of the pandemic have been lifted, and demand from men for gifts is recovering. We see these as positive factors for the Company. The calendar schedule is not bad either.

In terms of products and sales promotions, we will focus primarily on providing value through e-commerce. For products, we will expand the range of coordinated items, and conduct pre-order sales for collections. To provide interactive experience-style value, we are adding functionality to try on items virtually using augmented reality, along with engraving and message services. We plan to pursue various initiatives to enhance our website to make it more appealing.

Registered store customer data has now reached one million customers, so we plan to utilize this data for attribute matching and conveying a sense of special treatment. We are also hopeful that the positive image on social networking services from the "Nameless Jewelry Shop" event held in September will attract more customers.

Q3. What was the final number of customers at the Nameless Jewelry Shop and the subsequent response?

We had 5,500 visitors to the Nameless Jewelry Shop, 84% of whom were women. The type of people who came to the store were highly discerning. We received 2,200 responses to our survey, and 2,600 posts on SNS. We also had 170 instances of media exposure.

The effect was as expected, with brand value conveyed through the experience of trying on items. A total of 83% of respondents said that their image of 4°C had changed favorably, and messages posted on SNS and other services by influential customers boosted our image among consumers.

Going forward, we plan to give shape to the idea of "brand value conveyed through interactive experience," and implement strategic experience-based measures. We will start building a base of fans who will constitute the core of the influencer base, and continuously pursue efforts to positively shape public opinion.

Q4. It seems that there is room for upside in full-year operating income in the Apparel Business. Is there some sort of risk in the second half?

The business environment is now fully in the post-covid era, so the expectation of increased consumption is a positive factor. Among the negative factors, however, is that wages have not kept pace with rising prices. There is also a possibility that consumption will contract due to a desire to economize. The apparel manufacturer business is also affected by foreign exchange rates.

PALETTE records a large proportion of its sales in December, so like in the jewelry business, December sales will significantly impact the final numbers. Store openings scheduled for the first half of the fiscal year have been shifted to the second half, so openings will be concentrated in the second half with nine new stores. However, the first half of the year was positive, so we want to meet expectations in the second half as well.

Q5. What is your assessment of efforts to expand the number of female customers, one of the priority measures for the Jewelry Business? Also, how do you view the recovery of business from male customers?

Sales to female customers were up 3% year on year, and we noted that business from male customers also increased during the first half. We want to win empathy and support from the women who wear the brand, in order to enhance our brand value and ensure that it endures into the future.

In the second half, we plan to increase the number of new products and collections. For sales promotion measures, we want to pursue the type of value that can be provided through interactive experience.

Since the proportion of male customers is high during the Christmas sales season in December, we expect the growth of male customers in the first half of the year to be a factor that will lead to an increase in the total number of customers overall.

Q6. Were the products exhibited at the Nameless Jewelry Shop also sold in 4°C stores? Also, based on the response to the Nameless Jewelry Shop, do you plan to make use of this exhibition method in your stores?

Thirty percent of the products exhibited were new additions. The products and the project generated an extremely strong response, so we will proactively consider expanding them to stores in the future. *[Note: We stated during the briefing that 70% of products were new. This has been corrected.]*

Regarding the theme of “conveying brand value through interactive experience,” we will proactively consider what we can do in the future in terms of products, services, and customer service at our stores.

Q7. What is the status of price revisions, and future plans?

We have managed to maintain profitability in both the Jewelry and Apparel businesses by passing on higher costs with price increases. In the Jewelry Business, we have raised prices four times in the last two years, including this most recent increase. We will carefully consider future price revisions.

In the Apparel Business, PALETTE has previously raised prices twice. In the first half, sales at existing stores cleared the level of the previous year, but the number of customers was down, with the unit price per item increasing to balance out the total. Considering that our priority is on

the number of customers, we would like to maintain current prices in the future.

Q8. Regarding the e-commerce business for jewelry, the results have been extremely positive this period. What is the outlook for the full fiscal year, and the basis for your forecast?

E-commerce sales were up 19% year-on-year in the first half. Even on average over the last six years, growth has been in the double digits. Profitability is extremely high at 25% in terms of the operating margin, so this is a sales channel that will play a driving role in improving the bottom line going forward.

We think the reasons for the strong performance are changes in purchasing trends, and the recent recovery in gift demand from men. The underlying reasons are convenience and sustained progress with digital measures to provide value through interactive experience.

We plan to incorporate specific measures for OMO (Offline Merge Online) strategies in the next medium-term management plan as a core strategy for improving brand value.

Q9. Please give us an overview of the direct-to-consumer (D2C) brand that will be released in November, as far as you can explain at this stage.

The D2C brand is scheduled to debut in November. The basic idea is to enhance brand value in response to greater diversity. The brand name “Kakera” means “loose, unpolished gemstones.” We hope to develop the brand to serve as a sort of amulet that resonates with young women interested in trendy casual.

Q10. What were the first half results for PALETTE?

Net sales in the first half amounted to ¥6.7 billion, with an operating profit margin of 4.9%. This is up from sales of ¥6.1 billion and an operating profit margin of 4.7% in the same period of the previous year.

Q11. Does PALETTE have any plan to open stores in the Kanto region in the second half of the year?

Of the nine scheduled store openings, one will be in the Kanto region. There are a total of five stores in the Kanto area. From next year onwards, we would like to concentrate store openings in Kanto.

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