# 4Q FY2/21 Results Briefing Q&A Session Summary

Q&A Session

Q1: What led you setting the numerical target of ¥20 billion in sales of the everyday fashion brand PALETTE, which is experiencing robust nesting demand, for the fiscal year ending February 28, 2027?

A1: There are two main reasons for setting this numerical target. The first is the growth in PALETTE membership, which is expanding at a rate of around 40,000 each year. The second is our extremely high profile in the Kansai area, which reflects successful efforts to entrench our dominant position in the region. Looking ahead, we will continue to focus on raising awareness through TV commercials. Kansai is a trading zone with more than 12 million people. Currently, we have 50 PALETTE stores in the area. With the potential to open one store per 100,000 people, we are more than confident of achieving our target.

Q2: How will you differentiate PALETTE going forward? Moreover, will you shift your mainstay business from jewelry to apparel?

A2: While competitors are withdrawing from the Kansai area, PALETTE believes the potential exists to open 10 stores each year. Exhibiting this willingness to open new stores has placed us in a favorable position when negotiating with developers, which in turn affords us considerable competitive advantage. Having said this, there is no change in the Group's stance toward its mainstay Jewelry Business. Admittedly, COVID-19 is not expected to completely dissipate during the period of the Sixth Medium-Term Management Plan. Nevertheless, we will continue to pursue a strategy that entrenches PALETTE's dominant position in the Kansai area and to grow the brand as the second major pillar of our business. We are fielding many offers for PALETTE from the market. In nurturing PALETTE as a second major pillar, we are better placed to invest in our mainstay Jewelry Business, and as a result, have established an optimal business portfolio.

Q3: What was the impact of employment adjustment subsidies and rent reductions due to rent negotiations on business results for the fiscal year ended February 28, 2021? In addition, how have you reflected these factors in forecasts for the fiscal year ending February 28, 2022?

A3: In the fiscal year ended February 28, 2021, we posted approximately ¥460 million in employment adjustment subsidies as extraordinary income. We believe that the impact on profit and loss in the fiscal year ending February 28, 2022 will be expressed as an increase in SG&A expenses. The reduction in rent due to negotiations is approximately ¥100 million, and we expect the same reduction to continue in the fiscal year ending February 28, 2022.

Q4: How were you able to stay in the black and raise dividends despite the difficult conditions encountered by other jewelry retail specialty stores?

A4: The Jewelry Business has an extremely low break-even point ratio. For department store transactions, rent is based on a percentage of sales, so if sales go down, rent goes down. In addition, we were able to secure profits through employment adjustment subsidies and proper inventory management during the April-May period when operations were suspended.

Q5: What are the strengths that allow you to maintain sales with the support of its customers even against the backdrop of a difficult operating environment?

A5: We have been successful in building a highly profitable structure in the Jewelry Business. At the same time, PALETTE has grown to become a second pillar in the apparel business. Moreover, we maintain a strong financial base and a business model that can generate cash flow even with the COVID-19 pandemic. One of our greatest strengths is our balanced business portfolio.

Q6: To what extent do you expect a dramatic recovery in growth after the Seventh Medium-Term Management Plan?

A6: We will refine the EC Business over the three-year period of the Sixth Medium-Term Management Plan. We will analyze various data and improve the repeat rate while promoting DX-response measures. In addition, we will focus on investments to enhance brand value by undertaking cross-channel advertising investments centered on magazines. Furthermore, the amortization of goodwill will come to an end in the fiscal year ending February 28, 2027, and operating income will climb by ¥500 million in the fiscal year ending February 29, 2028. Accounting for each of the aforementioned, we will utilize funds over the three years of the Sixth Medium-Term Management Plan to improve our brand value. This in turn will serve as the foundation for a dramatic recovery in growth during the period of the Seventh Medium-Term Management Plan and beyond.

Q7: The Company is planning to invest in efforts aimed at enhancing the value of the 4°C brand under the Sixth Medium-Term Management Plan. What is your target market?

A7: The core target market for 4°C jewelry is customers in their 30s. As far as gift demand is concerned, we are targeting the entire range of customers between the ages of 25 and 35. The Company has a strong following among career women in the workforce. Accordingly, we will employ magazine advertising as well as online tools using Instagram together with the video distribution of makeup and jewelry proposals in collaboration with various partners including YouTube makeup artists.