TRIAL HLDGS

November 14, 2024
TRIAL Holdings, Inc.

【Presentation Script for Investor Briefing (1Q FY2025)】

(Overview of consolidated results)
(Presenter: Keiji Furuhashi, Corporate Officer and Executive Vice President)
(Presentation Slides for Results Briefing: P3)

This report provides an overview of consolidated financial results for the first quarter, the three-month period from July to September 2024, in the form of key performance points and an explanation of the background to these results.

There are three main points.
(1) Net sales grew by double digits, maintaining strong growth.
(2) The sales strategy to increase gross profit margin was successful.
(3) We made aggressive investments for the next growth.

Net sales were up 10.5%, thanks to strong sales growth. This was due to new customers started to visit our existing stores, and we were able to expand our customer base.

The contribution came from an improved level of product lineup and price proposals, centering on fresh and ready meals, which are the company's forte. This was the result of fine-tuning the lineup of daily necessities, including food and daily consumables, according to the characteristics of the trade area where the stores are located and the competitive environment.

Gross profit increased by 12% on an amount basis, or 0.3 percentage points in GP margin. The GP margin was at 19% in the previous financial year, but it reached 20% in the first quarter.

In the external environment, consumer sentiment is not optimistic amid rising food, electricity and other costs of daily living.
In view of the current environment, we have implemented a strategy to improve our competitiveness in the long term, rather than blindly pursuing gross profit.

Since January 2024, customers' price sensitivity for daily necessities has gradually increased. During the six-month period, there was a gradual change. During seasonal events and family gatherings, customers were active in spending to have a good time together, but once these events were over and they returned to their daily lives, they went into a tightening mode for their usual purchases.

As the season turned to summer, the three months from July competitive landscape became less intense among retail stores. We were able to increase both the number of customers and sales significantly by prioritizing sales measures that anticipated consumer sentiment and met their expectations, while at the same time capturing small changes in the competitive environment among retail stores, which led to an increase in both the amount and rate of gross profit.

The specific performance of fresh and ready meals and private brand products, which were the drivers of gross profit, will be explained later in this report.

And operating profit, fell by 11.2% YoY, with the operating profit margin down 0.6 percentage points to 2.5%.
We have an important message for you regarding operating profit.
The increase in costs due to store openings. It pushed down operating profit. No negative factors were incurred. It is strategic investment in order to lay the ground work for further growth.

We opened new stores as planned. The execution of growth investments with upfront costs was the reason for the decrease in operating profit in the first quarter.

The guidance announced in August for 1H andFY2025 remains unchanged. The company has good visibility to achieve the plan.
We focus on the amount of operating profit and the rate of increase rather than the rate of increase, and we are on track to achieve a 12.7% increase in sales and a 20% increase in profit for the full year to 2025, as planned.

Back to the summary slide.
In the first quarter, nine new stores were opened in line with the plan at the beginning of the period. The same store sales growth was 4.4% YoY.
We performed well despite the record-breaking heat wave, which was a headwind for consumption, and the cumulative SSS for the three months from July to September exceeded our full-year plan of 4.1% growth.

(P4)
Page 4 is the consolidated PL. Actual results are as stated, but on the right side of the slide the percentage of progress against the first-half forecast is shown. All of these are on track.
Many of you are probably familiar with the quarterly seasonality of the distribution and retail business, but I will review it again.

TRIAL closes its book in June, so the first quarter from July to September is the season for capturing summer demand.
In addition to the usual daily necessities, this quarter is the season for leisure goods and other items related to summer holiday outings tend to be high.

The second quarter is the busiest period, with the quarter from October to December being the highest of the year in terms of both sales and gross profit.
This is mainly due to the year-end sales season. There are special high-unit-value products sold in December for Christmas and New Year's. These include large chicken and party plates for Christmas, Osechi ingredients and sushi platters for New Year.

For example, fish paste such as kamaboko is a product that is sold all year round, but for New Year's many upgraded products are developed. Therefore, business during the last 10 days of December is very important.

The third quarter is a slow period, as there are no major seasonal events from January to March and fewer days on the calendar than in other quarters.

And the fourth quarter, April to June, is a recovery period: there is Golden Week holiday demand in May and seasonal products change to summer products.
The normal seasonality is from 2Q to 4Q, then 1Q to 3Q, in order of highest to lowest sales.

The first quarter of the year was in tough environment by natural disasters, including record-breaking heat waves, earthquakes and torrential rains, but we were able to recover quickly and flexibly, taking advantage of our flexible response to change and our 24-hour operation.

(P5)
Page 5 of the report provides an overview by segment.
Sales and profits in the distribution and retail business increased and decreased because of the increased costs associated with the

aggressive store openings with large sales floor space and there was a heavy burden of the quarter, including lost profits until the new stores are up and running.

The Retail AI business recorded lower sales and more profits.
This was mainly due to a slower pace of new installations compared to the previous quarter, when there were many new Skip Cart installations.
This first quarter, was in an adjustment phase, but growth is expected to resume from the second half of the year onwards. Retail AI is preparing for profit contribution from the next financial year onwards.

（P6）
Page 6 describes the four key strategies.
The points that have been strengthened since the previous year will continue to this year.
Specifically, we will prioritize sales growth through existing stores and through new store openings while improving profitability by evolving the product mix and controlling costs.
Furthermore, step by step, we are advancing our long-term strategy of changing the distribution ecosystem in the field of retail tech, which is the uniqueness of TRIAL.

TRIAL's focus is not on short-term, apparent increases in profitability.
Our top management priority is to make sure high growth over the long term.
In a retail industry undergoing consolidation, there are only a limited number of players who can aggressively open new stores and increase their market share.

We are confident that we can be one of the key players of the future.
Please understand that we are now making aggressive investments with

all the right conditions, including location, human resources and cash.

(Presenter: Keiko Hirai, Head of IR)
(P7)
Page 7 shows changes in existing stores: sales increased by 4.4% in 1Q, of which the growth in customer traffic was 3.2% and the growth in the spending per customer was 1.1%, driven by an increase in the number of customers.
Analysis of ID-POS data shows that the increase in customer numbers was due to the acquisition of new customers, rather than an increase in the frequency of visits by existing customers. New customers who had not previously visited TRIAL are starting to come and becoming repeat customers.

Looking back at July, August and September, they were three months of ups and downs: in July, leisure-related consumption during the summer holidays suffered due to the dangerously hot summer. In addition, there was two less holidays YoY.

In August, demand for water, processed food and emergency supplies surged in the wake of the earthquake that struck off the coast of Hyuga nada in Miyazaki Prefecture on 8 August and there were a series of typhoons.
We were able to demonstrate the strength of our own beverage plant and distribution network, as well as our 24-hour operation.

In September, there was a reactionary drop from the temporary stockpiling demand that occurred in August.
Although it was a very hot summer throughout the three months, sales of daily necessities remained solid and strong.

Including the October monthly results announced this week, same-store sales have continued to increase YoY for 41 consecutive months - a growth record that has been in place for three years and five months since June 2021.

(P8)

On page 8, the growth of fresh categy and ready meals has been particularly impressive. TRIAL's tasty and inexpensive ready meals became more and more popular.
One of our specialty products, the Pork Cutlet Bowl, has been renewed. The cutlet has increased in volume, and while the price remains 299 yen including tax, the product has been renewed to be more satisfying. It is a popular product that sells 10 million servings a year.

We are pleased to announce that TRIAL's self-developed delicatessen won the Gold Award for the Plentiful Egg Sandwich and the Ohagi and Pork Cutlet Bowl won in the National Supermarket General Election for Delicious Food 2024.

(P9)

Page 9 shows the results of store renovation by format.
Eight stores, mainly Super Centers, were renovated. We have explained since the previous year that we will renovate approximately 30 stores every term, and we plan to renovate 28 stores in FY2025, which is progressing according to plan.

(P10)

Page 10 shows the status of new store openings and closures.
In the 1Q FY2024, one small store was opened while three stores were closed.
In contrast, in the 1Q under reviewFY2025, nine new stores were opened and no stores were closed.
There were two Mega Centers, six Super Centers and one small TRIAL GO store.
In FY 2025, the company plans to open 27 new stores, with 19 in the

first half and 8 in the second half, meaning that 70% of store openings will be concentrated in the first half of FY2025.

（P11）

The status of new store openings by region is shown on page 11.
Out of the nine stores opened in 1Q, 3 were in Kyushu and 6 were outside Kyushu. Many of our store openings were in areas where there were previously no or very few stores.

While we are able to develop markets in new areas, it takes longer time for new stores to generate profit than in Kyushu, where we are strong. There are strong local players in every region of Japan, so the process of making TRIAL profitable while building recognition and gaining local customers takes time and effort, but we are boldly taking up the challenge as the first step in developing a dominant market.

The number of stores reached 327 at the end of September, with plans to open 10 new stores in 2Q, with the first store opening in Ishikawa Prefecture.

（P12）

Following the opening of the first Hokuriku store, the Toyama My Plaza store in July, in October, a store was opened in Nonoichi, Ishikawa prefecture. The store took over a property after an electronics retailer. We are also expanding our network of stores into new areas at a faster pace.

（P13）

Sales by product category, page 13.
The food sales stood at 74.4%, with non-food products accounted for 25.6%. Compared to the 1Q FY2024, the food ratio increased by 0.8 percentage points.
This was due to the high demand for ready meals and easy to cook

processed foods, as well as TRIAL's strategic reinforcement of ready meals.

Sales of ready meals increased by 23.5% YoY, with a composition of 6.2%, 0.7 percentage points higher.

（P14）

From FY2025, some product categories have been adjusted. This is due to a review of product policy.

Some products in “Grocery” and “Daily” have been recategorized to Fresh and some products in Hardware have been recategorized to “Other”.

Please refer to the document for revised figures for the year ended 30 June 2012.

（P15）

Page 15, private brands. Product development is progressing well towards the medium-term target of 25% of sales composition.

Rather than expanding the product line-up, PB development is being steered towards increasing the sales volume per product by carefully creating products with value.

In the 1Q FY2025, the PB ratioaccounted for 17.1% of sales in the Distribution and Retail business, up 2.2 percentage points from FY2024.

Silky Fleece, which was shown on video before the start of the briefing, is a recommended product for the coming season, and TV commercials are being broadcast in the Fukuoka area. This product is being displayed at the store entrance the apparel sales area.

We will continue to develop PB products, mainly food products, with careful product development focusing on the balance between value and price, which will continue to be a driver of gross profit.

（P16）
Page 16 is SG&A expenses. The key points are labor and utilities costs. Personnel expenses increased 14.2% YoY, exceeded the 10.5% growth rate of sales.
The main reasons for this growth were the increased headcounts to prepare for the opening of new stores opened in the 1Q and stores to be opened in the 2Q, as well as ongoing increases in unit payroll costs. Investments in human capital are essential for improving competitiveness.

In Japan, where the population is declining, companies are competing with each other for customer appetite and labor force.
Distribution and retail industry is labor-intensive business, while evolving productivity improvement measures and promoting efficiency improvement through mechanization and data utilization, we are focusing on securing and training people to create stores where customers want to come back.

（P17）
Page 17, we will explain the background of the increase in utilities expenses, the second point of SG&A expenses.

Utility expenses for this 1Q increased 28.5% y-o-y. This is mainly due to two factors in the electricity bill.
(1) Less subsidies that existed in the previous year.
(2) Higher-than-expected electricity usage due to new store openings and record-breaking heat wave.

The gray bar graph on the left side shows the utility cost in 1Q FY2024 whichwas 2.54 billion yen.In this 1Q, it was 3.27 billion yen, with an increase of 720 million yen.

The factors behind the increase are as shown, the most significant factor was the increase in the unit price of electricity. This is factored into the budget.

（P18）

Page 18 provides information on what is expensed as initial costs, which are items other than those that are charged as capital expenditures when opening a new store.

Preparation of equipment and supplies, such as equipment and fixtures for fresh foods,, and network equipment, etc., begins one to two months prior to the opening, and posted as cost.
In addition, there are labor costs for the period during which store opening staff are trained and educated, and real estate and utility costs associated with preparing for the store opening.
These are necessary costs that are recorded before the sales are generated.

Once the store opens, the company spends heavily on security in case of crowds and on advertising.
During this period, the company will increase the number of items posted on flyers and reduce the prices of popular items as part of the opening sale to attract customers.

（P20）

Next is the retail AI business. On page 20.
The blue bar graph shows the installation of Skip Cart in 1Q. The pace is slower than in the previous quarter.
The number of stores with Skip Cart installations increased by nine and units also increased by nine compared to the end of June 2024.
This is a temporary adjustment due to the optimization of the numbers of Skip Cart in existing stores.

We have received inquiries from other companies due to its reputation as an IoT device that makes shopping more convenient.
This adjustment phase is an optimization within the TRIAL Group.

（P21）
Page 21, Cooperation with Other Companies in Logistics.
TRIAL aims to eliminate the vast amount of inefficiencies in the distribution and retail industry.
One example of how we are working to solve this problem is through collaboration across company boundaries in the field of logistics. There is a limit to what a single company can do to improve logistics efficiency to prevent trucks from running empty, but if we work together, we can improve efficiency to a greater extent.
We intend to continue our efforts, involving other companies, based on our belief that we can benefit by sharing. While using data, will improve the whole industry.

（P22）
Page 22 is the balance sheet.
Cash and deposits were less than at the end of the previous period because the last day of June of the previous period fell on a Sunday, and accounts payable were settled the following month.
In other words, cash and deposits were more than usual at the end of June, but they have leveled off at the end of September.
The equity ratio is 45.7%, confirming the financial soundness of the company.

（P23）
Page 23 shows cash flow. Free cash flow was negative 29.4 billion yen.
This was the result of aggressive investment in store openings.

（P24）

Finally, I would like to explain our consolidated guidance for the FY2025.
The guidance remains same as we disclosed at the time of this earnings announcement in August.
Our guidance is for sales to increase 12.7% YoY to 808.9 billion yen and for operating profit to increase 20% to 23 billion yen.
This embodies 10% and more increase in sales and 20% increase in operating profit that we have been explaining to investors.

The breakdown of the first and second half of the forecast is as shown in the document.

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