TRIAL HLDGS

November 18, 2024

TRIAL Holdings, Inc.

【Presentation Q&A Summary (Q1 FY2025)】

Sentences have been edited for clarity.

Q: Since July 2024, price reduction competition among retailers has moderated. What are the trends among the retailers regarding pricing?

A: Since July, the price competition has slowed down. Our competitors are GMS stores and local supermarkets, and we are fine-tuning our strategies and pricing for each store while keeping a close eye on competitor’s strategies in each region.

Q: In a consumption environment where people become price conscious, retailers were lowering GP margins and strengthening prices around April 2024. Are there signs of a slowdown in this trend now?

A: Manufacturers rose price for national branded products in October 2024, but we have seen that many retailers have passed it on to prices.

Q: In SG&A expenses, is the cost of new store openings progressing as planned? Also, what is the progress against the plan to open 10 new stores in Q2?

A: In Q1, expenses for new store openings were in line with plans. Q2 is also progressing as planned at this point.

Q: Expenses are incurred one to two months in advance of new store openings. Is there any difference in the amount of expenses incurred in Q1 and Q2 when compared, including those incurred in advance?

A: They are about the same. They will decrease from Q3 onward.

Q: SG&A expenses increased YoY. Is it because of the increase in utility costs?

A: This was due to an increase in utilities and upfront cost for new store openings.

Q: Electricity costs in utilities were subsidized from August to October 2024. What is the outlook for Q2 and beyond in terms of the expense and unit price increases?

A: As the temperatures will be mild compared to Q1 where we had an extremely hot summer, we do not expect the cost to exceed the plan as much as it did in Q1. However, since we can be affected by FX trends, there is a possibility that the current depreciation of yen will have an impact later.

Q: Some companies recorded increases in labor costs which was higher than expected. How is the trend in TRIAL?

A: Labor costs slightly exceeded our plan. This is because we have increased the number of employees at some stores for new store openings. Although unit labor costs are gradually rising, they are still within the range of the plan.

Q: How do you expect sales to progress against the 1H plan? October SSS appeared to be slow, how about November and December?

A: SSS in October were affected by lingering summer heat. For example, in Fukuoka area (Kyushu region, western Japan), a fleece TV commercial was aired in October, but its contribution to sales was small because of the temperature. We are implementing measures to respond quickly enough to the seasonal climate change. Fleece sales are recovering in November as the temperature gradually drops.

We are on track to achieve the sales plan for 1H. We will not set GP margins that fall far short of the plan to achieve the sales plan. We will look at the balance between sales and GP, but we are positive about achieving the plan for both.

Q: What is your approach to GP margin, prices and pricing for fresh category (Fruits, Meat, Fish and Ready meals)?

A: Vegetables were not growing well due to the extreme heat, and we were unable to secure inventory as expected, which resulted in poor pricing and lower GP margins. Meat sales were affected by market fluctuations, particularly for pork. Fresh category performed well, with ready meal sales in particular drove the overall GP margin, as GP margins grew YoY. Since ready meals are developed in-house and GP margins are relatively easy to control, the company will continue to strengthen it.

We expect the business environment to improve in 2Q as the effects of the heat wave will disappear. In terms of product mix, we intend to boost GP margin by strengthening product quality.

Q: Sales share of PB products is 17.1%. How has the GP margin changed YoY? Also, what is the OP margin by area?

A: The PB GP margin was up YoY. OP margin by area tends to be highest in Kyushu, lower from western Japan toward Kanto, and higher from Kanto toward Hokkaido. No region has improved or deteriorated significantly compared to the past.

Q: The Retail AI business posted a loss in FY2024, but it is reaching a break even in Q1. What are the prospects for a return to profitability?

A: For FY2025, we are forecasting a loss of 300 million yen, which is less than FY2024. We plan to break even in the next fiscal year and post a slight profit in a year after.

Q: Although profits declined in Q1, you expect both sales and profits to improve constantly under your medium-term growth vision. To maintain double-digit sales growth, a certain level of new store openings is necessary. On the other hand, the company plans to improve GP margin by 0.5pts each fiscal year, but will it be able to maintain the speed of new store openings and improve profits at the same time?

A: The company has grown by focusing solely on sales, but since last year, as we seek to go public, management policy has shifted to a strong awareness of taking profits as well. To achieve profit growth, the company intends to steadily improve areas that have not yet been addressed in operational reforms and efficiency improvement measures, as well as implement reforms to improve procurement and control rising cost ratios in parallel.

Q: 10 new stores are planned to open in Q2 FY2025, which is fewer than the 30 stores opened in the same period last year.

A: Eighteen of the new store openings in Q2 FY2024 were mainly small stores, the majority of which were taken over from Satocho stores in Aomori Prefecture, while the other store openings were TRIAL GOs (small stores). Store opening costs were higher this quarter because the company was able to reduce store opening costs by opening fewer stores in its mainstay supercenter format and mega centers.

Q: What was the breakdown by format of the 10 new stores opened in the second quarter? And how do the costs compare to the first quarter?

A: 1 MEGA Centers, 6 Super Centers, 1 smart, and 2 Small Formats. Costs are largely unchanged from Q1 FY2025.

Q: What is the concept of profit and cost in new stores?

A: When new stores are opened, the company will conduct opening sales, mainly of food products to retain customers, which will make it more difficult for the company to make a profit. Stores opened in Q1 will have lower costs from Q2 onward.

Q: In 1H FY2025, there is a large cost burden for new store openings, but is it expected to be less in 2H?

A: Yes. That is the plan.

The end of Q&A memo