Trial Holdings Inc.
May 17, 2024

【Presentation Q&A Summary (Q3 FY2024)**】**

Sentences have been edited for clarity.

Q: How is your GP margin look like going forward? TRIAL mentioned the mid-term sales share targets of 8% for ready meal and 25% for PB. What is your time frame of "mid-term"?

A: Although the GP margin in Q3 is below the full-year plan, OP is on track to achieve the full-year plan due to strong sales and controlled SG&A expenses. Q4 GP margin is expected to be about the same level as in Q3. TRIAL aims to achieve its mid-term target for the sales composition of ready meal and private-brand (PB) products in 3-5 years. At present, the ratio of ready meal to total sales exceeds 10% at some of the model stores with a focus on fresh foods.

Q: What was the impact of one-time expenses in the second half of the year(2H), such as IPO-related costs and upfront investment in manufacturing infrastructure?

A: IPO expenses are expected to be about 800 million yen in 2H, most of which have already been accounted for SG&A expenses by Q3. Q4 will be used to invest in manufacturing infrastructure and human resources for the next fiscal year.

Q: What is the outlook for mid-term earnings growth in the next fiscal year and beyond? If there are challenges, how will they be addressed?

A: While maintaining top-line growth of 10% or more, TRIAL aims to achieve an OP margin of 4% or more for the time being, and in addition to improving GP margin through a product mix that leverages PB and ready meal, TRIAL will increase operational efficiency by utilizing retail tech. TRIAL will actively invest in human resources, and simultaneously work on promoting productivity improvement initiatives, the rate of increase in labor costs will be controlled to be less than the rate of sales growth.

Q: What was the reason for the 0.9pts improvement in GP margin YoY? In addition to the contribution of ready meal and PB products, did the elimination of unnecessary price cuts by conducting a price review of each product also contribute to the improvement? Other companies are lowering GP margin to raise sales in the new fiscal year.

A: While competitors are cutting prices, TRIAL is placing the highest priority on increasing the ratio of fresh produce, ready meal and PB products. Since last year, TRIAL has been observing competitor trends and working to eliminate unnecessary price cuts at individual stores. In addition, two years ago, TRIAL changed its organization, shifting its focus to a strategy that is more closely tied to the local community. There are regional operational units across the nation called blocks, such as the Kyushu Block and the Kansai Block, to establish a system that allows us to implement pricing strategies tailored to each region.

Q: Regarding expenses. In the 2H, you are planning to bring forward investments in process centers (PC) and central kitchens (CK), etc. Do you have plans to increase upfront investments because of the strong performance?

A: In the PC and CK, construction of some properties that were scheduled to start in the next fiscal year will be moved up to Q4. TRIAL plans to accelerate the pace of new store openings in the next fiscal year and beyond, and will aggressively invest in PC, CK, and other manufacturing infrastructure accordingly.

Q: What are your mid-term plans for opening new stores? What are your plans for opening new stores over the next two to three years?

A: In FY2025, TRIAL expects to open about 30 stores (excluding TRIAL GO, a small experimental store). TRIAL has changed its store development (land search and securing properties) to a regionally-focused system tied to each block, which has improved the level of property sourcing and negotiations. TRIAL is also actively recruiting and training personnel for store development. TRIAL GO, an experimental store, is being developed with a view to expanding outside of Fukuoka Prefecture, and the store model is being perfected.

Q: The challenge for TRIAL GO.

A: TRIAL GO is a model for opening small food-based stores in urban areas, and there is still room for improvement in terms of product lineups that match regional characteristics and the frequency of deliveries of ready meal from the parent SuC (Super Center). In terms of technology, the accuracy of automated ordering has been improved and operations can be carried out with fewer labor hours, but TRIAL GO will aim for a higher level.

Q: It is expected that the full-year plan for the GP margin will fall below 20.4%. How do you intend to improve the GP margin as a discounter?

A: Traditionally, as a discounter, our basic policy has been to "purchase at lower prices and sell at lower prices," and we will continue to follow this approach while competing with our competitors. On the other hand, we will enhance the added value of ready meal and PB products that can only be purchased at TRIAL and refine our ability to provide customers with good products at appropriate prices. In addition, as sales have grown to a reasonable size, purchase conditions from NB manufacturers have been changing. We believe that these factors will also contribute to improving the GP margin.

Q: The Q3 results appear to have exceeded the plan in terms of sales and operating income, but what is the actual situation?

A: Q3 results progressed favorably compared to the plan. GP margin was slightly below plan, but more than that, cost reductions and control of the SG&A expense ratio were achieved. TRIAL believes that both net sales and operating income are progressing well against the full-year forecast.

Q: Regarding the pace of renovations for renovation, when will the renovation be completed?

A: Renovations are conducted at 25-30 stores per year. Given the growth peaks in sales and profit margin from new store openings, TRIAL plans to continue remodeling on a cycle of approximately once in 7 years per store.

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