

【Presentation Script for Investor Briefing (Q3 FY2024)】

(Part1 : Company Overview)

(Presenter: Shumpei Konda, Director corporate planning)

(Presentation Slides for Results Briefing: P3)

The TRIAL Group is a company dedicated to improving the efficiency of the distribution industry and eliminating inefficiencies under the vision of Revolutionize “real commerce” around the globe with technology and practical savvy.

The TRIAL Group is a company that works to improve the efficiency of the distribution industry and eliminate inefficiencies.

We do more than just purchase products, place them in stores, and sell them; we use data and technology to deepen our understanding of our customers and work with manufacturers, wholesalers, and IT companies to improve the efficiency of the entire supply chain.

(P4)

The TRIAL Group's core business is the distribution and retail business, which has more than 300 stores nationwide, with EDLP as its strength. We offer a wide variety of products, mainly food products, to provide customers with a one-stop shop for the products they need in their daily lives.

The Retail AI business creates synergy with the distribution and retail business.

We are developing products and services that are used in real stores to improve the shopping experience for customers and operational efficiency for retailers. We are using these products and services to improve the productivity of our distribution and retail business and are managing it as an independent business segment with a view to expanding outside the group.

(P5)

Next, I would like to explain the store format. The TRIAL Group's main format is the Super Center. Located mainly in suburban areas, the stores cover an area of approximately 4,000 square meters and offer 60,000 to 70,000 items, mainly food products. In addition to competitive prices and quality, the TRIAL Group enjoys the support of its customers by providing them with a new purchasing experience through the use of retail technology.

In addition to Super Center, we also operate large MEGA Centers, supermarket-sized smart stores, and Small Format which are convenience stores and mini-supermarket-sized stores.

In particular, we are stepping up efforts to establish a business model for TRIAL GO, a new small store model. By satellite delivery of freshly prepared boxed lunches and fresh sushi from nearby Super Centers, TRIAL GO offers a product lineup not available at conventional small stores and, through the use of technology, enables low-cost operations. We are currently in the phase of conducting various experiments, but as soon as the business model is established, we plan to expand the business nationwide.

(P6)

This is a description of EDLP and the low-cost operations that make it possible. We recognize that pricing is extremely important in providing value to customers. On the other hand, as customers' tastes diversify, simply being cheap is not enough to gain their support; it is important to offer something of real value at a low price.

Low-cost operations are achieved through the use of technology in real stores, which is being addressed in the Retail AI Business. In-house developed Skip Cart, a shopping cart with its own tablet, streamlines cash register labor costs, and the use of AI cameras reduces losses.

We are also focusing on the development of private brand products, such as ready meals prepared in-house under the supervision of food professionals and mineral water bottled at our own factory, which is highly supported by customers for both quality and price.

(P7)

This section describes the history of the TRIAL Group. The top part of the presentation slides describes our distribution and retail business, and the bottom part describes our retail AI business to date.

Since the opening of the first TRIAL store in 1992, we have expanded our store network by opening new stores to properties formally occupied by other players and through mergers and acquisitions.

As the number of regional supermarkets and other retailers facing business succession challenges is increasing and we have been approached with various projects, we see growth through M&A as an important strategy for the future, in addition to organic store openings.

Our Retail AI business started when we were developing POS systems on contract from a major SIER. Since then, we have developed various systems and solutions in-house and implemented them in real stores and retail operations. By working with various business partners, we hope to not only utilize these systems in-house, but also expand their deployment to outside companies.

(P8)

This section provides a detailed description of Retail Tech. The products described here are not concept models but are in actual use in TRIALS.

Visible products implemented in stores include Skip Cart, AI cameras, in-store signage, and SU-PAY, a payment application. MD-Link is the data infrastructure for maximizing the value of these products, and e3-SMART is the technology that enables high-speed data processing in MD-Link.

We recognize the fact that we develop and operate not only the front-end system, which is the direct touchpoint with customers, but also the back-end system for better understanding of customers and data management, is a very unique part of TRIAL's business that is not found in other retail companies.

Although the impact of the Retail AI business on consolidated business results is small at this point, it has become an indispensable part of the distribution and retail business.

In the medium to long term, we intend to accelerate the expansion of this business to outside companies and develop it into a business that contributes to the Group in terms of business performance.

(P10)

In the last part of this corporate profile, I would like to explain our vision for the future.

The TRIAL Group aims to reduce inefficiencies in the distribution industry and increase corporate value and productivity in the industry as a whole by expanding its store network in the distribution and retail business, developing retail tech in the retail AI business, and promoting alliances and other partnerships with external companies. We will continue to expand real stores and provide value to our customers as a retailer. We will continue to work vigorously to transform the industry as a whole, creating synergies through the expansion of real stores, the provision of value to customers as a retailer, and retail tech.

As Japan's population continues to decline, we believe that the reorganization of the retail industry will accelerate, and the companies that can truly provide value to customers will be the ones that survive. We will continue to aggressively invest in growth, including human resource development, while refining our EDLP and technology, which are the TRIAL Group's strengths, in order to achieve growth. This is the end of the company profile.

(Part2 : Outline of results FY2024 Q3)

(Presenter: Keiji Furuhashi, Senior vice president)

(P12)

I would like to report on the summary of financial results. There are two key points in the summary of financial results page.

- (1) The Company maintained its high growth potential with double-digit revenue growth.
- (2) Achievement of a significant 62% increase in profit over the previous year.

The first reason for the top-line growth was the steady progress of new store openings, while the second was the remodeling of existing stores, which contributed to a 6% increase in same-store sales, with well-balanced growth in the number of customers and sales per customer.

Third, customer support for ready meals, which are tasty and inexpensive, increased. The three factors behind the top-line growth are (1) accelerated store openings, (2) strong SSS performance, and (3) the fruitful results of measures to enhance tastiness.

The next two factors that led to a significant year-on-year increase in operating income were:

1. The successful implementation of measures to raise gross profit margins. The gross profit margin on a consolidated basis rose 0.9 percentage points from the previous year to 19.8% as the sales composition of fresh produce and ready meals, which have high gross profit margins, increased.
2. Control of SG&A expenses. SG&A expenses grew only 9.4% YoY, and were controlled below the top-line growth rate of 10.1%. Labor cost, in particular, were well invested in the necessary human capital. While responding to rising wage rates and increasing salaries to motivate front-line employees, the reallocation of human resources through mechanization and other measures, starting with model Super Center stores, has borne fruit.

(P13, 14)

Please review the presentation slides on pages 13 and 14, which show consolidated PL results for the nine months and three months of the current Q3.

(P15)

Page 15, TRIAL has two business segments. The core "Distribution and Retail Business" and the supporting "Retail AI Business". The Distribution and retail business accounts for 99.6% of consolidated net sales. We continue to invest in the retail AI field, and the consolidated operating margin for the first nine months of the current fiscal year was 2.9%, while the operating margin for the retail distribution business alone was 3.3%.

On the other hand, IoT devices and data solutions deployed by Retail AI are steadily contributing to the results in the distribution and retail business.

Examples include the convenient shopping experience with Skip Cart, which eliminates the need to wait for a cash register equipped with a POS checkout terminal, and shelf allocation through data sharing, which TRIAL has been working on with manufacturers for many years.

(P17)

On page 17, we will review the important points of the four key strategies, and then we will move on to each of the other four. These are the four points you see indicated. As I explained in the summary at the beginning of this presentation, the first point, strengthening existing stores, the second point, new store openings, and the third point, improving profitability, are showing results, but are still in the process of development.

Furthermore, we believe that there is significant room for growth in the fourth point, the creation of a distribution ecosystem that eliminates inefficiencies in the retail industry, such as overproduction, through the use of retail tech.

By "crossing" the elements of distribution retailing (1-3) and retail tech (4), we intend to demonstrate our uniqueness in addition to improving our growth potential and profitability.

(P18, 19)

Please refer to pages 18 and 19 for details of priority strategies in the Distribution and Retail Business and Retail AI Business, respectively.

(P20)

We will now move on to each of the four priority strategies. First, let's look at the same store sales. The dark blue line on the graph represents same store sales, the light blue line represents the number of customers, and the gray line represents the average spending per customer.

The growth rate of same stores for the full year ended June 30, 2023 was 6.2%. Q3 accumulated period for FY24 rose 6% on-top of that, with a strong performance of 8.5% in the three months from January to March, thanks to strong sales of party plates and other ready meals with high per-item prices, and the "Point-Up campaign (Kansha-sai)" event, a semi-annual point-up period that stimulates demand.

Now that the Japanese economy is on an inflationary trend of rising prices, the key word in consumption is bipolarization. Consumers tend to save more for everyday necessities and more aggressive in their consumption of high unit price items for seasonal events such as New Year's Day.

This is due to the easing of restrictions on the COVID and the increased opportunities for people to get together, which has led to strong sales of ready meals and other products with large volumes and high per-item prices.

On the right side of the graph, same-store sales in April appear to be down significantly from March, but this is due to the difference in the number of holidays on the calendar from the previous year, so please look at March and April together to see that they are strong.

If May's same-store sales exceed those of the previous year, it will be the 36th consecutive month of year-on-year growth, and for three years since 2021, no external environment has been as strong as the strength of domestic demand, which has grown support in daily necessities on the strength of food.

(P21, 22)

Page 21 of the presentation slides lists the awards for ready meals, and page 22 describes the status of the renovations.

(P23)

On page 23, I will explain the second key strategy, new store openings.

The table here shows the number of stores per format, and the number of store openings and closures in the current period. The numbers in brackets on the right side are the total numbers for the cumulative period.

We operate four store formats, ranging from large MEGA Centers to small stores, but

our core format is the “Super Center,” which has the highest profitability with a sales floor area of 4,000 m² and accounts for about 60% of the 315 stores we operate.

We plan to open 42 new stores this fiscal year, of which 36 were opened in Q3. As you can see, the number of new store openings for each format is as shown, but I would like to add a few more reasons for the rapid increase in the number of small stores in 2Q.

The small format includes “TRIAL GO” retail tech stores, for which we have been accelerating experiments for a year. In addition, the number of small format stores increased due to the acquisition of 18 stores and one process center from Satocho, a food supermarket operator in Aomori Prefecture, in October last year.

We will continue to consider M&A in rural areas as one of our growth drivers, and will do our utmost to play a role in preserving local jobs, providing shopping opportunities to customers, and ultimately creating local economies.

While the retail industry is steadily merging, TRIAL, with sales of 700 billion yen, is on its way to becoming a leading player in the industry.

There is not so much one company can do. What we value is “working together to reform the industry.” We are preparing for the coming industry restructuring by reviewing all inefficiencies with manufacturers, wholesalers, and retailers based on data.

(P24, 25)

Page 24 of the presentation slides provides details on store openings by region and by month and format for the second half of the fiscal year. We opened our first store in Shikoku in April. Details are shown on page 25.

(P26)

Changing the topic, let me explain the third key strategy, improving profitability.

The reason why our operating profit margin has been in the mid-1% to 2% range in the past track record is because we have been an EDLP discounter for many years, “focusing only on top-line growth by returning to customers by offering low price.”

We have been a recipient of local GMS stores that were closing in the early 2000s, and have been able to build formats and The company has achieved 23 consecutive years of revenue growth while establishing low-cost operations.

The strategy that has focused solely on top-line growth has been replaced by one that focuses on both “maintaining growth potential” and “improving profitability. We will

balance the two seemingly contradictory aspects of the two and make them compatible with each other.

There are two measures. The first is to expand fresh and ready meals, which have high gross profit margins and needs. The sales for ready meals accounted for 5.6% in Q3. Our medium-term goal is to increase the ratio of ready meals to 8%.

(P28)

The second is private brands. The percentage of sales accounted for private brands was 14.5% in the third quarter, and it is steadily rising.

Sangen Pork Loin Cut-let Bowl and Aso Natural Water are our specialty products. We have our own beverage factory and conduct all processes from water extraction to distribution and sales within the group, which enables us to achieve great taste and surprising low prices while maintaining thorough cost control.

PB is positioned not only as a gross profit driver, but also as an area where we provide added value that only TRIAL can offer. Our goal is to raise the PB composition ratio from the current 14.5% to 25% in the medium term.

(P29)

Page 29 shows SG&A expenses for the nine months in Q3. Labor cost were up 11.7% from the previous period due to investments in human capital to increase competitiveness.

Utility expenses were down 10% from the previous year. This was due to a slower increase in the unit price of electricity compared to the same period last year.

Total SG&A expenses were up 9.4%. We are preparing to ensure competitiveness for future growth by investing in necessary expenses so that people can focus on “the work that needs to be done” in an environment where people, machines, and AI coexist.

(P31)

Here are some quick facts about the status of members and IoT devices.

TRIAL offers a loyalty incentive program through prepaid cards or the app SU-PAY.

Membership now stands at 10.22 million, up 1 million from the end of the previous fiscal year. under EDLP's pricing policy, members get points both when they charge and when they shop, in addition to daily savings on product prices. Through our membership policies, we are broadening our customer base by attracting new members and turning them into loyal customers.

(P32)

Next is the installment of Skip Cart, which is being developed within the TRIAL Group. When paying, customers simply pass through a dedicated lane. There is no need to scan products at the cash register or refill baskets or bags.

(P33)

Page 33 of the presentation slides shows how Skip Cart improved customer experience. More than 19,000 units are in operation at 218 stores, mostly TRIAL Group stores.

Skip Cart is an example of retail DX, which increases store throughput.

This means that stores will be able to increase the capacity they can accept per hour, leading to increased sales without an increase in sales floor space, and increased parking turnover by reducing the time cars spend parked while waiting to checkout or bag products.

(P34)

Page 34 is the balance sheet. I would like to add that cash and cash deposits have increased: in addition to the financing through the IPO, the last day of March was a Sunday, which was a holiday for financial institutions, so accounts payable were paid the following month. Please confirm that the equity ratio is 39.2% and that the company is financially sound.

(P35)

Page 35, Cash Flows, please refer to the slides.

(P36)

Page 36 is the forecast for the full year; we expect an 8.9% increase in sales and a 33% increase in operating income. In the second half of this fiscal year, as a special factor, we have factored in one-time costs such as IPO-related expenses.

(P37)

Finally, I would like to explain our capital policy and shareholder returns.

The first point is dividends. We plan to pay a dividend of 15 yen per share at the end of this fiscal year. We intend to return profits to shareholders through stable dividends while emphasizing investment for growth.

Secondly, we do not plan to offer any shareholder special benefit plans from the standpoint of fairness.

We are aiming for ROE of 15% or more in the medium term. Please also note the high total asset turnover ratio.

This is an overview of the financial results and explanation of the forecast.

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