

## Financial Results for the Second Quarter of the Fiscal Year Ending May 2024

### Summary of QA Session for the Earnings Results Briefing

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| [Date and time]             | Friday, December 15, 2023, 4:45-5:30 pm                                                                                           |
| [Respondents and Attendees] | Akira Yoshioka, Representative Director, President and CEO<br>Tsuguhiro Tamai, Director, CFO<br>Katsuhiro Kawamura, Director, COO |

\*Additions, corrections, and reordering have been made to facilitate your understanding of the summary.

### [Consolidated Financial Results for the Q2 of the Fiscal Year Ending May 2024]

**Q: By how much did operating profit exceed plan in the second quarter, resulting in the provision of performance-linked bonuses in excess of 200 million yen?**

A: As shown on slide 6, we allocated just over 400 million yen for the cumulative period of the second quarter. Before the allocation, operating profit was nearly 7.7 billion yen, exceeding the plan by 1.2 billion yen.

### [B-to-B]

**Q: You listed six factors that contributed to the improvement in the marginal profit ratio, how much did each contribute?**

A: I will not go into the details of each measure, but overall, out of the 1.3-point improvement from Q1 to Q2, the effect is roughly two-thirds from gross profit and one-third from variable costs. By comparing Q1 to November, there is an additional 1-point improvement, approximately evenly split between gross profit and variable costs. The factors contributing to the improvement in the gross profit margin and variable cost ratio on slide 9 are listed in order of significant impact.

**Q: Could you tell us your assumption if the marginal profit ratio in Q3 and beyond will improve by the equivalent of 2.2 percentage points as from Q1 to November, or will it be more?**

A: We expect the gross profit margin to improve further from the cumulative Q2 results. However, since the gross profit margin improved significantly in November, further improvement is unlikely.

On the other hand, the variable cost ratio only includes two-thirds of the effect of the free shipping threshold revision, which was revised on October 31, in November and will continue to contribute from Q3 onwards, so we expect to see a little more improvement.

**Q: I would like to know when the change in the trajectory of the B-to-B sales and profit growth curve will become more pronounced: is Q2 a helping period and starts in Q3, or is it a little later and starts in Q4?**

A: First of all, in terms of sales, although there are some positive signs in the purchasing behavior of SMEs as the price increases have run their course, as a company that deals with commodity products that are purchased very frequently, we cannot be optimistic. We will not change our plan, but we recognize that the hurdles are high.

In terms of profits, we have achieved high figures in the first half of the year. We expect the effects

of the free shipping threshold revision to continue, but we will have to wait and see if we can maintain the high figures in the second half compared to the plan.

In summary, after the end of Q2, the top line has hurdles to overcome, and profits are solidly above the plan. Please understand that in the second half, depending on the case, there is a possibility that we may invest costs, such as increased sales promotion, to achieve sales growth for profit growth in the next fiscal year and beyond.

**Q: Regarding cost investment for the growth in the next fiscal year, is it correct to assume that the operating profit guidance for the current fiscal year will be met, and the remainder will be used for investment?**

A: That is correct.

**Q: Could you please comment on the areas where the growth rates stand out in the quarterly net sales by item category on slide 17, as well as the momentum for the second half of the year?**

A: Living Supplies and MRO are growing steadily as a base for growth. The issue at hand is how to continue the growth.

The growth rate of Medical increased from 72.6% in Q1 to 83.6% in Q2, and the gap with last year is narrowing. The gap is expected to narrow further once the reactionary decline in COVID-19 countermeasure products, such as antigen test kits and disinfectant solutions, runs its course. However, even after taking these factors into account, sales are still slightly below the plan, so we need to recover.

As noted on the slide, some products that were previously included in the Living Supplies category have been reclassified and included in the Furniture category. So in reality, there was almost no growth in the Furniture category. Conversely, the figures for the Living Supplies have grown more than the figures shown on the slide.

**Q: With influenza and COVID-19 now becoming prevalent, is it correct to assume that a pickup in high-margin medical products would be a positive factor for profits in the second half and next fiscal year?**

A: As you know, products related to influenza have been growing very strongly recently, and while they are making a certain contribution, they are small in terms of volume compared to the demand during the COVID.

**Q: I would like to know the response to the opening of the SOLOEL ARENA site, including the sales contribution and figures.**

A: The opening of SOLOEL ARENA, which has been underway since the previous fiscal year, has been completed on all pages and continues to have a certain effect due to external inflows.

Going forward, we will enter the stage of increasing sales by expanding the number of products and improving searchability, which will enhance customer convenience. We have just completed the

transition of 30% of the number of customers and less than 20% of the sales composition by the second quarter, and we expect to see the effects of this transition in the second half or later.

From the beginning of the new year, customers with relatively large purchases will begin to migrate to the new ASKUL website, and we will work to link this to sales along with the expansion of products.

**Q: Given the slight weakness in sales, it seems that B-to-B margins were well above internal expectations, but which of the factors listed on slide 9 were the most upside?**

A: The gross profit improvement was almost in line with the plan, and the main driver of the upside was the improvement in the delivery cost ratio. It was significant that the unit sales price per box had been progressing above the plan even before the revision of free delivery threshold in November.

**Q: Will you be raising prices on copy paper and stationery items, which will face growth hurdles in the second half of the year and beyond? On the other hand, does price optimization on slide 22 refer to lowering prices?**

A: We recognize that we have a leadership position in the pricing of copy paper and other products. We will respond flexibly while keeping an eye on the trends of other companies in the industry.

With regard to price optimization, your perception is correct. Not all price increases to date have been successful, and we believe that the right response is to tune our prices accordingly.

**Q: We were aware that the migration of customers to the new ASKUL website would be 40% completed by the end of the first half, but we would like to know the background behind the 30% completion. Also, please tell us about the risks ahead and whether the delay in the transition has affected the B-to-B sales plan not being met.**

A: We answered 40% at the Q&A session in Q1, but 30% is the correct figure, which we corrected to 30% with a note in the Q&A summary document in Q1. Therefore, we are making progress as planned.

However, although we were progressing as planned at the end of Q2, due to some minor bugs, etc., the migration, which was originally scheduled for October, was moved to November. We made this decision based on the recognition that the site is used as infrastructure by B-to-B customers and cannot be stopped, but we would like you to understand that it has had some impact.

We plan to migrate 70% of our customers in terms of number of customers and 80% in terms of sales composition.

**Q: Is it correct to assume that 100% of the transition will be completed by the end of this fiscal year? Also, is it correct to say that bugs and other problems have been resolved and that the risk in terms of business progress has been considerably reduced?**

A: The transition is scheduled to be completed roughly at the end of this fiscal year, but was originally planned to be completed by the beginning of the next fiscal year.

Also, as you are aware, the risk has been significantly reduced.

## **[Establishment of ASKUL Kanto DC and Reorganization of Distribution Centers]**

**Q: I would like to have a picture of the increase and decrease in expenses (rent, improvement in delivery efficiency, depreciation burden after the new center starts operating, etc.) due to the ASKUL Kanto DC and the reorganization of distribution centers in eastern Japan, from June 2025 onward.**

A: First of all, as for the costs that will increase, since the lease for the ASKUL Kanto DC will start in June\* 2024, the burden for vacant rent will start in the next fiscal year, FY5/2025, before the DC goes into operation. 18 billion yen of capital investment will also be incurred for depreciation after ASKUL Kanto DC starts operations. The combined cost of the two will increase by approximately 3 billion yen per year. The burden of rent and depreciation will be about 50-50.

On the other hand, there will be a reduction in costs this time because of the reorganization of the distribution centers in eastern Japan. As of now, as mentioned in the materials, AVC Hidaka is scheduled to be closed, which will result in a decrease in rent. We are also considering a reorganization that would include the DCM Center (Koto-ku, Tokyo) and DCM Center 2 (Itabashi-ku, Tokyo). The company intends to respond flexibly to the final reorganization plan and the scale of cost reductions, while keeping an eye on future sales conditions.

The consolidation of logistics bases through the reorganization will significantly improve the delivery efficiency. Therefore, rather than absorbing fixed costs through increased sales once the Kanto DC is operational, we believe that the center will be able to contribute sufficiently to profits through cost reductions alone, including the improved delivery efficiency resulting from the reorganization.

Note: In the Q&A session, we explained April, but since the construction is scheduled to be completed in April and the lease is scheduled to start in June, we changed the date to June.

**Q: How will the cost of ASKUL Kanto DC be allocated between B-to-B and B-to-C?**

A: AVC Hidaka is a B-to-C dedicated center, so the entire cost is being borne by B-to-C. However, since ASKUL Kanto DC will be a BC shared center, we are considering allocating the cost based on the actual usage ratio, but no decision has been made as of yet.

**Q: Was the plan for ASKUL Kanto DC and the reorganization of distribution centers in eastern Japan originally included in the current Medium-Term Management Plan (through fiscal year ending May 2025)? I have the impression that ASKUL has traditionally had a stair-step profit growth pattern, where profits decline as new centers are built where profits are growing, but this announcement seems to contradict ASKUL's goal of increasing its profit growth base in the future. Please let me confirm this.**

A: Looking only at FY5/2025, it is true that the bottom line will be affected by an increase in fixed costs due to the burden of vacant rent. However, from the fiscal year ending May 2026, we believe that cost reductions will be firmly achieved after the ASKUL Kanto DC begins operating, as the reorganization of distribution centers in eastern Japan will have a significant impact on delivery efficiency.

In addition to the effect of consolidating delivery packages after the start of operations, the new center

is expected to improve productivity in terms of variable costs by making a trade-off between centers where labor productivity is not high and newly established centers. While the start-up of conventional centers has often been accompanied by a deterioration in productivity and cost efficiency until the operating capacity is used up, we believe that this investment can be made much faster and more profitable.

**Q: Are you saying that the capacity of each center is currently quite high?**

A: If we look only at the current shipping capacity, we have enough shipping capacity since the Tokyo DC started operations last November. On the other hand, growth is currently increasing, and if we continue to grow at 7-8% per year, we will reach the upper limit of capacity in a short time. We are aiming to maximize cost efficiency by restructuring rather than simply building a new center, and we hope you will understand that we are planning to make a strong impact from the start of operations.

**(Supplemental explanation in addition to the answer)**

At the time of formulating the current Medium-Term Management Plan, we believed that the Tokyo DC would be able to handle the shipping capacity for the period of the plan, and this has not changed to date. However, considering that the service will include the long tail products in the future, the ideal distribution center layout and design is to have a large mother center (wide DC) capable of storing 300,000 items in the East and West, from which the items are shipped in one box, while the high-frequency products are shipped from the local DC. We have been considering that these new formations are necessary for the next stage of growth.

In western Japan, we have AVC Kansai as a flag ship center, but the Kanto region had been structured in such a way that it had to give priority to business continuity by opening a temporary center after the fire incident back in 2017, and when long-tail products were shipped to eastern Japan, they had to be shipped from the AVC Kansai. This time, an ideal location was found that would allow the center to be designed as a long-tail center and change its overall structure to be more efficient, and it was also a location where it would be easy to secure personnel. The decision was made since the center could begin operations immediately after the Medium-Term Management Plan period. The new facility will enable us to ship items from the Kanto region that were previously shipped from the Kansai region, and to ship items scattered throughout the Kanto region from a single location, which will simply improve delivery efficiency and reduce delivery costs. In addition, it can improve customer satisfaction with speedy delivery in a single box, increase the number of items in stock and reduce shipping costs, and streamline delivery for suppliers and manufacturers. The timing was perfect for us to find a property that would allow us to do what we originally wanted to do, and there is no reason not to do it.

**Q: Regarding the new center plan, I have the impression that it is a good plan for long-tail expansion, both in terms of sales and gross profit. It may be difficult to quantify, but I would like you to organize the concept of ROI for the center. The maximum sales when the new center**

**goes into operation, changes in gross profit with the expansion of the long-tail products, etc. Also, the long-tail expansion means that ASKUL will have a product lineup that competes with MonotaRO. Please explain how the competitive position will change.**

A: The conventional approach to return on investment for new center construction is to increase overall sales, use the shipping capacity, and recoup the investment through the sales. In principle, our internal investment decisions are based on a discount of approximately 6% of the WACC equivalent and, in the case of logistics investments, a payback period of 10 years or less.

This time, however, although capacity will naturally increase, since the reorganization will curb costs and improve delivery efficiency, the investment decision is based on that the investment can be recouped in 10 years by discounting the cost efficiency effect alone at the equivalent of 6%, without anticipating the effect of such an increase in sales. The long-tail sales expansion will be added to this, and the effect will be even higher.

**Q: Do you think it is possible to achieve the targets for the final year of the Medium-Term Management Plan even if there is 1.5 billion yen of vacant rent in the fiscal year ending May 2025? Or do you mean that you plan to change the targets/revise the plan?**

A: We are aware that the hurdles will naturally be high, but we will make every effort to achieve them. However, we will consider the plan on how we will generate sales after the Medium-Term Management Plan in light of the launch of this center, and we will discuss the next medium-term business plan in conjunction with this plan at an appropriate time.

**Q: I recognize that the highlight of the four-year Medium-Term Management Plan is the story of the dramatic change in the trajectory of the growth curve from Q3 of this fiscal year, but is there any risk that this will not be the case? Will the plan to change the trajectory be changed by the new center?**

A: We recognize that the hurdles to achieving the target of the Medium-Term Management Plan have indeed become much tougher in the area of sales growth compared to when the plan was formulated. However, we have not yet given up with regard to the profit margin. We will continue to take on the challenge of achieving the profit margin target.

**(Supplemental explanation in addition to the answer)**

Regarding the new center, it is true that there will be vacant rent in the final year of the Medium-Term Management Plan, and we will do everything we can to cover this issue with all our knowledge and experience. However, there is no doubt that we are now at a point where we must think beyond the current Medium-Term Management Plan. The new center is indispensable in order to create a delivery network that is optimal for our customers, profitability, and business structure. We hope you understand that, in light of our growth and profitability after the Medium-Term Management Plan, it is necessary for us to expand inventory of high-margin, long-tail products.