



## **ARATA CORPORATION**

Q2 Financial Results Briefing for the Fiscal Year Ending March 2022

November 10, 2021

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## Event Summary

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<b>[Company Name]</b>	ARATA CORPORATION
<b>[Company ID]</b>	2733-QCODE
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<b>[Event Type]</b>	Earnings Announcement
<b>[Event Name]</b>	Q2 Financial Results Briefing for the Fiscal Year Ending March 2022
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<b>[Date]</b>	November 10, 2021
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<b>[Venue]</b>	Webcast
<b>[Venue Size]</b>	
<b>[Participants]</b>	
<b>[Number of Speakers]</b>	1 Hiroaki Suzuki                      Representative Director and President

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## Presentation

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**Suzaki:** Thank you very much for joining us. I am Hiroaki Suzaki, Representative Director and President of ARATA CORPORATION. Let me begin the explanation of the results of the second quarter of the fiscal year ending March 2022.

### Key Points of the presentation



#### ① Q2 FY2021 results

- Consolidated Statements of Income
- Consolidated Balance Sheets
- Dividend Policy Targets for Dividend Payout Ratio

#### ② Q2 FY2021 Factors and End of term targets

- Q2 FY2021 Highlights
- Results by Business Category and Category
- Upward revision of the performance forecast for Q2 FY2021

#### ③ Long-Term Management Vision 2030 Medium-Term Management Plan 2023

- Long-term vision 2030
- Medium-Term Management Plan 2023 Final Year Targets Upward Revision
- ESG Initiatives

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The content of my presentation is as shown in the slide.

First, I'll summarize the results for the first half of the fiscal year ending March 31, 2022.

Second, I'll explain the factors behind our performance and the year-end forecast for this fiscal year.

Finally, I'd like to say more about our Long-Term Management Vision 2030 and Mid-Term Management Plan 2023.

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## ■ Consolidated Statements of Income

(Millions of yen)

	Results for the 2Q FY2020	Results for the 2Q FY2021		Forecast for the Results 2Q FY2021	
		Amount	Year-on-year change (%)	Amount	Vs. forecast (%)
Net sales	422,634	429,493	101.6	424,000	101.3
Gross profit	41,504	42,498	102.4	-	-
SGA cost	35,163	35,396	100.7	-	-
Operating income	6,341	7,101	112.0	6,000	118.4
Ordinary income	6,643	7,564	113.9	6,400	118.2
Profit attributable to owners of parent Net profit	4,520	5,214	115.4	4,200	124.1

※Since the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) has been applied from the beginning of the FY2021, The figures for FY2020 have been reclassified based on the assumption that the accounting standards have been applied.

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Let me start with the results of the second quarter for the fiscal year ending March 2022.

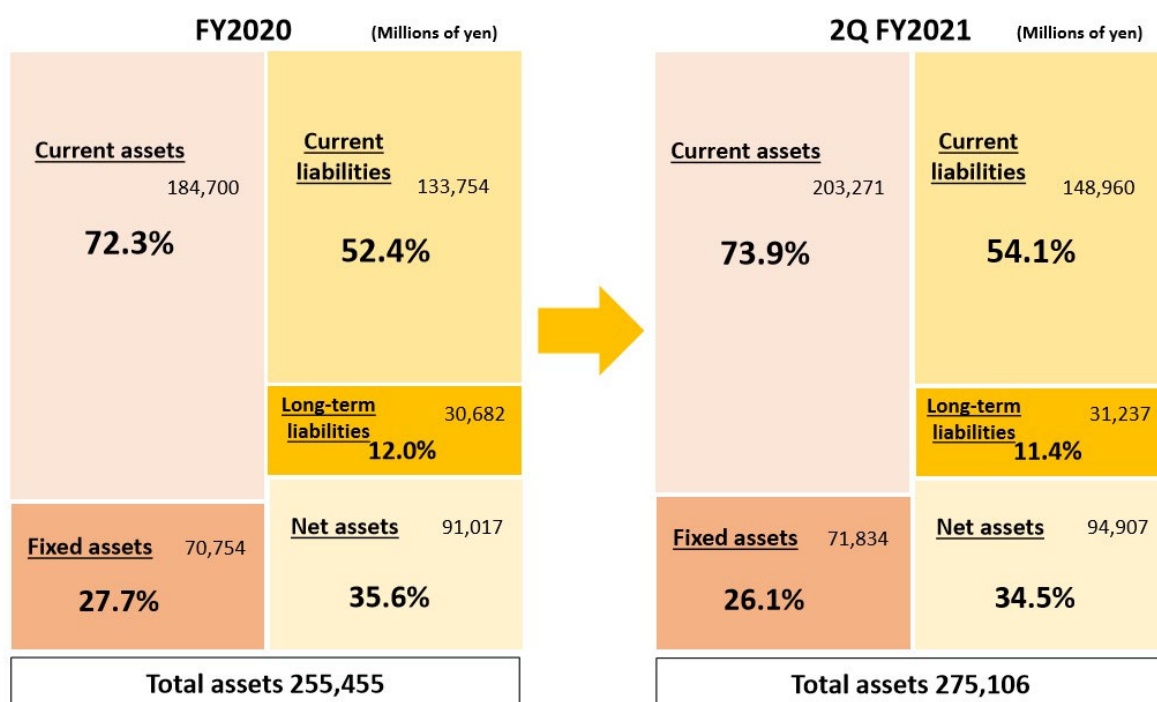
Here are our consolidated income statements. Net sales, gross profit, operating profit, ordinary profit, and profit attributable to shareholders of the parent company, or net profit, all exceeded the results of the previous year.

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## ■ Consolidated Balance Sheets



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Consolidated balance sheets are shown here.

Total assets amounted to JPY275.106 billion, an increase of JPY19.6 billion from the end of the previous fiscal year.

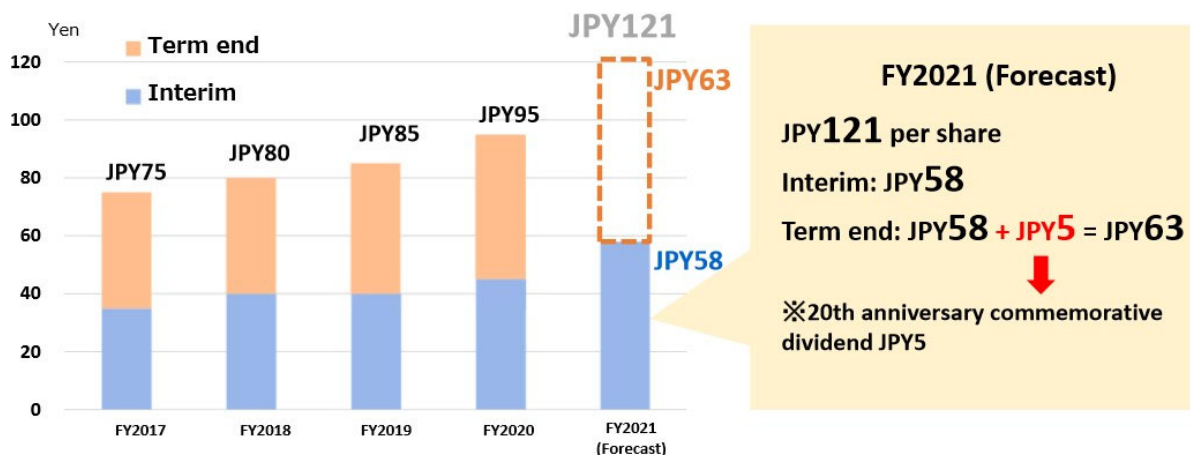
Net assets totaled JPY94.907 billion, an increase of JPY3.8 billion from the end of the previous fiscal year. As a result, the equity ratio was 34.5%.

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## ■ Dividend Policy



### Targets for dividend payout ratio set

#### Dividend Policy

Gradually improve dividend payout ratio with a target of 30%

In accordance with the policy, the dividend was increased from the initial forecast of JPY105 per share to JPY121 per share for FY2021

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I'll now move on to our dividend policy.

We view the distribution of profit to our shareholders as well as the continuous improvement of our corporate value as important managerial issues. Our basic policy is to ensure stable dividends on a continuous basis, and we have been paying dividends after comprehensively taking into consideration our business performance, financial conditions, and future business development.

While maintaining our commitment to stable returns, we have decided to change our dividend policy to reflect our awareness of the payout ratio. We will gradually increase this ratio with a target of 30%. Based on this policy, we will distribute profits to our shareholders by taking into consideration the business performance of each fiscal year and our investments in high-growth businesses.

We had initially decided on an interim dividend of JPY50 and a year-end dividend of JPY55, commemorative dividend included, for a total of JPY105 for the fiscal year. However, in line with our new policy, we have decided to pay an interim dividend of JPY58 and a year-end dividend of JPY58, plus a commemorative dividend of JPY5, bringing the total dividend for the year to JPY121.

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## ■ Q2 FY2021 Highlights

### Steady results despite a reactionary decline in special demand for COVID-19

**Change in sales from previous year 101.6%**

**Operating income: YoY 112.0%**

**Gross profit margin: 9.89% (+0.07 points YoY)**

- Successful strategy to strengthen cosmetics and pet categories
- Improve product unit price (product unit price : 103.6%)

**SG&A ratio: 8.24% (▲ 0.08 points YoY)**

- Decrease in logistics and personnel expenses due to a reactionary decline against special demand in COVID-19 (sales volume : 97.7% YoY)
- Increase in logistics efficiency due to growth in cosmetics, etc.

※Since the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) has been applied from the beginning of the FY2021, The figures for FY2020 have been reclassified based on the assumption that the accounting standards have been applied.

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Now, on to our second part. I'd like to present the factors behind our results for the second quarter of the fiscal year ending March 31, 2022, as well as the year-end forecast for the current fiscal year.

We achieved solid results in the second quarter, despite a backlash after last year's bump in demand with the coronavirus. Solidifying the cosmetics and pet categories has proven a successful strategy and has pushed up unit prices, which has resulted in higher profits.

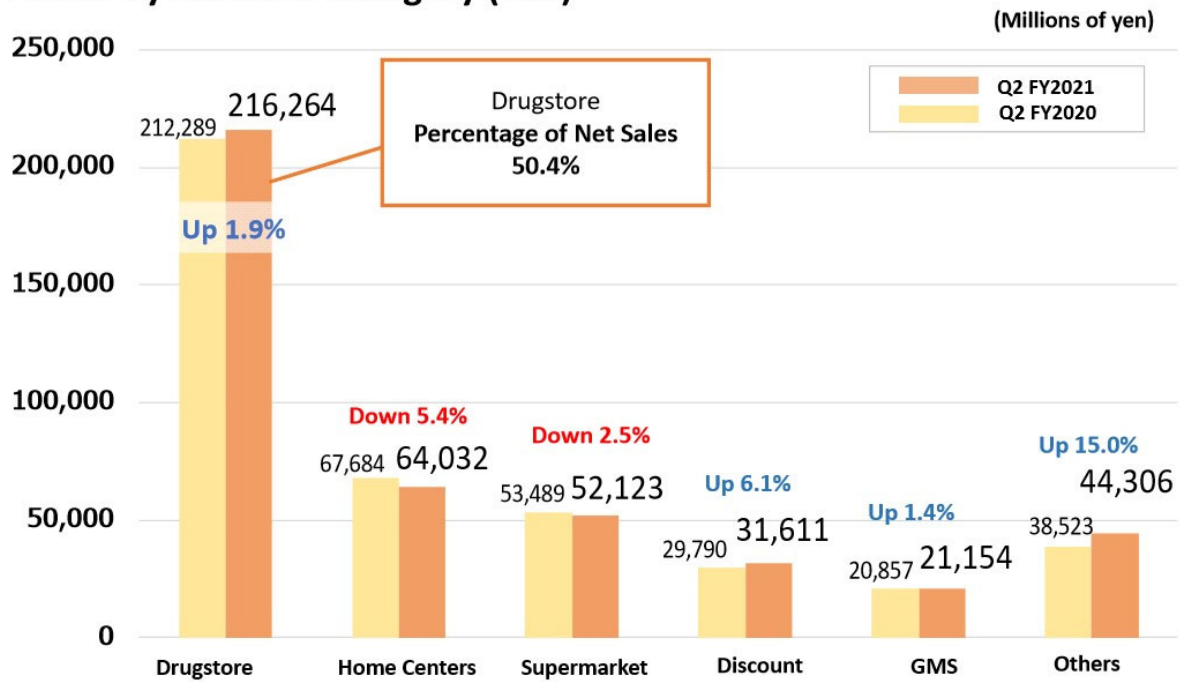
The decrease in the SG&A ratio was caused by a decrease in sales volume due to a reactionary decline after a coronavirus-induced bump, fewer irregularities in logistics compared to last year, lower logistics and labor costs, the growth in sales of relatively high unit price products such as cosmetics, and improved logistics efficiency.

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## ■ Sales by Business Category (YoY)



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If we look at business categories, sales at drugstores increased 1.9% YoY, accounting for more than 50% of total sales. Sales in home improvement stores and supermarkets declined YoY because of the aforementioned backlash but, when compared to the year before last, before the pandemic, home improvement stores grew at the same level and supermarkets grew 110%. Other factors included increased sales at ecommerce companies and growth in the variety business category.

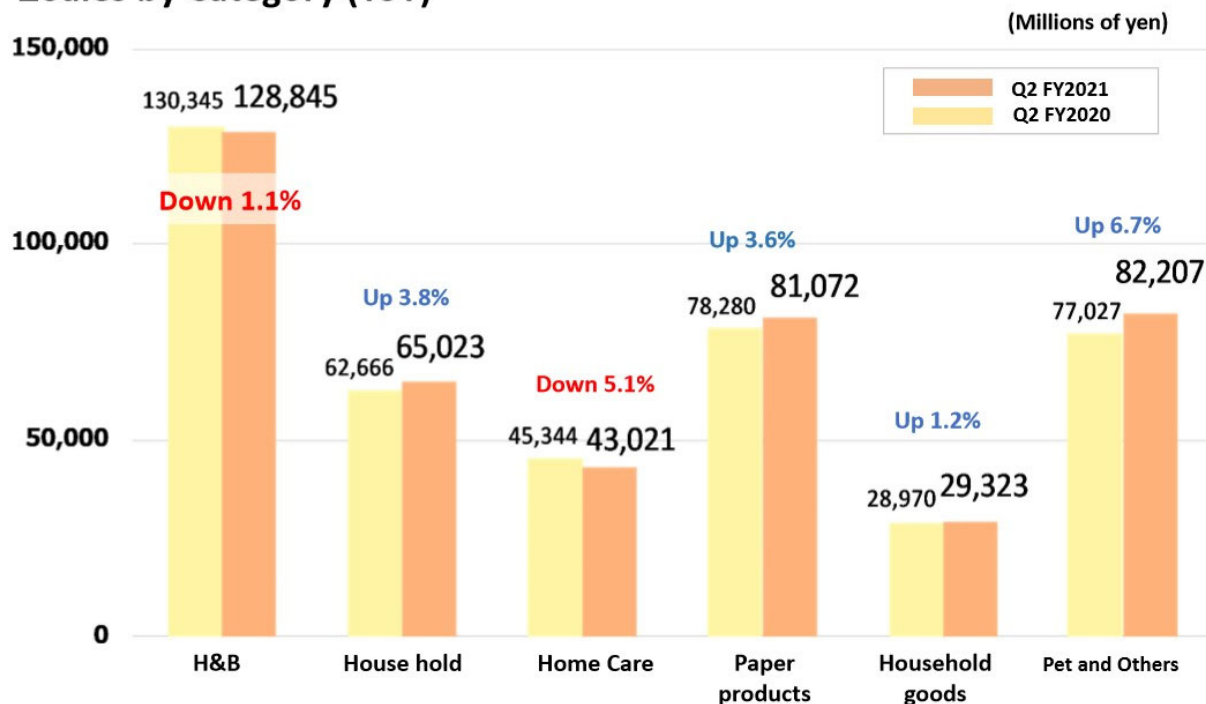
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## ■ Sales by Category (YoY)



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Next, I will provide a breakdown of sales by product category.

In the health & beauty category, health care products, which include masks, experienced a reactionary decline, but cosmetics grew by 7.2%.

In the household category, sales of antiseptic detergents continued to increase.

Sales of home care products decreased due to bad weather.

In the pet category, sales of pet food and pet supplies were strong, increasing 6.7% due to an increase in the number of new pet owners and customers spending more time at home.

Our consistent strategy to strengthen cosmetics and pets and our wide and well-balanced product assortment offset the negative impact of the post-coronavirus backlash. We performed well despite drastic changes in the business environment.

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## ■ Upward revision of the performance forecast for FY2021

(Millions of yen)

	FY2021 Initial forecast	FY2021 Revised forecast	Change
Net sales	831,000	836,000	+5,000
Operating income	11,500	12,400	+900
Ordinary income	12,100	13,000	+900
To the shareholders of the parent company Be attributed Net income	8,000	8,700	+700

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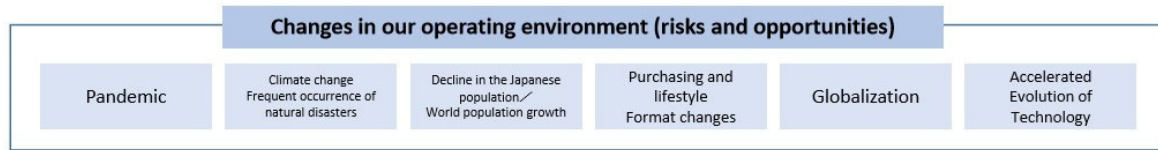
Based on the results detailed above, we have revised our earnings forecast for the end of this fiscal year upward, as you can see.

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## ■ Long-term vision 2030



**be a company that " continue to be a company that serves society "**  
**even when the environment changes**

**Realize your dreams.  
Change your daily lives.**

We will fulfill people's natural but irreplaceable dream of  
"living a comfortable life forever" by our solutions.



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In this third part I'll detail our Long-Term Management Vision 2030 and Mid-Term Management Plan 2023.

In order to follow our company philosophy of continuing to be of service to the world, even amidst changes in our business environment, we have set up the Long-Term Management Vision 2030. Our motto is: Make dreams come true. Change lives.

Thanks to our capabilities in various functions of the supply chain, we want to provide comfort and abundance to our customers daily and for a long time. Our goal is to grow sustainably together with society by turning people's natural and precious dreams into realities.

To achieve this goal, we will surpass JPY1 trillion in sales by the fiscal year ending March 2030, while addressing key ESG issues and contributing to the achievement of SDG objectives. In order to achieve this long-term management vision, we establish a medium-term management plan every 3 years, and we are currently in the second year of our medium-term management plan 2023.

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## ■Medium-Term Management Plan 2023 Final-Year Consolidated Targets Upward Revision

(Millions of yen)

	Year ended March 31, 2023 Initial target	Year ended March 31, 2023 Revised target	Change
Net sales	845,000	850,000	+5,000
Operating income	11,500	12,900	+1,400
Ordinary income	12,000	13,500	+1,500
ROE	9% range	9% range	-

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Based on our steady performance despite the coronavirus, we have revised our target figures upward for FY2023, the plan's final year. We will pursue strategies to achieve our newly set goals of JPY850 billion in net sales, JPY12.9 billion in operating profit, JPY13.5 billion in ordinary income, and a ROE in the 9% range.

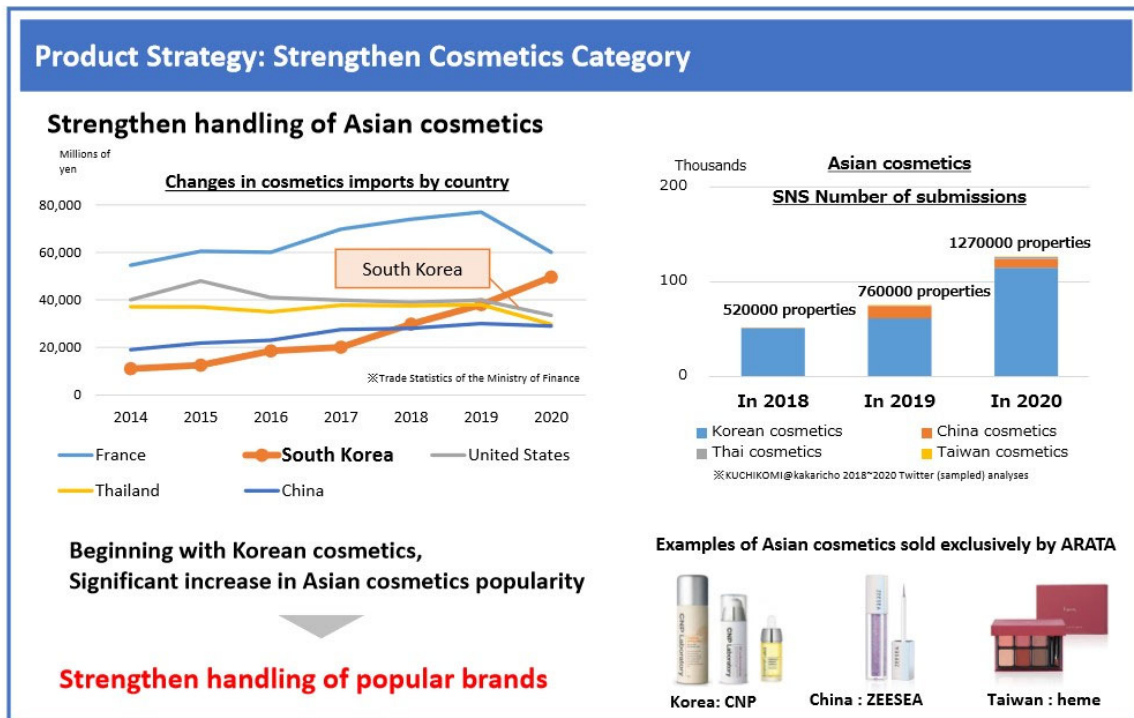
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■Mid-Term Management Plan 2023



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As part of our efforts to stimulate growth according to the mid-term plan, we continue to strengthen the cosmetics category. Asian cosmetics, especially Korean cosmetics, have been attracting a lot of attention in recent years. If we look at cosmetics imports in Japan, imports from South Korea are growing rapidly, and posts about Asian cosmetics on Twitter and other social media platforms are increasing every year.

Demand for eye makeup and skincare products is stable despite the widespread use of face masks since the beginning of the pandemic, and we expect demand for cosmetics in general to grow as opportunities to go out increase. We enjoy exclusive rights over popular Asian cosmetic brands and we plan on reinforcing our grip on these brands in order to strengthen our cosmetics category.

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## ■ Mid-Term Management Plan 2023



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In the category of Overseas business, we partnered with the ZhongShang Group and invested in their capital in September 2021.

ARATA will provide the know-how that we have cultivated as a wholesale trading company to the Group and in doing so we will contribute to strengthening that company. User growth will be stimulated thanks to the optimal utilization of ZhongShang's manufacturing, logistical, and EC capabilities in China according to pre-devised strategies.

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## ■ Mid-Term Management Plan 2023

### Improving Productivity: Logistics and Back-Office Functions

#### Reforms through digitization in logistics and administrative divisions

##### ⇒ Logistics functions

- Labor saving by introducing materials handling systems
- Distribution center workload forecast by AI
- Efficiency improvement by promoting “White Logistics Movement”

##### ⇒ Reform of back-office functions

- Work reduction through field-driven use of RPA

### Strengthening Management Soundness: Improving Management Safety and Capital Efficiency

#### Improve equity ratio and ROE

- ⇒ Achieved an equity ratio of 33% to 35% and a ROE9% level

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In terms of productivity improvement, we are implementing various initiatives to improve the efficiency of our logistics functions. We are promoting labor-saving and highly efficient center operations by introducing material handling that match the conditions of each center, workload prediction with AI, and optimization through the promotion of White Logistics.

In order to become even stronger operationally, we will improve our financial balance and achieve an equity ratio of 33% to 35% and a ROE in the 9% range by improving our trade receivables, inventory, and trade payables, reviewing our fixed assets, and implementing flexible capital policies.

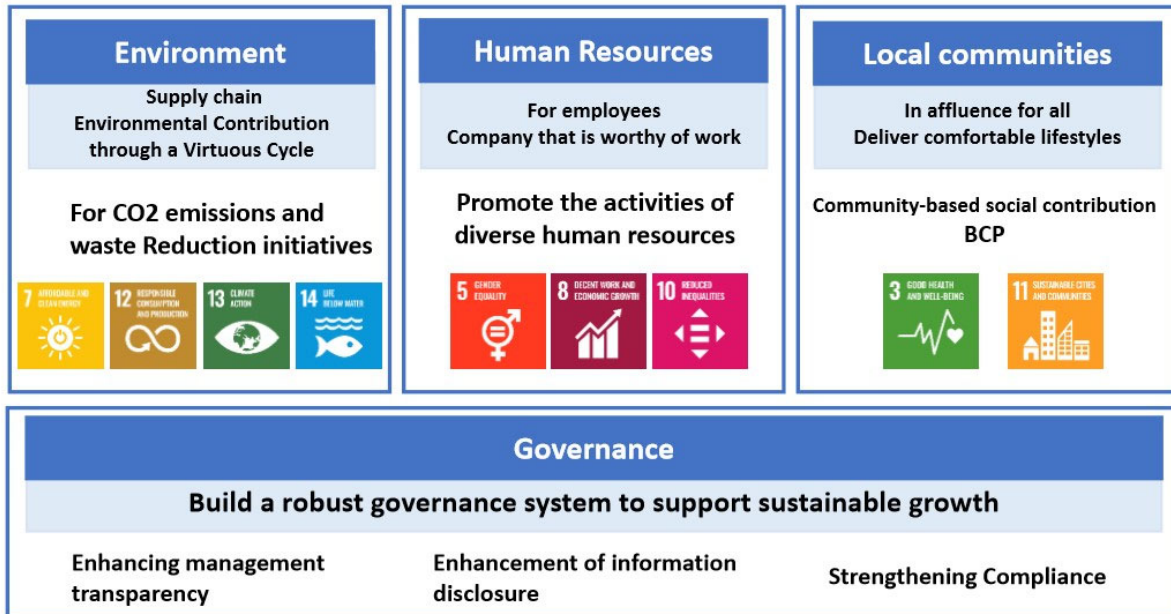
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## ■ ESG Initiatives

Based on the Basic Policy, Toward the Creation of Social Value under the Long-Term Management Vision We will implement activities to resolve social issues and contribute to the achievement of SDGs's goals.



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Finally allow me to explain our ESG initiatives.

We will contribute to solving social issues and achieving SDG objectives by implementing activities and measures for the environment, human resources, local communities, and governance, which are key ESG issues in our long-term management vision.

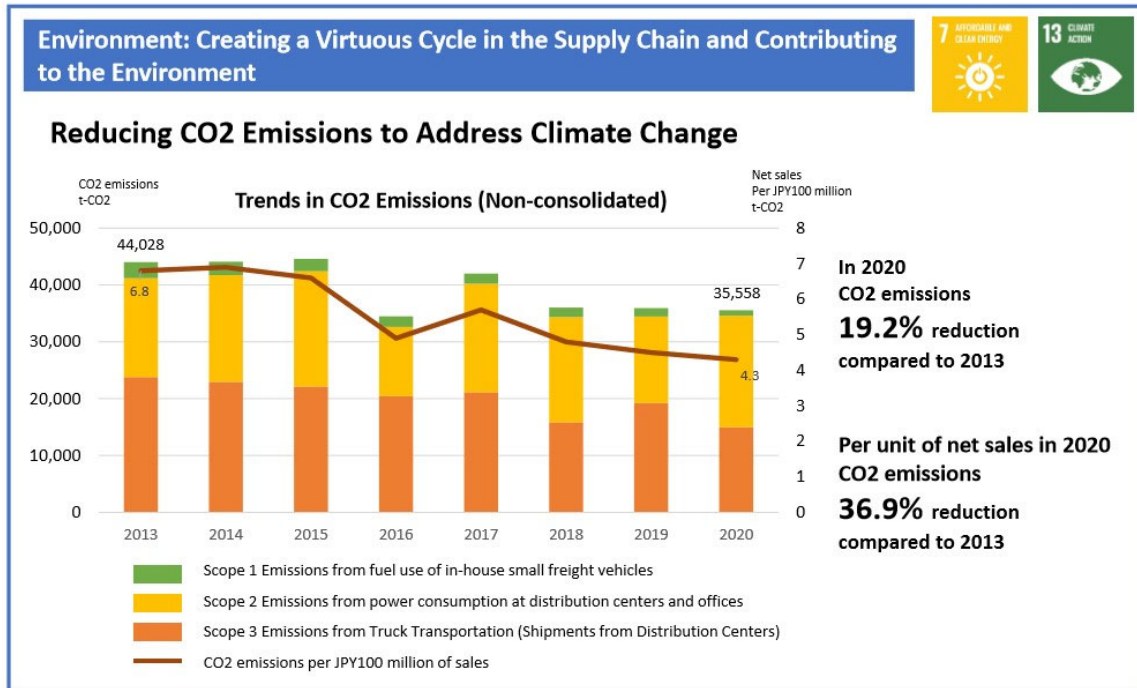
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## ■ ESG Initiatives



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Regarding the environment, we disclose our CO2 emissions and are considering setting reduction targets along with accompanying measures. Our current understanding is that the majority of CO2 emissions comes from the use of electricity at our distribution centers and offices, and from truck transportation from our distribution centers.

We will continue to promote emissions reduction through energy conservation, use of renewable energy, and more efficient logistics.

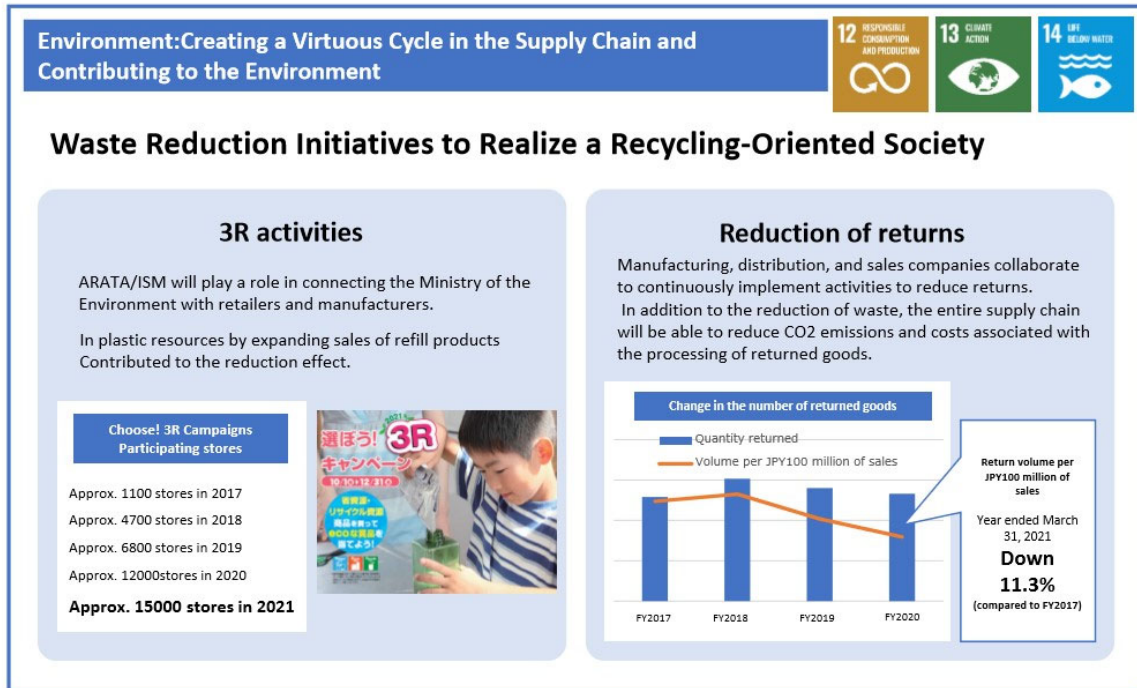
In addition, as a contribution to the environment, we will use our capabilities in intermediate distribution to continuously promote activities that create a virtuous cycle in the supply chain and reduce waste.

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## ■ESG Initiatives



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As for the 3Rs initiative that started in 2017, many retailers and manufacturers participated in the Let's Choose! 3Rs Campaign again this year, with about 15,000 participants nationwide. With the expansion of refillable goods, we can contribute to the reduction of plastic use.

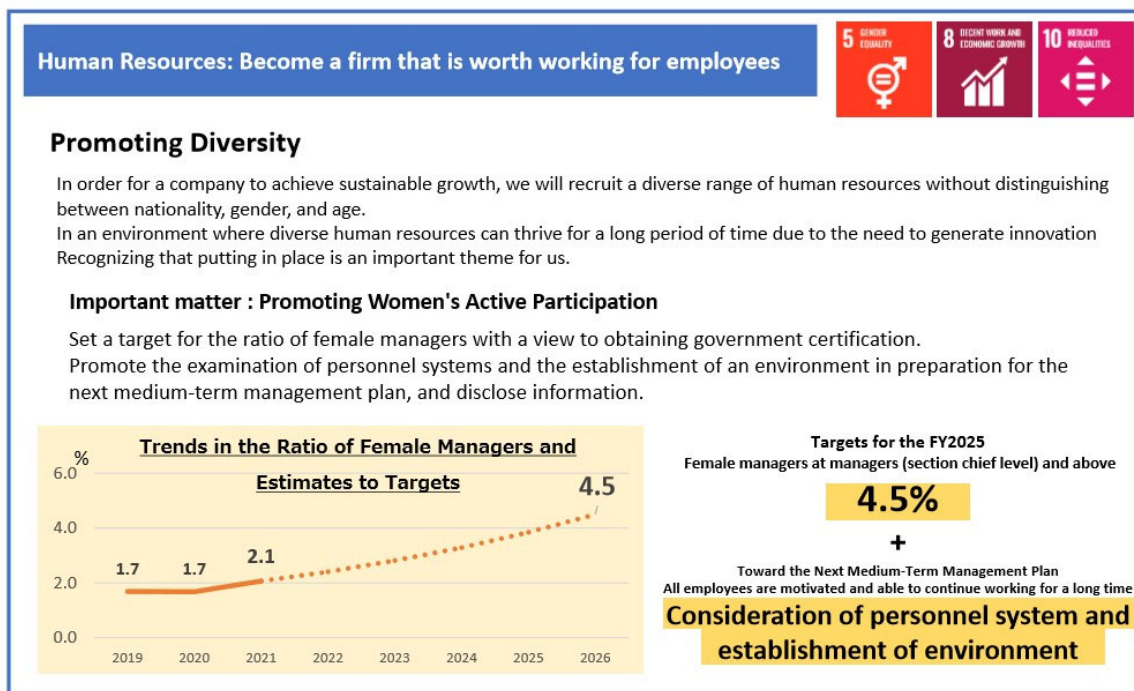
We've also identified the reduction of returned goods as an important initiative on which we continue to work hard. This initiative will not only reduce waste, but also reduce CO2 emissions from trucking and as well as costs associated with processing returned goods.

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## ■ ESG Initiatives



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Next, as part of our efforts to nurture human resources, we want to become a company that provides high job satisfaction.

For companies to achieve sustainable growth, it is necessary to promote diversity in human resources and foster innovation. For us, too, we recognize the importance of creating an environment where different kinds of people can thrive for a long time.

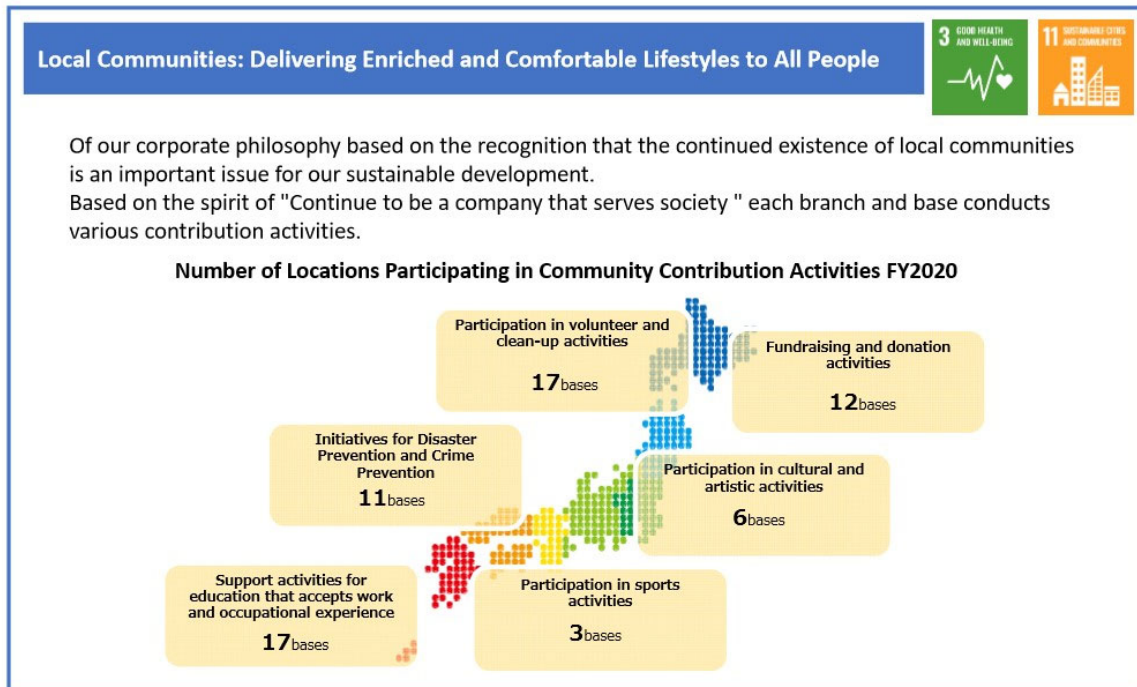
Our company has established the promotion of women's activities as an important issue, and this time we've set numerical targets. In the fiscal year ending March 2026, the final year of the next medium-term management plan, the ratio of female managers should reach 4.5%. In order to achieve this goal, it is important to establish an environment and a structure in which all employees, regardless of gender, can continue to work with a positive mindset.

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## ■ ESG Initiatives



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With regard to contributions to local communities, we recognize that the survival of local communities is crucial to the sustainable development of our company. In accordance with our corporate philosophy of continuing to be of service to the world, each of our branches and offices participate in activities that contribute to local communities.

We will continue to actively participate in a variety of social contribution activities and share them on our corporate website and through CSR news.

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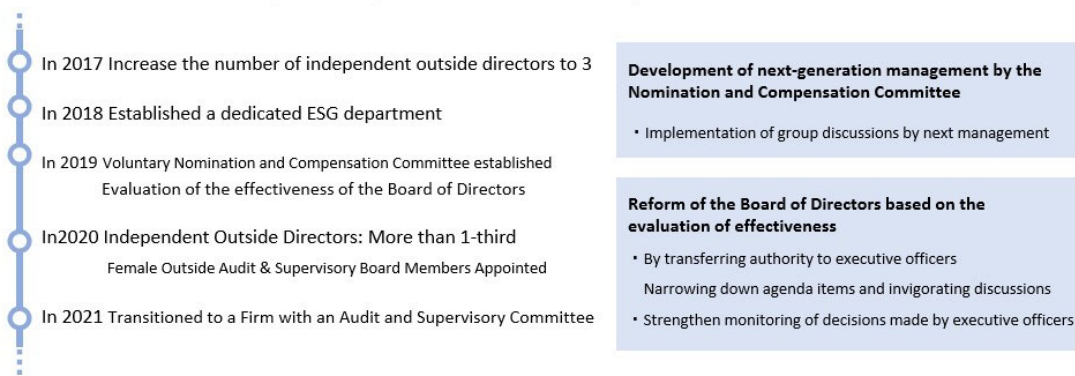
## ■ ESG Initiatives

### Governance: Building a Strong Governance Structure to Support Sustainable Growth

#### Application for "prime market" selection

Based on the results of compliance with the criteria for listing on the "Prime Market", it was resolved to select the "Prime Market" for the transition to the new market classification of the Tokyo Stock Exchange scheduled on April 4, 2022.

#### Transition of Strengthening the Governance System



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Finally, I'd like to talk about governance.

We can confirm that the Company conforms to the criteria for maintaining a listing on the Prime Market under the new market classification. We have passed a resolution regarding submitting an application for a selection on the Prime Market. We have been working to strengthen our governance system.

Going forward, the Board of Directors will continue to lead discussions on the level of governance required in the Prime Market, and we will build a strong structure that will support sustainable growth.

This concludes my explanation. Thank you very much for watching.

[END]

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