



ARATA CORPORATION

Earnings Investor Briefing for FY2021

May 12, 2022

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Event Summary

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[Number of Speakers]	1 Hiroaki Suzuki Representative Director and President

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Presentation

Suzaki: Thank you very much for watching. I am Hiroaki Suzaki, Representative Director and President of ARATA CORPORATION. I would like to explain our financial results for the fiscal year ended March 2022.

Results for the Fiscal Year
Ended March 2022

Growth Strategy and
Productivity Improvement

ESG

■ Consolidated Statements of Income

(Millions of yen)	Year ended March 31, 2021	Year ended March 31, 2022	YoY change		Planning	Versus forecast	
	Actual	Actual	Change	Rate (%)		Change	Rate (%)
Net sales	830,553	857,087	26,534	103.2	836,000	21,087	102.5
Gross profit	82,033	84,440	2,407	102.9	-	-	-
SG&A expenses	70,585	71,697	1,112	101.6	-	-	-
Operating income	11,448	12,743	1,295	111.3	12,400	343	102.8
Ordinary income	12,107	13,745	1,638	113.5	13,000	745	105.7
Profit attributable to owners of parent Net income	8,209	9,009	800	109.7	8,700	309	103.6

※Since the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) has been applied from the beginning of the fiscal year ended March 31, 2022, The figures for the year ended March 31, 2021 have been reclassified based on the assumption that the accounting standards have been applied.

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3

First, I would like to discuss our financial results for the fiscal year ended March 2022.

Here are our consolidated statements of income.

Net sales, operating income, ordinary income, and profit attributable to owners of parent or net income all exceeded the results of the previous year. Profitability continues to increase with a strong growth rate of profits compared to the growth rate of sales.

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■ Highlights for the Fiscal Year Ending March 2022

Record-high net sales and ordinary income

Net Sales: YoY 103.2% (Record high for the seventh consecutive fiscal year)

- Expand in-store share through steady accumulation of sales activities
- Expand sales by offering highly specialized pet wholesale No1 Japel

Recurring profit: YoY 113.5% (Record high for the third consecutive year)

Gross margin : 9.85% (YoY - 0.03 percentage points)

- + Factors: Strong sales of exclusive cosmetics, hair care, etc./ Improvement in product unit price (103.6% YoY)
- Factors: Weak sales of seasonal products (insecticides)/ Strong sales of detergents and paper products with relatively low profit margins

SG&A ratio : 8.37% (YoY - 0.13 percentage points)

- Decrease in personnel due to operational improvements and revisions to the allocation of personnel at logistics centers
- Improve logistics efficiency (102.6% year-on-year growth in logistics costs Control of expenses against sales growth)

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Sales and profits for the fiscal year ended March 2022 were both at record highs. Sales have reached a record high for seven consecutive fiscal years, and ordinary income has reached a record high for three consecutive fiscal years, continuing to grow even in a rapidly changing environment.

The increase in net sales was mainly due to the increase in in-store share resulting from steady accumulation of sales activities and the growth in the pet category. Although the gross margin has declined slightly from the previous year due to seasonal factors, the growth of Health and Beauty, a positive factor, is expected to continue. Another factor is that unit prices are on the rise as products become more sophisticated.

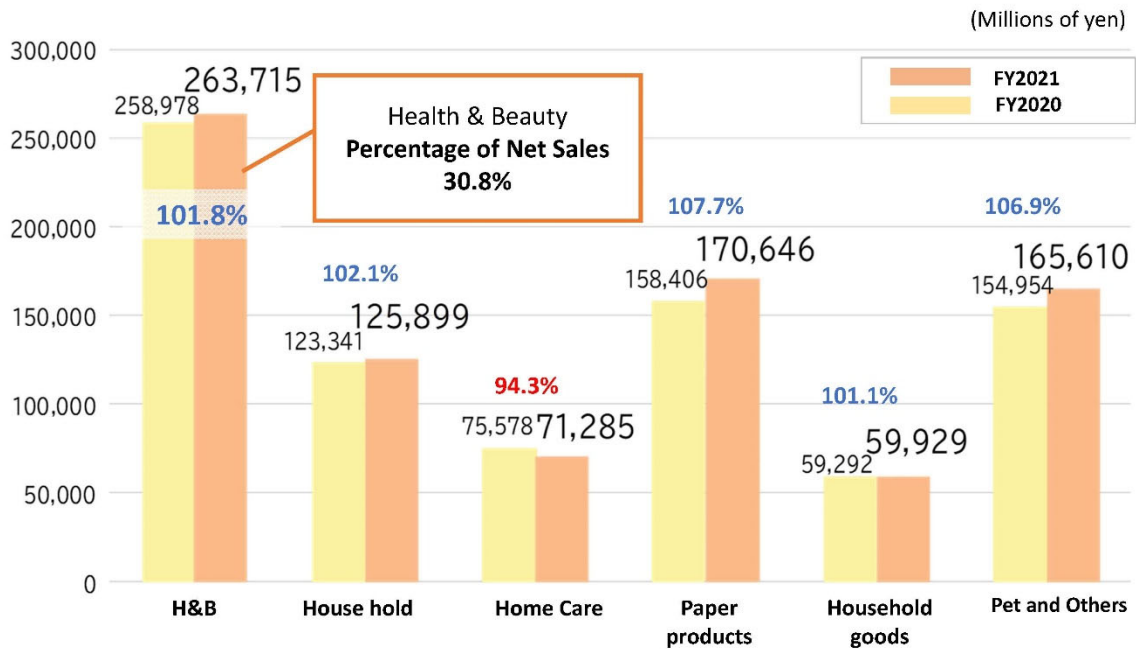
SG&A expenses were reduced by 0.13 percentage points from the previous year due to the decrease in personnel resulting from operational improvements and logistics efficiency improvements, which contributed to profit.

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■ Sales by Category (YoY)



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YoY sales by category are as shown here.

In Health and Beauty products, sales of hygiene-related products such as masks and hand soaps declined in reaction to special demand in the previous year, while sales of hair care and cosmetics were strong, exceeding the previous year's level.

Home Care sales were 94.3%, due to sluggish sales of seasonal products, such as insecticides, due to weather factors.

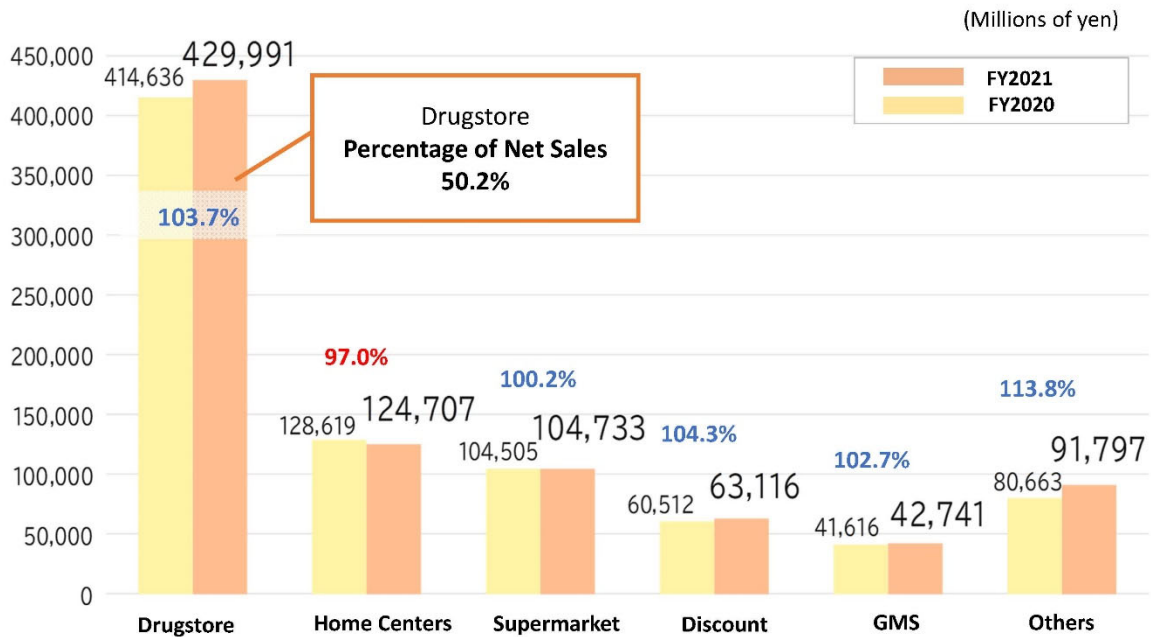
The Pet business is expanding due to the highly specialized proposals of Japel, a Group company, the increase in the number of new pet dogs and cats, and the growth of pet treats and other products due to the increase in the number of hours spent at home.

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■ Sales by Business Category (YoY)



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YoY sales by business category are as shown here.

Other than a reactionary decline from the special demand due to COVID-19 at home centers, the Company has increased its in-store share through steady sales activities, exceeding the previous year's level.

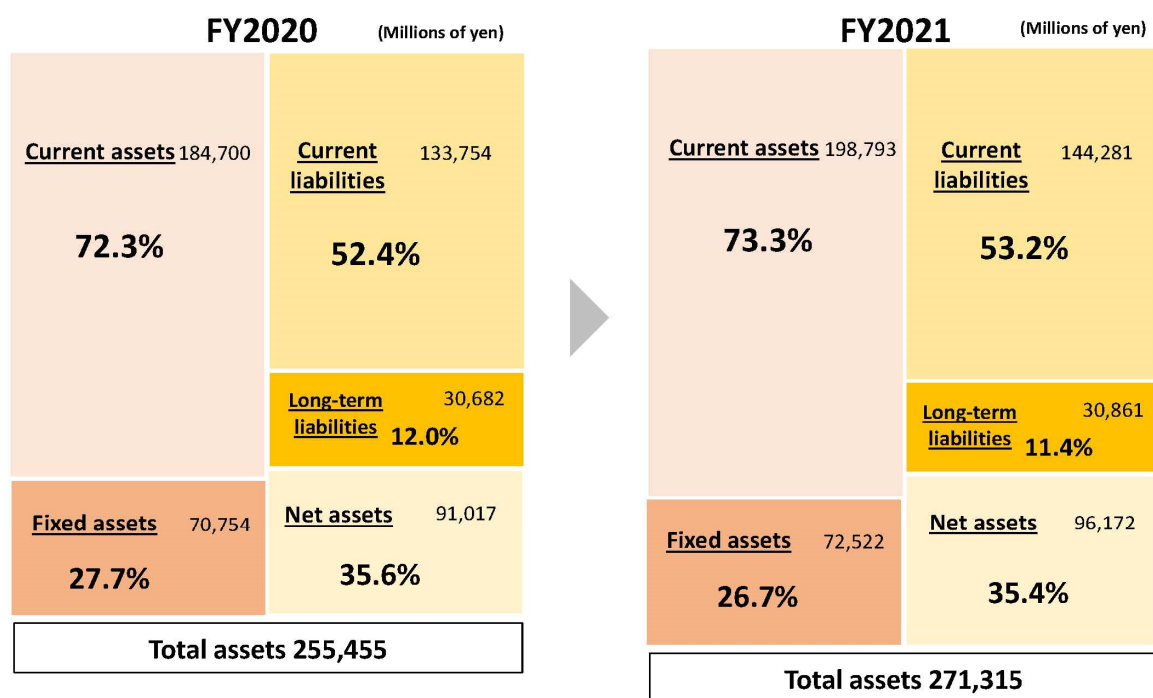
Other growth was driven by E-commerce and Variety businesses.

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■ Consolidated Balance Sheets



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The consolidated balance sheet is as shown.

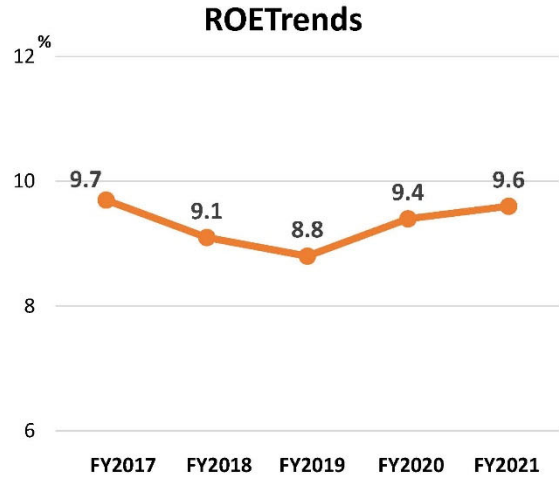
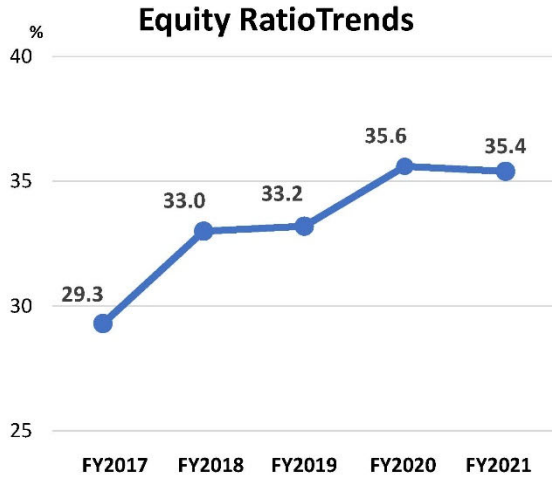
Total assets amounted to JPY271.3 billion, up JPY15.8 billion from the end of the previous period. Net assets totaled JPY96.1 billion, an increase of JPY5.1 billion from the end of the previous period.

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■ Ratio of net worth and ROE



Improve financial soundness and secure profitability

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Here is a graph showing the equity ratio and ROE over the past five years.

The equity ratio has steadily improved, remaining in the 35% range, and ROE has been maintained at the 9% level, improving financial soundness, and ensuring profitability.

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■ Earnings forecast

Results for the year ended March 31, 2022			
Net sales	Operating income	Ordinary income	ROE
JPY857 billion	JPY12.7 billion	JPY13.7 billion	9.6%

▼

Results for the year ended March 31, 2023 (Forecast)			
Net sales	Operating income	Ordinary income	ROE
JPY870 billion	JPY13.3 billion	JPY14 billion	9% range

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Based on these results, we have set our forecasts for the fiscal year ending March 2023 at JPY870 billion in net sales, JPY13.3 billion in operating income, and JPY14 billion in ordinary income.

We will continue to promote our strategy and continue to grow in the age of living with COVID-19, or post-COVID-19.

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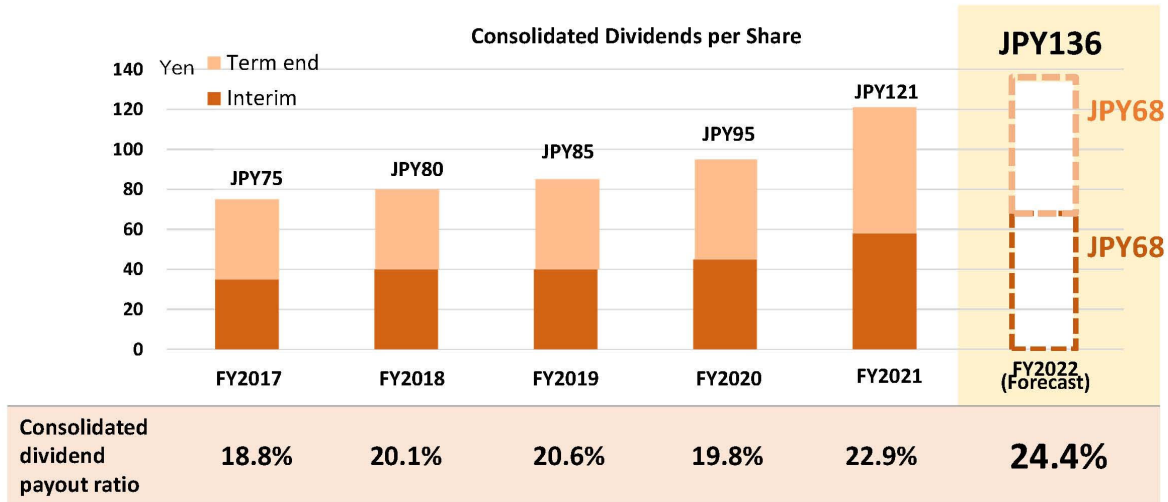
■ Shareholder Returns

Dividend policy: Stepwise increase from fiscal 2022 with the goal of achieving a **30%** payout ratio on a consolidated basis

FY2021: Implemented 20th anniversary anniversary (JPY5)

Increased by JPY16 from the initial forecast of JPY105 to JPY121 (+JPY26 YoY)

FT2022: Estimates of JPY68 in the middle and JPY68 at the end of the fiscal year to JPY136 (YoY+JPY15)



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I would like to explain our shareholder return policy.

While taking into consideration stable dividends, the Company has changed to a policy that is conscious of the dividend payout ratio from the fiscal year ending March 2022 and will gradually improve it with a target of 30%.

Based on this policy, for the fiscal year ended March 2022, the Company paid a full-year dividend of JPY121 per share, including a commemorative dividend of JPY5 per share for the 20th anniversary of the Company's establishment, for a payout ratio of 22.9%.

For the fiscal year ending March 2023, we forecast an interim dividend of JPY68 and a year-end dividend of JPY68, for a full-year dividend of JPY136, and a payout ratio of 24.4%, improving toward 30%.

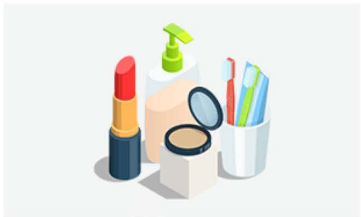
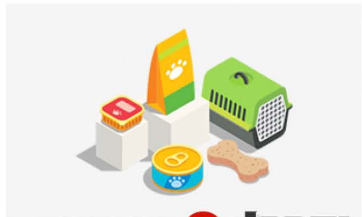

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■ Growth Strategy: Strengthen Categories

Continuously Strengthening Categories That Increase Consumer Needs

Health & Beauty	Pet
	
<p>Monopoly and preferred distribution products, high-performance hair care, Asian cosmetics, etc.</p> <p>Aggressive handling of new products and brands</p> <p>Our Unique Product Lineup</p>	 <p>No.1 share in the pet wholesale industry</p> <p>Wide-ranging development of Wholesale business, product development, store management, e-commerce business, overseas business, etc.</p> <p>Full lineup of pet-related products</p>

Demonstrating Unique Strengths through Strategic Strengthening

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Next, I will explain our growth strategy and productivity improvement measures.

As a growth strategy, we continue to strengthen the Health and Beauty and Pet categories, where needs are increasing. In Health and Beauty, we are actively handling new products and brands, such as exclusive and preferentially distributed products and Asian cosmetics, and are differentiating ourselves with a product lineup that is unique to our company.

Japel, which boasts the number one market share in the pet industry, has the advantage of a full lineup of pet-related products and continues to expand by strengthening its wholesale business and widely developing its product lineup and e-commerce business.

The Company will demonstrate its unique strengths through strategic reinforcement of each category.

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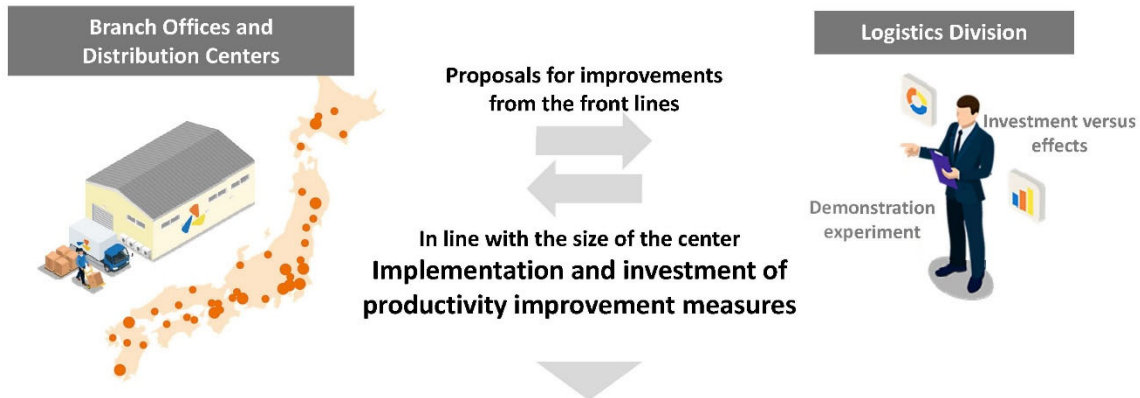
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■ Productivity improvement : Improve logistics efficiency

Respond finely to the needs of approximately 3500 retailers

Nationwide logistics network tailored to regional characteristics



Reduced logistics costs even in an environment of rising personnel and logistics costs

Toward Further Efficiency through the Utilization of Latest Technologies for Labor-Saving and Labor-Saving

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As for productivity improvement, we are promoting logistics efficiency.

With 11 large centers, 22 small and medium-sized centers, and more than 100 contracted warehouses, we have established a flexible system to respond to changes in demand and the needs of numerous retailers. In addition to implementing uniform efficiency improvement measures for each center, which varies in size and logistics, the Logistics Headquarters examines the return on investment and other factors in response to proposals for improvement from the front lines, and links these to improvements.

Through efficiency improvements tailored to each center, the logistics cost ratio has been kept low even in the face of rising personnel and distribution costs. In the future, we will promote further efficiency by utilizing the latest technology that leads to labor and manpower savings.

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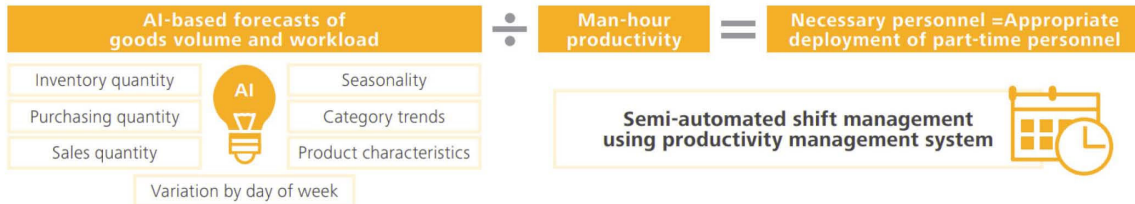
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■ Productivity improvement: DX promotion

Forecast of logistics volume and workload at logistics centers utilizing AI

Achieved high-precision and speedy shift management by correcting AI forecasts by logistics managers
To improving in-house productivity and labor-saving management operations

Image of Volume and Work Volume Forecast Demonstration Experiment Based on AI



Advantages of using AI

- 1 Improvement in accuracy of staffing
- 2 Improvement in level of staffing management
- 3 Labor-saving in manager operations
- 4 Elimination of unnecessary man hours

Building a strong corporate structure through DX initiatives that can be utilized by the field and whose effects can be seen.

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14

In addition, as part of DX promotion, we have started a demonstration experiment to improve productivity by utilizing AI.

This is an initiative to save labor by forecasting the volume of goods and work in the distribution center, leading to the appropriate deployment of part-time personnel.

We will continue to build a strong corporate structure through DX that can be utilized by the field and whose effects can be felt.

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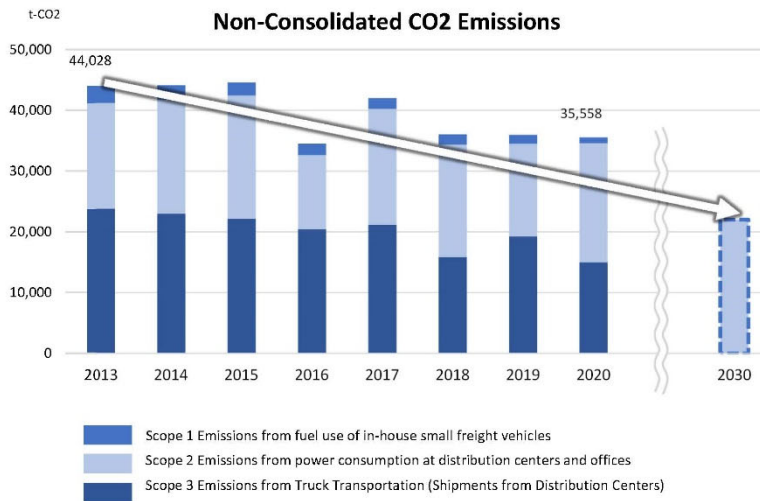
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■ ESG Initiatives

Environment

CO2 emissions 50% reduction numerical target set for 2030



In 2020
CO2 emissions
19.2% reduction
compared to 2013

Target for 2030
CO2 emissions
50% reduction
compared to 2013

**In line with TCFD
Implemented
information disclosure**

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We will explain our ESG initiatives.

As part of our environmental efforts, we have set a goal to reduce CO2 emissions by 50% by 2030 compared to 2013.

In the future, as we implement information disclosure in line with the TCFD, we will promote and disclose measures to reduce emissions by calculating CO2 emissions on a consolidated Group basis and identifying Scope Three.

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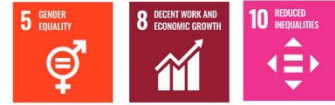
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■ ESG Initiatives

Human Resources

Motivation measures and numerical target setting



Measures to Enhance Employee Motivation to Achieve the Long-Term Management Vision 2030

Human resources are the assets in greatest demand for sustainable growth as a company, and as part of our Long-Term Management Vision 2030.

Implementation of investments and measures aimed at creating employee satisfaction and improving motivation toward achievement

Examples of Investments in Human Resources for the Fiscal Year Ending March 2023

Reward side

- Improving the salary level of employees

Treatment and Working Styles

- Establishment of new area managers
- Child care and nursing care support schemes

Implementation of Employee Engagement Awareness Survey

For employees' evaluation of their own work, working styles, and corporate culture

Started the Employee Awareness Survey in 2020

Based on the results, we are motivated and motivated to study how to improve systems and other matters.

Creating an environment that is easy to work in

2020 and 2021 Comparison of survey results

Aspects of ARATA's work environment which have been greatly improved (five-grade evaluation)

Company's future potential	3.67	Improvement of 0.24 points from the previous year ↑
Work styles	3.52	Improvement of 0.18 points from the previous year ↑

Target ratio of percentage of women in management positions

4.5% in fiscal 2026

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To achieve our long-term vision, we will implement measures to increase employee motivation as an investment in our key asset, our human resources.

We believe that improving employee satisfaction and motivation is important for the Company's sustainable growth, and we plan to improve rewards and benefits in the fiscal year ending March 2023, as well as revise our personnel system in the next medium-term management plan.

Since 2020, we have conducted an annual employee awareness survey to expand the system. We have also set a target ratio of percentage of women in management positions based on the belief that an environment in which women can play an active role will result in an environment in which a diverse workforce, regardless of gender, can work comfortably.

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■ ESG Initiatives

Regional Communities

20th Anniversary Donation

Relationships with Local Communities as Community-Based Wholesalers

On the 20th anniversary of its establishment in April 2022, each branch office and Head Office conducted donation activities from the head office to local communities.



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As for contributions to regional communities, our branch offices and head office made donations to local governments and other organizations in the areas where our bases are located, which have supported our development over the past 20 years as a community-based wholesaler.

Donations of masks and sanitizers as a measure against COVID-19, diapers and sanitary products as support for children and women, and monetary donations were made.

We will continue to make various contributions as a company that grows together with the community.

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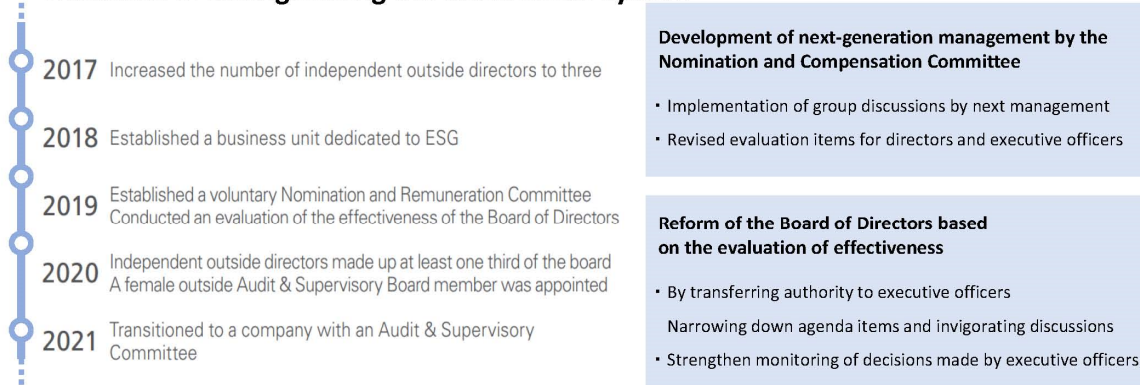
■ ESG Initiatives

Building a Strong Governance Structure to Support Sustainable Growth

"Prime market" listing

April 4, 2022 Listed on the "Prime Market" in the transition to the new market classification of the Tokyo Stock Exchange

Transition of Strengthening the Governance System



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With regard to governance, the Company listed on the prime market in the new market classification, and will proactively respond to the higher governance standards required.

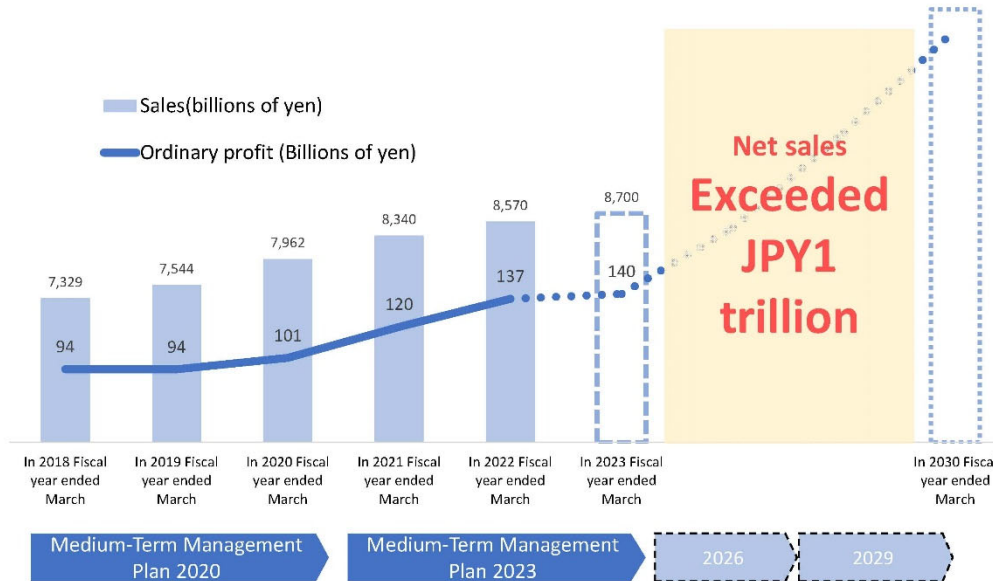
We will build a stronger governance structure that supports sustainable growth by invigorating discussions at Board of Directors meetings, Audit and Supervisory Committee meetings, and voluntary Nomination and Remuneration Committee meetings.

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■ Long-term vision 2030



Steady Growth Toward 2030 and Future Acceleration of Growth

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Beginning with the initiatives described above, we will achieve significant growth toward 2030 through medium-term management plan 2026, which will start in the next fiscal year, and beyond, with overseas and new businesses as growth drivers, in addition to the steady expansion of our core Domestic Wholesale business.

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

[END]

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