

Message from the President

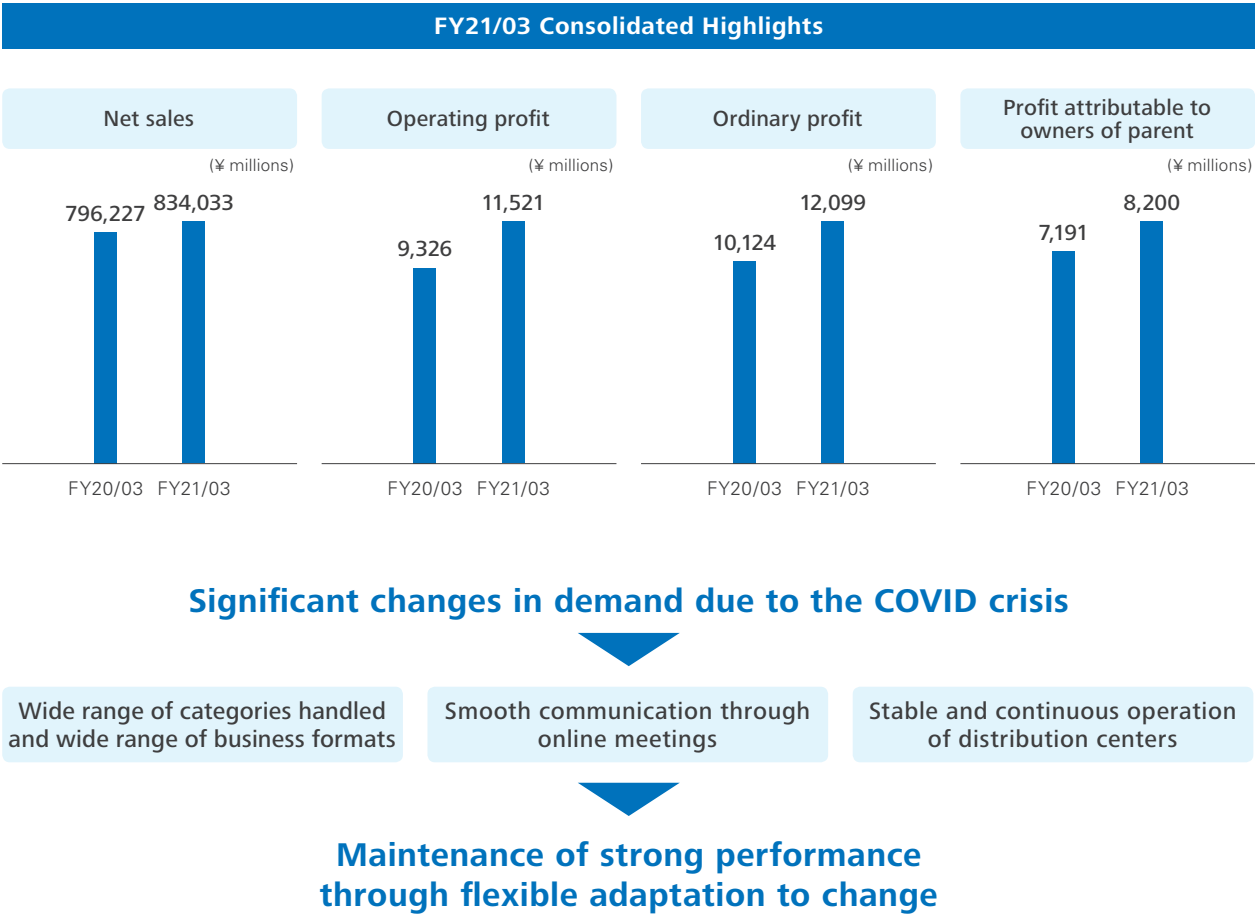


Business Environment and Business Results

Operating income and ordinary income targets under Medium-Term Management Plan achieved in first fiscal year of plan

ARATA succeeded in achieving all targets for the final fiscal year of Medium-Term Management Plan 2023, except the net sales target, in the fiscal year ended March 31, 2021, which was the first fiscal year of the plan. Whilst demand for makeup and cosmetics and inbound demand were dealt a huge blow by the COVID-19 pandemic, expansion in demand for masks and disinfectant and increased home consumption resulted in strong business results. We believe that our strong performance can be attributed to

past efforts to improve productivity and increase business efficiency which are now reaping rewards, in addition to other factors such as our wide range of product categories and business formats, smooth communication through online meetings from the initial stages of the COVID crisis, and the stable operation of our logistics centers. We see the possibility of improving our business results still further, even after the COVID crisis comes to an end, through our existing strategy of strengthening categories such as cosmetics and pet supplies, and the implementation of new measures. In view of this, we have raised our consolidated forecasts for the fiscal year ending March 31, 2022 and our targets for the final fiscal year of Medium-Term Management Plan 2023. We have also changed our basic policy on shareholder returns from a policy of paying stable dividends to a policy which also shows an awareness of the dividend payout ratio. Going forward, we will gradually increase the dividend payout ratio to a target of 30%.



In recent years, natural disasters such as earthquakes, typhoons and floods are becoming more frequent, and we are acutely aware of the importance of BCP. Since a large proportion of the products we handle are daily necessities, our logistics operations can never stop. Further, in the early days of the COVID crisis, panic buying of certain products occurred and the ability to procure products was required. Ensuring the quality of products is also an essential part of the wholesaler's role and we continue to deliver products which retailers and consumers can sell/use with peace of mind. The need to ensure employee safety during the COVID crisis also prompted us to review workstyles. Moving forward, we will continue shifting towards a framework which allows each division to work more efficiently. On the sales front, the integration of online and offline sales is an issue which needs to be addressed. Especially when it comes to products, it is important to actually see, touch and try

the goods and we are, therefore, considering how we will approach this in the future. The COVID crisis has served as an opportunity reminding all employees once again of the importance of fulfilling our social responsibility as a middleman in the chain of distribution.

Progress on Medium-Term Management Plan 2023

Strengthening management soundness, improving productivity, and increasing growth potential

The fiscal year ending March 31, 2022 is the second year of Medium-Term Management Plan 2023. In terms of the progress of strategies and measures, we feel that, despite the uncertainties caused by COVID, positive results

are steadily being produced. As a result of transition to a company with an Audit and Supervisory Committee at the General Meeting in June 2021, management soundness was further strengthened. Meanwhile, we have been working to improve productivity by embracing DX to make all operations across the entire Group more advanced and efficient and to strengthen the management base. Given that we live in a society with a declining birth rate and aging population where the working age population is set to decrease in the future, I feel we must not only seek to improve efficiency but also change the very way in which work is done.

With a view to increasing growth potential, we will expand our overseas business, targeting the Asia region. Though it would be difficult to move Japan's style of wholesale operations to overseas markets without some kind of modification, we see a whole range of business opportunities. However, it would take time for us to start up a business from scratch on our own and so in China we formed a capital alliance with the Zhongshang Group (Guangzhou Zhongshang Investment Holding Group Co., Ltd.) as our business partner. Looking to the future, we will help enhance corporate value by providing the wholesale industry knowhow we have built up in Japan

to the Zhongshang Group, and we will also accelerate the growth of both companies by implementing new strategies that utilize the resources of the Zhongshang Group including its factories and its logistics functions and EC sites in China.

Moreover, from a long-term perspective, we intend make the lives of consumers in ASEAN and other regions more prosperous in the future through integration of our business strategies in Japan, China, Thailand and Vietnam.

In Japan, we have strengthened the cosmetics category and synergies have been created through expansion in products handled and business partners as a result of the merger with Fashion Arata Corporation in April 2019. We handle popular brands of Asian cosmetics which are attracting increasing attention recently, mainly Korean cosmetics, as exclusive merchandise. These brands are also highly rated by retailers, and sales in the cosmetics category have shown strong year-on-year growth in the fiscal year ending March 31, 2022. In some instances, cosmetics sales have struggled to grow during the COVID crisis but we now sense solid growth. Assuming that the COVID crisis comes to an end and mask wearing is no longer mandatory, sales are sure to grow.

Hopes for Long-Term Management Vision 2030

Creation of Management Strategy Team to develop more concrete strategies with specific targets

Our Management Strategy Division, made up of a select few individuals, used to take the lead in drawing up our strategies but, in April 2021, we created a Management Strategy Team to develop more concrete strategies. Concurrently serving as the Head of the Management Strategy Division, I myself assembled the team, with the Heads of functional divisions such as sales, products, business development and HR as members. The team discusses matters for achievement of the Long-Term Management Vision 2030 such as concrete strategies, deadlines and specific targets.

Since we are the middleman between manufacturers and retailers in the distribution chain, we operate under various constraints. Our target is to achieve net sales exceeding ¥1 trillion by 2030 but more important than achieving this target is the transformation of our business structure. The question of how we expand our business domains whilst at the same time achieving further growth in our current core wholesale business is a crucial question in the context of Long-Term Management Vision 2030.

On the domestic market in the future, population decline will lead to decreased sales of consumer goods and slower growth. Labor shortages and rising wages will inevitably impact our operations. In the retail industry, corporations are increasing in scale through mergers and retailers are also becoming increasingly demanding in relation to us wholesalers. We also understand that we have a corporate responsibility to actively implement ESG initiatives including actions on climate change. In conclusion, sustainable growth on the strength of the wholesale business alone will no doubt gradually become more and more difficult.

Going forward, whilst focusing on the wholesale business, we intend to branch out into new domains, with "goods" and "markets" as keywords. "Goods" refers to both products and information assets.

In the past, we have introduced to market numerous products which we developed ourselves and for several years now we have been focusing on developing high quality and high value added products with unique functions. We believe that to strengthen such initiatives further in the future, we need to also build a framework which allows us wider involvement in all processes

including development, pricing and sales promotions. The question of how to utilize our information assets as a middleman in the distribution chain is also a strategy essential for long-term growth.

Another keyword is "sales space." The rise of e-commerce in recent years has been astonishing but sales in physical stores which allow consumers to see, touch and check out daily necessities directly are also important. Our group company ISM CORPORATION supports the sales promotion activities of manufacturers and the realization of instore sales by retailers from various perspectives. Our contribution to the creation of effective sales spaces through the demonstration of our capabilities results in encounters with products which brighten up consumers' lives.

Additionally, both in Japan and overseas, we are considering forming alliances with partners that possess expertise in order to achieve growth in the long run. We are ready and willing to collaborate with companies that have the knowledge we lack in order to grow together.

ESG Initiatives

Helping achieve the SDGs through activities aimed at creating social value

Since its establishment, ARATA has adopted and realized the management philosophy "Continue to serve the world." We believe that our business, which consists of supporting people's lives though the stable delivery of daily necessities, can itself contribute to the realization of a sustainable society. And it is our understanding that continuing to serve the world through honest business activities that meet with the approval of our stakeholders, namely employees, business partners, local communities, shareholders and investors, and creating social value constitutes ESG initiatives.

In terms of the "environment," our contribution will be to create a positive cycle in the supply chain as a middleman aiming to combat climate change and realize a recycling-oriented society.

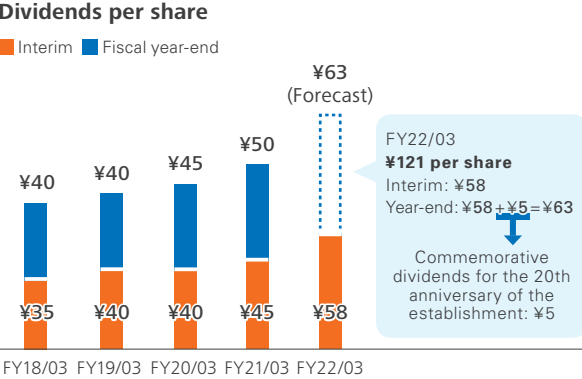
In relation to "human capital," we will aim to promote the active participation and career advancement of diverse human resources in the interests of sustainable growth. In connection with our global business, we will actively hire global human resources and mid-career professionals and steadily increase diversity. We feel that the comments and views of such human resources

Dividend policy

ARATA considers enhancing corporate value and returning profits to shareholders to be important priorities for management and based on our basic dividend policy of stable, continuous payment of dividends, we have paid dividends based on comprehensive consideration of various factors, including our business results, financial condition and future business expansion.

We have now decided to change our shareholder return policy to be more aware of the dividend payout ratio while still taking stable dividends into consideration as before, and we will gradually increase the dividend payout ratio to a target of 30%.

Going forward, we will return profits to shareholders in accordance with this policy, whilst taking into consideration our business results for each period and investments in growing businesses.



Medium-Term Management Plan 2023

Raised targets for final fiscal year (FY23/03) of Medium-Term Management Plan

	Before revision	After revision	Increase
Net sales	¥845.0 billion	¥850.0 billion	+¥5.0 billion
Operating income	¥11.5 billion	¥12.9 billion	+¥1.4 billion
Ordinary income	¥12.0 billion	¥13.5 billion	+¥1.5 billion
ROE	9% level	9% level	-



are also stimulating for ARATA's regular employees. Recently, we have been considering environment development and system reform to promote the active participation and career advancement of women. We recognize the importance of active participation and career advancement of women, and the importance of promoting management understanding, changing management's way of thinking, and creating an organizational culture conducive to this. We are also committed to creating an environment that makes all employees keen to work for us long term including improving the welfare benefits for contract employees and part-time workers.

In relation to "local communities," we would like to make life richer and more comfortable for everyone though active participation in various CSR activities as a community-based company with sites all over Japan.

With respect to "governance," our transition to a company with an Audit and Supervisory Committee has resulted in greater transparency and oversight and has made discussions at meetings of the Board of Directors livelier than ever before. Regarding the reorganization of the Tokyo Stock Exchange in April 2022, we have confirmed that we meet the listing criteria for the Prime Market in the new market segments and we have passed a resolution concerning selection of the prime market. Under the leadership of the Board of Directors, we also plan to hold in-depth discussions concerning our response to the even higher level of corporate governance required for companies listed on the Prime Market.

ARATA's Mission and Raison D'Être

Continue supporting people's lives whatever the circumstances

Our biggest strength is our human capital. ARATA Policies, which all employees carry around, include guiding principles for realizing our management philosophy, and mention "integrity and humility and effort" and "trust and a favorable impression." These principles are repeated over and over again at every opportunity, including induction training, various other types of training and morning meetings, becoming rooted in employees' consciousness and helping to build relationships with business partners. I believe that this is our strength and the source of our competitiveness.

As the current COVID crisis has also reminded me, providing a stable supply of daily necessities in an emergency such as a pandemic or a natural disaster is a key responsibility of ours. We handle other goods besides necessities such as household goods, cosmetics and pet supplies and these are products which enrich consumers' lives.

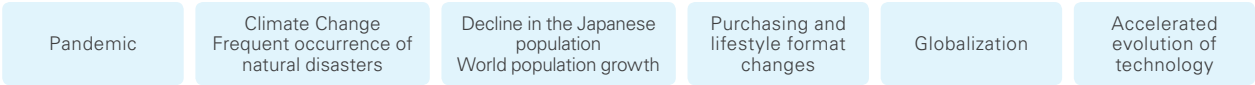
Our Long-Term Management Vision 2030 slogan "Realize your dreams. Change your daily lives" encapsulates ARATA's desire to use its capabilities to realize the seemingly obvious, but one and only dream that people share of "wanting to spend enriching and comfortable time every day for many years to come." Please continue to look forward to our enthusiastic progress.



Towards sustainable growth

In face of dramatic changes in society and the environment, ARATA has established Long-Term Management Vision 2030, which takes a long-term perspective and sets out the direction for the next ten years, to clarify the fundamentals of management and enable all employees to approach activities in a unified manner. Going forward, we will work towards realization of our long-term vision by establishing milestones every three years in the form of medium-term management plans and striving for further growth in our activities.

Changes in Our Operating Environment (Risks and Opportunities)



To "continue to serve the world" in the midst of environmental change

**Long-Term Management Vision 2030**

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

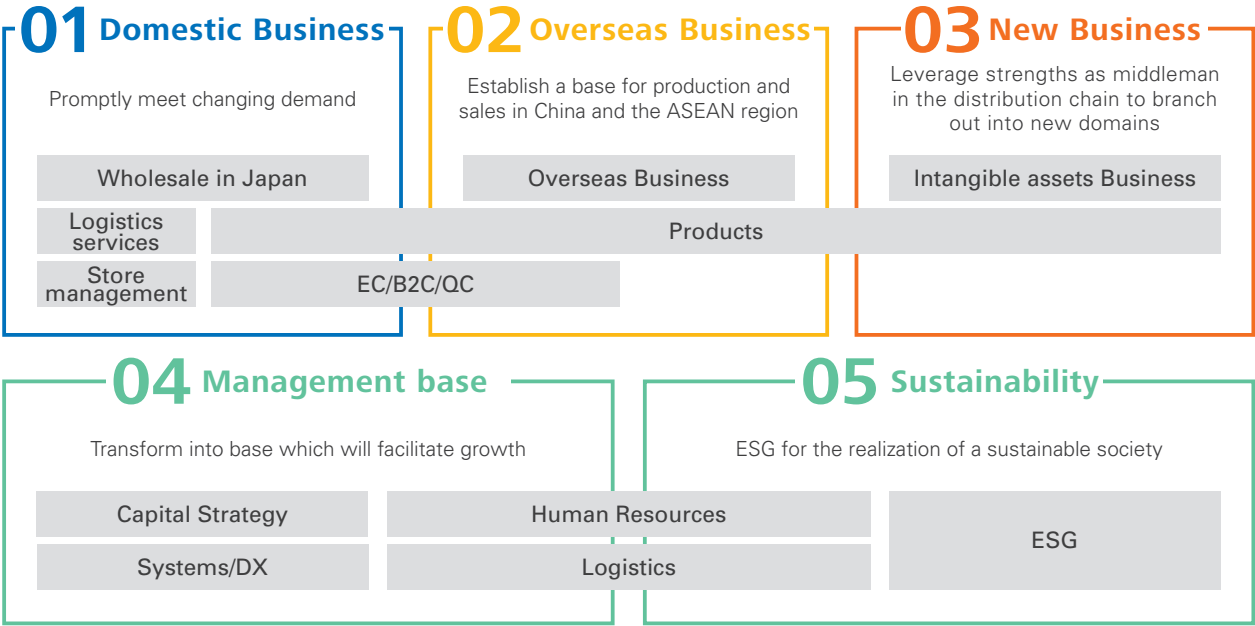
By enriching lives through our capabilities, we will realize the seemingly obvious, but one and only dream that people share of "spending enriching and comfortable time every day for many years to come."

Target	Material ESG issues
<b>Net sales exceeding ¥1 trillion by FY30/03</b>	<b>Environment</b> Contributing to environment by creating a positive cycle in the supply chain
	<b>Human Resources</b> Being a great place to work
	<b>Local Communities</b> Making life richer and more comfortable for everyone
	<b>Governance</b> Robust governance framework to support sustainable growth

**SUSTAINABLE DEVELOPMENT GOALS**

Five Subject Headings

We have internally set and shared across the ARATA Group concrete strategies and specific targets under five subject headings, in order to realize Long-Term Management Vision 2030. The whole Group is working together on activities under these headings.





## Message from the Vice President



**Yoichi Suzuki**  
Representative Director and  
Vice President  
Head of Administration and  
Head of DX Promotion

**Communicating our strong business results and appealing growth strategies**  
- ARATA's Approach for "SDG"-

### Communicating our growth strategies

"Although ARATA has steadily increased its earnings and grown during the COVID-19 pandemic, and your position in the industry as a business that is indispensable for society has become more firmly established, your stock price growth is weak in comparison and there should be a little more growth momentum." This is a comment made by a major institutional investor during a meeting we had in early November 2021.

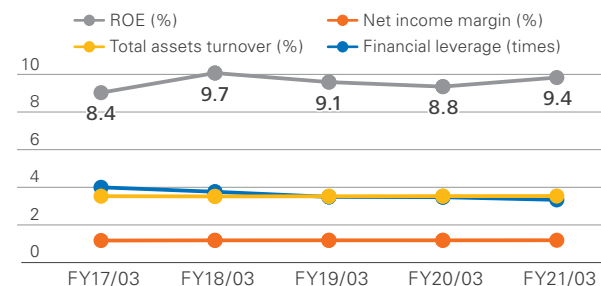
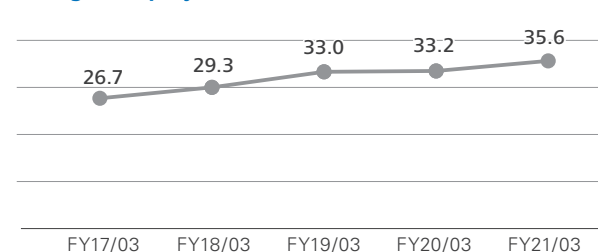
If we trace our business results back 10 years to the fiscal year ended March 31, 2011, net sales in the fiscal year ended March 31, 2021 are around 1.4 times higher than

the level 10 years ago and our profitability has increased significantly, with ordinary income almost tripling.

With an equity ratio exceeding 35% and ROE reaching the 9% level, we have also strengthened our financial position, achieving both safer management and higher profitability.

Going forward, we believe we need to further improve the quantity and quality of our communication with stakeholders, communicate our strong business results and appealing growth strategies that draw people in, and build strong relationships of trust.

#### Change in equity ratio (%)



### Long-term strategy - Aim for hybrid management

Under Long-Term Management Vision 2030, we have begun activities with sustainability based on ESG considerations and the SDGs at the core of our management strategies. Unless we secure sufficient time for the development of new products and technologies and the R&D budget is maintained, the financial returns

will not lead to any improvement in corporate value.

To realize our long-term management vision, while increasing the added value and productivity of our existing core wholesale business, hybrid management which aims to create highly profitable new businesses through management which creates new businesses based on

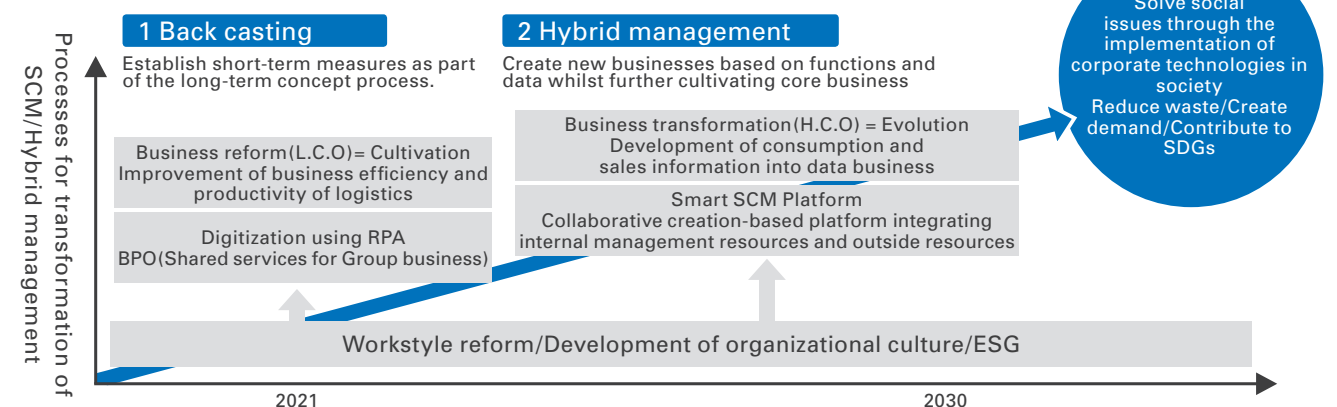
functions and data, namely "business reform (cultivation) and business transformation (evolution)" is essential.

The Group's mission is to have the management capability to meet demand by striking a balance between production, inventories and consumption, to maximize profit and cashflow, and to provide a stable supply of products and information and maintain the capabilities needed to support the lives of customers/consumers. During the COVID crisis, product demand has fluctuated

constantly, the balance between online and offline sales channels has also shifted, and production and logistics functions continue to be severely impacted.

When it comes to adjusting the supply-demand balance, initiatives at a company level alone have no hope of being sufficiently effective and we believe it is important to create a platform (Smart SCM Platform concept) that transcends companies and will transform the supply chain, and that the sharing of functions is key.

### Smart SCM Platform concept



### Financial strategy- Actively invest in growth and enhance shareholder returns

The basic strategy and investment plan under Medium-Term Management Plan 2023 (2021-2023) are as follows.

#### 1. Basic strategy

Realize "product development and sales space proposals" through marketing which takes changes in lifestyles and values due to advances in digital technology into consideration, and achieve competitive sale activities and low-cost operations through "labor-saving logistics centers" utilizing the latest technologies.

#### 2 Investment plan and cash allocations

We will make total investment of ¥30 billion yen (over three years) alongside appropriate cash management and profit distributions. When distributing profits, we will prioritize investment in growth and shareholder returns.

##### Investment in growth

- 1 Strengthen logistics functions
- 2 Reduce total business volume through automation
- 3 Strengthen product development capability
- 4 Strengthen management and sales support system
- 5 Establish systems and training aimed at achieving active participation and career advancement of diverse human resources

##### Shareholder returns

Be mindful of improving the stock price in the medium and long term and gradually increase the consolidated dividend payout ratio to 30%. Carry out acquisitions of treasury shares in an appropriate manner based on comprehensive judgment of a range of factors including the stock price trend and medium- and long-term management strategies. Enhance shareholder returns on the back of our strong business results

### ARATA's "S.D.G."-driven growth

ARATA will achieve growth through a combination of Sustainable, Digital and Glocal.

Sustainable	Digital	Glocal
For the creation of a sustainable business model: "We will achieve the highly efficient and stable supply of the products and services which enrich daily life."	For the creation of new business: "We will contribute to improving the efficiency of the entire supply chain by utilizing the latest digital technology."	Think globally, Act locally. "With world-class concepts and technologies, we will engage in activities from a customer perspective in line with their living environment."

We will take on challenges for the future with a "healthy tension," and communicate our strong business results and appealing growth strategies which will draw people in.