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Kotobuki Spirits Co.,Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2026

November 5, 2025

Event Summary

[Company Name]	Kotobuki Spirits Co.,Ltd.	
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[Venue]	Nikkei Kayabacho Bekkan B1, 2-6-1 Kayabacho Nihonbashi, Chuo-ku, Tokyo 103-0025 (Hosted by The Securities Analysts Association of Japan)	
[Venue Size]	238 m^2	
[Participants]	50	
[Number of Speakers]	2	
	Seigo Kawagoe	President, Representative Director and CEO
	Shinji Matsumoto	Managing Director
[Analyst Names]*	Norihiro Miyazaki	Goldman Sachs
	Ryozo Minagawa	SMBC Nikko Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Moderator: We will now begin the financial results presentation of Kotobuki Spirits Co.,Ltd. for Q2 of the fiscal year ending March 31, 2026.

First of all, we would like to introduce the two members we are welcoming from the Company. First, Mr. Seigo Kawagoe, President and CEO, and Mr. Shinji Matsumoto, Managing Director.

Today, Mr. Kawagoe and Mr. Matsumoto will share the responsibility of explaining the financial results. After the explanation, there will be time for questions and answers.

Well, then, Mr. Matsumoto, please go ahead.

Matsumoto: Thank you very much for attending today's briefing on our interim financial results for the fiscal year ending March 31, 2026 at a very busy time in the midst of the earnings release season.

At the beginning of the presentation, I would like to review the interim results and the full-year forecast, and in the latter half of the presentation, Mr. Kawagoe will explain our future planning policies and other matters. Please follow along with the material.

FY2026(1Q-2Q)Highlight

Results of FY2026 (1Q-2Q) (April-September)

Net sales 108.8% (YoY) / Net profit the same level (YoY)

- **Net sales increased 8.8% (YoY), mainly due to the effects of various measures. Increased manufacturing costs, including soaring raw material prices, pushed down the gross profit margin. However, net profit slightly went up YoY, driven by increased sales.**

- **Inbound sales (international terminal sales) increased to 5,083 million yen (+9.5% YoY).**

- **Three store openings and three store closings, including the opening of the first flagship store after the rebranding of "Tokyo Milk Cheese Factory" at NEWoMan TAKANAWA in September 2025.**

First, here are the highlights.

The business and operating environment during the period under review remained generally challenging due to soaring prices of raw materials, especially chocolate ingredients, and a slowdown in the number of visitors to Japan, as well as consumers' growing thriftiness due to the rising prices.

Against this backdrop, the Group has promoted various business measures to increase its value under its vision of being a "General Producer of the Sweets" that creates premium gift sweets throughout Japan.

As a result, net sales increased by 8.8% YoY. On the profit side, operating profit, ordinary profit, and net profit attributable to owners of the parent remained generally unchanged from the previous year due to a decline in the gross profit margin caused by soaring raw material prices.

FY2026(1Q-2Q) Topics ① Inbound sales

Inbound sales in the second quarter increased by 9.5% YoY

【 Inbound sales (International airports sales) 】

(Millions of Yen)	1Q	2Q	3Q	4Q	1Q-4Q
FY2026	2,646	2,436			
FY2025	2,305	2,338	2,765	2,613	10,022
FY2024	1,519	1,606	1,966	2,033	7,126

Narita airport Fa-So-La TAX FREE STORE AKIHABARA
LeTAO

Narita airport Fa-So-La TAX FREE STORE AKIHABARA
Maccha Chitose

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We are disclosing inbound sales figures because they are one of the features of our financial results. Our inbound sales figures are disclosed by defining inbound sales as sales at the international terminals of the airports.

In terms of inbound trends during H1 of this fiscal year, the number of visitors from Asian regions, such as Hong Kong, South Korea, and Taiwan, remained sluggish due to the spread of rumors about the massive earthquake, the extremely hot summer, and the timing of the Mid-Autumn Festival, which was in September this year.

Against this backdrop, the Kotobuki Spirits Group continued its efforts to strengthen measures at international airports.

As a result, net sales increased 9.5% YoY to JPY5,083 million.

FY2026(1Q-2Q) Topics ② New Store Openings

Sucrey opened its first flagship store at "NEWoMan TAKANAWA," which opened on September 12, 2025, after the rebranding of "Tokyo Milk Cheese Factory."

Opened on September 12, 2025 "Tokyo Milk Cheese Factory NEWoMan Takanawa Store"

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New store openings.

In H1, we opened three directly managed stores and closed three stores.

In terms of store openings, Sucrey opened its first flagship store at NEWoMan TAKANAWA, which opened in September this year, to coincide with the rebranding of Sucrey's flagship brand, Tokyo Milk Cheese Factory.

FY2026(1Q-2Q) Topics ③ Reopened store information

KCC reopened "LeTAO New Chitose Airport Store" on April 29, 2025, and "LeTAO Daimaru Sapporo Store" on July 2, 2025.

Reopened on July 2, 2025,
" LeTAO ShinChitose Airport Store"

Reopened on July 2, 2025,
" LeTAO Daimaru Sapporo Store"

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In addition, for reopened stores, KCC reopened LeTAO New Chitose Airport Store and LeTAO Daimaru Sapporo Store following complete renovation.

FY2026(1Q-2Q) Topics ④ Reopened store information

Kotobukiseika reopened "KAnoZA Shamine Tottori Store" on August 5, 2025.

Reopened on August 5, 2025, "Kanoza Shamine Tottori Store"

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Kotobuki Seika has reopened KAnoZA Shamine Tottori Store following renovation, in conjunction with the renewal of the commercial zone at JR Tottori Station.

Results of FY2026 1Q-2Q（YoY）

Net sales +8.8% (YoY), Net profit the same level (YoY)

(Millions of yen,%)	FY2025(1Q-2Q) amount	FY2025(1Q-2Q) to-sales rate	FY2026(1Q-2Q) amount	FY2026(1Q-2Q) to-sales rate	YoY Change	YoY %	FY2025(1Q-4Q) amount	FY2025(1Q-4Q) to-sales rate
Net sales	32,906	—	35,787	—	2,881	8.8	72,349	—
Gross profit	20,376	61.9	21,526	60.1	1,149	5.6	44,804	61.9
SG&A expenses	12,899	39.2	14,085	39.4	1,185	9.2	27,193	37.6
Operating profit	7,476	22.7	7,441	20.8	△ 35	△ 0.5	17,610	24.3
Ordinary profit	7,520	22.9	7,517	21.0	△ 3	△ 0.0	17,686	24.4
Net profit (*1)	4,990	15.2	5,016	14.0	26	0.5	12,122	16.8
EPS（Yen）	32.07		32.49		0.42		78.00	

(*1) Quarterly net profit = Quarterly net profit attributable to owners of the parent

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Continuing on, here are the results for the interim period.

As noted in the document, net sales increased 8.8% to JPY35,787 million, and interim net profit increased 0.5% to JPY5,016 million.

Achievement rate of Business Forecast

Gross profit decreased by 2.2% compared to the initial forecast. This was due to production adjustments following sluggish summer inbound sales demand and higher-than-expected raw material price increases.

(millions of yen,%)	FY2026(1Q-2Q) Business Forecast(*1)		FY2026(1Q-2Q)		Compared with Business Forecast	
	amount	To-sales rate	amount	To-sales rate	YoY(Change)	achievement(%)
Net sales	35,950	—	35,787	—	△ 162	99.5
Gross profit	22,380	62.3	21,526	60.1	△ 853	96.2
SG&A expemses	14,110	39.2	14,085	39.4	△ 24	99.8
Operating profit	8,270	23.0	7,441	20.8	△ 828	90.0
Ordinary profit	8,305	23.1	7,517	21.0	△ 787	90.5
Net profit	5,520	15.4	5,016	14.0	△ 503	90.9

(*1) Business Forecast is the figures announced on May 13, 2025.

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Guidance, achievement rate for the business forecast.

Sales were generally in line with initial forecasts, but profit was down about 10% from the initial forecast.

The main reasons for this underachievement were that the gross profit rate and gross profit fell 2.2 percentage points short of the forecast due to higher-than-expected raw material prices and lower production efficiency.

Sales channel

Domestic wholesale sales increased by 10.7% due to contributions from the Kotobuki Seika Group and others.

(Millions of yen,%)	FY2025(1Q-2Q) amount	FY2025(1Q-2Q) To-sales rate	FY2026(1Q-2Q) amount	FY2026(1Q-2Q) To-sales rate	YoY(Change)	YoY(%)
Net sales	32,906	—	35,787	—	2,881	8.8
Domestic(Wholesales)	14,490	44.0	16,039	44.8	1,548	10.7
Domestic(Retail)	15,621	47.5	16,596	46.4	975	6.2
Mail Order	2,195	6.7	2,431	6.8	236	10.8
Other	3	0.0	3	0.0	0	7.6
Domestic Total	32,311	98.2	35,071	98.0	2,760	8.5
Overseas(Wholesale)	321	1.0	452	1.3	130	40.5
Overseas(Retail)	273	0.8	264	0.7	△ 9	△ 3.3
Overseas Total	594	1.8	716	2.0	121	20.4

(Note)Retail are shops and Pop up stores. Other is insurance agency business.
Overseas wholesale consists shipment sales to overseas and FC royalties

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Data on sales by sales channel is disclosed.

Domestic wholesale sales increased by 10.7% YoY due to the strong performance of Kotobuki Seika Group.

Looking at domestic retail sales, although the effect of new store openings was less than in the previous interim period, steady growth in existing stores resulted in a 6.2% increase in sales.

(Overseas sales)

(Unit:Millions of yen)	FY2025 (1Q-2Q)	FY2026 (1Q-2Q)	YoY (Change)	YoY (%)
Taiwan (*1)	273	264	△ 9	△ 3.3
Singapore	139	144	5	3.5
Australia	130	180	50	38.0
Others	51	127	76	148.5
Total	594	716	121	20.4

(*1) Taiwan is consolidated subsidiaries. Other areas are FC.

(Singapore)
LeTAO Le chocolat Singapore
Wisma Atria B1-58 (435 Orchard Road)

opened on August 1, 2025

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Overseas sales still accounted for a very small percentage of total sales, but sales to Australia and to Seattle, USA, which started in August last year, grew steadily.

Cost of sales・Gross profit

The ratio of material costs has increased due to factors such as soaring raw material prices.

(Millions of Yen、%)	FY2025(1Q-2Q) amount	FY2025(1Q-2Q) To-sales rate	FY2026(1Q-2Q) amount	FY2026(1Q-2Q) To-sales rate	YoY(change)	YoY(%)	FY2025(1Q-4Q) amount	FY2025(1Q-4Q) To-sales rate
Net sales	32,906	—	35,787	—	2,881	8.8	72,349	—
Material cost	7,556	23.0	8,694	24.3	1,137	15.1	16,300	22.5
Labor cost	2,917	8.9	2,966	8.3	49	1.7	5,730	7.9
Expense	1,488	4.5	1,729	4.8	241	16.2	3,353	4.6
Manufacturing cost	11,962	36.4	13,391	37.4	1,428	11.9	25,385	35.1
Others	567	1.7	870	2.4	303	53.5	2,159	3.0
Cost of sales	12,529	38.1	14,261	39.9	1,732	13.8	27,545	38.1
Gross profit	20,376	61.9	21,526	60.1	1,149	5.6	44,804	61.9

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Cost of sales data.

The gross profit rate decreased 1.8 percentage points from last year, but this was because the ratio of material costs increased due to soaring raw material prices, as stated in the presentation material.

SG&A expenses /Operating profit

The SG&A expense ratio increased by 0.2 points YoY

(millions of Yen、%)	FY2025(1Q-2Q) amount	FY2025(1Q-2Q) To-sales-rate	FY2026(1Q-2Q) amount	FY2026(1Q-2Q) To-sales-rate	YoY(change)	YoY(%)
Gross profit	20,376	61.9	21,526	60.1	1,149	5.6
Personnel expenses	4,967	15.1	5,282	14.8	315	6.4
Promotion	1,892	5.7	2,302	6.4	410	21.7
Freight	1,156	3.5	1,256	3.5	100	8.7
Advertising	220	0.7	258	0.7	38	17.3
Rent and Commission	3,270	9.9	3,465	9.7	195	6.0
Depreciation	195	0.6	245	0.7	50	25.6
traveling and transportation expenses	237	0.7	240	0.7	3	1.3
Others	959	2.9	1,031	2.9	71	7.4
SG&A expenses	12,899	39.2	14,085	39.4	1,185	9.2
Operating profit	7,476	54.0	7,441	20.8	△ 35	△ 0.5

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Selling, general, and administrative expenses data.

As noted in the materials, the SG&A expense ratio generally remained at the same level as the previous year.

Results of FY2026（1Q-2Q）（SEGMENTS）

Kotobuki Seika Group increased sales and profits due to strong expansion of the Okinawa market

(Millions of Yen,%)	Net sales				Operating profit		
	FY2025 (1Q)	FY2026 (1Q)	YoY(Change)	YoY(%)	FY2025 (1Q)	FY2026 (1Q)	YoY(Change)
SUCREY GROUP (* 1)	15,528	16,563	1,034	6.7	2,846	2,641	△ 204
KCC	9,355	10,272	916	9.8	1,991	1,830	△ 160
KOTOBUKISEIKA GROUP (* 1)	7,275	8,141	866	11.9	1,574	1,789	214
SALES SUBSIDIARIES	3,568	3,741	173	4.9	446	474	28
OTHERS (* 2)	308	310	1	0.6	17	5	△ 11
SEGMENT TOTAL	36,036	39,030	2,993	8.3	6,876	6,742	△ 134
ADJUSTMENT	△ 3,130	△ 3,242	△ 111	-	599	698	99
TOTAL	32,906	35,787	2,881	8.8	7,476	7,441	△ 35

(* 1)Due to organizational changes within the Group implemented at the beginning of the first quarter of the fiscal year ending March 31, 2026, “Sucrey” and “Kujyukushima Group” were merged and the segment name was changed to “Sucrey Group”. Segment information for the previous fiscal year has been prepared according to the new segmentation. In addition, the segment name of "Kotobuki Seika and Tajima Kotobuki" was changed to "Kotobuki Seika Group".
(* 2) “Others” includes the non-life insurance agency business, health food business, and confectionery business overseas (Taiwan).

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I will now explain our performance by segment.

Segment classification was changed from the current period. Sucrey and Kujyukushima Group, which was previously disclosed as independent segments, have been gradually revising their organizational structures toward integrated management by expanding production capacity through factory reorganization and integrating support divisions since the previous fiscal year.

Finally, in April of this year, a reorganization through a corporate split between the two companies was implemented, and as a result, the segment names were integrated and changed to Sucrey Group from this fiscal year. In addition, the segment names of Kotobuki Seika and Tajima Kotobuki were changed to Kotobuki Seika Group.

Results by major segment.

Sucrey Group’s sales growth was sluggish, with a 6.7% increase YoY, but in addition to the slowdown in inbound demand mentioned at the beginning of this presentation, the slowdown was due to the modest effect of new store openings. Operating profit also decreased by 7.2% YoY due to a lower gross profit rate resulting from soaring raw material prices and other factors.

KCC reported sales growth of 9.8%, while operating profit declined 8.1% YoY due to a decline in the gross profit rate, which, like Sucrey’s, was caused by a sharp rise in raw material prices.

As for Kotobuki Seika Group, the expansion to Okinawa has been very strong, and in these areas, sales increased by 11.9%, and operating profit increased by 13.6%.

Balance Sheet

The decrease in current assets was due to a decrease in cash and deposits and accounts receivable, among other factors.

(millions of Yen,%)	FY2024		FY2025		FY2026(1Q-2Q)		Compared to FY2025	
	amount	rate	amount	rate	amount	rate	(Change)	(%)
Current assets	34,408	74.0	37,649	72.4	36,041	70.7	△ 1,607	△ 4.3
Non-curent assets	12,102	26.0	14,331	27.6	14,943	29.3	612	4.3
Assets	46,510	100.0	51,980	100.0	50,985	100.0	△ 994	△ 1.9
Current liabilities	8,824	19.0	9,735	18.7	8,485	16.6	△ 1,250	△ 12.8
Non-current liabilities	2,462	5.3	2,158	4.2	2,193	4.3	35	1.6
Liabilities	11,287	24.3	11,894	22.9	10,679	20.9	△ 1,215	△ 10.2
Net assets	35,223	75.7	40,085	77.1	40,305	79.1	220	0.5
Liabilities and net asset	46,510	100.0	51,980	100.0	50,985	100.0	△ 994	△ 1.9
BPS（Yen）	226.38		259.67		260.97		1.30	0.5
CAPAX	1,926		3,357		1,259		-	-
Depreciation	1,164		1,462		778		-	-

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Next, we move on to the balance sheet.

As for the balance sheet as well, the figures are as stated.

Capital expenditures for the interim period totaled JPY1,259 million.

The amount of depreciation expense implemented was JPY778 million.

Statements of Cash Flows

Cash balance is at the same level as the same period last year.

(millions of yen,%)	FY2024	FY2025		FY2026		
	1Q-4Q	1Q-2Q	1Q-4Q	1Q-2Q	YoY(change)	YoY(%)
Cash flows from operating activities	10,845	5,252	13,204	5,263	11	0.2
Cash flows from investing activities	△ 2,004	△ 1,639	△ 3,438	△ 3,353	△ 1,714	104.6
Free Cash flows	8,840	3,613	9,766	1,910	△ 1,702	△ 47.1
Cash flows from financing activities	△ 2,322	△ 4,358	△ 7,372	△ 5,242	△ 883	20.3
Effect of exchange rate change on cash and cash equivalents	9	△ 2	△ 5	8	10	-
Cash increase / decrease	6,527	△ 747	2,388	△ 3,322	△ 2,574	-
Cash and cash equivalents (Beginning of period)	16,162	22,689	22,689	25,081	2,391	10.5
Increase or decrease due to change in scope of consolidation	-	-	3	-	-	-
Cash and cash equivalents (End of period)	22,689	21,941	25,081	21,758	△ 183	△ 0.8

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Statement of cash flows.

The cash balance at the end of the interim period was JPY21,758 million, a decrease of approximately JPY3,322 million from the end of the previous period.

Supplementary Explanation of Business Forecast for FY 2026

●Business Forecast for FY2026	Initial Business forecast remains unchanged. The Group will make a turnaround through strengthening inbound measures, price revision, new brands and new products, enhancing seasonal event measures, promoting sales by opening new stores, and improving productivity by the increase in production efficiency
●Store Openings and Closings, etc.	In the second half of the fiscal year, new store openings in favorable locations are scheduled, including new brand store openings at Hanshin Umeda Main Store and SEIBU IKEBUKURO and a new store opening in Fukuoka Airport International Terminal.
●Capital investment, etc.	Capital investment plan is 2.5 billion yen. /The Kujyu Kushima Group's Sasebo Hiu Plant was closed in August of this year. (The building is scheduled to be sold after demolition.)

Next, I would like to explain our approach to the full-year forecast for the fiscal year ending March 31, 2026.

Over the past year, our group has been aggressively investing in capital expenditures to increase production capacity through the establishment of a new plant and line renovations, as well as the closure of aging plants, in preparation for future growth. Armed with these weapons, we intend to further strengthen measures in H2 of the fiscal year to maximize the investment effect.

We will further promote measures to increase sales by further strengthening inbound sales measures, enhancing sales at seasonal events, such as Christmas and year-end and New Year sales, revising prices through value enhancement, launching new high value-added products, and opening new stores.

In terms of new store openings, Sucrey Group plans new brand store openings at Hanshin Umeda Main Store and SEIBU IKEBUKURO this month. In December, we will open two directly managed stores in the duty-free area of Fukuoka Airport International Terminal, and we intend to continue to promote the development of new stores by focusing on favorable locations.

On the production side, we continue to be less optimistic about raw material prices, despite the news that international market prices for cocoa beans are on a downward trend.

In preparation for the busy season and the busiest season of the year, the Group intends to promote integrated production and sales management, to increase utilization rates, and to raise production efficiency.

Business Forecast for FY2026

Net sales +10.1% / Operating profit+11.6% (YoY)

(millions of yen,%)	FY2025		FY2026(Forecast)			
	amount	To-sales rate	amount	To-sales rate	YoY(Change)	YoY(%)
Net sales	72,349	-	79,670	-	7,320	10.1
Gross profit	44,804	61.9	49,600	62.3	4,795	10.7
SG&A expenses	27,193	37.6	29,950	37.6	2,756	10.1
Operating profit	17,610	24.3	19,650	24.7	2,039	11.6
Ordinary profit	17,686	24.4	19,720	24.8	2,033	11.5
Net profit	12,122	16.8	13,400	16.8	1,277	10.5
EPS(yen)	78.00		86.81		8.81	11.3
Dividend/stock(yen)	32.00		35.00		3.0	9.4
CAPEX	3,357		2,500		△ 857	△ 25.5
Depreciation	1,462		1,600		138	9.4

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Attached is a graph showing comparisons between the FY2025 results and the FY2026 forecast.

The Group's profit structure is seasonal, with profits in H2 accounting for approximately 60% of total profits.

In H2, when gift demand increases, we intend to promote the measures I have just explained in order to turn the tide.

This concludes my explanation.

Kawagoe: I am Kawagoe, the President. Mr. Matsumoto has explained in detail, and I am sure you understand, but I would like to look back at H1 in some detail.

One is for sales. As explained earlier, there was the lack of buying power. Also, there was the lack of buying power in response to the trend toward price hikes for all food products.

Another reason was that we did not see an increase in the number of Asian customers. There were various reasons. Sales in the duty-free area of international terminals where our stores are located also suffered greatly.

In terms of gross profit, I think what was good was mentioned earlier, but in terms of gross profit, it was not only chocolate, but all kinds of raw material prices were rising. Also, since we had set the utilization ratio by production line and sales at a high point, we focused on new products that we need to expand in the future. The mainstay itself struggled very much, and that was where we had the most difficulty, although that was the source of most of our profits.

We did okay for creating this kind of new genre. The overall impact of not achieving the expected sales was the utilization rate of each production line and inability to maintain the balance between profitable lines and lines that were not yet profitable.

We could not be aggressive since just increasing the selling price was not easily accepted in the background of the lack of buying power. For this matter, since we concluded we could not increase the selling price without changing the size, etc., we are in the process of taking all sorts of steps.

As I mentioned earlier, SG&A expenses were generally the proper ratio.

That was the situation for H1 of the fiscal year.

As Mr. Matsumoto mentioned, H2 accounted for 60% of the profits of the previous year as well, so we have made no changes to the annual target setting because we believe it is important to do our utmost here. We will give our utmost effort with no change in plans.

As I mentioned earlier, we will be opening new stores in H2 of this fiscal year and dealing with the products I mentioned earlier, so we will continue to strive to increase sales and profits next year and beyond.

One of our strengths is the new aspect of our business, which includes the opening of new stores, new products, and venturing into new fields of business. Delay in attempting these matters is one thing.

Another thing is growing what we currently have. It means increasing the sales of existing stores and existing flagship products. As I mentioned earlier, we struggled in this area, but I believe this is our greatest strength, and we will continue to refine this area.

Medium- and Long-Term Management Objectives (Value Up Vision 2030)

● Corporate growth story

Further promotion of "ultra field-oriented" management with all member participation, based on the management philosophy

Based on our management philosophy, our group promotes human capital management by thoroughly practicing "ultra field-oriented management with all-employee participation," in which each employee participates in management with a sense of ownership. We aim to create a dynamic and attractive corporate group and enhance our corporate value over the medium to long term.

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As you can see on page 30, I believe that the Company's greatest strength lies in the participation in management by all members, specifically, the ability to respond to the current situation and to change the status quo itself at each field site. It is ultra field-oriented management. It means there are no hints for better performance in the office. We are all working in the field, and we will use our energies to evolve and expand that part of the business.

Additionally, strategic store openings with a vision further into the future. We are also talking about the next step in the department store business. Locations in the transportation system, such as Tokyo Station and Haneda Airport, which are mainstays of the Company, are a major part of our business.

In addition, for duty-free areas of international terminals, if we evaluate them with a ranking of S, A, B, and C, many of our stores there are still positioned in the A or B rank. Even if the number of inbound customers, for example, the number of inbound visitors does not change, we still have the ability to double sales, although it will take time.

We are determined to make our business performance brighter in the future by strengthening our awareness that we are a company that will grow and develop especially in these difficult circumstances and carry out management with stronger determination and enhanced field work.

That concludes my presentation.

Question & Answer

Moderator [M]: Now, we would like to move on to the question-and-answer session.

Igarashi [Q]: Thank you very much for your explanation, it is always appreciated. I am Igarashi of Daiwa Securities. I have two questions.

First question, for the response to the rise in the cost of raw materials, which was also explained in the presentation, I understand the Company will not simply raise prices because of high raw material prices, and the Company will raise prices with value enhancement.

However, in H1 of the fiscal year, the impact was greater than expected. In this background, will you raise prices and increase the value of your products, which you had not planned for in the past, in order to achieve your full-year plan? Can you tell me the details around this area?

Kawagoe [A]: Thank you for your excellent question.

Our concept of selling price is that there is no relationship between our purchase price and the selling price, whether or not we will increase the selling price because of our purchase price. Our approach is to allocate a selling price that is appropriate for the value of the product and that is approved by the customers since the value of the product or the customer service, etc., will increase.

I don't think we raised the value enough this time. There are also quite a few problems with the selling price itself, and we have been working on price increases while keeping an eye on that. Therefore, we are working on company-wide efforts, in particular, to increase the value of our products, including those accompanied by specification changes.

There are no changes to the mid-term plan.

Igarashi [Q]: Specifically, there is a variety of methods, such as specification changes, slight adjustment of package content, launching new products, and renewing the packaging of existing products. Which do you think will contribute the most?

Kawagoe [A]: All of them, but one is that the selling price itself is not accepted. If it has always been 20%, we can just raise it by 20%, but if it is not accepted by the customers, it does not easily lead to sales, so we must add the appropriate value to it.

We are trying to avoid the specification which is small or low-volume products as much as we can, but that will be based on the reaction of the customers in the market itself.

For example, we have a caramel bar store named GENDY on Kotto-dori Ave. The product is JPY8,000 plus sales tax right now, but we just released a smaller size package for Christmas. I heard the products are selling well. We are not lowering the price from JPY8,000 to JPY7,000, but we think it is typical of the fact that some products sell well by offering smaller sizes.

It would be better to raise the prices of individual products or the entire box itself, but if that is not possible, I think it is important to raise the price of one piece of the box itself while offering the product in smaller sizes.

The other thing is the overall higher selling price, increase of the price zone. This is going to be important. Specifically, if products in the JPY1,500 price range are popular, how do we bring it to the JPY2,000 average? We will work on this by product selection in the price zone.

We are also trying to increase the price zone itself by combining creative measures, such as improving the level of cleanliness, creating a sales floor with brand value, and the enhancement of customer service. We have been doing that for a long time, and we are going to refine it further.

Igarashi [Q]: I would say that the price per individual will be securely maintained or raised, but the price per box will be affordable or acceptable to the consumer.

Kawagoe [A]: If that is number one, then the second thing we must do is to increase the price zone, and quantity increases. There is one more. The need to increase sales in the midst of such a situation makes it important. Increasing sales while increasing gross profit becomes important.

Still, it is the customer's evaluation. After all, it all comes down to how to raise it. Therefore, as we said at the beginning, everyone knows that chocolate has become very expensive. The customers know that. If we say we are raising prices because of that, the reputation of all chocolate products overall will significantly drop. Therefore, actually, it is difficult to raise the price, in fact, when the purchase price goes up.

In this situation, we raise our prices when we enhance the value of our products. It is easy to raise prices when others do not raise the prices of their products. It is easy to say we are increasing the price since the value of the product has gone up. However, the response to our price increase was not favorable, which is what I mentioned earlier.

The first thing to do is to review the selling price itself. For example, let's say one package has 10 pieces, and the price is JPY1,000. If we increase it to JPY1,200 for 10 pieces, it will be still difficult. Therefore, the idea is to do something like changing the price per piece to JPY130 and offering smaller size products.

However, this would result in a drop in the price zone, so the price zone itself must be raised, and this can be done by devising a product lineup that matches the volume zone itself so that higher-priced items can be sold.

Next, we implement measures to sell a large volume of products. We think the business is creatively devising ways with the product lineup, entire sales floor, sales methods, and the combination of all of these. We believe that we have the know-how in this area.

Igarashi [Q]: I have a second question. Once again, I would like to confirm the medium-term growth scenario of your company. Over the past few years, there has been a variety of themes that have been easy for the stock market to understand, for example, inbound and reopening.

Looking ahead to the next three years or so, I wonder if there are various possibilities for themes that will drive the growth of your company's sales and profits, such as accelerating the opening of new stores, increasing the current value of the Company, or the M&A strategy that you have pursued in the past. Could you please tell us where we should focus our attention, including overseas development?

Kawagoe [A]: The number one thing is the value enhancement that we mentioned earlier. If the existing items are not somehow enhanced, it will end up being like we just changed the packages, so we need to be very particular about that.

However, as we look to the future, we cannot grow unless we can open new stores in major locations. One key location is the transportation system. Another key location is stores in duty-free areas. Stores like the ones in Fukuoka Airport in December, I believe, are another good catalyst for the Group as a whole.

Igarashi [Q]: One point. I would really like to ask your opinion by region, which is Okinawa and Hokkaido. The slide says strong sales in Okinawa and the rebranding of LeTAO in Hokkaido. I believe that tourism demand is very strong in these areas. Do you get the impression that the attention level will increase?

Kawagoe [A]: In Okinawa, we supply several products, including Yukishio Sand through a tie-up with Miyakojimano Yukishio. However, since they do not have a factory, Kotobuki Seika in Tottori supplies the products. With a plan to jointly build a factory on Miyakojima Island the year after next, sales have become so great that production has not been able to catch up with sales.

However, because of the plan, capital investment is necessary. Since the genre itself is also very popular, even after we left the project, the sales were great, but there is a little problem with the time frame in that area. However, I believe that Okinawa itself is also a very good region, has its own ways of doing things, and can be expanded through tie-ups with local companies.

In Hokkaido, the Canal Plaza store opened in Otaru last November and is doing very well. I thought it would be tough here in this location, and usually people wonder if it is okay to build such a significant store in Otaru, but I think the opposite is true: the more stores we open in smaller areas, the more our market share will increase, and those who don't have enough will buy our products.

Therefore, the Canal Plaza store in Otaru has the effect of boosting the overall value and has many elements that will please new customers, so it will lead to a value increase as a whole. Therefore, we will continue to do business in Hokkaido, with a focus on the store.

What we need to work on in the future toward 2030 is, of course, the transportation channel in the center of Tokyo, but as a new area, I think it will be very important to create a mainstay business in the tourist areas around the Kanto region.

Igarashi [M]: Thank you very much.

Moderator [M]: Thank you very much. Next, please.

Participant [Q]: Thank you for your explanation.

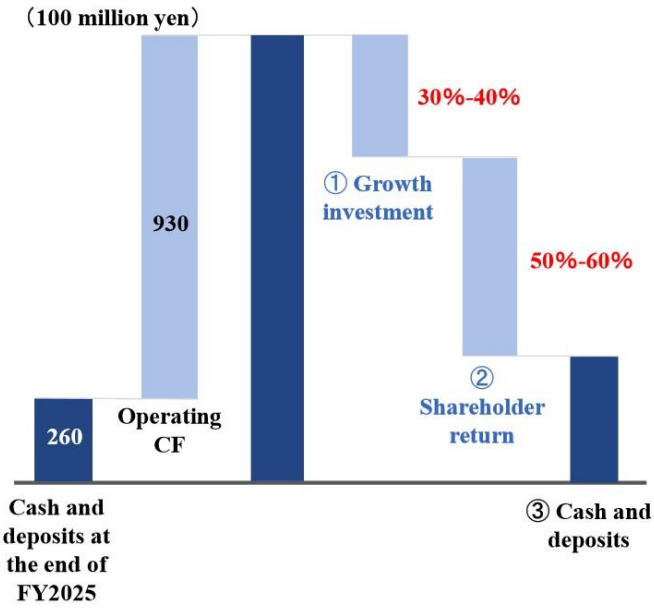
The Company maintains a high equity ratio of 77%, and I understand that the Company has ample cash and deposits. Also, the Company has a capital investment plan of JPY2.5 billion, but I would like to know how you plan to balance M&As, capital investment, and shareholder returns in the use of retained earnings.

Matsumoto [A]: Thank you for your question. Let me explain.

●Cash Allocation Policy

(5 years from FY2025 to FY2030)

Invest the cash generated in further growth and shareholder returns to promote high ROE management by further improving profitability. Aim to maximize corporate value



①Growth investment
Investment in factories (including maintenance and renewal of existing factories), investment in new growth through store openings, M&A, etc.

②Shareholder return
Increasing dividends in line with profit growth and implementing flexible share buybacks with an eye to achieving a total return ratio of at least 50%

③Cash and deposits
Maintaining liquidity on hand of approximately 30% of sales

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The document describes the cash allocation policy on page 32.

We believe that investments over the next five years will require growth investments, including plant investments. In addition to the above, we would like to make effective use of new growth investments, including M&As, as I mentioned earlier, if there are attractive opportunities.

In terms of profit returns to shareholders, we would like to return profits to shareholders over the next five years with a total return ratio of 50% in mind. The current payout ratio is 40%. In this context, we will work hard on returns to shareholders also with the total payout ratio in mind.

Participant [M]: Thank you very much.

Moderator [M]: Thank you very much. Next, please.

Miyazaki [Q]: Thank you for taking my question. I am Miyazaki from Goldman Sachs. Thank you for your explanation. I have two questions.

The first point, I would like to ask you again about the Company's strengths in opening new stores. Perhaps as the highlights of H1, the Company was able to open new stores in better areas, such as Seibu in Ikebukuro, Takanawa, and Fukuoka Airport.

In particular, since Seibu in Ikebukuro is opening a new brand store that has never been used before, can you tell us your impression about what department stores and transportation operators think of the Company if you have any.

Kawagoe [A]: Thank you.

In H1, a new brand was launched at the Tokyo Milk Cheese Factory in Takanawa Gateway, and in November, in Ikebukuro and at the Hanshin Department Store in Osaka.

What is difficult for other companies to do is to come up with new projects, or to develop multiple stores with a brand that will attract customers to the department store, so I believe that department stores have such an appeal that we can work together to create something that will attract customers. It is the same for transportation.

The projects and know-how are extremely difficult for new stores and other companies. It would be fine if we were to open another existing brand store, but it would be difficult to attract customers with such a plan.

I believe the customers and transportation operators find our capability for planning very attractive.

Miyazaki [Q]: Secondly, I would like to confirm the future direction of the purchase price of chocolate raw materials. I think it has been going up since around H2 of the last fiscal year, but as you explained earlier at the beginning, the spot itself is going down.

So, I would like to confirm what the nuances are in this area, whether the pace of the rise itself is likely to calm down a bit more, or rather, whether there is a time for a fall somewhere down the road.

Matsumoto [A]: As you mentioned, the price of chocolate raw materials has been going up for the past year, last fall, and again this spring. We were also very concerned about prices after this fall, but since the cocoa market has settled down to some extent, or rather, is on a downward trend, we see the upside in that area as slowing down, or rather, slowing down considerably.

On the other hand, fats and oils and dairy products are still high, so we believe that we cannot let our guard down in that sense.

Miyazaki [M]: Thank you.

Moderator [M]: Thank you very much.

Minagawa [Q]: Thank you for taking my question. I am Minagawa with SMBC Nikko Securities. I have three questions.

One of the first things I would like to know about is the impact of the Expo 2025 Osaka, Kansai, Japan. Relatively, the traffic of the Tokaido Shinkansen, etc., is large. However, compared to that, the sales are slightly weak. I think it is probably because your company does not have that many stores in Osaka to begin with, and the sales floor itself has changed at the wholesaler side.

I wonder what impact this in itself has had on your company, and if possible, if you have any information on any changes in your company's sales trends there since the Expo ended.

Kawagoe [A]: Thank you.

We have a philosophy of not chasing temporary sales. It is because if we do so, we will be in trouble in the following year, because there will be no Expo. In this way of thinking, we do not make original products of characters to minimize sales for each event. However, the sales floor was the other way around, and the Expo period was extremely difficult because all the good locations and places sold Expo products only.

However, business negotiations have been progressing well since the Expo ended, and good sales floor space has been available since the end of October and November. This is the souvenir market in Kyoto and Osaka.

If we are only good during these times, we will experience trouble in the following year the most. We avoid that very much because it would be like we have manufacturing persons, sales persons, and wholesales persons working for us only during that time. We conduct business with the mind-set of not taking advantage of booms and events. I think it will be very good in the future.

Minagawa [Q]: Second, I think the President mentioned earlier that you would like to strengthen business in sightseeing areas around the Kanto region. I was wondering what I should imagine as an image, and I could not come up with an image.

For example, Kusatsu and Hakone, unlike Tokyo Station and airports where the Company opened stores, up to now do not have many transportation nodes or large-scale commercial facilities, so I would like to know what kind of places you envision for the Company to compete, if possible.

Kawagoe [A]: It is possible to open stores in places where there are many customers, if it were in Tokyo, but in this case, we need to have the ability to attract them. This is what we have been doing with LeTAO, our most important brand today. This is what we are going to do with our know-how.

There are many candidates for locations, but one of the candidates is the place you just mentioned. The idea is to create a second LeTAO by creating a flagship store, collecting brand value there, and then spreading that effect to the surrounding area. Each brand that we offer in Tokyo is not like that.

In the end, when you open a store in a place where there are many customers to begin with, it is fast, but it is not easy for that brand to grow all the way up. We are creating a new brand store again.

Minagawa [Q]: However, I think this is the same as what the Company does in Tottori, as well as for LeTAO. The connection with the local communities is important, so I think it will take a lot of time to prepare for this project.

Is it safe to say that you are already working with some local governments, for example, and that we can expect to see the results of such efforts in the near future, say in 2030?

Kawagoe [A]: Yes. We intend to establish a local company and take this seriously.

Minagawa [Q]: One last question. In the section on new locations that you explained earlier, I believe you mentioned that you opened a directly managed store in the terminal at Fukuoka Airport.

Is this a special case of Fukuoka Airport in some way, or is the way the airport operates changing and creating some new business opportunities for your company? Can you tell us about the background?

Kawagoe [A]: In the case of Fukuoka Airport, it is a new large-scale renewal. The entire area will be completely changed, so when a large general store and tenant stores are built, there are usually no tenant stores for sweets, but in this case, there will be two stores because of the high expectations placed on us.

However, we sell better at general stores in good locations. I have a feeling that there are places where we can expect to see a lot of growth among the companies and brands.

Minagawa [Q]: Then, this is a special case for Fukuoka Airport, and there will be many such cases in other areas, such as Haneda Airport.

Kawagoe [A]: Unless there is a major renovation, it is difficult to take advantage. A major store in Narita offering our products is currently undergoing a small-scale renovation, and maybe a third of the best sales area in the store was renovated. So, we received a good sales site there.

The time to renovate the whole store, or even the whole airport, is a great opportunity for us. We are doing daily activities to prepare for that. It does not happen every year. Maybe, it happens once every few years, so it's not easy to maintain our advantage there.

In locations where this kind of thing does not happen, other companies can do well, too. In all of our businesses, the pattern is to establish a track record there, and then, while pursuing better locations, take full advantage of a major renovation and expand at that time. The feature of this business is becoming even bigger in the next renovation because the past achievements were recognized.

It's difficult for newcomers. They will not have a place to make great achievements. It comes from existing contractors, or companies like ours. That's how it is. Many businesses are only temporary. There are things like a celebrity running a company and opening a store, but those businesses don't seem to last very long.

Therefore, since growth occurs over a very long period of time, it is not easy to see a sudden increase in growth all at once. You can think of our company or the industry as being like that. In short, what grows suddenly decreases suddenly as well. This is something you would know if you had looked at various sweets, dessert, and food-related cases.

I believe that this is all about increasing YoY comparisons one step at a time and managing sales and profits at a steady pace.

Moderator [M]: Thank you very much. Next, please.

Suzuki [Q]: I am Suzuki of Kyokuto Securities.

On page 21, it says that the Sasebo plant was closed in August and the building will be sold after demolition. Have you decided when this sale will take place?

Matsumoto [A]: It will be during this term. As for the impact on performance, we feel that to some extent, this is a risk-off or a certain amount of the demolition costs can be covered. We believe that the impact on performance will be minimal.

Suzuki [Q]: Are you saying that gains from the sale and so on will not affect performance very much?

Matsumoto [A]: There is a gain on the sale, but it seems it will compensate for the cost of the demolition.

Suzuki [Q]: It seems like it has already been factored into your performance?

Matsumoto [A]: Yes.

Suzuki [M]: Thank you very much.

Kawagoe [A]: That's the way it is in the countryside. Real estate values are not going up. Instead, they are going down. After all, you can think of it as if we discontinued production in an aging plant where the roof is nearly collapsing, and we are producing somewhere else.

Suzuki [M]: Thank you very much.

Moderator [M]: Are there any other questions?

Participant [Q]: Thank you for your explanation.

In SG&A expenses, sales promotion expenses were JPY2.3 billion, which is quite large in monetary terms, and also up about JPY400 million compared to the previous year.

To begin with, I know there are many things, but what is the background behind the JPY400 million increase this fiscal year, including the content of what is being used as the main source of funds and what is being invested here in the area where you had some difficulty?

Matsumoto [A]: Thank you for your question.

Our company does not spend much on advertising and promotion, right? We include, for example, the cost of paper bags, or paper bags to put our products in, which have the greatest promotional effect in sales promotion expenses. Also, for example, campaign development, or is it called novelties? Those goods.

Also, we are strengthening the offering of samples to our customers for sales of our products, and depending on the store, we utilize temporary employees to hand out those samples. One of the factors that contributed to this growth this term was, first of all, the increase in temporary staffing and temporary staffing costs.

In addition, we were quite aggressive in renewing brands, such as Tokyo Milk Cheese, which I mentioned earlier, so these renewal costs were a factor in the increase.

Participant [Q]: In essence, is my understanding that the personnel costs for dispatch expenses are also included here correct?

Matsumoto [A]: The labor costs mean that our external dispatch costs are also included in the sales promotion costs.

Participant [Q]: In terms of the big ones, are the paper bags and novelties mentioned earlier the biggest, and then the dispatch costs, or do the dispatch costs come next or higher?

Matsumoto [A]: Promotional materials, such as paper bags, novelties, flyers, etc., are a large part of our sales promotion.

Participant [M]: Thank you.

Moderator [M]: Thank you very much.

This concludes the briefing. Thank you everyone for your attendance. Thank you to the members in attendance from the Company.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
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