Q&A for the Financial Results for FYE Oct. 31, 2024

We have provided this Q&A as a reference for questions you may have regarding the financial results disclosed today for the fiscal year ended October 31, 2024.

Q1: The initial full-year plan shows an increase, but the revised full-year plan shows a downward swing. Why is this?

A1: The number of customers remained unchanged before and after the price revision implemented in July, and existing stores continued to perform well. However, due to an increase in the pace of opening new company-owned stores and the active refurbishment of existing stores, one-time expenses increased. In particular, the number of refurbished stores was higher than expected, and this caused a larger negative due to refurbishing closures. Excluding one-time expenses, in comparison with the revised plan operating profit increased by 145 million yen to exceed the revised plan (Please refer to pages 7 and 8 of the Results Briefing Materials for more details.)

Q2: Please explain why you are refurbishing your stores. Please also explain the reason for accelerating the pace of refurbishing.

A2: Based on our internal assessment, we observed that maintaining soup at a consistent warming temperature resulted in more consistent soup quality. When keeping soup warm, cooking with induction heating (IH) can more easily keep soup at a constant temperature versus cooking with gas and also reduces CO_2 emissions (approx. 10%). Therefore, we are advancing the introduction of IH. For our main brand “Machida Shoten,” IH will be used in any new stores, and we are sequentially refurbishing existing stores to introduce IH and a new layout. We aim to improve the consistency of soup quality through cooking with IH and to enhance productivity through the new layout.

In addition, it is necessary to increase the power usage capacity of each store to introduce IH. To increase the power usage capacity, it is necessary to apply to and obtain permission from the power company. However, due to the recent power shortages, permission is not always granted, and it is necessary to communicate back and forth with the power company several times. As a result, we have been holding discussions to increase our power usage capacity with the power company and implemented the refurbishments because we were granted permission all at once in the second half of the current fiscal year. (Please refer to pages 8 and 9 of the Results Briefing Materials for more details.)

Q3: Regarding the price revisions implemented in July 2024, what was the reason for the revision, the revision amount, and the subsequent impact on customer traffic?

A3: On July 1, 2024, we increased the prices of all our brands by an average of around 50 yen (approx. 5%). After the revision, there has been no negative impact on customer traffic, with customer numbers higher than in the previous fiscal year.

We operate under the policy of revising prices to absorb increased operational costs. Since July, we have revised our prices in response to expected large increases in food prices (especially pork, rice, and seaweed), labor costs (increase in minimum wage), and utilities expenses (end of measures to mitigate drastic change, increase in levy for renewable energies, the establishment of capacity contribution). (Please refer to page 10 of the Results Briefing Materials for more details.)

Q4: Could you describe the outlook to achieve the store opening plan for the next fiscal year?

A4: We are planning to open 52 company-owned stores in the next fiscal year. We have already concluded lease agreements for the majority of our target so once we have secured human resources, we will be sequentially opening the stores. (Please refer to pages 20 and 21 of the Results Briefing Materials for more details.)

Q5: Could you describe the progress status for securing personnel?

A5: We are implementing and planning various measures to secure personnel, and these measures are gradually having an effect. We have updated the recruitment website and increased wages in January 2024. 21 cast (part-time and casual employees) have joined the Company as regular employees in the current fiscal year, and we are planning to expand further in the next fiscal year. We have also offered jobs to 8 people in overseas recruitment and are conducting training at local Japanese schools.

Furthermore, the retirement rate (annualized) changed from 18.3% last year to 15.4%, achieving nearly a 3-point drop. We will continue to work on reducing the retirement rate (balancing comfortable work with rewarding work) and strengthening our recruitment capability (increasing the number of job applicants and rate of job offers). (Please refer to page 12 of the Results Briefing Materials for more details.)

End