# NITORI Group's Financial Strategy

## We will accelerate investment in future growth to achieve our vision while maintaining a highly profitable business model

**Masaomi Zenji**
Executive Officer
General Manager
Accounting & Finance Division

## 1 Summary of Business Results for the Fiscal Year Ending March 31, 2023

**Despite a challenging environment with weak yen and soaring raw material prices, the NITORI Group achieved sales and ordinary income growth for the 36th consecutive year. Please tell us about the key points of the business performance for the fiscal year ending March 31, 2023.**

While facing various headwinds such as the sharp depreciation of the yen and soaring logistics and raw material costs, NITORI Group achieved its 36th consecutive year of sales and ordinary income growth with net sales of 948.0 billion yen and ordinary income of 144.0 billion yen.

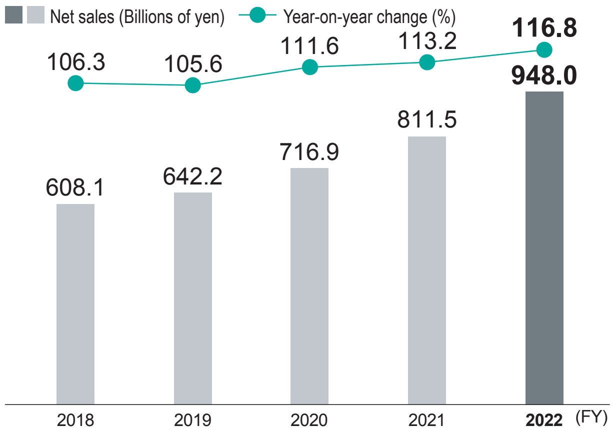
The increase in ordinary income was also made possible by the irregular accounting period, but we believe it was the result of the persistence of all employees, a company-wide review of all operations, cost reductions, and expense reductions.

Although the gross profit margin decreased to 50.4% (52.5% in the previous year) due to the exchange rate and rising trade costs, and the ordinary profit margin decreased to 15.2% (17.5% in the previous year) due to increased shipping and delivery costs and labor costs, we were able to secure ordinary income growth as a result of the sales and profit growth effect. We feel that we were able to demonstrate the strength of our business model that integrates manufacturing, logistics, IT and retail, while dealing with the factors that deteriorated profitability. In addition, we have made thorough efforts to improve the efficiency of logistics and delivery, including the use of compressed packaging for products. We believe that this would not have been possible without our business model, in which all processes in the supply chain are controlled in a single integrated manner.

Net sales grew steadily due to the expansion of the number of stores (a net increase of 101 stores from the end of the previous fiscal year) and the growth of existing store sales (101.2% year-on-year), and also due to the increase in the number of app members and the success of new attempts in the e-commerce business, including the well-received live commerce. The number of stores at the end of the period totaled 902, including 773 stores in Japan (net increase of 65 stores from the end of the previous period) and 129 stores overseas (net increase of 36 stores from the end of the previous period).

Although sales per customer increased to 107.2% of the previous year's level, the number of customers decreased to 94.4% of the previous year's level. The Company intends to

**Net sales and year-on-year change**



## NITORI Group's Financial Strategy

increase the number of customers by strongly introducing new products and changing product specifications, improving the value of "offering the unexpected" and strengthening its approach to customers through TV commercials, various promotion campaigns and individualized proposals to customers using the NITORI app.

On the financial side, total assets increased 15.2% from the end of the previous fiscal year to 1,133.7 billion yen due to investments for the expansion of the number of stores and the restructuring of domestic distribution bases. Shareholders' equity increased 11.6% to 818.0 billion yen. As a result, the equity ratio remained almost unchanged at 72.2% (74.5% at the end of the previous period).

### 2 Financial Features

**Could you describe the financial characteristics of your unique business model?**

I would say the high level of profitability and productivity. We secure a gross profit margin of more than 50% and an ordinary income margin of more than 15%, and our gross profit per employee on sales is approximately 2.5 times the national average. The high level of profitability is the root of value creation that enables bold investments, business expansion and business model evolution.

The ever-increasing number of stores and customers are the metrics of social contribution and the key growth driver of its performance. Compared to 30 years ago, the number of stores has increased 43-fold and sales have increased by 53-fold.

**Keys of financial strategy to achieve Vision 2032**
**3,000 stores Net Sales ¥3 trillion**

| | |
|---|---|
| ☑ Opening stores | Opening stores at an average of about 300 stores per year within the next few years |
| ☑ Logistics | Reforming domestic logistics bases. Total investment is approximately 350 billion yen. |
| ☑ Human Capital | Expanding the number of IT personnel to 1,000 by 2032. As part of this plan, Nitori Digital Base was established in April 2022. |
| ☑ M&A | Expanding the Group's business fields through M&A and alliances |

Meanwhile, ordinary income has grown 107-fold. Although total assets have expanded along with the number of stores, we have maintained an equity ratio of over 70% and ROA and ROE, which indicate investment efficiency, in excess of 12% without significantly altering our financial balance.

Since the fiscal year ended February 2022, capital expenditures have exceeded 100 billion yen annually, including investments to rebuild the domestic logistics network, but have not significantly exceeded the ample operating cash flow.

Financial risks include foreign exchange risk and impairment risk for store assets and products inventory. Regarding foreign exchange risk, we will consider policies and methods for the utilization of forward exchange contracts, taking into account our recent reflections on this issue. However, as the ratio of overseas sales increases in the future, the diversification of settlement currencies will increase, and we expect to see a natural hedging effect that will reduce foreign exchange risk.

On the other hand, there is limited risk of impairment on store assets and products inventory. In addition to the number of customers who make purchases, which we consider our most important KPI, we have established various management indicators to monitor profitability, financial ratios, and efficiency of store operations on a daily basis.

We have very few unprofitable stores due to our unique and rigorous research at the time of opening stores and our store management capabilities. Moreover, we do not perceive product inventories as a major risk factor due to our development capabilities and the stability of actual turnover rates.

### 3 Future financial strategies

**What is NITORI Group's financial strategy for the future to achieve the Vision 2032?**

Investment for growth will be the core of our strategy. In addition to opening more stores domestically and globally, we will accelerate investments to strengthen and reform our business foundation by upgrading our logistics base network, enhancing NITORI app functions and e-commerce, increasing our Human Capital including global and IT personnel and promoting DX.

As for store openings, we will continue to actively open stores in Japan, while at the same time accelerating store openings in Asian countries and regions, averaging about a total of 300 stores per year within the next few years.

The total amount of investment in the development of domestic logistics bases, which has been underway since past fiscal years, is expected to be approximately 350 billion yen, including already executed investments. Of the eight logistics centers to be built, Ishikari DC and Kobe DC have already started operation, and construction of Nagoya DC, Satte DC, Sendai DC and Fukuoka DC has already begun. We also expect this reform to have the effect of reducing $CO_2$ emissions. In addition, we will need to develop overseas logistics bases as our overseas business expands in the future.

Human Capital investment is another important theme. In addition to global human resources, we will strengthen recruitment and training of IT personnel with a plan to expand our IT staff to 1,000 by 2032. As part of this plan, we established Nitori Digital Base in April 2022. We will increase the ratio of in-house system development and promote innovation.

In order to realize our mission and vision, NITORI Group has been developing its own unique business model and at the same time expanding its products and services. In pursuit of further growth, we view M&A and alliances as important strategic tools, and we will work to strengthen existing businesses as well as those that contribute to the expansion of our business fields.

We will also expand our assets through active investment. Depending on the external environment and the timing of investments, we expect to temporarily raise external funds and experience fluctuations in profitability, management efficiency, and various financial indicators, but we will maintain financial discipline and a business model that generates high profits, thereby ensuring financial stability and efficiency over the medium to long term. We will continue to aim to achieve our targets of an equity ratio of at least 60%, ROA of at least 15%, and ROE of at least 15%.

### 4 Forecast for Fiscal Year Ending March 2024

**What is the outlook for the fiscal year ending March 2024, and what are the assumptions for that outlook? Also, what are the plans for shareholder returns?**

Regarding the forecast of consolidated results, we forecast net sales of 932.0 billion yen and ordinary income of 147.0 billion yen. Due to the irregular financial results of the previous fiscal year, sales are expected to decrease, but ordinary income is expected to increase.

Regarding the assumptions for the forecast, we plan a comparable store year-on-year ratio of 104.4%, capital expenditures of 102.0 billion yen, and an assumed exchange rate of 130 yen to the U.S. dollar.

Our basic policy for shareholder returns has been to maintain stable dividends based on business growth and profitability, financial soundness (cash generation, cash holdings, and equity ratio levels), investment conditions, and capital efficiency. The annual dividend per share for the fiscal year ending March 31, 2023 was 146 yen, an increase of 6 yen over the previous year. 150 yen per share, an increase of 4 yen over the previous year, is planned for the fiscal year ending March 31, 2024, which would be the 20th consecutive year of dividend increase.

We are at a stage where we must prioritize investment in growth in order to achieve our 2032 Vision, and we intend to continue to steadily increase dividends in line with profit growth.

### 5 Message

**What are your aspirations for constructive dialogue with stakeholders, including enhanced disclosure of information, including non-financial information?**

NITORI Group will expand its investment in growth to realize its mission and vision. At the same time, we will strengthen the functions of our business model that integrates manufacturing, logistics, IT and retail, and further evolve our advantages.

We will also continue to identify and address issues at an early stage by establishing appropriate management indicators and monitoring them more thoroughly than ever before. Furthermore, in addition to the promotion of resource recycling, climate change countermeasures and green logistics, we will also focus on Sustainability Policy, which we must fulfill as a global company, such as respect for human rights, diversity and the improvement of the labor environment. We are committed to disclosing information and conducting investor relations activities to communicate not only our financial information but also the progress of our business model and strategies and the status of our sustainability initiatives in an easy-to-understand manner, so please do not hesitate to contact us with any questions or comments that you may have.