Summary of Q&A Sessions at AEON IR DAY

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Egawa: Hiroaki Egawa, Executive Officer, Finance and Business Management
Tezuka: Daisuke Tezuka, Executive Officer, Logistics

TOPVALU Initiatives

Q1 Could you share your thoughts on the optimal composition ratio of the three types of private brands (PB) based on margin generation? Additionally, Also, regarding BESTPRICE, did the sales growth and profit improvement exceed expectations? Lastly, what is your perspective on the ideal product mix? Are you concerned about the future if value-added products beyond BESTPRICE are not expanded?

A1 **Tsuchiya:** In the first year or two after my appointment, I believed that achieving the desired gross profit mix required growth in the mainstream TOPVALU line, represented by the red label. In fact, we increased the share of red mainstream. However, due to unexpected inflation and a weaker yen, we later shifted our strategy to focus on BESTPRICE.

Since simply selling BESTPRICE at a low price would lower the gross profit mix, and pricing it too high would undermine its competitive advantage, we have carefully explored ways to improve the mix and have been implementing specific initiatives since last year. For example, we shifted from traditional dollar-denominated transactions to a different currency, procured in bulk, and took various other measures. Additionally, through rigorous cost management—such as minimizing raw material costs—we successfully improved our markup ratio while maintaining a competitive price for BESTPRICE.

We expect our current policy to continue into 2025. The challenge is finding ways to further increase the composition of BESTPRICE in a situation where its growth is unavoidable. At the same time, for our mainstream red TOPVALU products, our strategy is to develop unique products that do not exist in the market, allowing us to set our own markups and selling prices. By doing so, we believe we can secure overall profitability even as the composition ratio of BESTPRICE increases.

In addition, Gurinai is growing beyond expectations.

Q2 Now that you oversee both products and logistics, could you share the challenges and opportunities in each area? Given the differences in product offerings between AEON Retail Co., Ltd. stores and those in the Supermarket Business, how do you plan to expand sales of TOPVALU? Additionally, while it is encouraging to see more TOPVALU products being handled by each group company, we would like to know what measures you are taking to mitigate the potential disadvantages of scale in procurement.

A2 **Tsuchiya:** Regarding group companies, AEON Retail Co., Ltd. previously had the highest ratio of TOPVALU-oriented sales, but it is no longer necessarily in the top position. Some companies, such as My Basket, now have a higher percentage. While not part of the TOPVALU brand, our Discount Store Business maintains a high PB ratio, and Welcia Holdings has also seen a significant increase in its PB ratio. The reality is that each company is eager to expand TOPVALU sales and is handling the brand more actively than ever.

On the procurement side, we face various challenges. To address them, we are increasing the number of factories and suppliers. For example, given the high transportation costs of water and the growing demand from multiple companies, we have expanded the number of factories we work with. While coordinating with more factories initially presents challenges, it ultimately reduces transportation distances and brings significant benefits. However, a key difficulty lies in implementing improvements simultaneously, as conditions vary across different regions.

Q3 Would it be correct to say that we have entered a positive cycle where each group company recognizes TOPVALU's strong reputation among customers, leading to an increase in requests to carry the brand?

A3 **Tsuchiya:** Yes, that is correct.

Q4 Is there a functional segmentation of PB use by category across group companies and business segments? Do you maximize the strengths of each while expanding the range of TOPVALU products, or is there a structured division and collaboration among businesses? Additionally, could you share insights on PB product development—do companies work together, or do they operate independently?

A4 **Tsuchiya:** Regarding joint development, some initiatives are shared, while others are not. For example, in the Discount Store Business, we collaborate closely on products with clear demand. This is because the number of discount stores is well-defined, making it easier to develop products that align with their needs.

However, there is also segmentation by business category. For instance, drugstores require specialized health-conscious teas in addition to regular teas. In this case, TOPVALU develops standard products collectively, while drugstores take the lead in developing functional and health-oriented products, as their input is crucial. TOPVALU may still support aspects such as raw material procurement.

The development approach varies depending on the product. More specialized items may be introduced as Welcia Holdings' own brands. On the other hand, food products see fewer differences among companies, requiring careful selection. For example, sales results for individual items at My Basket are shared with interested companies.

Q5 I feel that reducing the structure from two people to one may weaken the executive power of the key and demanding functions of merchandise and logistics. AEON has long embraced the idea of "abandoning small differences to join large differences," but I am concerned that the logistics study group with other companies may fade out due to the increased burden caused by this structural change. By overseeing both merchandise and logistics, is there a risk that neither will be fully optimized, leading to challenges in execution?

A5 **Tezuka:** I understand your concern. However, logistics reform is a long-term initiative that requires infrastructure development. Since infrastructure, once built, will be in use for 10–15 years, it is crucial to establish a solid concept and framework as a foundation for rollout. By creating a proven model, we can accelerate implementation—just as AEON did in its logistics reforms 20 years ago.

We are now in the rollout phase, where strong execution is essential. In Europe and the U.S., the Chief Supply Chain Officer plays a role second only to the CEO, and AEON is following the same trend. As for the cross-company logistics study group, it is an important initiative that should be continued and promoted across the organization, along with logistics reform and improvement within the group.

Additionally, AEON Global SCM, where I serve as president, plays a horizontal role in the Group's functional differentiation and serves as an execution unit not only within the Group but also for regional and alliance-based initiatives. These efforts will continue under Tsuchiya's leadership as well, so there is no cause for concern.

Supply Chain Reform (Logistics/Processing Centers (PC))

Q1 We ask this with the logistics reforms of the 2000s in mind. Given the lifespan of existing systems, what is your estimate of the total investment, the burden on partners, and the timeline until rollout progresses and profitability improvements become visible? Additionally, do you anticipate full-scale acceleration around 2030? Since it seems that costs will be front-loaded, could you also provide insights into the expected developments in the first 1–2 years?

A1 **Tezuka:** In 2000, we overhauled approximately 40 centers over a 10-year period. We believe that we need to implement this reform within the next decade at the same pace. Since logistics must be executed on an area-by-area basis to be effective, the rollout will be carried out in stages over the next 10 years. Investments will be made in line with the allocation guidelines for logistics and digital initiatives outlined in our medium-term management plan.

Q2 During the previous logistics reform, the economic downturn put logistics companies and partners in a difficult position, making AEON's proposal a welcome opportunity. As a result, the division of responsibilities was smooth, with AEON handling the software and an external vendor managing the hardware. Will the balance shift in this reform, with AEON taking on a greater share of the infrastructure itself?

A2 **Tezuka:** Your understanding of our previous reform is accurate. This time, we need to evaluate whether to develop our own equipment and technology specifications or outsource them. Our policy is to implement standardized functions across our partners to maintain a competitive advantage, as inconsistencies in outsourced functions could create inefficiencies.

As we proceed, we will explore various financing options—whether to have outsourcing partners bear the cost or to handle it internally—while carefully balancing speed and financial impact.

Q3 Do you anticipate that investment will not increase rapidly in the near future and that it will take time for the results to become visible?

A3 **Tezuka:** We expect that results will emerge gradually, on an area-by-area basis.

Q4 In the previous logistics reform, AEON aimed to promote more direct logistics but was unable to fully realize this vision, relying instead on external support. Today, with most retailers utilizing 3PL, could you summarize the current strengths of AEON's logistics system?

Looking ahead to 2030, I understand that having multiple retailers in each region will be a strategic advantage. However, will the economic benefits be exclusive to AEON? Some may argue that as long as goods are transported efficiently, there is no need to pursue additional logistical strengths. With that in mind, what are the key factors that will position logistics as a competitive strength for AEON in 2030?

A4 **Tezuka**: Currently, our strength lies in a logistics system that enables stable supply with 5,000 trucks per day, leveraging a hub-and-spoke model and maintaining TOPVALU-centered inventory across Japan. AEON is the only company that has successfully implemented this system, making it difficult for others to replicate. Our ability to utilize various 3PLs effectively comes from our proactive planning and management.

With the hub-and-spoke foundation established in the 2000s and the strengthening of PB amid inflation, we have a significant competitive advantage in supplying PB products to our group companies. The next generation of logistics will be tech-driven, and the key players have changed since 2000. We plan to collaborate with partners in the data domain, including tech ventures, to design our own functions and promote in-house development.

While embracing technology, we aim to maintain direct operational control to ensure optimal efficiency. Inflation will lead to rising variable costs, but fixed costs will remain stable. Strengthening our competitiveness through structural reforms will be essential in navigating an inflationary environment.

Q5 Since 2000, have profit margins improved over the past decade and into the 2020s? AEON's gross profit margin remains relatively low compared to the industry average, which raises questions about the long-term impact of the logistics reforms implemented since then. Regarding the strengthening of direct trading, I had anticipated delays due to the challenges of establishing relationships with manufacturers and wholesalers, and I still feel that progress in this area has been slow. Are more manufacturers now showing interest in doing business directly with AEON?

A5 **Tezuka:** I understand that direct trading was highly challenging at the time. While AEON's profit margin has not improved significantly, the scale of the business has expanded considerably. In a deflationary environment, AEON chose to compete on price, and to support this strategy, strengthening logistics and PB was essential. AEON operates nationwide, and logistics costs are relatively low when assessed by area—an advantage made possible by its broad national rollout. To sustain supply from Okinawa to Hokkaido, resources have been allocated toward logistics and PB expansion. The profit margin of GMS may not be the key focus here, as it is influenced by merchandising. However, if AEON aims to accelerate the integration of manufacturing and retail, improving profit margins will be crucial.

Going forward, leveraging technology will be essential in balancing a low-price strategy with profitability. This will be one of the major challenges in the next phase of reforms.

Digital Shift

Q1 I have a question regarding the progress of the digital strategy in the current mid-term business plan. The scale of EC is projected to reach 180 billion yen this fiscal year, while the mid-term plan targets 1 trillion yen. I understand that inflation and COVID-19 have altered the landscape, but given that COVID-19 has, in some ways, acted as a tailwind for EC, could you explain the background behind the gap between the current projection and the mid-term plan target?

A1 **Habu:** The 1 trillion yen target was set by working backward from the group's total sales scale, based on the assumption that the online market would account for roughly 10% of the overall retail market. However, in practice, each operating company manages its own website and operates its own online supermarket.

The key challenge is how to leverage economies of scale effectively. The ability to achieve the 1 trillion yen target depends on optimizing this factor. Currently, the fragmentation of operations is emerging as a critical issue that needs to be addressed.

Q2 You mentioned that while sales promotions at EC customer touchpoints take time to yield results, improvements in store operations have shown quicker impacts, leading to a reduction of 9.4 million person-hours. Given this, could you confirm whether the effects of the digital shift have already been concretely realized in stores?

A2 **Habu:** Regarding the digital transformation in our stores, we have nearly completed the necessary implementations. The key now is how to reallocate the person-hours saved to other operations. We believe that by formulating a clear plan, we can maximize the business benefits of this shift, and this approach has already been adopted across all our stores.
Egawa: From a business performance perspective, the goal is not simply to reduce person-hours but to manage them efficiently amid rising unit labor costs. Without proper control, labor costs could increase indefinitely. Therefore, we regulate person-hours per unit while considering the labor cost-to-net sales ratio. Since this measure delivers immediate results, we expect to see its impact in the second half of the current fiscal year.

Q3 What do you see as having the greatest potential among the various digital tools?

A3 **Habu:** From a convenience perspective, the enhanced functionality of StoNavi offers significant benefits, which we believe will lead to changes in how employees work. In terms of profit contribution, AI Order, AI *Kakaku* (Price), Customer Data Platform (CDP), and targeted marketing that delivers accurate information to customers are proving to be effective. We anticipate that data-driven solutions will play an increasingly important role going forward.

Q4 What KPIs do you use to measure the effectiveness of your data utilization tools and store operations? How does analyzing their effectiveness contribute to improving efficiency, and how is this reflected in performance figures?

A4 **Habu:** We have an in-house data team of 30 professionals, which is quite large for the retail industry. With top-class data scientists and analysts on staff, our policy is to establish KPIs through a series of POCs, ensuring that no solution is rolled out across the entire group unless it meets the defined KPIs.

The tools currently in use have all exceeded expectations. Additionally, we work closely with the field to clarify ROI and quantify productivity improvements in terms of reduced person-hours, ensuring a measurable impact on efficiency and performance.

Q5 You mentioned plans to implement digital solutions across the group and integrate system rollouts, including electronic shelf tags, with iAEON's payment system. However, U.S.M.H uses a different system from “Regi Go (walkthrough settlement),” and "ignica" is also being used for self-checkout registers. We believe that integrating systems where possible would maximize their effectiveness. If you have a different perspective on this, please share your thoughts.

A5 **Habu:** AEON is a large group with a culture of self-respect and independence, and the degree of digital advancement varies among companies. While ignica was implemented ahead of Regi Go, this early adoption was an advantage rather than an indication of inferiority due to being a latecomer.

The group aims to collaborate in the 0 to 1 stage, where economies of scale provide the most benefit. However, for those already in the 2 to 3 stages, the policy is to move forward with integration. We have set a clear direction to unify the entire group system by the end of 2025, with specific targets in place. While system integration has historically been a challenge, the foundational infrastructure—including backend systems—is now being established, and we are currently in a transitional phase.

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