



**SILVER LIFE Co., Ltd.**

Q2 Financial Results Briefing for the Fiscal Year Ending July 2021

March 11, 2021

## Event Summary

---

<b>[Company Name]</b>	SILVER LIFE Co., Ltd.
<b>[Company ID]</b>	9262-QCODE
<b>[Event Language]</b>	JPN
<b>[Event Type]</b>	Earnings Announcement
<b>[Event Name]</b>	Q2 Financial Results Briefing for the Fiscal Year Ending July 2021
<b>[Fiscal Period]</b>	FY2021 Q2
<b>[Date]</b>	March 11, 2021
<b>[Number of Pages]</b>	21
<b>[Time]</b>	16:00 – 16:43 (Total: 43 minutes, Presentation: 25 minutes, Q&A: 18 minutes)
<b>[Venue]</b>	Webcast
<b>[Venue Size]</b>	
<b>[Participants]</b>	
<b>[Number of Speakers]</b>	1 Takahisa Shimizu                      President, CEO

---

### Support

Japan            03.4405.3160  
Tollfree        0120.966.744

North America    1.800.674.8375  
Email Support    support@scriptsasia.com



## Presentation

**Moderator:** Thank you for participating in the financial results briefing for the second quarter of the fiscal year ending July 2021 of SILVER LIFE Co., Ltd., despite your busy schedule.

Now, Takahisa Shimizu, President and CEO of our company, will present. Thank you.

**Shimizu:** My name is Shimizu, the representative of SILVER LIFE Co., Ltd. Thank you for joining us today.

Today, I would like to use the screen sharing function once again to explain the result. I think you can see my screen on the screen. Let me explain the results based on this second quarter explanatory material.

### FY2021 2Q Financial Results



(百万円)

	FY2021				FY2020			FY2021 Forecast
		YoY Changes	Composition Ratio	Compared with Forecast		YoY Changes	Composition Ratio	
Sales	4,888	16.1%	100.0%	51.3%	4,212	11.1%	100.0%	9,530
Gross Profit	1,459	19.1%	29.9%	59.1%	1,226	14.3%	29.1%	2,470
Operating Profit	611	48.6%	12.5%	94.1%	411	▲5.0%	9.8%	650
Ordinary Profit	671	38.2%	13.7%	87.3%	486	▲0.2%	11.5%	770
Profit	417	38.3%	8.5%	90.8%	302	0.7%	7.2%	460

- 3 -

First of all, I would like to start with the results so far.

Sales were JPY4.8 billion, up 16.1% YoY, and gross profit was JPY1.4 billion, also up 19.1%. The figures shown after operating income are all favorable. Operating income was JPY611 million, an increase of 48.6% YoY, and from here on, I will mention the comparison to our full-year plan, which is 94.1% of the full-year plan.

We have reached this point in 2Q, so of course you may want to ask what about full year? Let me explain this in detail later.

Ordinary income and net income are also strong.

#### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

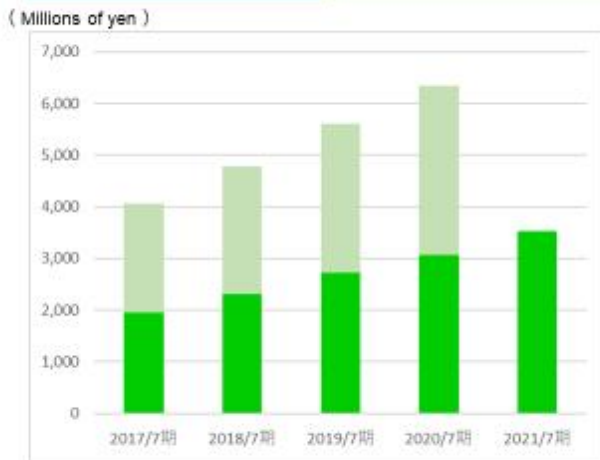
North America 1.800.674.8375  
Email Support support@scriptasia.com



Franchise chains

**Sales 3,526 million yen (YoY +15.0%)**

Stores : 897 (compared to the previous year-end +63) Exceeded annual plan  
The positive impact of the July 2019 departmental food price reduction continues



- 4 -

Next, here are the sales for each department.

Sales of ingredients for franchise stores are our main sales, which continue to grow. The sales are up 15% YoY. The number of stores has already exceeded the annual plan and is considerably higher than [Inaudible]. There are two main reasons why we are able to open this many stores.

The first is, the positive situation has continued regarding opening of business, in which a number of restaurants switched to our stores due to the influence of the coronavirus.

The second is withdrawal. After reducing the prices of ingredients from July 2019, the number of withdrawals has clearly decreased. As a result, the incoming has increased and the outgoing has decreased, so we have been able to increase the number of stores exceeding the initial plan.

**Support**

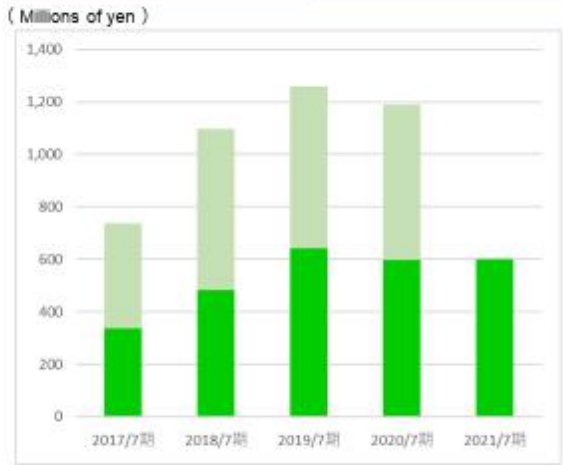
Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com

Facilities for the elderly

## Sales 601 million yen (YoY +0.7%)

Cilled : 90% of facility sales, new sales activities have almost stopped.  
 Frozen : 10% of facility sales, sales activities limited by COVID19 but increasing slowly  
 As of the last month of 2Q, 15% of facility sales



- 5 -

Secondly, sales for facilities for the elderly are struggling, to be honest. We are starting full-scale freezing business with the aim of switching from chilled, whose service level is quite low, and the continuation rate has dropped, to frozen packs.

However, for this, we are still not able to make sales call due to the coronavirus, and there are some places who want samples, but do not want salesperson to come. Therefore, sales activities are struggling quite a bit.

However, from January of this 2Q, we have created a new page that says that you can order online without having a salesperson visit. In addition, since January of this year, some nursing care facilities started using Zoom. Therefore, we are hoping to keep it stable in the future.

So far, the minus of chilled and the plus of freezing are just in competition, up 0.7% YoY. As described here, as of the last month of 2Q, January of this year, about 15% of total facility sales have been replaced by freezing.

**Support**

Japan 03.4405.3160  
 Tollfree 0120.966.744

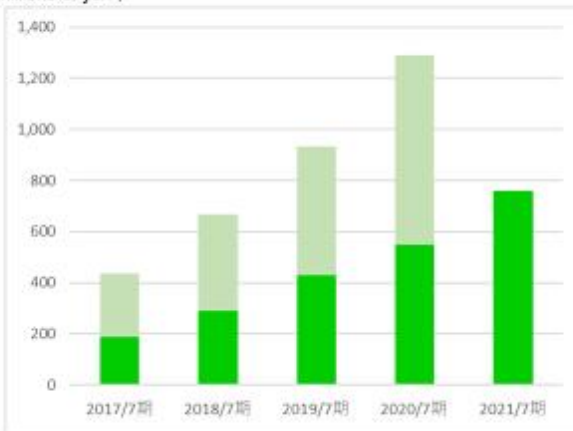
North America 1.800.674.8375  
 Email Support support@scriptasia.com

Direct Sales/  
Others

## Sales 760 million yen (YoY +38.6%)

Direct sales: Maintain a certain level of sales  
 OEM: Volume of orders from existing large customers continued to decline.  
 At the beginning of the fiscal year, the frozen lunch box production line was limited to 22,000 units/day, but by the end of 2Q, it was under pressure due to the increase in FC, and was producing 20,000 units/day.  
 Adjust advertising volume at 15,000-18,000 units/day while monitoring overtime hours. Additional capital investment in July 2021 will bring the production limit to 50,000 units/day.

( Millions of yen )



- 6 -

The third, direct sales and others, was the part that required the most technique, but in terms of sales, it increased by 38.6% YoY. Direct sales are limited to a certain level of sales. For OEM, some large customers are switching to other companies. Here, the situation where the accelerator and the brake are stepped on has not changed.

However, at the beginning of the fiscal year, during July and August 2020, the limit value of the frozen lunchbox production line was 22,000, and I think that this has become about 20,000, at the moment, after half a year. This is because, as I mentioned earlier, the sales volume of ingredients for franchises, which is our main business, is increasing, and the manufacturing limit of the entire factory is being pushed down a little. As a result, I think that the current frozen lunchbox production limit at our first factory, Gunma Factory, is about 20,000 pieces a day.

While looking at this, to be precise, while checking the security time of the security company at the time when the factory finally closes every day, we adjust the advertising fee so that we can continue manufacturing with a line of 15,000 to 18,000 pieces a day. In 1Q, the number of advertisements was almost zero, and it was revived a little in 2Q. In 2Q, the number of advertisements is increasing by about JPY5 million.

Regarding the production limit here, we are finally increasing the production limit after August to 50,000 pieces a day by adding an additional refrigeration equipment at the Gunma factory in July 2021, four months from now.

**Support**

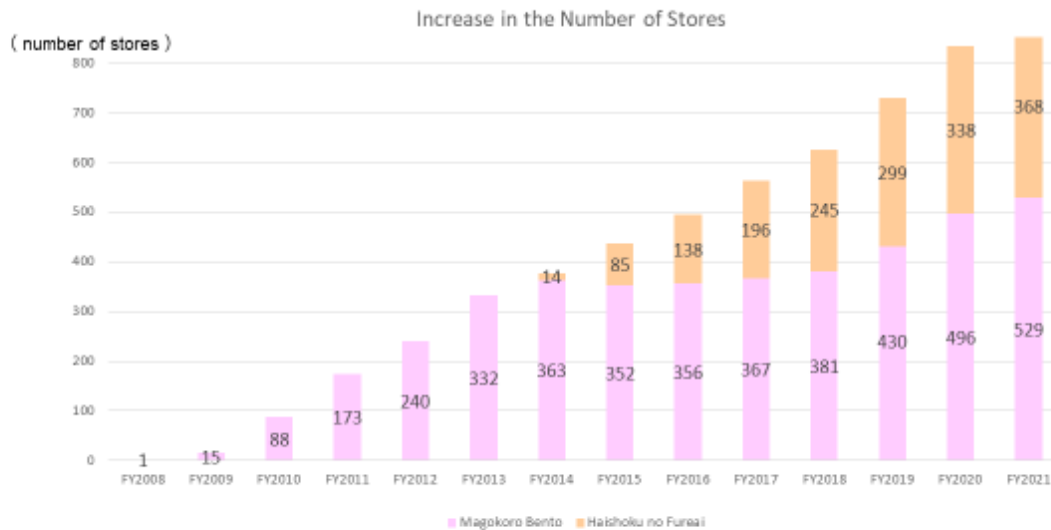
Japan 03.4405.3160  
 Tollfree 0120.966.744

North America 1.800.674.8375  
 Email Support support@scriptasia.com

## Number of Stores



33 "Magokoro Bento" stores and 30 "Haishoku no Fureai" stores increase (compared to the previous year-end). 897 stores in total (as of the end of Jan. 2021)



- \* 1. "Rakuraku Bento" is not included in the above number of stores since it will only be a store opened alongside a member store.
- 2. Since store sales start from zero and gradually increase after the opening, contribution to sales will be from the next year after the store opens.

- 7 -

As I mentioned, the number of stores is growing very well. We would like to continue aiming to increase the number of stores.

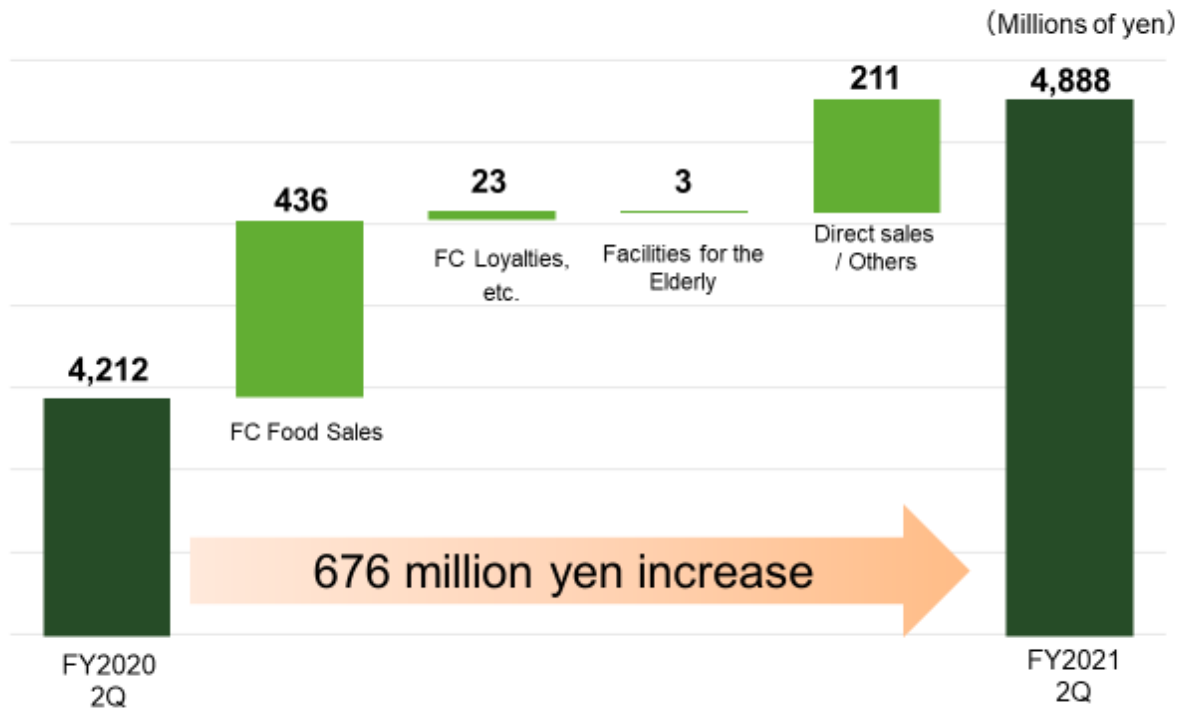
### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com



## Analysis of Sales Figures



- 8 -

This page shows an analysis of changes in sales.

As you can see, the sales of ingredients are increasing, and since we are a single segment, the sales are increasing directly.

### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com

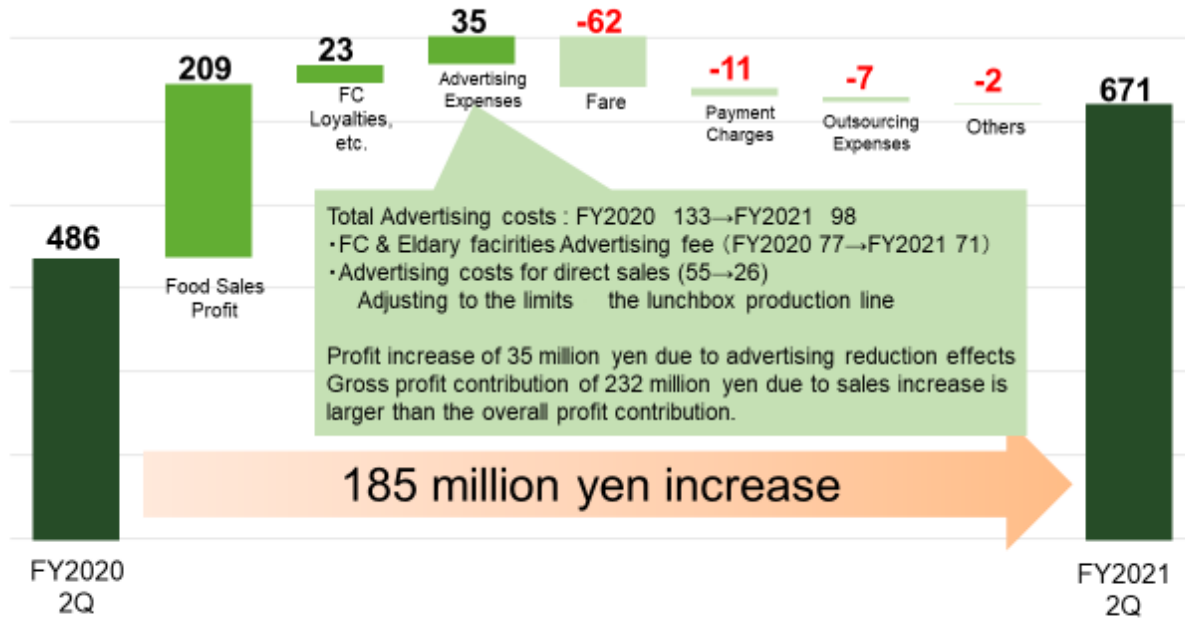




# Analysis of Ordinary Profit Figures



(Millions of yen)



- 9 -

This page shows an analysis of changes in ordinary income.

The topics this time are the increase in gross profit, due to the increase in ingredients sales, and the increase in profit, due to the decrease in advertising expenses. However, in the 1Q and 2Q of July 2021, the effect of contribution of gross profit to profits, due to the increase in sales, is far greater than the effect of reducing advertisements.

We are actually reducing advertisements, too. However, more than that, sales themselves, especially for franchise stores, are increasing in this fiscal year, so I think that there is an increase in ordinary income in uncontrollable, leaner parts coming up this time.

## Support

Japan 03.4405.3160  
 Tollfree 0120.966.744

North America 1.800.674.8375  
 Email Support support@scriptasia.com



## FY2021 Forecast



(Millions of yen)

	FY2021 Forecast	YoY Changes	FY2020 Results	YoY Changes
Sales	9,530	7.9%	8,832	13.2%
Gross Profit	2,470	-5.4%	2,610	16.8%
Operating Profit	650	-30.4%	934	5.6%
Ordinary Profit	770	-29.1%	1,086	8.4%
Profit	460	-32.2%	678	6.8%

- Sales forecast is stated on the Sales Forecast per Sales Category page
- Gross profit decreased significantly due to related expenses (350 million yen) such as depreciation costs associated with the launch of the new factory.
- SG&A expenses are expected to increase due to advertising expenses for the direct sales business associated with the new factory launch, software usage fees and depreciation costs due to system enhancements.

- 10 -

The full-year earnings forecast has not changed from the initial forecast. I will tell you the reason later.

### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com



## FY2021 Sales Forecast per Sales Category



### Franchise chains

**6,940 million yen (YoY +9.3%)**

Estimated number of stores at the end of the fiscal year: Approximately 890 stores (50 to 60 stores compared to the previous fiscal year). Although we have hope to continue opening more stores, we expect to open about 50 stores regularly each year.

### Facilities for the elderly

**1,210 million yen (YoY +1.6%)**

Sales are expected to recover with the broader development of the facility-specific frozen food-packs "Kodawari Chef".

### Direct Sales / Others

**1,380 million yen (YoY +6.9%)**

The contract volume of existing major customers is expected to continually decrease. The direct sales business is expected to increase moderately based on production capacity.

- 11 -

The sales categories will remain the same as originally planned.

#### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com



### FY2021 Forecasts unchanged at this time

#### <Factors>

Postponement of new factory-related expenses to the second half of the fiscal year.  
Business performance in the second half may fluctuate significantly depending on the progress of factory start-up.

#### <Forecast for the second half>

Sales	<ul style="list-style-type: none"> <li>○FC store sales are expected to exceed the plan. (Price down has been successful)</li> <li>×Facilities for the elderly are expected to be weaker than planned based on the current situation. (COVID19 influence continues)</li> <li>△Uncertainties in direct sales have increased.</li> </ul> <p>The timing of the production increase may change depending on the progress of the new factory operation. Increase in number of competitors, and it is quickly becoming a red ocean.</p>
Gross Profit	<ul style="list-style-type: none"> <li>×Depreciation and amortization expenses will be incurred as the factory begins operations.</li> <li>○Gross profit margin set at low level in anticipation of trial and error during plant start-up period</li> <li>×Efforts are needed to make up for the delay in the start of operations (e.g., purchase of spare equipment earlier than planned).</li> <li>×Unplanned increase in factory personnel (strengthening mid-career hiring)</li> </ul>
SG&A expenses	<ul style="list-style-type: none"> <li>×Advertising expenses will be gradually increased while maintaining a balance between production volume and order volume.</li> </ul>

- 12 -

Page 12 is the part I wanted to explain in the most detail at today's briefing session.

We made an upward revision just before 2Q. We were able to come up with the good forecast, and operating income is more than 90% of the full-year plan, so we received some inquiries regarding whether we will raise our full-year forecast or if the figures will become low on full-year basis considerably, especially in the second half. To be honest, it is quite unclear to us, as there is a possibility that this will go down, and conversely, it will go up more than expected, and it can fluctuate significantly up and down.

First of all, I would like to disassemble each of them. For sales for franchise stores, I think that if we keep going as it is, we will probably be able to go above the plan. The impact of price cuts has a significant positive impact on store retention. I think that the number of stores that will continue to grow and become more and more established as stores is increasing.

To put it simply, our annual withdrawal rate has improved. In addition to this effect, the decrease is less than expected, so I think that sales can also increase.

For the sales for the facilities listed as second, I think it is a little difficult to achieve the plan, unfortunately. At the time of the forecast, we expected that the Freezing Business would be able to grow considerably. However, the influence of the coronavirus has been prolonged longer than expected, and the fact that it is not possible to go to the store or the facility for sales activities is clearly reflected in the sluggish increase in sales. At the moment, we are forced to aim for a plan as much as possible.

With regard to direct sales, there are many uncertainties, so it is difficult to make a statement. First of all, whether the production of the first factory can be increased smoothly will depend on how smoothly the operation of the new factory can go. At the moment, it is said from August 2021, but we are not sure how much we can increase smoothly.

#### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com

At best, the second factory will start up as planned in three months of April, May, and June, and construction will start in July. Especially at that time, it may be possible to raise the production limit of the first factory from the current 20,000 to the old 22,000. And this is the story of the next fiscal year, but it will be raised at once due to the increase in equipment from August. This is the best scenario.

However, in the worst-case scenario, the start-up of the second factory may take twice as long—for example, for about six months—and the burden on the first factory will continue during that time, and there is a possibility that there will be no spare capacity. In that case, the time to step on the accelerator and brake will be slightly longer with the current scale of 15,000 to 18,000.

The second uncertain factor is that the number of competitors in frozen lunchbox has increased considerably in the last six months. After all, many companies are now aware that frozen lunchboxes sell well online under the effect of the coronavirus; therefore, we feel a little more likely to be involved in intensifying competition around that point than originally planned.

However, even if it becomes a muddy battle, in that case, we are the most advantageous in the long run. In that case, at the expense of immediate profits, a company like us, that has its own logistics and warehouse functions, is overwhelmingly more competitive in price competition. In that case, we may start price competition and take the market share first, taking the same strategy as we have won in the franchise, to continue to grow as it is. That is all for sales.

For gross profit, there are good and bad things. First of all, depreciation will be incurred from April due to the start of the operation of the factory. Furthermore, at the time of factory start-up [Inaudible], and as a good story, the gross profit margin was set quite low in anticipation of trial and error in factory start-up.

However, at the moment, we are proceeding with the start-up project steadily as planned; therefore, we expect that the gross profit margin will be much better than planned and that we will be able to go smoothly without any stagnation.

However, in that case, we will work on the efforts to catch up with the delay in operation as listed on the third, which is to buy the equipment, within this fiscal year, even if it is early, that we thought we can prepare later.

The rest is personnel. We have increased the number of planned additional personnel from six people in the original plan to about 12. We will increase the number of personnel and create a process with plenty of room at first, so that the factory will not have any problem later, even when sales increase or when it is closed.

In our case, we are honestly convinced that sales will increase steadily over time, so it is not too scary to add people more than we planned, to a certain extent.

Next is the SG&A expense as the third. Since we do not want to miss an opportunity, we will continue to increase or decrease advertising depending on the time, while looking at the balance between production capacity and order volume.

There are many uncertainties around here, especially three months of April, May, and June, the start-up period; therefore, we want to weather it out first, and change the plan if any such need arises.

---

## Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support [support@scriptasia.com](mailto:support@scriptasia.com)



## Factory Operation Schedule

April : New Factory starts operation  
 The 1st factory will be dedicated to refrigeration from summer onward, while monitoring its operation status, to enable increased production.

	FY2021	FY2022	FY2023
<b>1<sup>st</sup> Factory</b> (Gunma factory)	Chilled/Frozen Manufacturing		
		Expansion of freezing equipment	Frozen foods increase
<b>2<sup>nd</sup> Factory</b> (Tochigi factory)		Start operation	Add production lines as needed



- 13 -

This is the operation schedule of the factory.

I have illustrated what I said verbally. In this fiscal year, the second factory will start full-scale operation in April, and the planned production capacity is scheduled to reach the initial target by around July. At the same time, we would like to reinforce the refrigeration equipment of the first factory in July and establish the structure that allows full production from August.

### Support

Japan 03.4405.3160  
 Tollfree 0120.966.744

North America 1.800.674.8375  
 Email Support support@scriptasia.com

Society

We believe that the growth of our business itself is our commitment to society. We deliver well-balanced lunches to the homes of elderly people who are too old to go shopping on their own. We believe that this business has a high social significance.

We, Silver Life, will contribute to society by growing our business with integrity in accordance with our corporate philosophy: "We, Silver Life, will create a society where everyone can age with peace of mind from the perspective of food."

私たちは、食の観点から  
誰もが安心して  
歳を重ねていける社会を作ります

Environment

- Efforts to reduce food loss  
We commercialized the extra cooked ingredients as "Omakase Kobachi". We have started to use them as extras in our sales products. This will help to reduce food residue.

Governance

- We have the following systems in place to strengthen our management monitoring system  
Ratio of independent outside directors: 1/3  
Transition to a company with an audit committee
- Compliance  
Continue to provide compliance training to all employees  
We will continue our efforts without loosening our grip.

- 14 -

Finally, our ESG initiatives.

Recently, I have been listening loudly, and at the same time, we also studied, but the more we learn, the more we think the business we are doing now fits well with ESG initiatives. Rather, this is where we had a reflection that we were not able to appeal more, despite the fact that our business fits ESG initiatives so well.

Therefore, starting with this time, I would like to properly promote ESG initiatives in the future. First of all, as an initiative for society, this business that we are currently doing is a social contribution.

Every day, I thought that delivering daily meals to the homes of elderly people who were too old to go shopping was a very meaningful business and not embarrassing to do. Therefore, I made a new claim here.

On top of that, as an initiative for the environment, we are also starting to do concrete things.

The first is to commercialize the extra ingredients that are being made at the current first factory, which had been thrown away by paying money, and sell them cheaply as they are.

You may think that we should not produce the extra from the first place, but it is impossible to produce less in a factory. Therefore, although we want to produce as close as possible to the order, we cannot help producing 102 or 103 to the order of 100.

The remaining two or three pieces are made into products as frozen packs of prepared foods, and it is delivered as a free promotional item to, for example, those who can take frozen prepared foods for facilities. Also, it is very recent and off the range of 2Q, but we started selling it on Amazon, et cetera, as a set of cheap side dish.

## Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptsasias.com

The frozen pack is sold at JPY1,980 for five packs, including the shipping fee. Since JPY1,500 out of JPY1,980 is shipping fee, we are offering it at a price that is normally impossible. In this area, as well, we would like to sell what we had thrown away as a product and proceed with environmental efforts accordingly.

As a side note, when the second factory is built, the residuals of the food themselves will be reduced. The first factory was the process of making 102 with a big pot aiming for 100, but at the second factory, 100 packs are already made in raw in a vacuum pack state from the beginning and sent to a heating process, so it would be much more automated than the first factory, and loss will be less.

In addition, for example, at the first factory, we were throwing away the simmered broth. A lot of seasonings that we bought for a fee are melted there, but since the factory will no longer produce such residual broth, it will be fairly environmentally friendly.

And the third is the governance initiative. We have established the structure for strengthening the management monitoring system. There are no goals for that, but we have achieved the ratio of more than one-third of independent outside officers, transition to a company with audit and supervisory committees, and compliance training, et cetera. We would like to continue our efforts without loosening them.

I would like to add one more explanation. This time, some people were worried that sales and profits were slightly lower in 2Q than in 1Q. Let me explain about this from sales.

As a conclusion, we are not particularly worried. Sales to franchise stores, our main business, are increasing every quarter on QoQ, so that has not changed. The problem is the business for facilities and freezing lunchboxes. Since this has decreased slightly, it has decreased slightly QoQ this time.

However, for the case of frozen lunchboxes, this is intentionally done, considering manufacturing limits. For ingredient packs for facilities, it is unintentional. It has decreased unexpectedly, but we do not think that it is an issue, because the frozen lunchbox is a part that is intentionally reduced.

Also, regarding profits, it was a time when the amount of inventory fluctuated considerably in 1Q and 2Q of this fiscal year. In 2Q, inventory has decreased by about JPY65 million compared to 1Q. In other words, this is a factor that suppresses profits by that amount, so considering that, I think that it is not a big problem.

That is all I wanted to talk about today.

---

#### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support [support@scriptasia.com](mailto:support@scriptasia.com)





## Question & Answer

---

**Shimizu:** I would like to [release] the sharing here and answer your questions. If you have any questions, please enter them in the Q&A, and we will answer them one by one. Thank you for your cooperation.

Here is the first question. This is about ESG. We would appreciate it if you could consider disclosing CO2 emissions and energy consumption from the perspective of responding to climate change risks.

We would like to work on this as well in the future. However, I am sorry, but we still have little knowledge about this area; therefore, we would like to disclose it after learning more about CO2 emissions, including the calculation method and making sure that there are no mistakes.

The second point [is about] disclosure of the basic human rights policy, et cetera, stating that there is no child labor or forced labor.

We would like to disclose it after investigating thoroughly, including suppliers, although we believe that there is no such thing.

Next is the establishment of a voluntary nomination committee and compensation committee, and an increase in the number of female and foreign outside directors.

I would definitely like to consider this, as well. However, we would like to speak to people who have proper knowledge, not just because they are women or foreigners. The above is the answer to the first question.

Here is the second question. You said that you would start full production in August, but when did you envision to start in the original plan? In addition, by full production, how many meals do you expect to produce each month?

For the first question, the original plan was two months ago, and now it is two months behind the original plan, so we planned to start in June.

What is the expected number of meals for monthly production by full production?

We are thinking of starting with a monthly production of 20,000 to 22,000 pieces, which is almost the same stage as now. Building a factory does not mean that the production volume will increase suddenly, but it will only raise the production limit. First of all, the maximum value of what can be done with the current equipment is the starting point, and after that, the ceiling has disappeared, so it will be a matter of steadily expanding sales.

Thirdly, what are the risks of not being able to move to full production?

This is the risk that the second factory will not start up as planned. To be specific, for example, in terms of products, the number one is inadequate hygiene. For example, we produce the products, but we cannot get the one that can pass the bacterial test. Of course, we perform a bacterial test on the sample using the similar machine in advance, and then determine the recipe and so on.

However, since there are slight differences in the actual machines depending on the machine, it may happen that the steam condition of the machine is strange, and the temperature did not rise as expected. In order to avoid such a situation, we will kill the issues one by one as much as possible in March, so that we can increase production without any issues starting in April.

---

### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com



In terms of risk, there are not many mechanical systems. I do not think anything was broken. At this point, it works fine. In addition, we are doing it with multiple lines so that there is no problem, even if it breaks; therefore, we can respond even if something happens.

The rest is people. There is no problem related to personnel. In the last three months, nearly 10 people have been hired as full-time employees, so there is no problem. The worker class has been also hired without problems. There is no problem with money for payment, either, so far. For now, I think that is [it] about the possible risk.

With this, I have answered all the questions we have just received. If you have any other questions, I would like to answer anything, but is there anything else? Any other questions?

I received one. Thank you very much. Is the competitive environment for frozen lunchboxes so serious that you have to cut prices? What kind of competition has come in?

This is not serious. We can fight well as it is now. However, in the growing market, I think we should take control of the market share first. In that sense, we have the highest price competitiveness, so if the industry as a whole grows steadily, we would like to make the most of our strengths in that area.

Of course, I would like to make a profit for each quarter. For me, if it is a growing market, I think that we should first take a share and hold down sales, and we think we were able to obtain the price competitiveness that can take that share with the additional equipment obtained this time. Therefore, we would like to make the most of our strengths.

With regards to the question of competition that has come in, to be honest, no company is strong in the main competition. However, there are many companies who are struggling to make, for example, Mr. Nash, various other companies of frozen lunchboxes, and small- and medium-sized companies that have been engaged in small business and put out the products on Amazon.

There are quite a lot of such things, so I think we should take advantage of our price advantage and, to put it a little worse, beat them down. That is the answer.

The question asked which manufacturer in particular? My apologies. There is no particular manufacturer.

The question that only mentions SMBC Nikko Securities is probably a mistake, so I will move on to the next question. Are you planning to compete in price as a countermeasure for frozen lunchboxes?

We are going to do it. If the market is growing, I still want to hold down the market share. We have grown in our pricing strategy in the food distribution industry. Because we have grown with the cheap price, we can take advantage of economies of scale and put out good products at low prices. I would like to do the same composition in the world of frozen lunchboxes.

In addition, if we do not do that and do not have price competitiveness at the stage when the market for frozen lunchboxes continues to grow and other big manufacturers of real frozen foods, such as Nichirei, are seriously entering the market, we would lose easily. By that time, I would like to hold down the market share and obtain the scale.

It is a bit of a digression, but with the current frozen lunchboxes, we are just lucky enough to survive. If it is a small food factory, it cannot be made. The market size is not large enough for big super giants to come in. That is why we are fighting in our favor right now, so I do not think we should be spoiled for it. If the market for frozen lunchbox grows steadily in the future, there will definitely be super-major companies, so at that point, we must have the price competitiveness and economies of scale that can handle that.

---

#### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com



Next is the reason why the ratio of frozen ingredients sold to facilities has been low so far, and the upside potential in the future.

The ratio of frozen ingredients sold to facilities was low because we had not done so before. Originally, facilities prefer freezing, and it is a market where freezing is the mainstream. However, until then, we had only a factory specializing in refrigerated ingredients, so we forcibly sold refrigerated ingredients to facilities.

The market has annual sales of about JPY1 billion over five years, but in fact, the freezing facility called Cook Deli in Osaka has made sales of about JPY5 billion in the same five years. To put it simply, I think there are five times as many markets for freezing for facilities as refrigeration.

Therefore, if we can make proper materials by freezing this time, we definitely think that we have the potential to go to a market that is five times as large as the one for freezing for facilities. That is the answer.

Next, you explained that the decrease in inventory volume in 1Q and 2Q resulted in a decrease in profit of about JPY65 million. Did you reduce production by inventory adjustment, or was it inventory processing or impairment processing? I would appreciate it if you could explain the background.

This is an unintended increase in sales rather than an inventory adjustment. Or, rather than unintended, it is correct to say that it is an increase in sales exceeding the manufacturing capacity. Nothing has been impaired. Since it is a frozen ingredient, it can be stored. However, as of 2Q, the sales capacity exceeded the manufacturing capacity considerably, so it means that the inventory decreased steadily. That is the answer.

Next, will the stores that were opened by switching the business due to the coronavirus really take root? What are your thoughts on the risks of withdrawing or losing your reputation if the restrictions are relaxed?

To be honest, I do not know yet. However, in fact, there were quite a few members who joined us by switching the business before the coronavirus pandemic. In our case, about 90% of all member stores were opened independently by individuals, and 10% were opened at restaurants by switching the business.

As far as I can see, those stores have had no problems and have been operating properly. In addition, if I may say, those stores have a financial base more than individuals; therefore, I imagine that they are unlikely to give up easily, even if they are in the red at early stage. However, I do not think we would know how things will develop until a year or two later.

We have answered all the questions we have received so far. Thank you very much. If you have any other questions, I would like to answer anything, but do you have any more questions?

Then, there was one part that was insufficiently explained, so I will add it.

In the question of whether we would take price strategy for frozen lunchbox, to put it precisely, once our manufacturing capability, as well as storing capability, improve, we will create a full product lineup. At that point, there will be room in manufacturing capacity and storage capacity, so we will be in the situation where we can produce products with full lineup, including the current mid-price range frozen lunch box, the low-priced version that can be created cheaply, and high-price range frozen lunchbox that looks good and profitable.

At that point, we will make a full lineup of products, and probably only about 10% of all Japanese people will buy high-priced frozen lunchboxes, so we will take profit with the main medium-sized brands and low-priced brands broadly in general approach. Therefore, it is the price strategy as a part of this whole concept. That is all I have.

---

#### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com



Does anyone else have any more questions? I understand.

Then, there being no other questions, we would like to conclude the financial results briefing for the second quarter. If you have any additional questions, please feel free to contact the IR staff.

We apologize for the inconvenience, but we kindly ask for your cooperation in the questionnaire after the briefing session. In accordance with the content of the questionnaire, I would like to work with you on various content that we should appeal to and what we will talk about in the future.

Thank you very much for your participation today.

[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].*
3. *This document has been translated by SCRIPTS Asia.*

---

### **Support**

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptasia.com



## Disclaimer

SCRIPTS Asia reserves the right to edit or modify, at its sole discretion and at any time, the contents of this document and any related materials, and in such case SCRIPTS Asia shall have no obligation to provide notification of such edits or modifications to any party. This event transcript is based on sources SCRIPTS Asia believes to be reliable, but the accuracy of this transcript is not guaranteed by us and this transcript does not purport to be a complete or error-free statement or summary of the available data. Accordingly, SCRIPTS Asia does not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information contained in this event transcript. This event transcript is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

In the public meetings and conference calls upon which SCRIPTS Asia's event transcripts are based, companies may make projections or other forward-looking statements regarding a variety of matters. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the applicable company's most recent public securities filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are accurate and reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the anticipated outcome described in any forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE PUBLIC MEETING OR CONFERENCE CALL. ALTHOUGH SCRIPTS ASIA ENDEAVORS TO PROVIDE ACCURATE TRANSCRIPTIONS, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE TRANSCRIPTIONS. IN NO WAY DOES SCRIPTS ASIA OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BY ANY PARTY BASED UPON ANY EVENT TRANSCRIPT OR OTHER CONTENT PROVIDED BY SCRIPTS ASIA. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S PUBLIC SECURITIES FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. THIS EVENT TRANSCRIPT IS PROVIDED ON AN "AS IS" BASIS. SCRIPTS ASIA DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, AND ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT.

None of SCRIPTS Asia's content (including event transcript content) or any part thereof may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SCRIPTS Asia. SCRIPTS Asia's content may not be used for any unlawful or unauthorized purposes.

The content of this document may be edited or revised by SCRIPTS Asia at any time without notice.

Copyright © 2020 SCRIPTS Asia Inc. ("SCRIPTS Asia"), except where explicitly indicated otherwise. All rights reserved.

---

### Support

Japan 03.4405.3160  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support [support@scriptasia.com](mailto:support@scriptasia.com)

