SILVER LIFE Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending July 2022

March 11, 2022

Event Summary

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[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	1 Takahisa Shimizu President, CEO

Presentation

Moderator: Ladies and gentlemen, thank you very much for your participation today.

If you cannot hear the audio, please check the audio on your computer or other device. If you have questions, please register through Q&A at the bottom of the screen, as we will have a separate time as a question-and-answer session.

If there are any audio problems, please contact us via Q&A.

Takahisa Shimizu, President and CEO, will now give a presentation. Thank you.

FY2022 2Q Financial Results

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(Millions of yen)

	FY2022 2Q				FY2021 2Q			FY2022 Forecast
		YoY Changes	Composition Ratio	Compared with Forecast		YoY Changes	Composition Ratio	
Sales	5,450	11.5%	100.0%	46.5%	4,888	16.1%	100.0%	11,720
Gross Profit	1,382	▲5.3%	25.4%	46.3%	1,459	19.1%	29.9%	2,980
Operating Profit	312	▲49.0%	5.7%	56.7%	611	48.6%	12.5%	550
Ordinary Profit	382	▲43.1%	7.0%	56.1%	671	38.2%	13.7%	680
Profit	254	▲39.0%	4.7%	59.2%	417	38.3%	8.5%	430

Losses and percentage change in net sales, operating income, and ordinary income are for reference purposes only. Actual results for the fiscal year ended July 31, 2022 are after the application of the revenue recognition accounting standard, and the aforementioned three items have decreased by approximately 5 million each

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Shimizu: I am Takahisa Shimizu, President and CEO of SILVER LIFE Co., Ltd. I would now like to begin the presentation of the financial results for the second quarter of the fiscal year ending July 2022.

I have just shared my screen. Can you see it? Now, let me begin the presentation.

First, here are the 2Q results, with YoY changes. Sales were JPY5,450 million, an increase of 11.5% YoY and 46.5% of the full-year plan. Gross profit was JPY1,380 million, a decrease of 5.3% YoY. For the figures shown after operating profit, due in part to the depreciation of the new factory, operating profit was JPY312 million, a decrease of 49% YoY, or about half. Ordinary profit and net income fell 43% YoY and 39% YoY, respectively.

As indicated below, the loss/increase and percentage change in sales, operating profit, and ordinary profit are provided for reference purposes only. These are the amounts to which the Accounting Standard for Revenue Recognition has been applied.

Next, there are the sales for each sales category. First, the sales for franchise chains.

First, sales were JPY3,988 million, an increase of 13.1% YoY. The number of stores is 948. This represents a decrease of seven stores compared to the first quarter three months ago, but we have also begun accepting franchise applications for our third chain, Takushoku Life.

Many of you may be concerned about the decrease in the number of stores, but we do not think this is cause for concern, as there may be some fluctuation from period to period.

For this reason, we have also included YoY sales comparisons for existing stores that have been in business for 13 months or longer.

I used to answer verbally whenever I was asked, but at this point, I thought it would be better to include the figures in the document and present them in a clear format. Sales for the existing stores of Magokoro Bento and Haishoku no Fureai increased 14.1% YoY and 27.6%, respectively.

We have almost no sales from newly established stores, and therefore, the increase in sales from existing stores is seen rather significantly.

Sales per Category: Facilities for the Elderly, etc.

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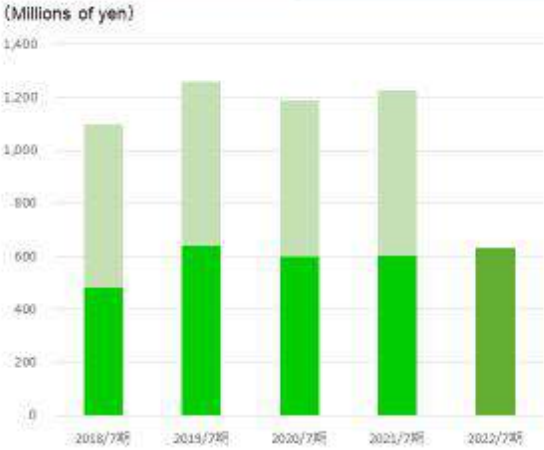
Facilities for the elderly	**Sales 633 million yen** (YoY +5.4) Cilled: YoY ▲9.1% Suspension of new sales activities due to low service and low order rates Frozen: YoY＋104.8% Sales are in full swing, and since 2Q, the impact of COVID19 has faded and facility visits are now allowed. Sales ratio within this category reached 25%.



Next, the sales for facilities for the elderly.

Overall, sales increased 5.4% YoY, being finally on track to recover again after falling once. As a matter of fact, sales for the chilled food business decreased 9.1% YoY as we hardly conducted any new sales activities that we used to do before, and the frozen food business made up for this.

The growth in the frozen food business was quite impressive, with a YoY increase of 104.8%, or almost double.

We were finally able to increase sales in the way we had envisioned when we started this frozen food service, as the impact of COVID-19 started fading from this 2Q and we were able to start visiting facilities.

The ratio of frozen food sales to the overall sales for facilities for the elderly reached 25%. At the end of 1Q, the ratio was 20%, so its share in the sales for facilities has increased by 5 percentage points.

The final sales category is direct sales and others.

The overall sales increased 8.8% YoY, but as for the breakdown, direct sales made up for the decline in OEM.

Since direct sales is larger, I will start with direct sales, which increased 30.4% YoY. In the middle of 1Q, we resumed advertising activities in September, and from that point onward, growth has been steady.

We hope to continue to grow at a good pace, especially rental freezers, since orders for regular sets have been accumulating.

Then, OEM. This, unfortunately, has seen a continued decline in contract fees from existing large clients. However, in order to fill this gap, we are also developing new business partners, and since it takes several months to develop a product, we expect to start posting sales in 3Q.

These were the sales by sales category.

Number of Stores

11 "Magokoro Bento" stores increased and 11 " Haishoku no Fureai" stores decrease "Takusyoku-Life" inceased (compared to the previous year-end). 948 stores in total (as of the end of Jan. 2022) 2Q saw a decrease in store openings and a concentration of postponements compared to previous years (for various reasons, no trend) Favorable acquisition of franchise contracts; 120 stores currently under preparation, compared to 60-70 in the past; expected to be resolved in the second half of the year

※ 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.

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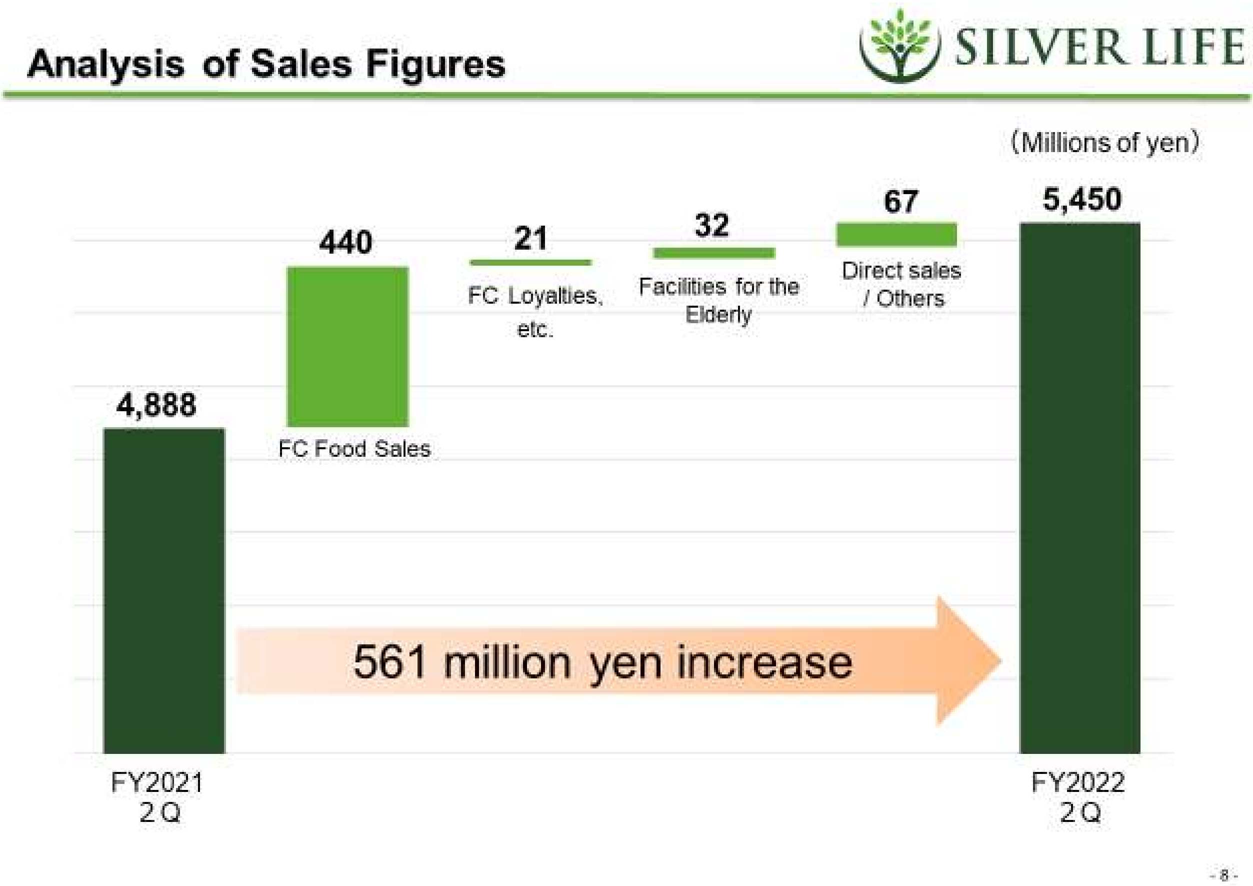
Then, the number of stores.

This one is often asked, and this time, for the first time since the listing, the number of stores decreased. We were unable to prevent it. We are very sorry.

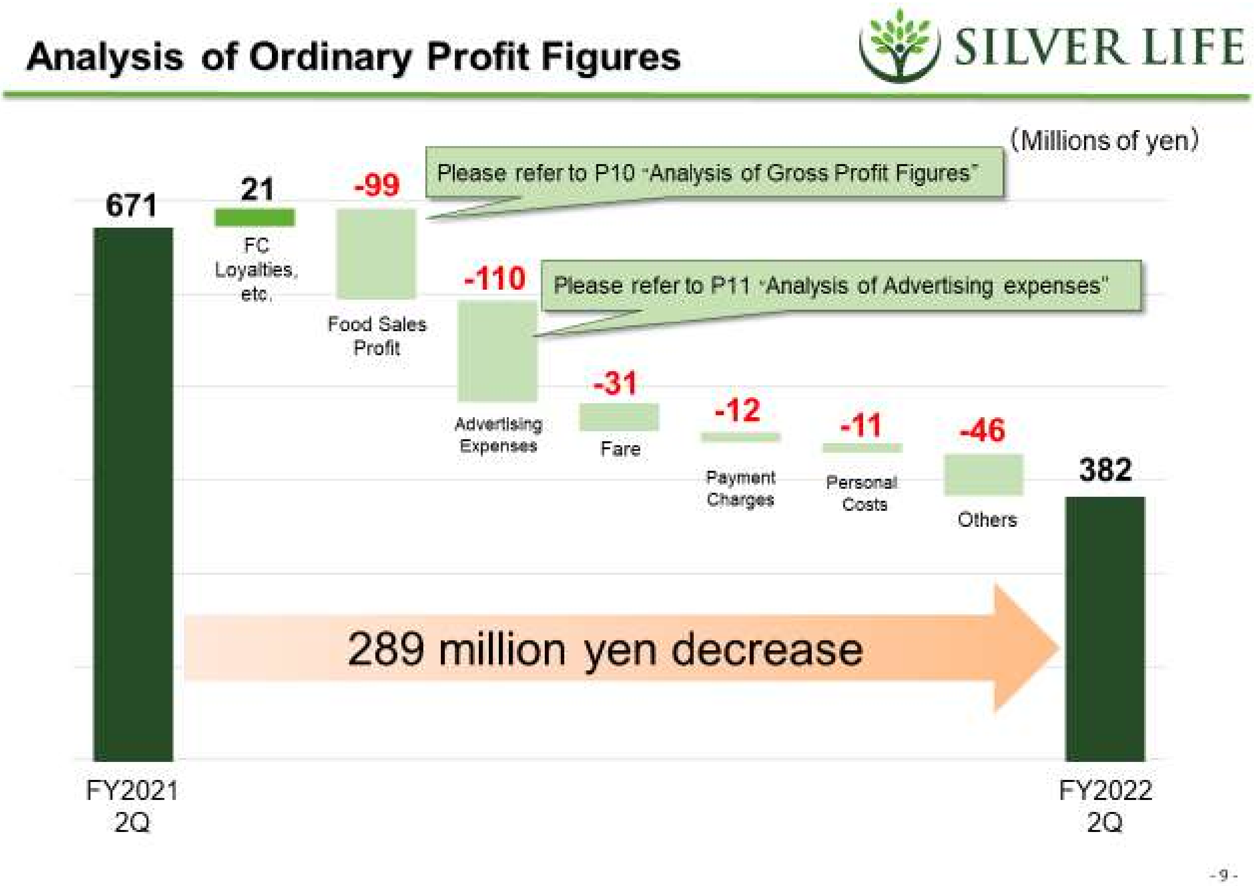
The main reason for the decrease was that store openings did not go as planned. The reasons why the store openings did not go as planned, as written here, were investigated to see if there were any patterns, but the reasons were inconsistent. There were just a lot of common reasons. We were not able to open new stores as planned because we happened to be unable to find properties or equipment, or financing did not go well, et cetera, and these incidents concentrated in the past three months.

However, the store openings are basically postponed, not cancelled. The number of stores that are preparing to open, we usually have about 60 to 70 stores, but this number has ballooned to 120 currently. However, this is expected to be resolved in the second half of the year.



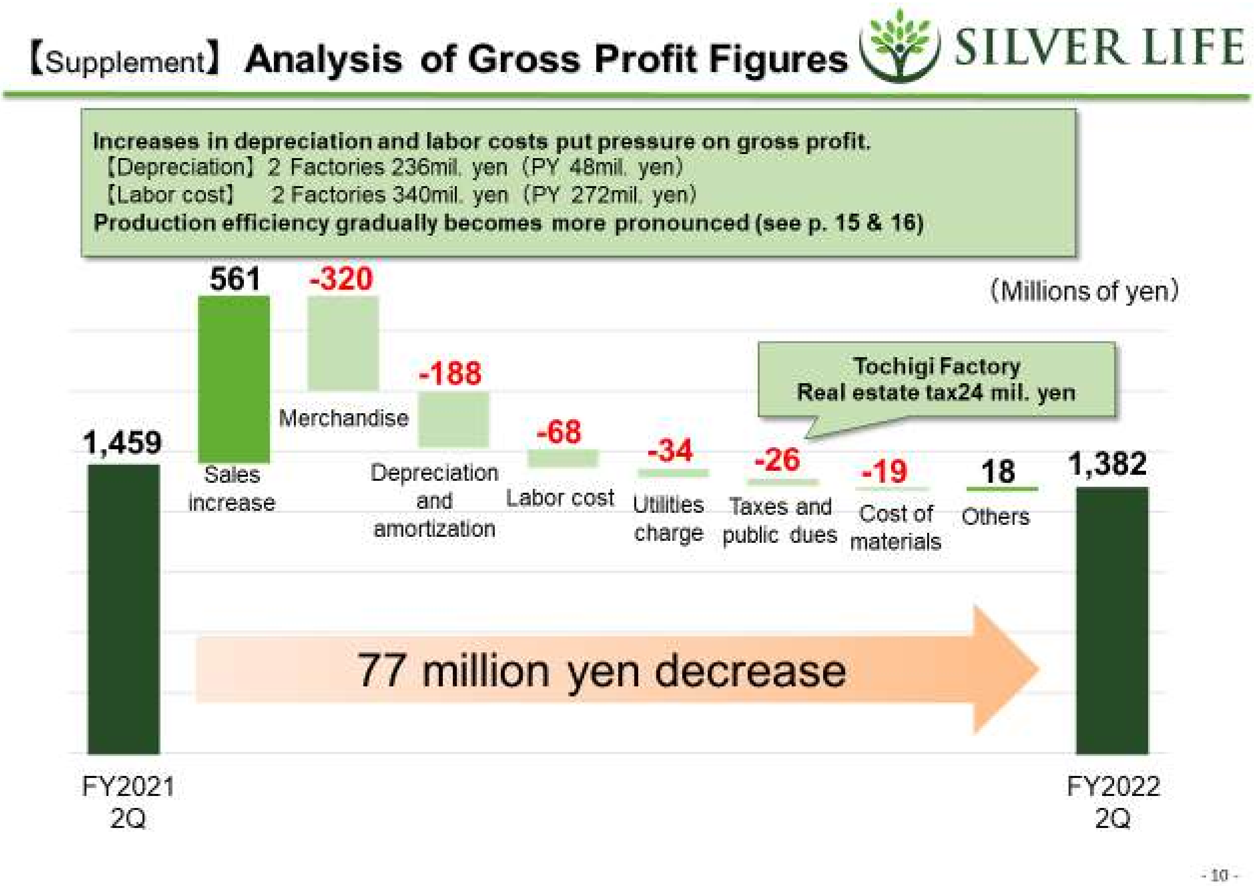
Next, an analysis of changes in sales.

As you can see, there was an increase in food sales to franchise chains, and then a slight increase in sales for facilities for the elderly, direct sales, and others.



Next, an analysis of changes in ordinary profit.

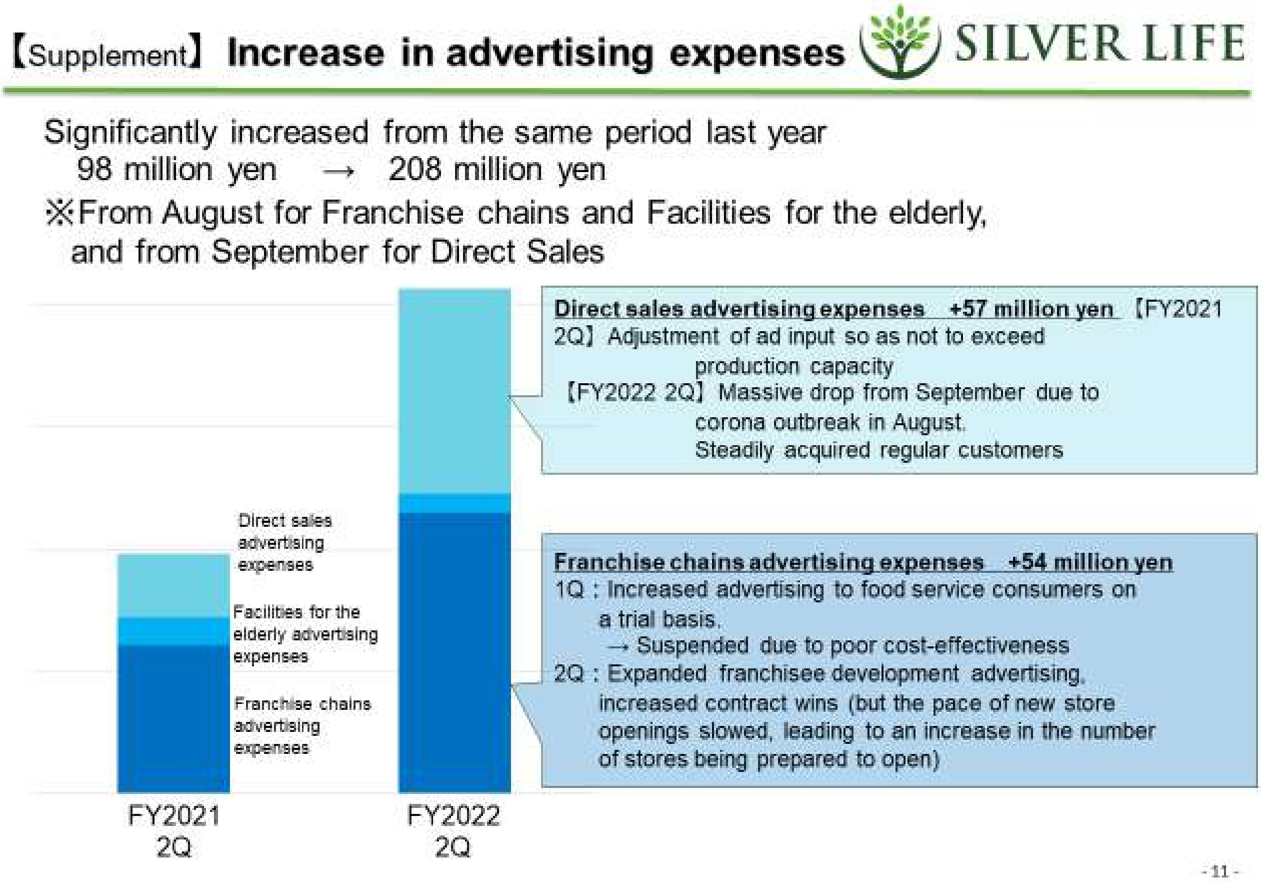
Sales increased, but unfortunately the growth in gross profit was not that much. There has been a decrease there. And ordinary profit decreased due to expenses to increase sales and expenses incurred in conjunction with sales growth, such as advertising, freight, et cetera.



We have also included an analysis of changes in gross profit as a supplementary information.

The second factory, the Tochigi Factory, was completed in March of last year, and depreciation and labor costs have increased significantly since then. Depreciation increased approximately JPY200 million, from JPY48 million to JPY236 million. Labor costs increased from JPY272 million to JPY340 million, so the increases in these two led to a decrease in gross profit.

However, as a result of the investment in this factory, the sales limit has been eliminated and, as I will explain later, production efficiency has also increased, so at this point, I think it was a good investment to make.



There is another item for the supplementary information, advertising cost.

We increased it significantly compared to the previous year. After all, we must increase sales now. And since this is also a time when it will lead for efficiency, we are stepping on the accelerator as hard as we can. Among these, for direct sales, there was a COVID-19 outbreak at the factory in August, so we began full-scale acceleration in September, when things settled down.

For franchise chains, in 1Q, we advertised for eaters on a trial basis, which was unsuccessful. Therefore, in 2Q, we are advertising to develop franchisees, as we have done in the past. We have also started a third chain, which has been doing quite well and contracts have been obtained. However, since the store openings have been postponed, we unfortunately only have more backlogs on hand.

FY2022 Forecast

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(Millions of yen)

	FY2022 Forecast	YoY Changes	FY2021 Results	YoY Changes
Sales	11,720	16.7%	10,050	13.8%
Gross Profit	2,980	9.5%	2,720	4.2%
Operating Profit	550	-34.5%	839	-10.1%
Ordinary Profit	680	-30.1%	973	-10.4%
Profit	430	-21.3%	546	-19.5%

- Sales are expected to grow steadily.
- Gross profit increased slightly, while depreciation, labor cost, material cost, utilities cost, etc. increased due to operation of Tochigi Factory.
- SG&A expenses increased significantly; advertising expenses increased due to aggressive sales promotion, and depreciation expenses were incurred when the warehouse became operational in March 2022.

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This page shows the full-year earnings forecast.

The sales target represents an increase of 16.7%, which is a high hurdle to achieve, as it will be quite heavily weighted toward the second half of the year. But we intend to achieve this. Then, we hope to post an increase for gross profit with recovery in the second half of this year.

For operating profit and the figures shown after it, unfortunately, we expect a decrease from the previous year's level, due in part to an increase in SG&A expenses. However, we believe that this will be the bottom.

Next, the sales forecast by sales category.

For franchise chains, our forecast is JPY8,300 million, representing an increase of 14.2% YoY. We believe that we will be able to open stores smoothly in 3Q and 4Q, so we have not changed our target of 1,000 stores.

And since sales themselves are strong, we expect to be able to achieve 14% YoY here, due in part to the increase in sales per store.

For facilities for the elderly, since the sales of Kodawari Chef frozen food packs have been increasing steadily since 2Q, we hope to achieve a 14.8% YoY growth.

For direct sales and others, this is actually where we have the highest hurdle to overcome and where we must do our best. As to how much of the decrease in OEM sales can be offset by the increase in direct sales, and if anything, whether we can achieve an increase of nearly 30%, we have a high target for the second half. We believe we can achieve this by keeping up the current pace of advertising.

FY2022 Forecast overview

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Upward revision for 1H, but full-year forecast unchanged

＜Forecast for the second half ＞

Sales	All sales categories are expected to remain strong. Direct sales and other sales plans are weighted toward the second half of the year, but we aim to achieve the plan.
cost price	Upside and downside are competing against each other, with many factors unclear. Steady pace of production efficiency improvement at Tochigi Factory ◯ (May add two "◯" marks since they are above expectations) × Soaring raw material costs; various price increase notices are coming in every month at the moment × Part of the real estate acquisition tax for the Tochigi Factory, approx. 55million yen, will be incurred from 3Q onward.
SG&A expenses	Many downside factors in 2H non-consolidated Operational efficiency improved by operating Kazo Distribution Center (bringing warehouse operations in-house) × However, initial costs for Kazo were more than planned. × Advertising expenses are also higher than planned for direct sales expansion. × Real estate acquisition tax of Kazo, approx. 7 million, will be incurred from 3Q onward.

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Here is the overview of the full-year earnings forecast.

We have revised upward our forecast for the first half. However, the full-year forecast remains unchanged for the reasons as shown. To put a finer point on it, we see sales in each category, all of which are achievable or highly likely to be achievable. This is stable. However, it is difficult to say anything about expenses, especially the material cost since there are many unclear factors here.

First, the production efficiency at the Tochigi Factory went as planned, or rather better than planned. According to our assumptions, this has achieved one of the best results.

However, as you are already aware, the cost of raw materials for food ingredients has risen. Especially from this February and March, we have been receiving monthly notices of price increases for various products, and we believe that it is a tug of war to see how much we can improve our efficiency.

Real estate income tax and acquisition tax for Tochigi Factory, which we had expected to be incurred in the first half, 1Q and 2Q, but since only a portion of these taxes will be incurred in the first half and the remainder in the second half, this will also have a slight impact on cost.

Then, SG&A expenses. Unfortunately, there are many downside factors here. First, once the warehouse in Kazo is up and running, operations will undoubtedly become more efficient. There will be a reduction in SG&A expenses for a long time to come. However, some of the initial costs for this Kazo will be incurred from 3Q, and we will also accelerate spending on advertising to further expand on direct sales. There will also be a real estate acquisition tax, so I think there are a few downside factors to SG&A in this area.

Taking these factors into consideration, we have decided to leave our full-year forecasts unchanged for the time being.

Improved gross profit margin and productivity

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Material costs	Some outsourced products were brought in-house. Reduced impact of raw material price raising.
Labor costs	Manpower saving through mechanization enables the Tochigi Factory to produce the same amount of food ingredients with about 30% fewer workers than the Gunma Factory.
Outsourcing expenses	In-house production of picking operations that had been outsourced (reduction of SG&A expenses)

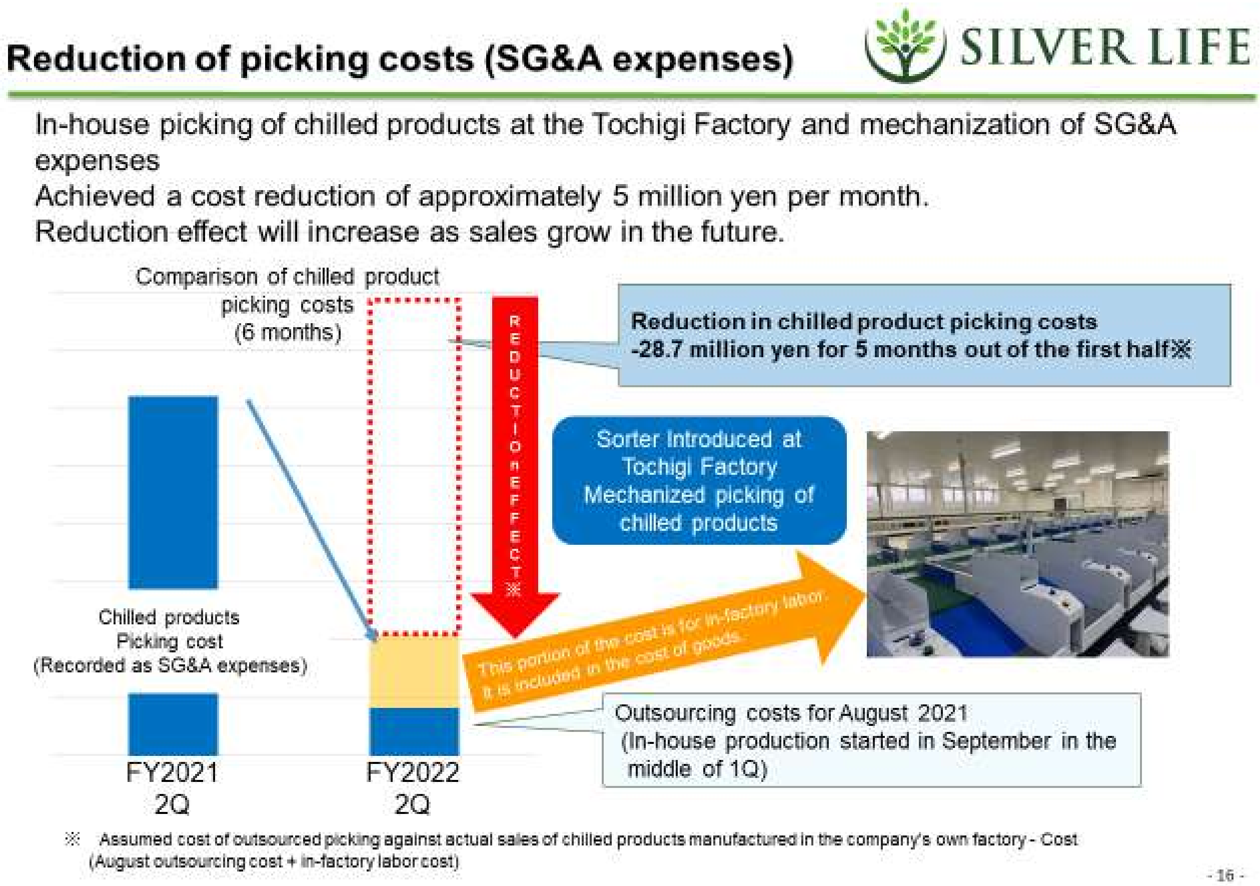
This page is about improvement in gross margin and productivity at the factorys.

This is a graph of productivity and gross profit margin trends at our factorys that we present every month at our internal meetings, published this time for external use. As you can see, the gross margin was reduced due to various initial costs, hiring of extra people, and so on, in preparation for operation in March and April 2021.

However, from that point forward, just in March and April, it was reduced the most as depreciation began, but from that point forward, over the next six months, efficiency increased considerably. This was due to the people at the site really became more and more accustomed to the new factory. In particular, the cost of raw materials for food ingredients was also subject to detailed adjustments for each item, such as changing the yield from a percentage of the initially calculated value to a percentage that could be achieved with particular machine at each factory.

Also, since the machines are better than those used at the first factory, it has become clear that the same amount of production can be achieved with 30% fewer workers. Therefore, around here, gross profit margin recovered considerably.

Unlike last year, we have been able to handle the increase in depreciation, and in addition, we have brought our picking operations in-house, which had previously been recorded in SG&A expenses, so the gross profit margin is coming back roughly to the same level.



This page is about this reduction in picking cost.

This is outside of the factory, so it is something that is on the SG&A expenses, but the picking operation inside the Tochigi Factory is also leading to a reduction in SG&A expenses.

Until now, picking has been done manually in the warehouse, at an in-house warehouse called Akaiwa, with outside people coming to the warehouse, with an outsourcing expense. Part of this has been changed so that only the refrigerated portion is picked internally, with a sorter installed in the Tochigi Factory.

We started this in September in the middle of 1Q, and in about five months we were able to reduce the cost by about JPY30 million on a first half basis for 1Q and 2Q, based on the calculated value if the picking cost had been the same as the cost last year.

We expect that as sales increase in the future, the effect of this reduction will be greater in monetary terms at the same rate.

And here is the second part of the SG&A cost reduction, the progress at the Kazo Distribution Center.

The building began operations on March 1. And now, progressively, we are putting more and more of the cargo that was placed in external freezing warehouses into our warehouse, the Kazo Distribution Center. This will be largely finished by the end of March, about March 20.

After that, we will start accepting orders for frozen products from other companies, as we will finish obtaining our warehousing license around April.

We are just about 10 days into the move, so we are just now in the hardest part of the move. I have also been visiting the site to see how things are going.

The topic is our ESG initiatives.

First, as an environmental initiative, we have decided to start solar power generation at the Tochigi Factory and the Kazo Distribution Center that I just mentioned. We will introduce solar power generation at the Tochigi Factory and the Kazo Distribution Center because it will enable us to generate electricity without emittincarbon dioxide and because it will also have business advantages.

The Kazo Distribution Center is undergoing some construction and will probably start around August. Tochigi began in March.

And as a social commitment, we have increased the number of days off from work at the Gunma Factory. Just last month, the Gunma Factory, which had been operating six days a week since February, moved to five days a week. While this is a social commitment, including improving employee retention, it is actually a productivity improvement at the same time.

What happened when the Gunma Factory changed to a six-day week when it used to operate seven days a week, was actually that the factory productivity increased considerably. After all, we had to do within six days of the week what we had been doing within seven days, so each department devised various measures, and as a result, productivity increased. This time, too, we moved from six working days a week to five, and each department has been working on various productivity measures, and I expect that the numbers have been even better from February.

In fact, for labor costs and so on, especially for part-time workers, with the reduction from six days to five days a week, the hours per day will be somewhat longer, but the total number of hours worked will be reduced, so I think the numbers will be fairly favorable.

We also offer other benefits such as a student-loan repayment support program, wedding and maternity gifts, and permanent remote work in departments where possible. We would like to continue to improve job satisfaction and reduce job turnover.

This has been a brief presentation of the second quarter of the fiscal year ending July 2022.

Question & Answer

Shimizu [A]: Now, we would like to have a question-and-answer session.

Let me read the first question. As I read and answer this first question, if there are any questions from others in the Q&A, and I will answer them in order.

Here is the first question. How will your company deal with rising food prices? The question is whether to consider raising product prices, or whether to aim for sales expansion without raising prices. Thank you.

First of all, we are trying to manage food price hikes through self-help efforts, including the current productivity improvements at the Tochigi Factory. However, there are limits to this self-help effort. Everything is going up. Not only food products, but also wrapping materials, packaging materials, lunch boxes, freight, and labor costs have all gone up.

Therefore, in order to respond to this situation, we have to consider raising prices. As a matter of fact, starting this January 2022, we have raised the prices for facilities and a little bit for franchise chains as well, while we had announced it three months ago. As before, the price increase is approximately 4%.

However, at the moment, the number of stores have decreased at the same time with the same trajectory, so you may ask whether the stores have left because of the price increase, but in fact, the reason is not that they have left but that the opening has been postponed, so we have not had many problems from the stores. The withdrawal rate has not changed.

And for the business for facilities, this is actually a situation that has little impact. Everyone knows that food prices will go up this time of year, and in fact, the number of inquiries we receive via the Internet has been increasing in January, February, and March, so despise the price increase, inquiries are increasing.

So, for now, we can still not consider raising prices beyond this January increase. We believe that the situation can be managed by increasing the efficiency of the factory, and so on. I have answered the question.

Now, we have received a second question asking for a more detailed explanation of how advertising expenses will be spent in the second half and thereafter. Thank you.

For this one, we are considering the amount and content to be about the same as in 2Q. Our main focus is still on internet-based advertising. Since we deal with products that have a very limited sales destinations, TV commercials and other advertisements that reach a wide audience are not suitable. Therefore, the main focus will be on advertisements that allow narrow targeting of recipients, such as internet-based advertisements.

As you know, there is a limit to the amount of money that can be spent on online advertising. There is a limit to the amount of money that can be spent on advertising when you are advertising mainly online because there is a ceiling, a certain level up to which advertising is efficient, and efficiency drops sharply if the amount is increased beyond that level.

Therefore, our advertising expenses for 2Q are almost at the current full level, and we are not considering spending much more than that. I have answered the question.

I have now answered all the questions we received.

Once again, I would like to take a moment to stand by to see if there are any more questions from others.

Now, we have another new question. Thank you. You mentioned that labor costs increased in the first half, but is it correct to think that they will go down to some extent in the future because of the move to five working days a week? Also, is it correct to think that the outlook for when personnel from overseas will be available is still undecided? Thank you.

First, labor costs will no longer change in the future for factory labor. Rather, it is possible that it could go down a bit when foreign workers arrive. However, if we consider the company as a whole, the Kazo Deatoribution center will start operating in March, so in that sense, overall labor costs will increase.

However, this goes back and forth, and although labor costs for the warehouse will increase from March, at the same time, expenses can be reduced, or we must reduce them, as the outsourcing costs and outside warehouse costs for previous outsourcing will be eliminated.

However, in March, yes, roughly for three months according to the plan, or if the project is delayed for a little longer, we may have to operate the existing warehouse and the Kazo warehouse together for four or five months, so there is a possibility that the initial cost will be a little higher because of this. I have answered the question in terms of overall labor costs first.

And for the second question, the outlook as to when workers from overseas will be available, I honestly don't know. We have been inquiring with the Immigration Bureau about once a month and watching the news, but it is difficult to know when the people who were supposed to come to our factorys from overseas will arrive.

However, we expect that they will be able to come at least by the end of this fiscal year, as there will probably be no more restrictions on their entry into the country. We have about 20 people stuck at the moment, and those 20 people were supposed to come two years ago. So, we are a little concerned about whether they will actually come. However, as far as I can see from the meetings conducted via Zoom or the like in the meantime, we are hopeful that the situation will still allow them to come. I have answered the question.

Again, does anyone have any other questions?

Yes. It is a little early, but it is about the direction of business performance for the next fiscal year. Please tell us include trends in the number of franchise stores.

I would like to refrain from giving you the number of stores, as we have not yet been able have a figure that can be published, and internally, we have not yet been able to have an actual target value either.

However, regarding the direction of performance for the next fiscal year, the current fiscal year will be the bottom. In terms of sales, it will continue to grow all the way to the future, and in terms of profit, the current fiscal year is the bottom, and it will grow from there, as we have presented in our medium-term management plan and other documents.

I personally believe that we have to do so, and the probability is high that we will do so, since we have made the capital investment, and I am confident that we can do so. These are the answers.

Again, does anyone have any other questions?

Thank you. You are currently consolidating outsourcing at the Kazo Distribution Center, but do you have any outlook for undertaking other companies' operations, and outlook for sales?

We do not have any outlook that can be published yet, but we are making efforts in sales activities. We will also be keeping a close eye on the acquisition of licenses. Originally, we wanted to create a website for the warehousing business and to start sales activities at the same time as the launch of the warehouse. Without properly obtaining licenses, we cannot conduct such sales activities on the website. So, in that area, we are still focusing on sales based on a modest acquaintance base.

We would like to provide the information in a timely manner, with an emphasis on immediate effect as soon as we have a proper idea that can be published.

Incidentally, we have been talking about whether we should have applied for the license earlier, but we cannot do so until the building is completed to some extent, so we are currently applying for it as quickly as possible.

Here is the next question. Can we expect an increase in the number of stores for the full year of about 50 to 70 stores, the same level as in previous years?

Yes. We believe that this can go with the same number of stores as in that previous year. Again, store openings were restrained in 2Q, but we believe we can make a comeback in 3Q and 4Q.

Here is the next question. You mentioned that the number of stores preparing to open has doubled. How long do you think it will take for the number of stores yet to open to settle down to the previous level? Do you expect the number of stores in preparation to increase in the short term?

This will be gradually reduced in 3Q and 4Q, and we expect it to be mostly eliminated by the end of this fiscal year. The reason for this is that some stores that have been delayed have been extended to open in 3Q and 4Q, and more and more stores are opening on schedule as of March, so we do not see a problem.

Also, in the breakdown of stores that are currently preparing to open, many of them actually don't have that much trouble in preparation. The number of new stores that will open around March will be due to an increase in the number of existing stores, as people who have been running Magokoro Bento and Haishoku no Fureai, want to try out the new chain, Takushoku Life.

From this point of view, we are optimistic that more and more stores will be able to open due to their own circumstances rather than our handling ability.

I have answered all the questions we received.

Again, does anyone have any other questions? I will stand by for a little while.

Since there seem to be no other questions, we will now conclude the financial results briefing.

Thank you very much for taking time out of your busy schedule to join us today.

[END]

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