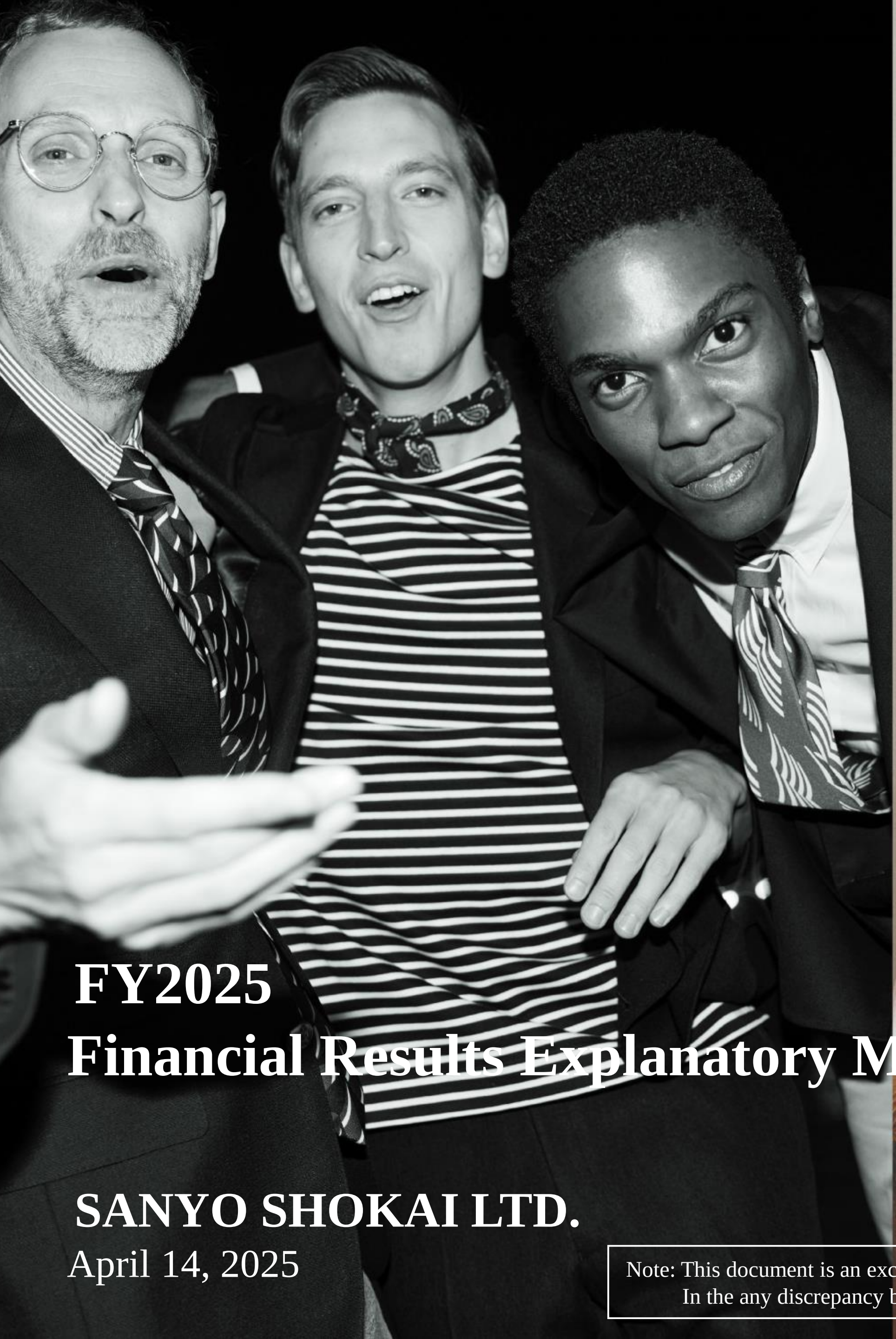

FY2025
Financial Results Explanatory Material

SANYO SHOKAI LTD.

April 14, 2025

Note: This document is an excerpt translation of the original Japanese document and is only for reference purposes.
In the any discrepancy between this translated document and the original Japanese document, the later shall prevail.

Contents

Consolidated PL: FY2025 Results[1]

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Net sales for FY2025 stood at ¥60.53bn with operating profit and profit attributable to owners of parent of ¥2.72bn and ¥4.01bn, respectively. Achieved all forecasts at the operating profit level and below.

(Billions of yen)	PY Results	FY2025 Forecast[2]	FY2025 Results	vs. PY Results	vs. Forecast
Net sales	61.35	61.00	60.53	-0.83	-0.47
Gross profit	38.17	38.25	37.81	-0.36	-0.44
SG&A expenses	35.12	35.55	35.09	-0.03	-0.46
Operating profit	3.05	2.70	2.72	-0.33	+0.02
Ordinary profit	3.18	2.80	2.83	-0.36	+0.03
Profit attributable to owners of parent	2.79	4.00	4.01	+1.22	+0.01

1: All figures above are rounded to two decimal places. 2. Revised full year forecast announced on December 27, 2024

Consolidated PL: KPIs[1]

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Gross profit margin fell short of the forecast by 0.2 pts. but improved by 0.3 pts. YoY. Operating margin achieved the forecast at 4.5% and ROE was in line with forecast.

	PY Results	FY2025 Forecast[2]	FY2025 Results	vs. PY Results	vs. Forecast
Gross profit margin	62.2%	62.7%	62.5%	+0.3 pts.	-0.2 pts.
SG&A expense ratio	57.2%	58.3%	58.0%	+0.7 pts.	-0.3 pts.
Operating margin	5.0%	4.4%	4.5%	-0.5 pts.	+0.1 pts.
Ordinary profit margin	5.2%	4.6%	4.7%	-0.5 pts.	+0.1 pts.
Net profit margin	4.5%	6.6%	6.6%	+2.1 pts.	+0.1 pts.
ROE	7.2%	9.9%	10.0%	+2.8 pts.	+0 pts.

1. All figures above are rounded to two decimal places. 2. Revised full year forecast announced on December 27, 2024

Net Sales by Quarter

During Q3, net sales were 95% YoY due to a significantly slow start to fall and winter product sales, caused by record-high temperatures.
During Q4, net sales grew only slightly to 101% YoY, as sales remained strong in December and January, but sales of full-price spring items was sluggish in February due to low temperatures.

Q1

¥15.38bn

96 % YoY

- Sales decreased due to a rebound from the previous year’s post-COVID “revenge” spending.
- Sluggish clearance sales due to reduction in carryover items also had an impact.

Q2

¥12.52bn

103 % YoY

- Performance was strong in June, but sales struggled in July-August due to the lack of affordability in the expanded line of full-price midsummer products, leading to lower-than-expected results.

Q3

¥15.62bn

95 % YoY

Sept.-Nov. average temperatures +1.97°C[1] than normal years

- Record-high temperatures significantly delayed the start of fall and winter product sales.
- Sales were particularly affected by the slump in October, which should have been the peak month for sales.

Q4

¥17.00bn

101 % YoY

- Heavy clothing and items for cold weather performed well in December-January.
- February sales struggled due to low temperatures which delayed the start of sales of full-price spring items.

H1: ¥27.90bn **99**% YoY

H2: ¥32.62bn **98**% YoY

1. Source: Japan Meteorological Agency

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Equity decreased ¥1.96bn YoY and total assets decreased ¥1.74bn YoY due to capital policy.

(Millions of yen)	Feb. 29, 2024	Feb. 28, 2025	YoY Change
Cash and deposits	23,283	23,714	431
Accounts receivable - trade	3,311	3,419	107
Merchandise and finished goods	7,298	9,070	1,771
Property, plant and equipment	8,598	8,679	80
Intangible assets	3,108	2,752	-355
Other assets[1]	13,160	9,383	-3,777
Total assets	**58,758**	**57,017**	**-1,740**
Notes and accounts payable - trade	4,435	5,382	947
Borrowings	6,800	6,930	130
Other liabilities	6,264	5,403	-861
Total liabilities	17,499	17,715	216
Share capital	15,002	15,002	-
Total shareholders' equity	34,097	34,306	208
Accumulated other comprehensive income and other[2]	7,161	4,995	-2,166
Total net assets	41,258	39,301	-1,956
Total liabilities and net assets	**58,758**	**57,017**	**-1,740**
Reference: Equity	41,242	39,283	-1,959

1.Total of current assets (excluding cash and deposits, accounts receivable -trade, and merchandise and finished goods) and investments and other assets
2.Total of accumulated other comprehensive income and non-controlling interests

Cash and deposits: up ¥0.43bn
- Up YoY due to positive operating cash flow and sale of investment securities
- Decreases were primarily due to share buybacks and shareholder dividends

Merchandise and finished goods: up ¥1.77bn
- With inventory levels normalized, built up stock of current and next season's products to prepare for season launch

Other assets: down ¥3.78bn
- Down YoY due to sale of investment securities

Notes and accounts payable – trade: up ¥0.95bn
- Up YoY due to inventory buildup at the end of FY2025

Other liabilities: down ¥0.86bn
- Down YoY due to decrease in deferred tax liabilities

Net assets: down ¥1.96bn
Down YoY primarily due to:
- An increase in shareholders' equity of ¥0.21bn
  - An increase in retained earnings from sale of investment securities and decrease of share buybacks
- A decrease in accumulated other comprehensive income of ¥2.17bn
  - A decrease in valuation difference on available-for-sale securities due to sale of investment securities

Contents

Progress and Evaluation of Priority Measures

Priority Measures		Progress and Evaluation
Achieve forecast net sales	×	**Net sales reached 99% of the year-ago level, down ¥0.83bn YoY and ¥0.47bn short of the forecast[1]** • Q1 sales fell to 96% of year-ago level due to a rebound from the previous year's post-COVID "revenge" spending and sluggish clearance sales from reduced carryover items. • Q3 sales fell to 95% of year-ago level due to record-high temperatures that significantly delayed the start of fall and winter product sales. Sales were particularly affected by the slump in October, which should have been the peak month for sales. • Q2 and Q4 sales exceeded FY2024 levels, but full-price products did not perform as expected, so it was insufficient to offset the slump in Q1 and Q3.
Improve gross profit margin	○	**Gross profit margin improved 0.3 pts. YoY to 62.5%, though 0.2 pts. lower than the forecast[1]** • The full-price sales ratio declined 1.6 pts. YoY to 64% for the full year (67% for H1 and 62% for H2) – In H1, the ratio remained largely unchanged YoY (-0.4 pts.) – In H2, the clearance sales ratio increased, and the ratio of full-price sales decreased (-2.7 pts.), due to inventory reduction measures at the fiscal year-end. • The average selling price rose 3% for the full year due to improved production efficiency and reduced clearance discounts. – This increase absorbed a rise in the cost of sales caused by the weakening yen and increased resource prices, and, as a result, the cost of sales ratio improved 0.3 pts. YoY. • Sales of EC/outlet-only products increased.

1. Revised full year forecast announced on December 27, 2024

Progress and Evaluation of Priority Measures

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Priority Measures		Progress and Evaluation	
Business restructuring	Control SG&A expenses	○	**Control as planned**[1] • SG&A expenses decreased by ¥0.03bn YoY, but by ¥0.33bn on a substantial basis, which excludes a ¥0.37bn decrease in sales commissions linked to sales. As a result, the amount of SG&A expenses was lower than the forecast by ¥0.23bn.
	Control inventory	△	**Product inventory[2] as of the end of FY2025 increased by ¥1.63bn YoY to ¥8.02bn** • The inventory content was on an improvement trajectory, as this and next season's items were 128% of the year-ago level, while the ratio of this and next season's items was 84% (up 2 pts. YoY). • Carryover inventory increased ¥0.17bn YoY to ¥1.32bn. While continuing thorough sell-through within the period and following the inventory control policy, products for season launch were secured to avoid the shortage experienced in the previous fiscal year.
	Implement financial reform	○	**Equity ratio: 68.9% (down 1.3 pts. YoY)** **Debt-to-equity ratio (DER): 0.18** • Net assets: ¥39.3bn, down from ¥41.2bn at the end of the same month PY • Total assets: ¥57.0bn, down from ¥58.7bn at the end of the same month PY • Interest bearing liabilities: ¥6.9bn, up from ¥6.8bn at the end of the same month PY • Cash position: ¥23.7bn, up from ¥23.2bn at the end of the same month PY

1. Revised full year forecast announced on December 27, 2024 2. Inventory of finished products only, excluding raw materials, work in process, etc.

Reference: Sales Results by Channel

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Physical stores[1] struggled, with 98% of the year-ago level. In particular, department stores suffered from a decrease in sales locations due to store closure/renovation, landing at 98%. EC and outlet sales increased, both at 101%.

Revenue (Millions of yen)

	Q1	Q2	H1	Q3	Q4	H2	FY	Sales composition ratio
Department stores	10,298	7,962	18,260	10,452	10,397	20,849	39,109	64.6%
Directly managed stores	892	756	1,648	921	983	1,905	3,553	5.9%
EC & mail/online orders	1,737	1,901	3,638	1,855	2,713	4,568	8,205	13.6%
Outlets	1,713	1,561	3,273	1,770	2,237	4,007	7,280	12.0%
Other	738	344	1,083	625	671	1,295	2,378	3.9%
Total	15,378	12,524	27,902	15,623	17,001	32,624	60,526	100.0%

YoY

	Q1	Q2	H1	Q3	Q4	H2	FY
Department stores	98%	101%	99%	95%	98%	97%	98%
Directly managed stores	97%	97%	97%	97%	95%	96%	97%
EC & mail/online orders	90%	108%	98%	99%	107%	104%	101%
Outlets	100%	105%	102%	93%	108%	101%	101%
Other	83%	114%	91%	80%	132%	101%	96%
Total	96%	103%	99%	95%	101%	98%	99%

1. Total sales of department stores, directly managed stores, and outlets

Reference: Breakdown of SG&A Expenses

SG&A expenses decreased by ¥0.03bn YoY, but ¥0.33bn YoY on a substantial basis which reflects a decrease in sales commissions linked to sales. While continuing efforts to control fixed costs, we increased investments in stores, systems, sales promotion, and personnel, which contribute to sales expansion.

(Millions of yen)	FY2024	FY2025	vs. PY
Selling expenses	24,360	23,988	-372
Personnel expenses	4,365	4,473	108
Sales promotion expenses	1,691	1,768	77
Equipment expenses	1,243	1,367	125
Logistics expenses	1,312	1,342	30
Administrative expenses	2,153	2,154	1
Total SG&A expenses	35,123	35,092	-31
Sales commissions	13,818	13,451	-367
SG&A expenses excluding sales	21,305	21,641	336

SG&A expenses increased by ¥0.33bn on a substantial basis, which reflects a ¥0.37bn decrease in sales commissions linked to sales

FA expenses (out of selling expenses): up ¥0.1bn
- Increase in base pay to FAs

Personnel expenses: up ¥0.11bn
- Increase in base pay

Sales promotion expenses: up ¥0.08bn
- Increase in magazine/newspaper placements

Equipment expenses: up ¥0.12bn
- New store openings and in-store environment improvements
- Revamping of EC platform

Selling expenses: FA expenses, sales commissions, rent expenses for real estate, etc.; Equipment expenses: Shop setup costs, depreciation expenses, lease fees, repair costs, utility expenses, etc.;
Personnel expenses: Personnel compensation, statutory welfare benefits, etc.; Logistics expenses: Packing & transportation costs, logistics outsourcing fees;
Administrative expenses: Business outsourcing fees, travel & transport expenses, communications expenses, miscellaneous expenses, etc.

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