

December 13, 2024

MatsukiyoCocokara & Co.

**"Responses toward realizing management that takes into
account capital costs and stock prices"**
Update Notice

MatsukiyoCocokara & Co. (Headquarters: Bunkyo-ku, Tokyo; President and Representative Director: Matsumoto Kiyoo (hereinafter referred to as "the Company")) is pleased to announce that it has updated its "Responses toward achieving management that takes capital costs and stock prices into consideration"

(https://ssl4.eir-parts.net/doc/3088/ir_material/219570/00.pdf) (* Japanese version only) , published on December 15,2023, and has released the Japanese and English versions.

1. Purpose of disclosure

Since disclosing this matter last year, we have engaged in dialogue with investors on the theme of "taking measures to realize management that takes into account capital costs and stock prices," and have reported on the status of these dialogues and held deliberations on this topic at Board of Directors meetings.

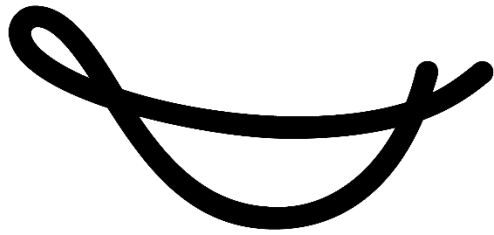
This disclosure was made in order to enhance disclosure based on new issues that have emerged from dialogue and deliberations at Board of Directors meetings, thereby deepening understanding of our thinking and leading to a reduction in capital costs and, ultimately, increased corporate value.

2. Major improvements to disclosure content

item	Contents
Current situation analysis and evaluation	<u>Recognizing the gap between investors and the cost of capital figures</u> <ul style="list-style-type: none">· In addition to the previous method of calculating the cost of capital, we will calculate it from multiple perspectives based on the perspective of investors obtained through dialogue and interviews, and disclose any gaps in understanding.<ul style="list-style-type: none">✓ New calculation methods: Dividend discount model, residual income model, dialogue with investors (Previously calculated using CAPM and stock dividend yield)

item	Contents
Consideration and disclosure of initiatives	<p><u>Alignment and linkage with the mid-term management plan</u></p> <ul style="list-style-type: none"> · Disclosure that is consistent and linked with the current medium-term management plan and "management that takes into account capital costs and stock prices" ✓ Composition: Progress of the medium-term management plan and its evaluation (including spreads and stock prices) <ul style="list-style-type: none"> → Future (efforts to realize this plan and cash allocation)
Ibid.	<p><u>Cash allocation to achieve the medium-term management plan</u></p> <ul style="list-style-type: none"> · Disclose the following items as cash allocations to achieve the medium-term management plan ✓ ① Addition of cash-in items such as cash on hand and sales of assets (strategic shareholdings and real estate) ② Addition of priority items for growth investment ③ Added the idea of using debt (when the consortium plan is realized (= large-scale M&A))

End



MatsukiyoCocokara & Co.

**Actions Aimed at
Realizing Management
Conscious of Cost of
Capital and Share Price**

Find your “!”
wOW

Agenda

- 1 Basic Management Policy
(Our Aspirations and Values)**
- 2 Where We Are Now and Where We Will Be in
Realizing the Medium-Term Management Plan**
 - (1) Plan**
 - Outline of the Medium-Term Management Plan
 - Business environment
 - (2) Results**
 - Progress of the Medium-Term Management Plan
 - Segment Results
 - (3) Evaluation**
 - Equity spread/EVA spread
 - PBR/share price
 - (4) Where we will be**
 - Further growth by leveraging our strengths
 - Growth initiatives
 - Cash allocation for realizing growth

The Company will keep taking on the advanced challenges of digitalization and global expansion, and constantly create the value of *fun* for people and remain close to them to help them achieve more enriched lives.

Group Philosophy

Creating the future “normal” and innovative lifestyles

Foreseeing the future of health and beauty, and helping bring about enhanced lives and livelier communities through the creation of new customer experiences.

Group Vision

Making health and beauty more delightful and accessible.

MatsukiyoCocokara & Co. will actively incorporate new technologies and ideas in the fields of health and beauty, aiming to make people’s daily lives more fun and enjoyable.

MatsukiyoCocokara & Co. will continue to strive in its efforts to remain close and sensitive to the wishes and desires of consumers, and strive to deliver greater peace of mind and joy to the daily lives of people and their communities.

Group Slogan

Find your “!.” wow

(The idea behind the slogan)

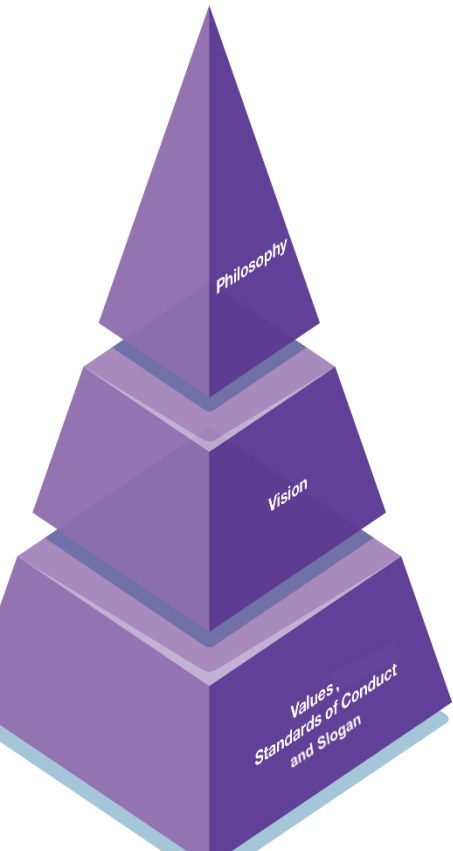
The exclamation mark “!” is pronounced “Wow.”
Directly translated, it means “Find ! (surprise and joy).”

It expresses our desire to have customers exclaim “Wow!” each time they visit, excited to see what new things we have to offer .

MatsukiyoCocokara WAY

MatsukiyoCocokara WAY is our creed that all the people who work at MatsukiyoCocokara & Co. must share, and equivalent to our constitution that they must adhere to.

- ① How we are organized
- ② Our awareness and responsibility
- ③ A heart of joy shared by each of us
- ④ Leader’s commitment in management
- ⑤ Promise to customers
- ⑥ Commitment to business partners



Where We Are Now in Realizing the Medium-Term Management Plan: Plan

The Company has formulated a medium-term management plan and aims to achieve it as part of the process of realizing its vision.

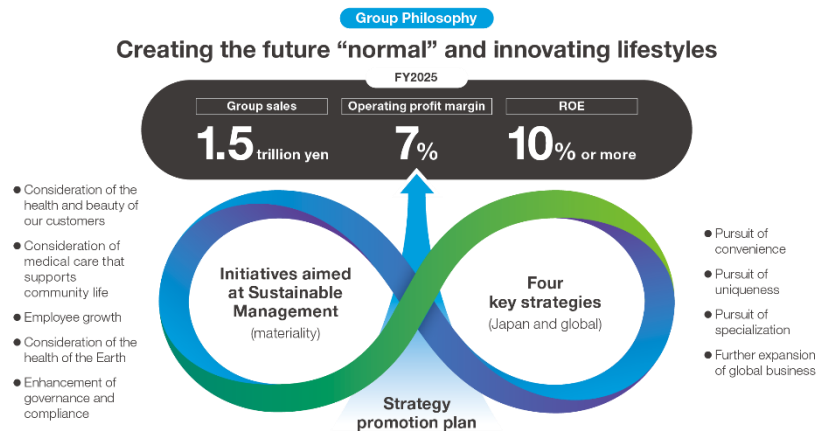
The latest business environment remains challenging due to rising prices, although the flow of people and inbound tourism have seen a recovery.

Outline of the current Medium-Term Management Plan

▶ To respond to a constantly changing business environment and practice sustainable management, we will link:

- addressing **five** material issues with
- **four** key strategies,

which will be promoted across the Group



Business environment

▶ Declining birthrate with aging population, rapid changes in consumption trends, and expansion of scale due to new store openings and M&A by competitors



Where We Are Now in Realizing the Medium-Term Management Plan: Results

In this business environment, the Company has achieved its management targets for operating profit margin and ROE, while there is a deviation for net sales.

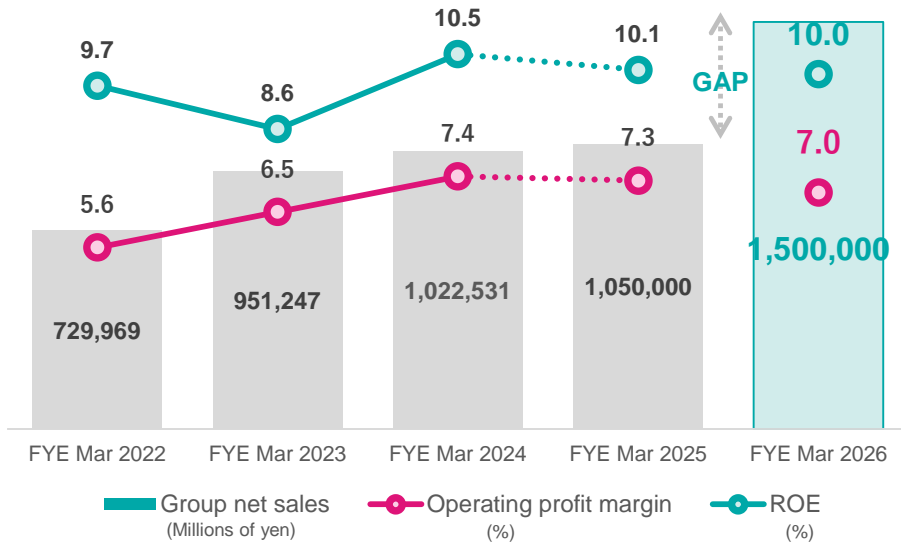
For net sales, the Coalition Concept needs to be realized; however, the profitability of the core businesses has improved significantly and we will continue to concentrate our resources in them.

Progress of the Medium-Term Management Plan

- ▶ Targets for operating profit margin and ROE have been met ahead of the schedule since the formulation of the Medium-Term Management Plan at the time of the management integration
- ▶ On the other hand, net sales deviate significantly from the target, and achieving it will require companions (companies) with the same aspirations

<Management targets>

Forecast for this FY



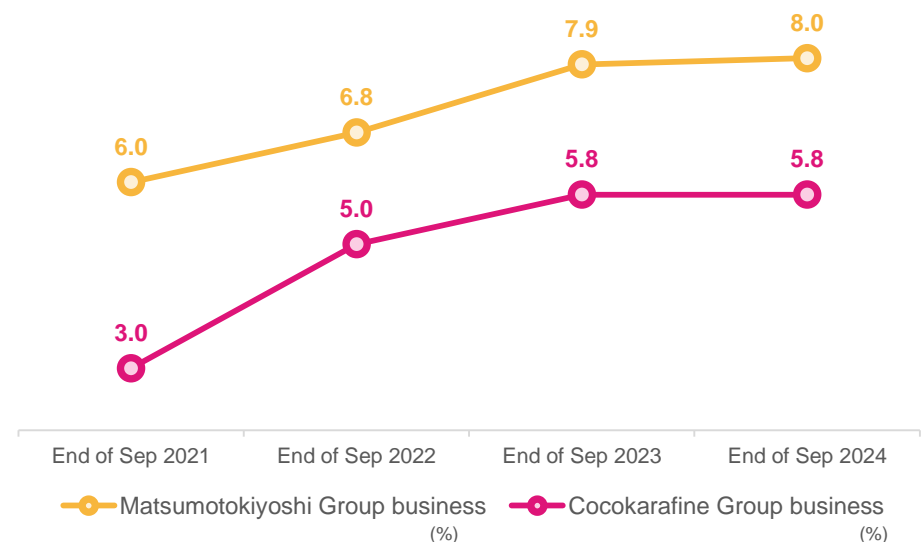
Segment Results

- ▶ Profitability of both Matsumotokiyoshi Group and Cocokarafine Group, our core businesses, improved significantly



Continue to concentrate investment in these businesses

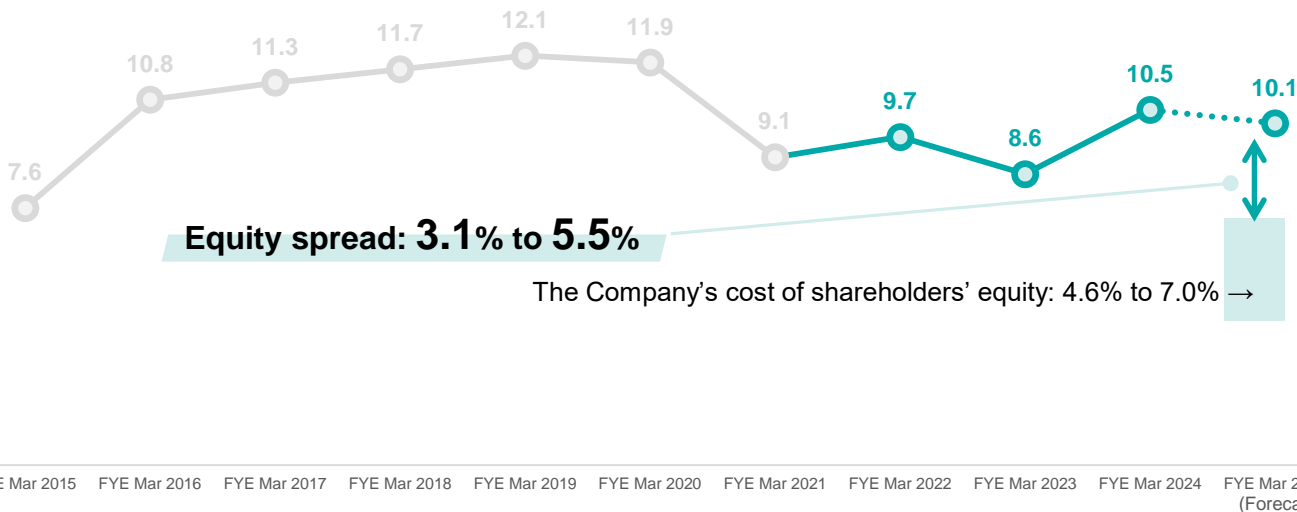
Changes in segment profit margin (1H) (%)



Where We Are Now in Realizing the Medium-Term Management Plan: Evaluation - Status of Respective Spreads

The Company perceives respective spreads to be positive at around 3.1% to 5.9% currently.
The Company considers improving PBR by maximizing respective spreads to be a challenge, and is stepping up further efforts.

Changes in ROE (%)

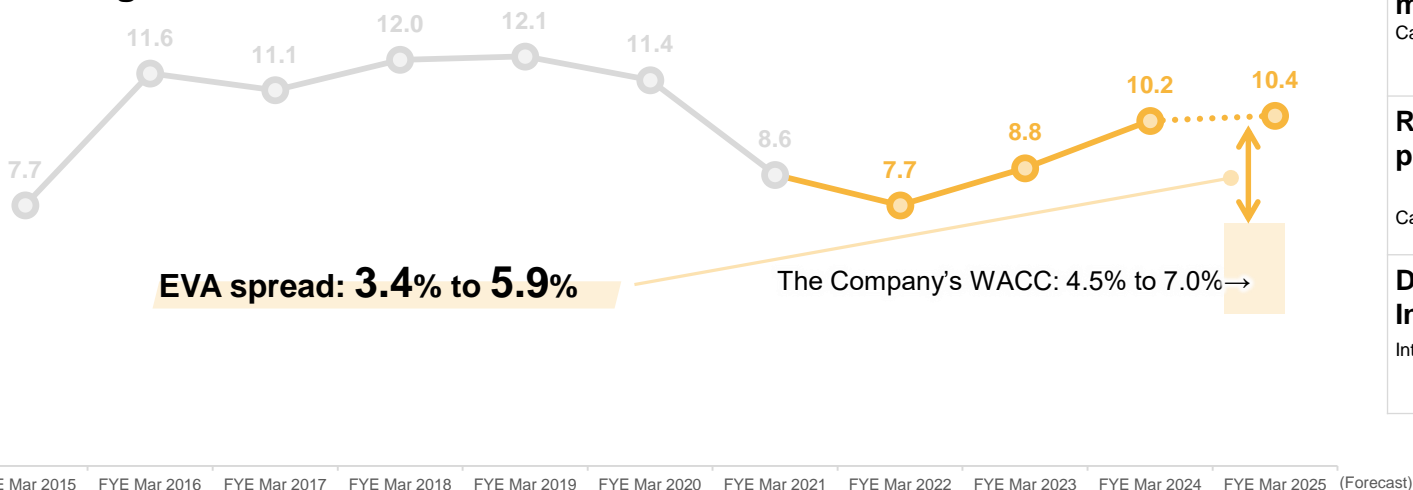


Grasping cost of capital

(as of the end of Sep 2024)

Calculation method	Cost of shareholders' equity (%)	WACC (%)
CAPM	4.6	4.5
<small>Risk-free rate: 10-year government bond yield Beta value: last 5 years Market premium risk: Ibbotson (since 1968)</small>		
Earning yield	5.4 to 5.9	5.3 to 5.8
<small>Calculated by referring to the inverse of forecasted PER</small>		
Dividend discount model	6.3	6.2
<small>Calculated based on dividend yield and dividend growth rate</small>		
Residual profit model	6.0	5.9
<small>Calculated based on current shareholders' equity and future profits</small>		
Dialogue with Investors	5.0 to 7.0	Same as on the left
<small>Interview results through dialogue with investors</small>		

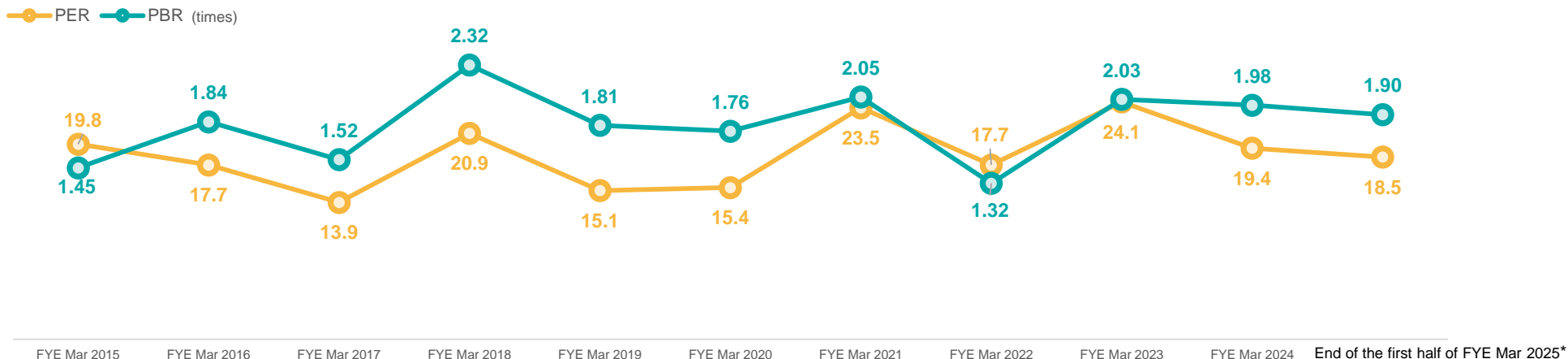
Changes in ROIC (%)



Where We Are Now in Realizing the Medium-Term Management Plan: Evaluation - PBR/Share Price

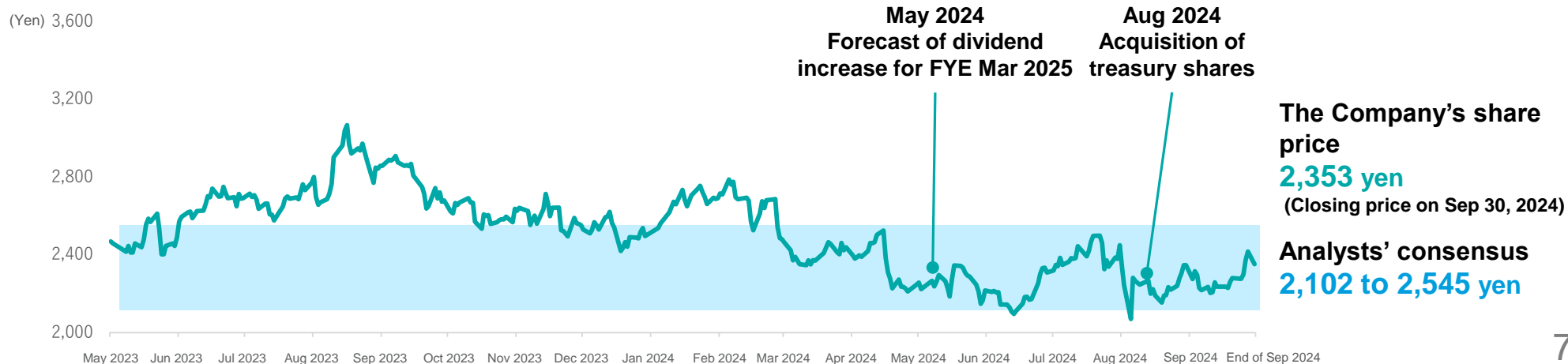
The shares have been weak, despite the fact that the market valuation of where the Company is now is in excess of PBR of 1 ×. In order to improve the situation, the Company increased dividends, executed share buybacks and cancelled treasury shares worth 30 billion yen to boost shareholder returns.

Changes in PBR/PER



Source: Calculated by the Company based on SPEEDA figures * PER is calculated based on consolidated earnings forecast figures for FYE March 2025

Changes in the share price



Cognizant of the current equity and EVA spreads and market valuation, the Company will realize further growth by leveraging its four core competencies to the maximum to achieve the Medium-Term Management Plan.

Four strengths (core competencies)

1 Seamless services that are closely aligned with customers by leveraging our stores and e-commerce sites



2 Superior Brand Strength in the Fields of Health and Beauty



3 Solid customer base and trust as a business partner



4 Human resources with highly specialized expertise to meet customer needs



Story for growth

1 Organic growth

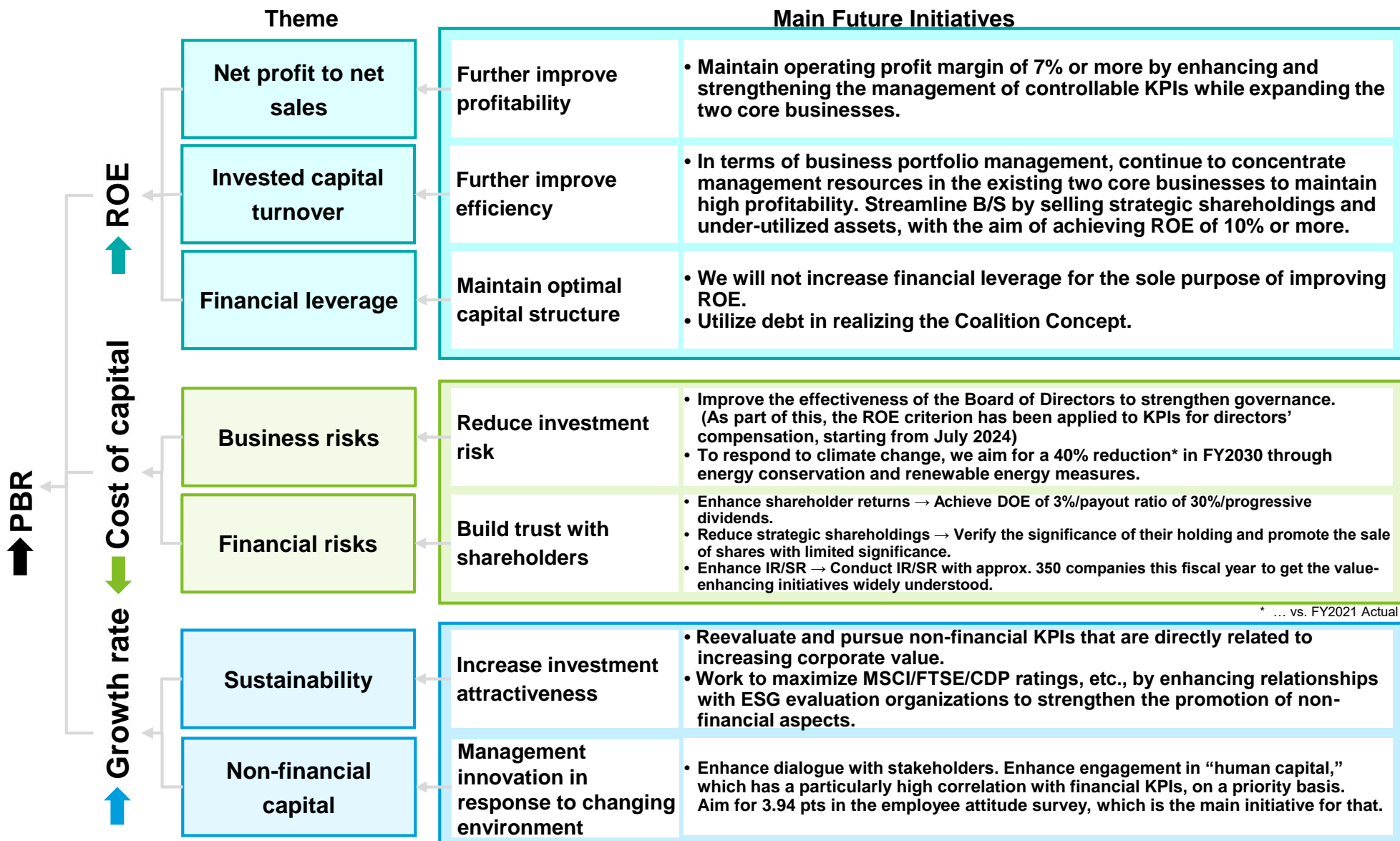
<Basic policy>

- Expand the existing profitable core businesses
 - Expand drug stores and dispensing pharmacies in Japan
 - * Apply WACC as a criterion for investment decisions, together with NPV and IRR
- Develop new pillars of earnings
 - Expand e-commerce sales and franchises
 - Strengthen the foundation of overseas business
 - Strengthen digital field, and so on

2 M&A/tie-ups (Coalition Concept)

- Focus on profitability and efficiency, not just scale
- Enhanced dialogue with companies with which we have a high affinity

In order to achieve further growth, the Company is promoting initiatives from each of the perspectives of “ROE,” “cost of capital,” and “growth rate” to improve PBR.



The Company has set forth the following cash allocations for further growth. Aiming to maximize overall returns, we plan to emphasize growth investments that will lead to capital gains in addition to income gains, and use debt for large M&A transactions.

