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	**Recognizing the gap between investors and the cost of capital figures** ・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. ✓ 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	**<u>Alignment and linkage with the mid-term management plan</u>** ・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) → Future (efforts to realize this plan and cash allocation)
Ibid.	**<u>Cash allocation to achieve the medium-term management plan</u>** ・Disclose the following items as cash allocations to achieve the medium-term management plan ✓①Addition of cash-in items such as cash on hand and sales of assets (strategic shareholdings and real estate) ②Addition of priority items for growth investment ③ Added the idea of using debt (when the consortium plan is realized (= large-scale M&A))

End

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

Find your "!" wow

- In this material, the Company provides detailed disclosure on the measures aimed at realizing management conscious of its cost of capital and share price, together with its assessment of the current state.

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

- This material provides information on the progress of the Company's Medium-Term Management Plan and assessment thereof, as well as its efforts for realizing the Plan as initiatives aimed at improving PBR, along the two themes of:
  1. Aspirations and values as its basic management policy, and
  2. Where we are now and where we will be in realizing the Medium-Term Management Plan

Basic Management Policy: Our Aspirations and Values

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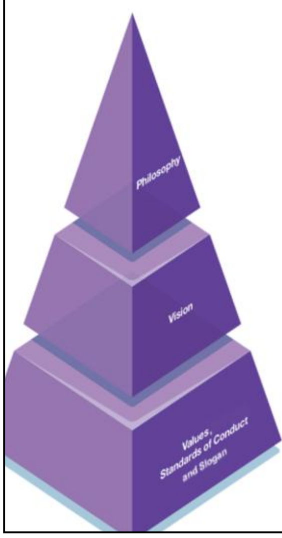
The Company will keep taking on the advanced challenges of digitalization and global expansion, and constantly create the value of *fun* for people and remain close to them to help them achieve more enriched lives.



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

MatsukiyoCocokara & Co. WAY

- **First, we will explain our aspirations and values as the Company's basic management policy.**
- **The Company has set forth 'creating the future "normal" and innovative life styles' as its Group philosophy.**
  We believe it is the starting point of the Group and our raison d'etre in society to provide energy for people's enhanced lives and livelier communities created by those people by foreseeing the "future of health and beauty" and delivering new experiences to our customers that are not bound by conventional wisdom.
  And it is the Company's aspirations based on this starting point to continue to be an indispensable presence not only for those who look for beauty and health that are more delightful and accessible, but also for those who have concerns about beauty or suffer from unhealthy conditions.
- **We will actively use new technologies, ideas and knowledge to provide better products and services, in order to solve various issues to and realize people's beauty and health.**
  And the Company will strive to contribute to making people "more beautiful and healthier" and their lives themselves more delightful, which in turn will lead to the sustainable development of their local communities.
- **Further, in order to realize the Group philosophy and vision, we have defined our values and code of ethics common to all employees of the Group in the Group slogan 'Find your "!"' and MatsukiyoCocokara WAY.**

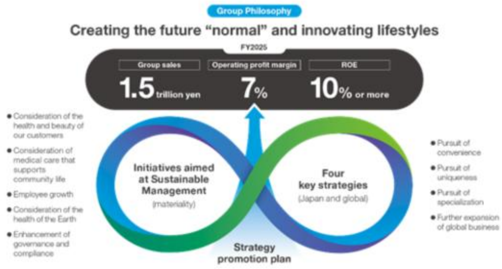
Where We Are Now in Realizing the Medium-Term Management Plan: Plan

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

Core businesses: Matsumotokiyoshi Group business / Cocokarafine Group business

+
Recovery of flow of people in urban areas
・
Inbound demand on a recovery trend

-
Rising utilities costs and prices
↓
Decline in consumer confidence / store profitability

Rising construction costs
↓
Slowdown in the expansion of scale

- Next, we will explain the Medium-Term Management Plan, a process for realizing such aspirations.
- The current Medium-Term Management Plan is intended to promote initiatives to address five material issues, linked with four key strategies for the Group's further growth. The aim is to practice sustainable management in response to a constantly changing management environment, including a declining birthrate and aging population, rapid changes in consumption trends, and expansion of scale through new store openings and M&A by competitors.
- Further, we have set forth the goal of "Group net sales of 1.5 trillion yen, operating profit margin of 7.0% (for FYE Mar 2026), and ROE of 10% or more" as the Group's management targets for this process, to promote various strategies.
- With regards to the current management environment toward the realization of the Plan, the Japanese economy has returned to a moderate recovery trend with the government moving COVID-19 to a category 5 infectious disease. However, we believe that domestic demand lacks strength as strong corporate performance has not been fully translated into wages for workers, who are of course consumers.
- And for the environment surrounding the Company's core businesses, the flow of people has recovered mainly in urban areas and demand from inbound tourism has also seen a recovery trend. We expect this trend to continue, which can affect us positively. On the other hand, rising utilities costs and prices, as well as soaring construction costs, along with a decline in consumer confidence, and cost increases caused by these factors will cause the profitability of physical stores to deteriorate. In particular, higher construction costs could have a negative impact on investment decisions for new store openings, slowing down the expansion of scale.

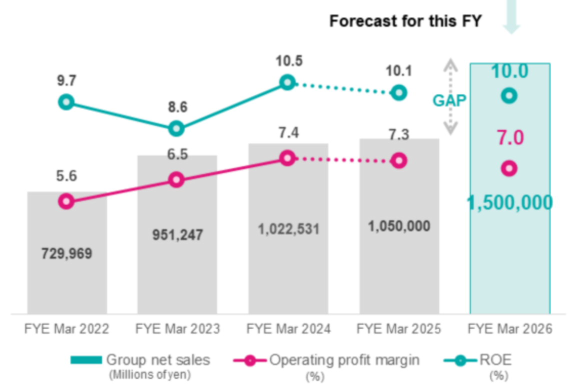
Where We Are Now in Realizing the Medium-Term Management Plan: Results

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>

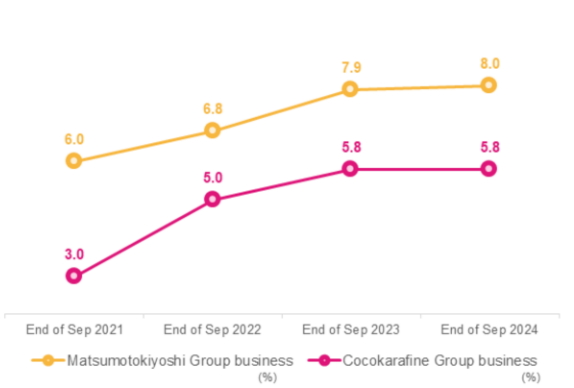


Segment Results

- 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) (%)



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- In this environment, the Company is entering its fourth fiscal year since the management integration.
- The fiscal year ended March 31, 2024, was positioned as a year in which "integration measures would lead to new purchasing experiences and we would promote key strategies in an accelerated manner." As the integration of the membership base, e-commerce, app, etc. progressed and various initiatives we had been preparing began to bear fruit, it became a year in which we were able to further improve convenience for customers and provide them with new purchasing experiences.
  And with an eye to realizing the Group philosophy, we have been more quickly implementing key strategies, including medium-term integration measures in logistics, systems and other areas, while providing value to customers through the use of digital technologies.
  As a result, we achieved the Group's management target for operating profit margin, set for the period whose final year is the fiscal year ending March 31, 2026, ahead of schedule, with ROE also coming in at above 10%.
  We are promoting various strategies to enable us to maintain high profitability and efficiency during the fiscal year ending March 31, 2025, as well, and expect to meet the targets for operating profit margin and ROE.
- On the other hand, net sales deviate from the target significantly. We believe that achieving this target will require the Coalition Concept or so-called large-scale M&A to be realized.
  We "focus on profitability," not just scale, for M&A and tie-ups.
  Therefore, in M&A, while we can accept a momentary decline in profitability, it is the time required for a subsequent recovery, or generating so-called synergy, that we particularly focus on.
  Looking back on the last management integration from this perspective, we believe that the integration effect can be rated highly to a certain level, also in light of the share price and business performance.
  We will continue to explore opportunities for M&A and tie-ups, and seek to realize them through dialogue with companies with which we have a high affinity in that they share similar philosophies, directions, business domains and characteristics to ours as our basic axis.
- Next, we will explain the segment results.
  The Company's core businesses are Matsumotokiyoshi Group and Cocokarafine Group.
  Looking at profits of these two businesses on the basis of the first half, there has been a significant improvement through the first half of the fiscal year ending March 31, 2025.
  As seen from the results, in our business portfolio management we will continue to concentrate the investment of management resources in these two businesses to increase profitability.

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

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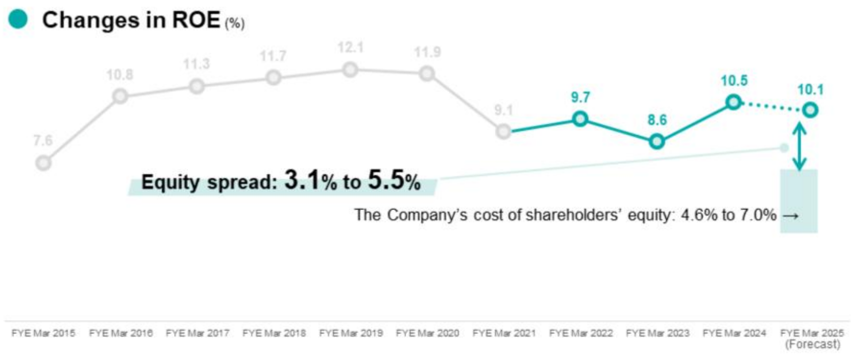
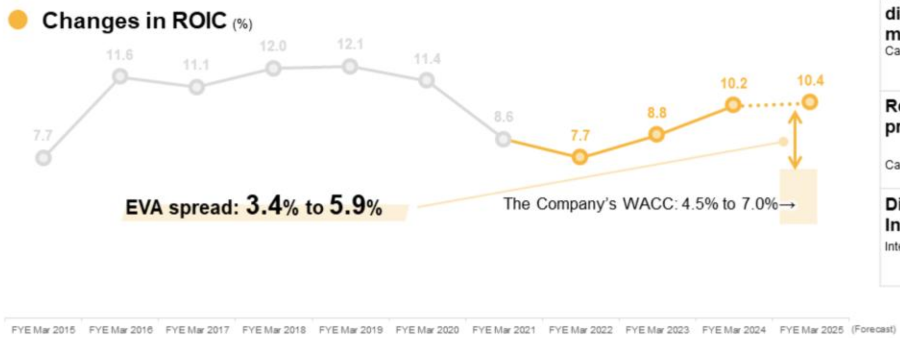
The Company perceives respective spreads to be positive at around 3.1% to 5.9% currently.
The Company considers improving PBR by maximizing respective spreads to be a challenge, and is stepping up further efforts.





Grasping cost of capital
(as of the end of Sep 2024)

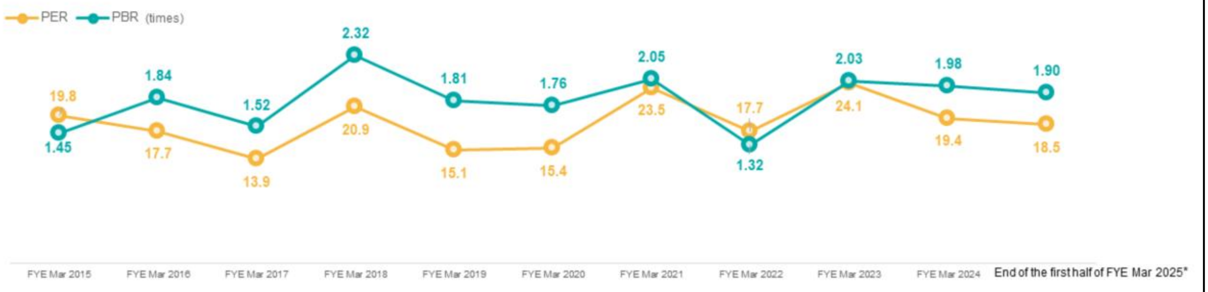
Calculation method	Cost of shareholders' equity (%)	WACC (%)
CAPM Risk-free rate: 10-year government bond yield Beta value: last 5 years Market premium risk: Ibbotson (since 1968)	4.6	4.5
Earning yield Calculated by referring to the inverse of forecasted PER	5.4 to 5.9	5.3 to 5.8
Dividend discount model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

- **Here, current equity and EVA spreads are shown in the process for realizing the Medium-Term Management Plan.**
- **At this point in the process for realizing the Medium-Term Management Plan,**
we perceive equity and EVA spreads to be positive at around 3.1% to 5.5% and around 3.4% to 5.9%, respectively.
- **The Company considers further improving PBR by maximizing respective spreads to be a challenge, and will work to make them even more positive.**
- **In terms of how to capture the cost of capital, the Company had previously used the CAPM and earning yield to calculate the cost of capital. However, we engaged in dialogue focusing on the cost of capital with investors, and based on the feedback from them we have determined the figures using approaches including the dividend discount model, residual profit model and interviews during the dialogue, to resolve a discrepancy from the investors' perspective.**
We will continue to engage in dialogue with investors to resolve any discrepancies.

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.

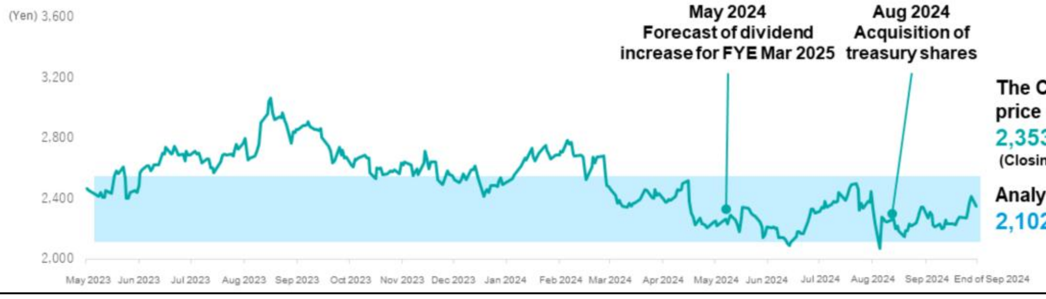
Changes in PBR/PER



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



The Company's share price
2,353 yen
(Closing price on Sep 30, 2024)

Analysts' consensus
2,102 to 2,545 yen

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- These graphs show changes in PBR and PER, which represent the market's evaluation of the Company's business activities, and the theoretical share price as understood by the Company.
- PBR stands at 1.90 times as of the end of September 2024, close to 2 times.
- On the other hand, looking at changes in the share price, it has been weak with the closing price as of the end of September 2024 of 2,353 yen.
  In light of this evaluation by the capital market, we decided to increase the interim and year-end dividend forecasts for the fiscal year ending March 31, 2025, to 21 yen per share from 20 yen per share to improve this situation.
  As the performance of the share price has remained weak, in addition to this, the Company executed share buybacks and cancelled treasury shares worth 30 billion yen, which is the largest ever amount for the Company, with the aim of improving capital efficiency and relevant per-share indicators, thereby enhancing and strengthening shareholder returns.
- Information provided so far is on the Company's business activities and their results, including respective spreads, versus the Medium-Term Management Plan, as well as the market's evaluation thereof.

Where We Will Be in Realizing the Medium-Term Management Plan: Further Growth by Leveraging Our Strengths

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

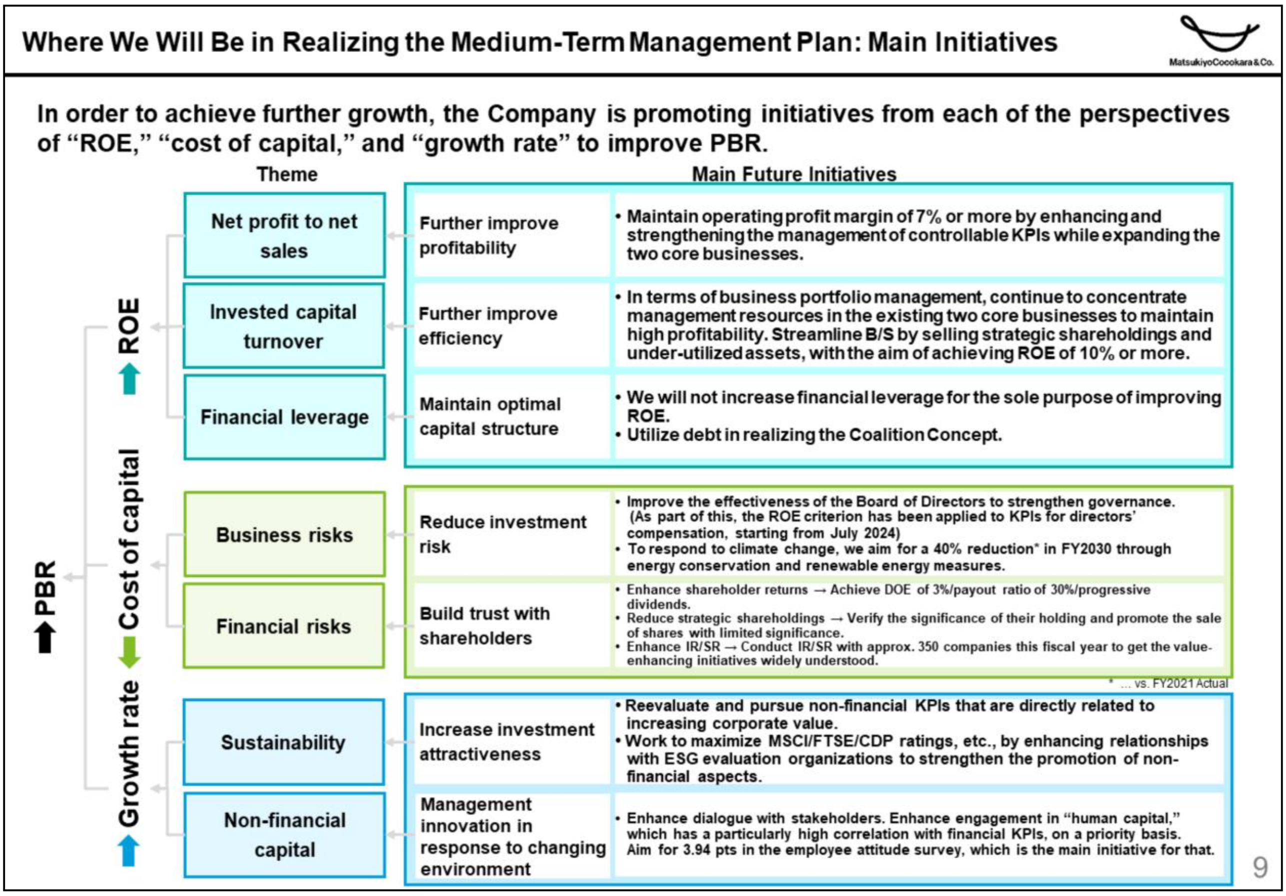
<Basic policy>

- 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

- The following slides explain how the Company intends to grow in order to realize the Medium-Term Management Plan in light of such current situation.
- The Company aims to grow further and realize the Medium-Term Management Plan by leveraging its four core competencies to the maximum.
- The first strength is “seamless services that are closely aligned with customers by leveraging our stores and e-commerce sites.”
  Our strategic expansion of our store network as social infrastructure and our use of digital technology to stay one step ahead of our competitors enable us to have “more contact points” with our customers.
- The second strength is “superior brand strength in the fields of health and beauty.” We differentiate ourselves from our competitors with brands and products that are not substitutes for existing products through multifaceted analysis in our meticulous and unique marketing.
- The third strength is “solid customer base and trust as a business partner.” Our customer base of over 150 million customer contact points and partnerships with our business partners enable us to run effective marketing and advertising programs and develop products that meet customer needs.
- The fourth strength is “human resources with highly specialized expertise to meet customer needs.” The Company believes that the source of value creation is its employees, and actively invests in human capital. The presence of a large number of highly specialized personnel has led to an improvement in the quality of services in the health and beauty field.
- These are strengths unique to the Company that differentiate it from its competitors.
  And, we will aim to realize the Medium-Term Management Plan by starting to leverage these strengths to the maximum and achieving growth along two axes in a way that only the Company can do.
- This growth means, first of all, organic growth. Our basic policy is to expand existing profitable businesses such as drug stores and dispensing pharmacy business in Japan. In addition to that, we are focusing on developing new earnings pillars, such as expanding e-commerce sales and franchises, strengthening our overseas base, and bolstering our digital field.
- Another growth driver is the “Coalition Concept.”
  In M&A and tie-ups we focus on profitability and efficiency, not just scale, and we are particular about “affinity” in selecting new M&A and tie-up partners. Although we have opportunities for dialogue, both large and small, even at the moment, we will strive to achieve the Medium-Term Management Plan while being conscious of profitability and efficiency as well as affinity, not just the scale to be gained immediately.



- **Specific initiatives aimed at realizing the Medium-Term Management Plan are as described above.**
- **The Company understands that "management conscious of cost of capital and share price = efforts toward sustainable management of the Company." And we organize our efforts to increase corporate value as (i) improving ROE and profitability (earnings capability), (ii) improving growth potential and growth rate, and (iii) lowering cost of capital, as shown in the formula in the diagram.**
- **"Improving ROE" is considered along three themes.**

To improve profitability, we will maintain an operating profit margin of 7% or more by enhancing and strengthening the management of controllable KPIs, such as selling, general and administrative expenses, while expanding the businesses of Matsumotokiyoshi Group and Cocokarafine Group, which have strong earning capability.

To improve efficiency, from the perspective of business portfolio management, we will maintain an ROE of 10% or more by selling strategic shareholdings and under-utilized assets while concentrating management resources in these two core businesses.

With regards to maintaining an optimal capital structure, the Company is conscious of the need for a balance between safety and soundness on the one hand, and capital efficiency on the other, and will not increase financial leverage for the sole purpose of improving ROE. In addition, we will utilize debt to the maximum extent when realizing the Coalition Concept or large-scale M&A.

Where We Will Be in Realizing the Medium-Term Management Plan: Main Initiatives

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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.

PBR	Theme	Main Future Initiatives	
ROE ↑	Net profit to net sales	Further improve profitability	• Maintain operating profit margin of 7% or more by enhancing and strengthening the management of controllable KPIs while expanding the two core businesses.
	Invested capital turnover	Further improve efficiency	• In terms of business portfolio management, continue to concentrate management resources in the existing two core businesses to maintain high profitability. Streamline B/S by selling strategic shareholdings and under-utilized assets, with the aim of achieving ROE of 10% or more.
	Financial leverage	Maintain optimal capital structure	• We will not increase financial leverage for the sole purpose of improving ROE. • Utilize debt in realizing the Coalition Concept.
Cost of capital ↓	Business risks	Reduce investment risk	• Improve the effectiveness of the Board of Directors to strengthen governance. (As part of this, the ROE criterion has been applied to KPIs for directors' compensation, starting from July 2024) • To respond to climate change, we aim for a 40% reduction* in FY2030 through energy conservation and renewable energy measures.
	Financial risks	Build trust with shareholders	• Enhance shareholder returns → Achieve DOE of 3%/payout ratio of 30%/progressive dividends. • Reduce strategic shareholdings → Verify the significance of their holding and promote the sale of shares with limited significance. • Enhance IR/SR → Conduct IR/SR with approx. 350 companies this fiscal year to get the value-enhancing initiatives widely understood.
Growth rate ↑	Sustainability	Increase investment attractiveness	• Reevaluate and pursue non-financial KPIs that are directly related to increasing corporate value. • Work to maximize MSCI/FTSE/CDP ratings, etc., by enhancing relationships with ESG evaluation organizations to strengthen the promotion of non-financial aspects.
	Non-financial capital	Management innovation in response to changing environment	• Enhance dialogue with stakeholders. Enhance engagement in "human capital," which has a particularly high correlation with financial KPIs, on a priority basis. Aim for 3.94 pts in the employee attitude survey, which is the main initiative for that.

* … vs. FY2021 Actual

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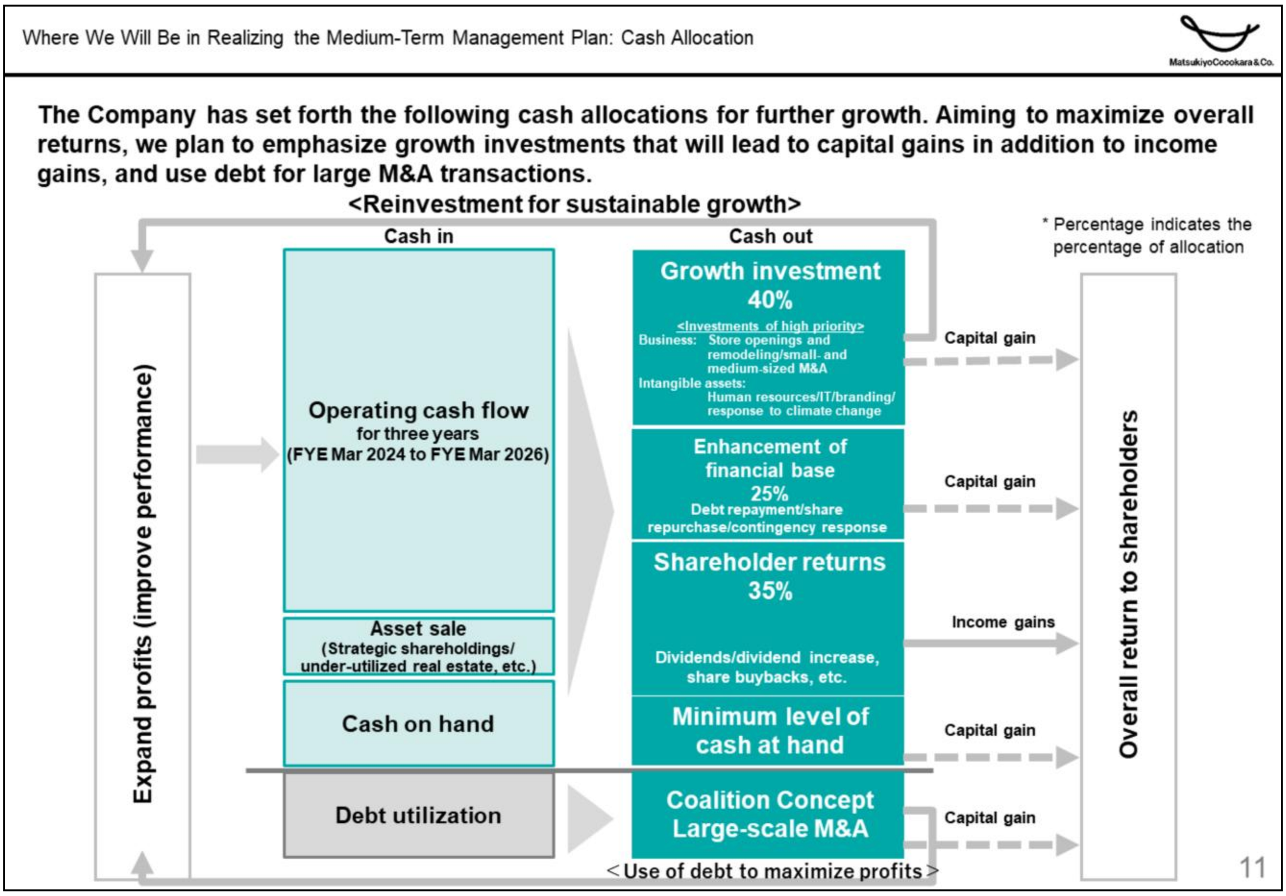
• "Reducing the cost of capital" is considered along two themes.
To reduce investment risk, we will work to strengthen our governance by enhancing the effectiveness of our Board of Directors.
In particular, we will deepen discussions of the issues raised in our effectiveness evaluations, such as our cross-shareholdings policy and executive compensation, and will enhance our consideration of the ideal form and role of our Board of Directors. For our compensation system for directors (excluding outside directors), we applied a ROE criterion in addition to the sales and operating margin criteria.
To build trust with shareholders, in the aspect of income gain, we will work to enhance shareholder returns.
The goal is to achieve a DOE of 3%, a payout ratio of 30% and progressive dividends. In the aspect of capital gain, with regards to the reduction of cross-shareholdings, we will examine the significance of our holdings and advance the selling of shares whose significance has diminished. In addition, for IR/SR, in this fiscal year, we will again hold dialogue with approximately 350 companies, which is the same level as the previous year. We will establish a mechanism for the solution of issues related to capital cost reduction that uses the dialogue as a starting point, and will work to strengthen our ability to resolve those issues. While working to deepen understanding of our value enhancement efforts, we will use the mechanism to sincerely accept any opinions and comments received, and where any items may lead to the enhancement of our value, we will discuss them at the Board of Directors meetings and implement them.
• "Improving growth rate" is considered from two aspects.
To increase investment attractiveness, we will first pursue non-financial KPIs that are directly related to increasing corporate value. We will consider the narrowing down and revision of the non-financial KPIs we currently list.
We will also enhance our relationships with ESG evaluation organizations, and will strengthen our promotion of the non-financial aspects in particular, to aim to maximize the evaluation by each evaluation organization.
For management innovation in response to the changing business environment surrounding the company, we will work to enhance our dialogue with stakeholders. This will provide us with the comments (= needs and issues) for our company, so it will be an opportunity for issue resolution that will lead to an increase in our corporate value. We will place priority on enhancing engagement in "human capital," which has a particularly high correlation with the financial KPIs for our company. The main initiative for this is the employee attitude survey, for which we have set a KPI of 3.94 points.
We will aim to realize our medium-term management plan by steadily advancing various initiatives.
• To achieve this, the company has set forth the following cash allocation policy.



- First, cash inflows consist of cash flows from operations, proceeds from the sale of strategic shareholdings and under-utilized assets, which we will promote going forward, and cash on hand. In order to maximize overall return to shareholders, the cash generated from these business activities will be actively used in “growth investments” in businesses that will increase profitability and earnings capability leading to capital gains in addition to income gains.
- Aside from the minimum level of cash at hand:
  Specifically speaking, we intend to allocate 40% in growth investments, particularly in those of high priority; (i) core businesses: store openings and remodeling/small- and medium-sized M&A, (ii) intangible assets: human resources/IT/branding, and (iii) response to climate change.
- Then, we will allocate 25% to strengthen our financial base, which includes the repayment of monies borrowed at the time of the management integration and the sale of strategic shareholdings, and to prepare for pandemics and other unpredictable downturns in business performance.
- Further, we will allocate 35% to shareholder returns. We will implement the dividend policy described earlier and flexibly execute share buybacks, taking into account our financial situation and share price levels among other things.