

Message from Management

We will securely pass the baton to the next generation so that we can achieve our management philosophy of “connecting people and society to the future with a smile.”

In fiscal 2023, which was the first year of the new medium-term management plan “JT-2025 Management Plan,” the key management targets did not reach the initially forecast values, and the year left top management with regrets. However, we will renew our efforts to achieve the ideal image of the Joshin Group for 2030, described as “a company that supports the growth of local communities and contributes to the future of people and the environment,” and will steadily carry out the three points of “improving profitability,” “pursuing efficiency,” and “boosting growth potential” that hold the important keys to the new medium-term management plan.

Recognition of the External Environment

The Japan home appliance market in 2023 (according to an investigation by GfK Japan) shrank by 1.4% from the previous year to reach 6.9 trillion yen. This was due to a variety of factors including the normalization of demand after the special stay-home demand and the special government benefits during the COVID-19 pandemic, as well as an increase in leisure spending following the easing of behavior restrictions. However, the home appliance product market has remained at around 7 trillion yen for the past 10 years, and this stability shows how essential home appliances are to our everyday lives. The manufacturer designated price system that was introduced in 2020 restricted price competition and reduced the inventory risk of retailers.

As a result, consumers have increasingly trended towards making purchase decisions based not only on price, but also on high-quality customer services. In this market environment, in line with the spirit of our Corporate Credo of “Thoughtfulness*” that is the core of the Group’s management philosophy structure, we will continue to carry out the service with care that we have been dedicated to since our founding, deepen our relationships of trust with customers as a concierge to customers, drawing closer to their daily lives, and provide fine-tuned and high-quality services to every customer in order to pursue a business model that is resistant to changes in the environment and strive for sustainable growth.

* This means “to always think and act in consideration of the other’s perspective.”

A Look Back at Fiscal 2023

During fiscal 2023, the Hanshin Tigers, which the Company is an official sponsor of, won the league and became Japan champions. Sales events related to this victory were held in the second quarter and third quarter, and contributed to an increase in sales. However, overall sales were 403.6 billion yen, down 1.2% from the previous fiscal year. The number of stores declined by three, however as a result of improving quality and reinforcing sales strength at our existing stores, Sales via stores were up 1.3% from the previous fiscal year. In the EC store business, sales were down 14.5% from the previous fiscal year. However, as a result of structural improvements aimed at strengthening earning power, centered on our own site “Joshin web shop,” we were in fact able to improve earning power.

In terms of profits, the “fan base strategy,” which aims to increase Joshin fans and core fans by maximizing the value provided to customers (based on improving the customer service abilities of sales personnel), contributed to an increase in the gross profit margin. Gross profit margin increased by 0.6

points from the previous fiscal year to reach 26.0%. Although SG&A expenses were up 1.3 points from the previous fiscal year as a result of human capital investment and information systems investment, this investment supported growth in the gross profit margin, and as a result operating income was 8.3 billion yen, up 0.6 points from the previous fiscal year.

As a result of declaring impairment of stores and reducing cross-shareholdings, ordinary income and net income were down slightly.

ROE, ROA, and ROIC are capital efficiency indices positioned as important targets in the new medium-term management plan, and all were down from the previous year. In particular, the failure of ROE to exceed cost of equity remains a major issue for improving PBR. In future management strategies, we intend to improve these indices in order to achieve sustainable growth and meet the expectations of our investors.



Progress of the JT-2025 Management Plan

In fiscal 2023, of the three points that hold the keys to the new medium-term management plan, we believe that we are partway towards achieving two of them: “improving profitability” and “pursuing efficiency.” We recognize that the remaining point, “boosting growth potential,” remains an issue.

Fiscal 2024 is an important milestone and marks the midpoint of the current medium-term management plan. Aiming to maximize return on investment, the Group is focusing on achieving the targets for each index: ROE, ROA, and ROIC. These indices are indicators of sustainable earning power and are directly linked to increased corporate value. The targets of 11.0 billion yen in operating income and 2.6% operating income ratio for fiscal 2025, the final year of the current medium-term management plan, are important steps towards achieving an operating income ratio of 4.0% in fiscal 2030. Essential elements for achieving these targets include efficient allocation of management resources, responding rapidly to market changes, developing new sources of revenue, and

thoroughly managing costs. By bringing the entire company together to address these issues, we aim to improve corporate value over the medium- to long-term, and believe that we can meet the expectations of shareholders, investors, and all other stakeholders.

Efforts for “improving profitability” are steadily delivering results through structural improvements in the EC store business and carrying out the fan base strategy. Clear results were delivered, including increasing the total number of customer members who use the Company by 640,000 during the past year to reach a total of 25.6 million. The average annual member purchases also grew by 2,500 yen, and we assess that the expansion of the customer base and improvement in buying sentiment are truly the results of the fan base strategy. The introduction of the “Joshin Smile Program” (new loyalty program) that was launched in February 2024 is playing an important role in terms of strengthening relationships with customers. This program strengthens

relationships with customers and contributes to improving brand loyalty. In addition, we are also focusing efforts on developing new business that incorporates subscriptions and recurring models, and are proceeding with our transition to a sustainable business model. We expect that the creation of new customer satisfaction through these measures will make a large contribution to improving profitability, and will lead to continual corporate growth and enhanced competitiveness in the market.

In terms of “pursuing efficiency,” we have reinforced the east-west logistics network through stable operation of the Kansai Ibaraki Logistics Center, and by enhancing the functions of the Tokyo Logistics Center, which was expanded in October 2023. As a result, we were able to reduce product delivery times to customers in Kanto and northward, and enabled an advance response to the logistics so-called “2024 problem.” We are carrying out measures for efficient links between logistics centers, optimizing transport routes, improving transport capacity, and reducing driver workloads. These efforts both reduce logistics costs and improve service quality, and are at the core of our corporate strategy that aims to construct a sustainable logistics system and enhance competitiveness through technical innovations. The pursuit of efficiency in logistics will continue to be extremely important as a foundation for our business activities in the future, and we will further strengthen these efforts.

The declining birthrate and aging population, and the decline in the productive-age populations, are further deepening the personnel shortage in an industry that is labor intensive. The Group is carrying out a personnel shift through reskilling, aiming to reduce personnel through the installation of ICT and other improvements at real stores. The use of these technologies will allow us to effectively use limited human resources, leading to the creation of new value.

Regarding “boosting growth potential,” the Group has established areas for providing value to our customers in five categories,¹ and positioned the three categories of mobile communications, renovation, and support business as growth businesses. In April 2023, we newly launched the Network Communication Sales Department, which controls the two

categories of mobile communications and support business, reinforcing our ability to drive business forward. In particular for mobile communications, as part of efforts to strengthen our sales system, the improvement of sales skills through development program training, and the introduction of special staff uniforms, resulted in our achieving revenue growth for three consecutive years. Because mobile communication devices (smartphones) are expected to continue operating a diverse range of services in the future, this category contains room for further growth. This kind of strategic approach is essential for a corporation to continue growing. This is an area that has potential, including expectations for continuing to apply this approach to a wide range of services, and we believe there are possibilities for further growth.

The next category where expectations are high is renovation. The renovation market has seen significant growth in recent years, and one driving force behind this growth is the diversification of needs in an aging society. The size of the renovation market in 2022 set a new record for the fourth consecutive year, reaching 6.86 trillion yen,² showing the potential of this field. This is ideal for establishing it as a new business model that makes use of the compatibility with home appliance products, and as a new earnings pillar, and is also essential in order to meet diversifying customer needs. In particular, with the progress of our aging society, it is estimated that the elderly population ratio (persons aged 65 years or older out of the total population) will reach about 31% in 2030. Demand for nursing care renovation services is expected to further grow together with the elderly population ratio, and training of human resources who have specialized knowledge is essential. Through the current medium-term management plan, we are carrying out training of welfare housing environment coordinators who are experts in nursing care renovations in order to accurately meet these diverse needs. Specialist positions such as welfare housing environment coordinators prepare living environments that allow elderly persons to comfortably live their lives in safety and with peace of mind. They also play a large role in helping to strengthen the resilience of an aging society. We will position them as an important element of this business.

1. Refer to the business model diagram in the value creation processes on p. 15 - 16.
2. This figure was released by the Center for Housing Renovation and Dispute Settlement Support on January 5, 2024. This estimate is based on the annual report of construction start statistics, annual report of housing surveys, and national population, households, and demographics tables. It combines the expenses for housing expansion and renovation work with facility and other maintenance expenses.

Promoting Sustainable Management

The significant achievements by the Group in the field of combatting climate change in fiscal 2023 are the result of the Group being highly rated for its corporate social responsibilities and consideration for the environment. Obtaining the CDP “A” score can be described as proof that our establishment of a

sustainable business model and strong commitment to environmental preservation have been internationally recognized. We are accomplishing as planned our material issue targets for achieving 100% renewable energy at the 150 business sites where the Company contracts directly with power suppliers and minimizing our impact on the global environment. Our efforts to achieve carbon neutrality in 2050 will focus on both corporate social value and environmental value in order to open up a path to a sustainable future.

At the same time, carrying out human capital management is essential for medium- and long-term business growth and improving corporate value. From fiscal 2024, we introduced a performance-linked stock-based compensation system for employees, a revolutionary step for increasing the sense of belonging and the desire to participate in management among employees. As a result of this initiative, we expect employees will feel that they are contributing directly to the success of the Company, boosting their motivation. Promoting Diversity & Inclusion prepares the groundwork for human resources with diverse backgrounds to make the most of their individual abilities and produce new ideas and innovations. By combining

Initiatives for Shareholder Returns

In March 2024, the Group increased our target payout ratio from 30% or more to 40% or more, demonstrating our strong commitment to returning profits to shareholders. This decision was reached through dialogue with the capital market, and is intended to meet the expectations of shareholders. The dividend in fiscal 2023 was increased by 15 yen from the previous fiscal year to 90 yen. In fiscal 2024, based on expected net profits of 6.0 billion yen, we are planning to pay a 100 yen dividend. We

these strategies, we will boost corporate competitiveness and actively contribute to society.

In Closing

Although fiscal 2023, the first year of the new medium-term management plan, ended without achieving our targets, the improvement to earning power on the sales front lines, establishment of logistics, shipping, installation, construction, and other infrastructure, and reinforcement of the business foundation through installation of ICT and other means represent bright signs for future growth. In particular, the installation of ICT is an important element that will promote efficiency and rapid decision-making, and will increase flexibility and the ability to respond in our business.

In fiscal 2020, when we achieved our highest-ever sales and profits due to the special demand resulting from the COVID-19 pandemic, ROE was 9.4%, ROA was 8.1%, and ROIC was 8.0%. However, when we consider that the gross profit margin at that time was 25.0%, the targets in the new medium-term management plan for fiscal 2023, when the gross profit

margin improved to 26.0%, are not considered high. In other words, this shows that achieving the targets of the new medium-term management plan is realistic, and means that we have constructed a solid foundation for future growth and maintaining stable business performance.

We promise to continue working together with all our stakeholders and to improve corporate value in order to achieve our management philosophy. We look forward to your continuing support of Joshin.

金谷隆平

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