

Ryohin Keikaku Co., Ltd. Summary of Dialogue with Outside Directors and Shareholders (Institutional Investors)

August 1, 2023 13:00-14:00, 11 participants including domestic institutional investors
Company attendees: Outside Director Yagyu, Outside Director Yoshikawa, Executive Officer Horiguchi

#	Question	Answer
1	From the standpoint of an outside director, what points of importance do you emphasize in supervising management during the transformational period of “the Second Founding” of the Company?	<p>Director Yoshikawa: Regarding the medium-term management plan that ends in FY24/8, although the business performance is not necessarily progressing as expected due to environmental changes, such as the coronavirus and the Ukraine War, the direction toward 2030 is firm. Even if it is difficult to achieve the quantitative targets for the next fiscal year, it is important to consider what to do beyond that point. We are currently discussing whether the next mid-term plan should be a three-year plan or a rolling plan. Enhancing product strength is another key issue that the Board of Directors has been discussing, too.</p> <p>Director Yagyu: Based on my own career in manufacturing industry, I have been focusing on supply chain management, including procurement and production systems. As the Company head toward FY24/8, the final year of our medium-term business plan, the Company is working to strengthen its procurement and production systems as its business scale expands, and I believe it is important to build organizational capabilities to take on this task. In particular, strengthening relationships with suppliers and contract factories is a critical aspect.</p>
2	Do you think the Company can further improve logistics efficiency?	Director Yagyu: Many of MUJI products are manufactured overseas, and the routes from the production sites to the various sales bases are relatively long. When I visited local warehouses and logistics centers overseas in the past, and I found that there is room for improvement in terms of loading rates during transportation, optimization of logistics systems, and so on.
3	What are the issues regarding inventory control?	<p>Director Yagyu: Excessive inventories caused increasing price-reduction, this sometime had negative impact on profit margin. Accurate demand forecast is a critical part for good inventory management, but this alone is not enough. To realize shorter lead time for production and delivery is required, especially when additional orders are placed. In addition, it is possible to improve efficiency in logistics as well, such as small-lot deliveries.The company is in the process of strengthening its entire supply chain system, including the hiring professionals from outside the company.</p> <p>Director Yoshikawa: In apparel last year, we saw sluggish sales especially in unisex design products. In Mainland China business, there is an excess inventory of apparels caused by the sales restrictions imposed by the lockdown, but we are reducing inventories based on the plan. Currently, production management experts have joined our Company to strengthen the organization.</p>
4	Some investors have concerns about accelerated store openings, how do you view this?	<p>Director Yoshikawa: We view the expansion of store openings as a necessaary measure for successful implementation of our second founding, a period of major change. The newly opening stores have low cost ratios and there are no major concerns about profitability, but the synergistic effects with food supermarkets are still limited. As an outside director, I will support management while keeping a close watch to ensure that risks arise.</p> <p>Director Yagyu: We believe that it is too early to judge the success or failure of store openings and that decisions should be made over a long span of time.</p>
5	What are your thoughts on the future growth potential and management structure of your overseas business?	<p>Director Yoshikawa: When I became an outside director, the U.S. business was facing financial difficulties and Chapter 11 was implemented. Although the current business performance is on a recovery trend, we still consider it to be in the phase of rebuilding. There is room for reconsideration in Europe. In addition, with the increasing importance of overseas operations, it is desirable to further diversify the backgrounds of board members in the future.</p> <p>Director Yagyu: I appreciate the overseas business is growing as a whole. However, the business in mainland China has a large portion in our overseas businesses, and it is important to balance in our overall management. In addition to mainland China, we are opening more stores in Thailand and Taiwan, and we feel that Southeast Asia in particular has further growth potential.</p>
6	The recently announced third quarter financial results showed improvement in business performance, how do you view this as an outside director?	<p>Director Yagyu: Business performance is improving due to the effects of price increases and cost reductions, but it is still difficult to assess. We need to take a longer view to see if structural improvement is progressing.</p> <p>Director Yoshikawa: We feel that the price increase is now being accepted by customers to some extent. Business is recovering in mainland China. However, the domestic business has yet to make a full-fledged improvement. I also have the impression that President Doumae has been communicating more closely than before with the front lines in the management of the company.</p>
7	Three new female outside directors were added to the board at the general shareholders' meeting last November (2022), and the governance structure has been renewed. What changes have occurred?	Director Yoshikawa: The three newly appointed outside directors (women) speak out at Board of Director's meetings based on their own experience and insight, but also from their perspectives as consumers, creating diverse and lively discussions. In addition to Board of Directors meetings, they deepen their business understanding through MUJI store visits and dialogues with the Advisory Board.
8	How do you see President Doumae's leadership?	Director Yoshikawa: President Doumae has a deep understanding of the retail industry and is logical and good with figures. I also feel that he actively engages in dialogue with employees to gather a variety of information and apply it to management decisions.
9	With sluggish business performance in the past few years, I would like to know about the evaluation criteria for top management.	<p>Director Yoshikawa: Regarding the evaluation of top management, we do not evaluate a clear quantitative criteria, and it is difficult. Managerial missteps or scandals are responsible for the Board of Directors, we are facing it with a tense atmosphere, but we do not see any such problems at present.</p> <p>Director Yagyu: As a Chairman of the Nomination Advisory Committee, I am proceeding the discussion of the proposals that have been submitted to the committee. Succession plans are reviewed and interviews with each director and executive officer are conducted on a regular basis to assist in the formulation of personnel proposals.</p>
10	What are your thoughts on the need for a CFO, given the volatile business performance and the declining trend in capital efficiency?	<p>Director Yoshikawa: I think it is better to have a CFO. In this case, it is desirable to have someone who has the ability to engage in a thorough dialogue with the front line. Since President Doumae has financial expertise, he is now playing some roles of CFO, supported by Exective Officer Yokohama, who is in charge of administration management.</p> <p>Horiguchi: With regard to cash management, the most important factors for our Company are store openings and inventory, which I am watching closely.</p>