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Measures to Realize Capital Cost- and Share Price-conscious Management

SAN-A CO., LTD.
(Securities Code: 2659)

*This is an English translation of the original document in Japanese. In the event of any discrepancy between the translation and the Japanese original, the original shall prevail.

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1. Measures to Realize Capital Cost- and Share Price-conscious Management

In March 2023, the TSE requested companies listed on the Prime and Standard markets to take action to realize capital cost- and share price-conscious management.

In response to the request, the Company is carrying out an analysis of its capital cost and share price and examining medium- to long-term measures to improve corporate value.

The Company estimates its current **cost of equity** to be **approximately 4.8%**.

The ROE is well above the cost of equity, while the P/B ratio is hovering around 1.0, which is recognized as a sign indicating that the share price is undervalued.

In view of the current situation, the Company will take measures that focus on growth strategies, financial strategies and the enhancement of investor relations (IR) and governance.

Although the ROE is above the capital cost, the Company will refuse to be complacent and aim to **achieve and maintain an ROE of 10% or more in the long term** in order to further increase corporate value.

The capital cost will be reevaluated whenever there are any changes in the business environment or capital structure and will be reviewed as appropriate through dialogue with shareholders and investors.

2. Current Status Analysis 1) Capital Cost and Share Price Levels

- The Company's ROE has improved since the fiscal year ended February 2021 (FY2020). It exceeds the estimated cost of equity. Meanwhile, the PER has been on a decreasing trend, resulting in a PBR of around 1.0.
- The Company considers that its share price is undervalued and that this situation needs to be resolved.

Estimating the cost of equity by CAPM

Cost of equity

Approx. 4.8%

=

Risk-free rate

Approx. 1.0%

+

β

Around 0.64

×

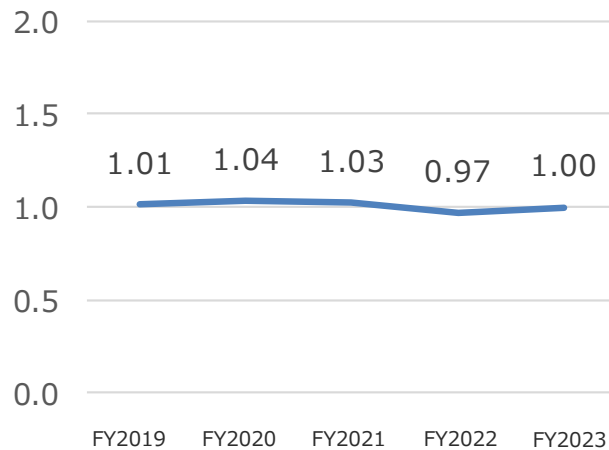
Market risk premium

Approx. 5.9%

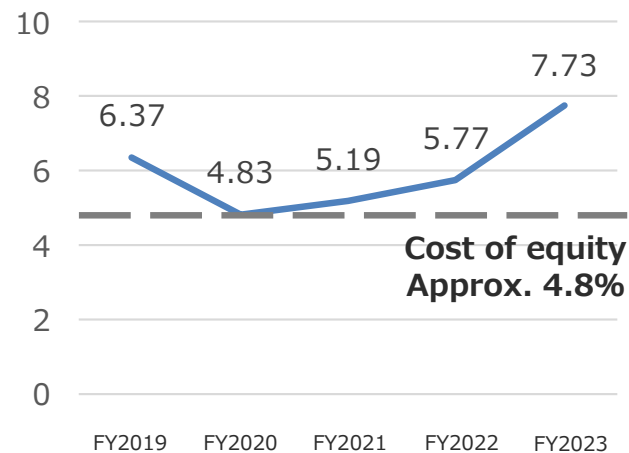
*Value β is estimated based on the share price of the Company and the share prices of competitors in the same industry.

PBR decomposition

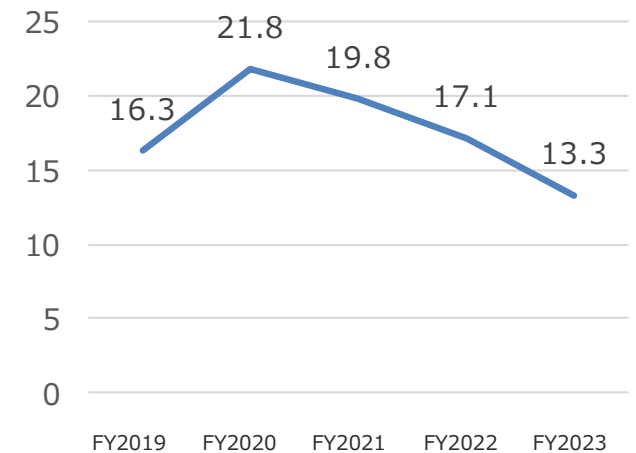
PBR (times)



ROE (%)



PER (times)

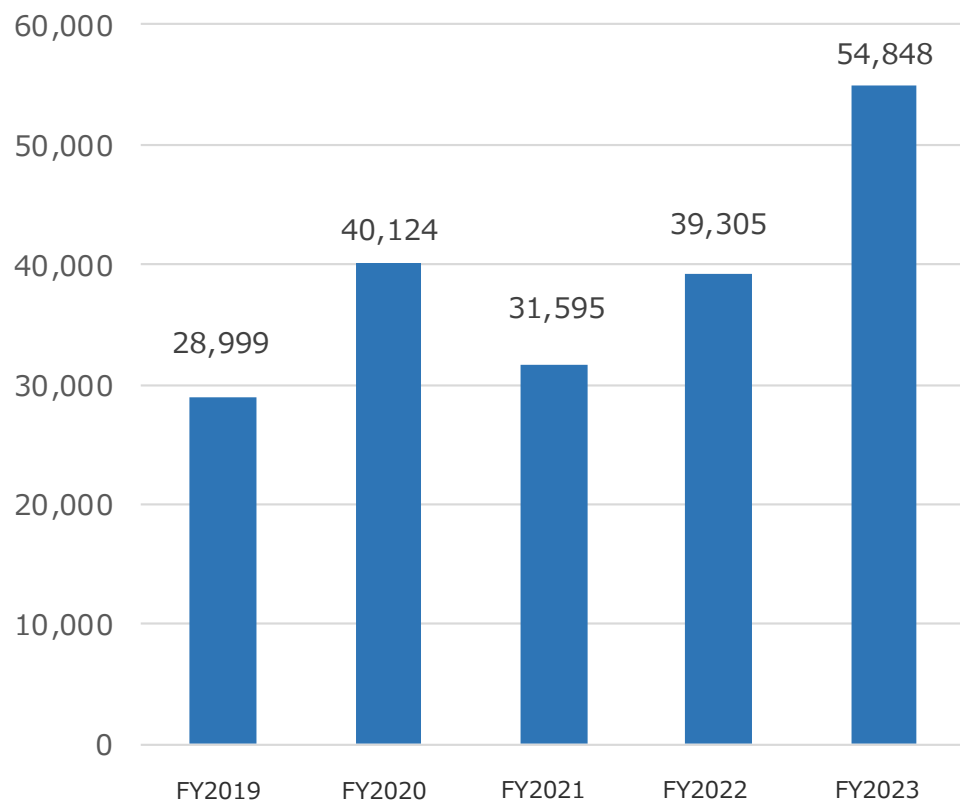


*Calculated based on the Company's financial data

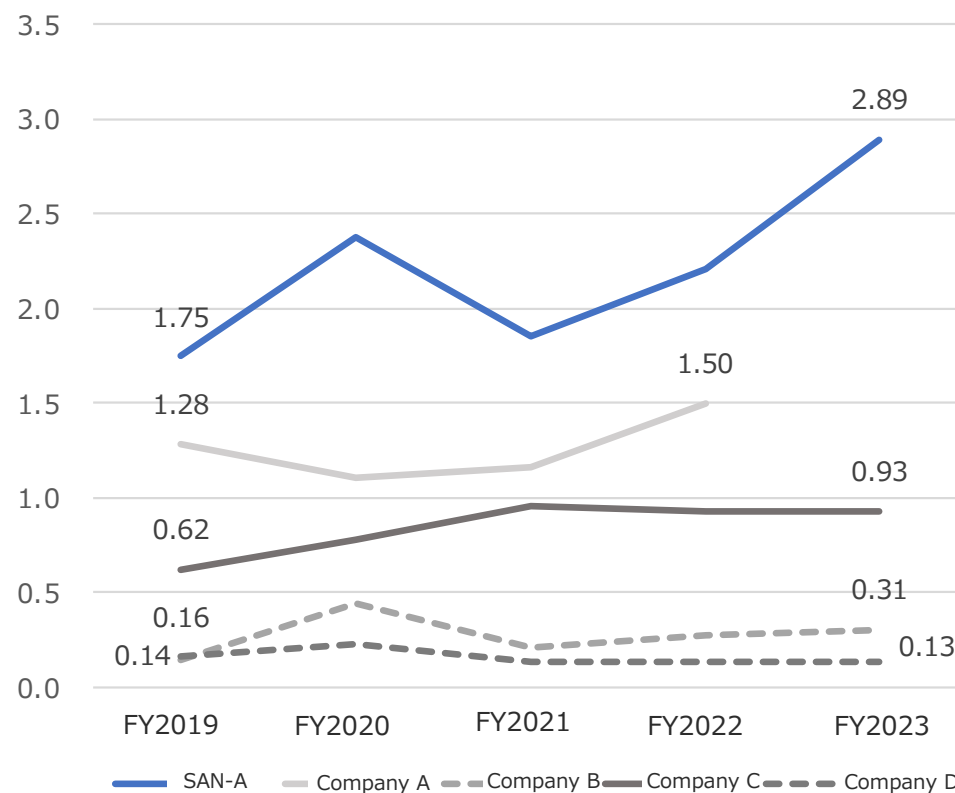
2. Current Status Analysis 2) Factors Contributing to Undervalued Share Price (High level of cash and deposits held and capital adequacy ratio)

- The level of cash and deposits held by the Company and its capital adequacy ratio are high compared to competitors in the same industry, and the Company recognizes that this has led to a decline in capital efficiency. We also believe that the lack of a clear policy for the use of these funds has had an impact on the undervalued share price.

Cash and deposits at end of year (Million yen)



Ratio of cash and deposits held by the Company and other GMS companies to monthly sales (Times)



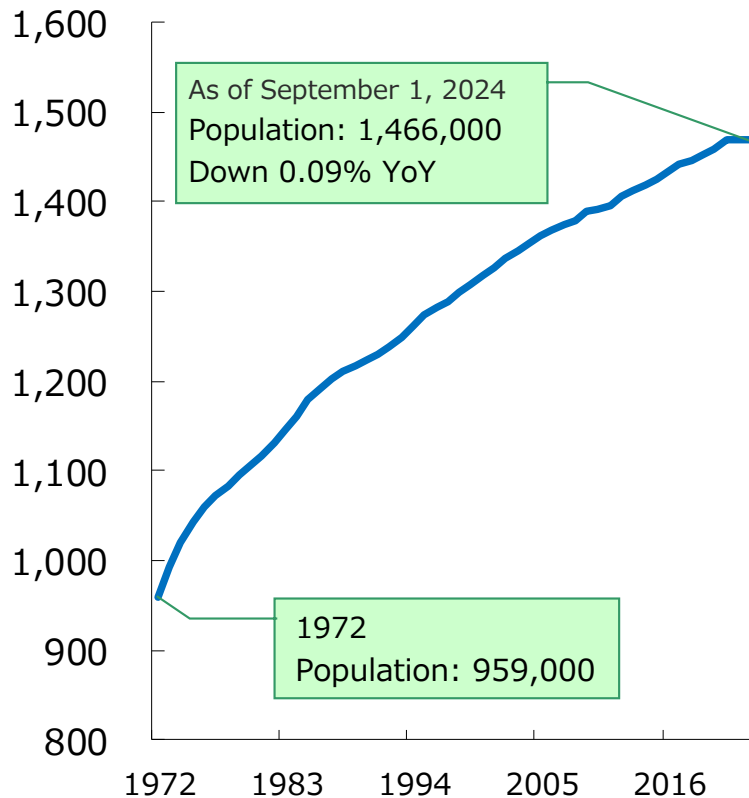
*Calculated based on financial data from the Company and competitors

2. Current Status Analysis 3) Market Environment (1) Demand

- We expect the economy of Okinawa Prefecture to remain robust as the prefecture maintains and increases its population, and the number of tourists, particularly inbound tourists, increases.

The prefecture maintains and increases its population

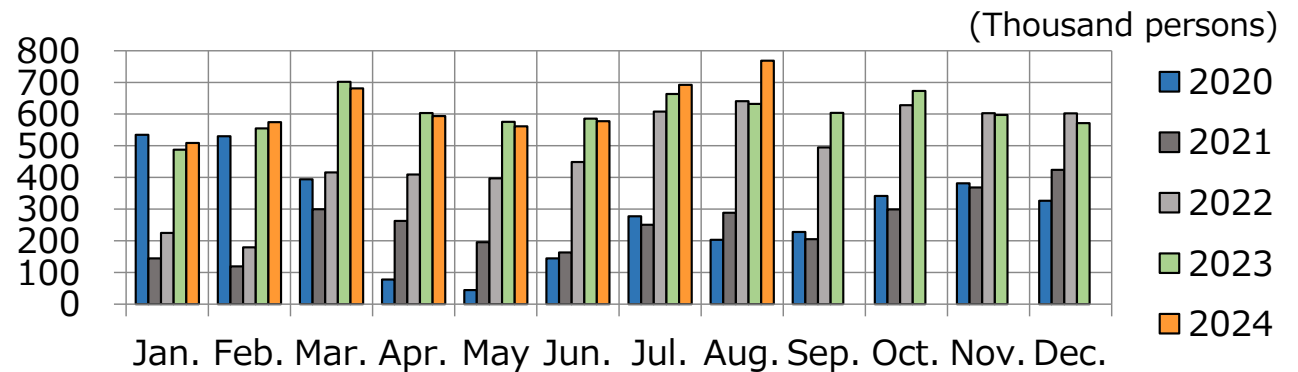
Population Trends (1972 - August 2024)



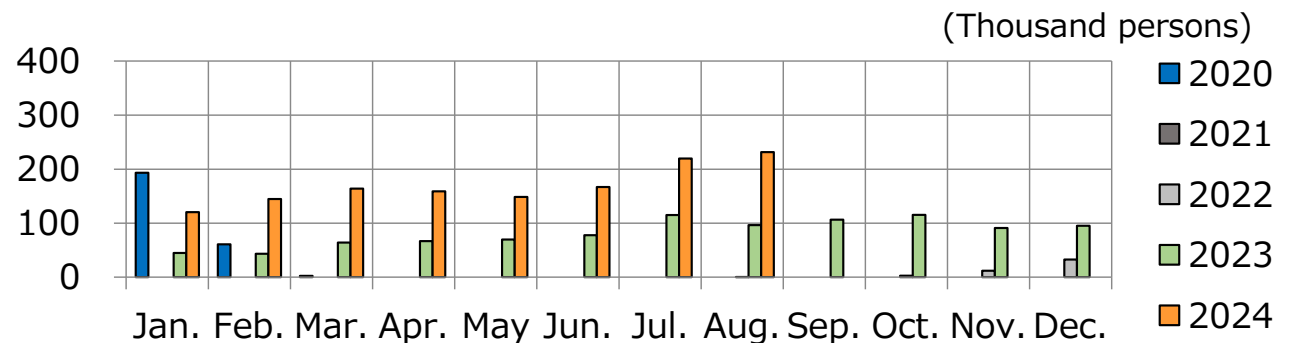
(Source: "Estimated Population of Okinawa Prefecture," Statistics Division, Department of Planning of the Okinawa Prefectural Government)

Increased number of tourists

Monthly change in the number of inbound tourists (domestic)



Monthly change in the number of inbound tourists (foreign)



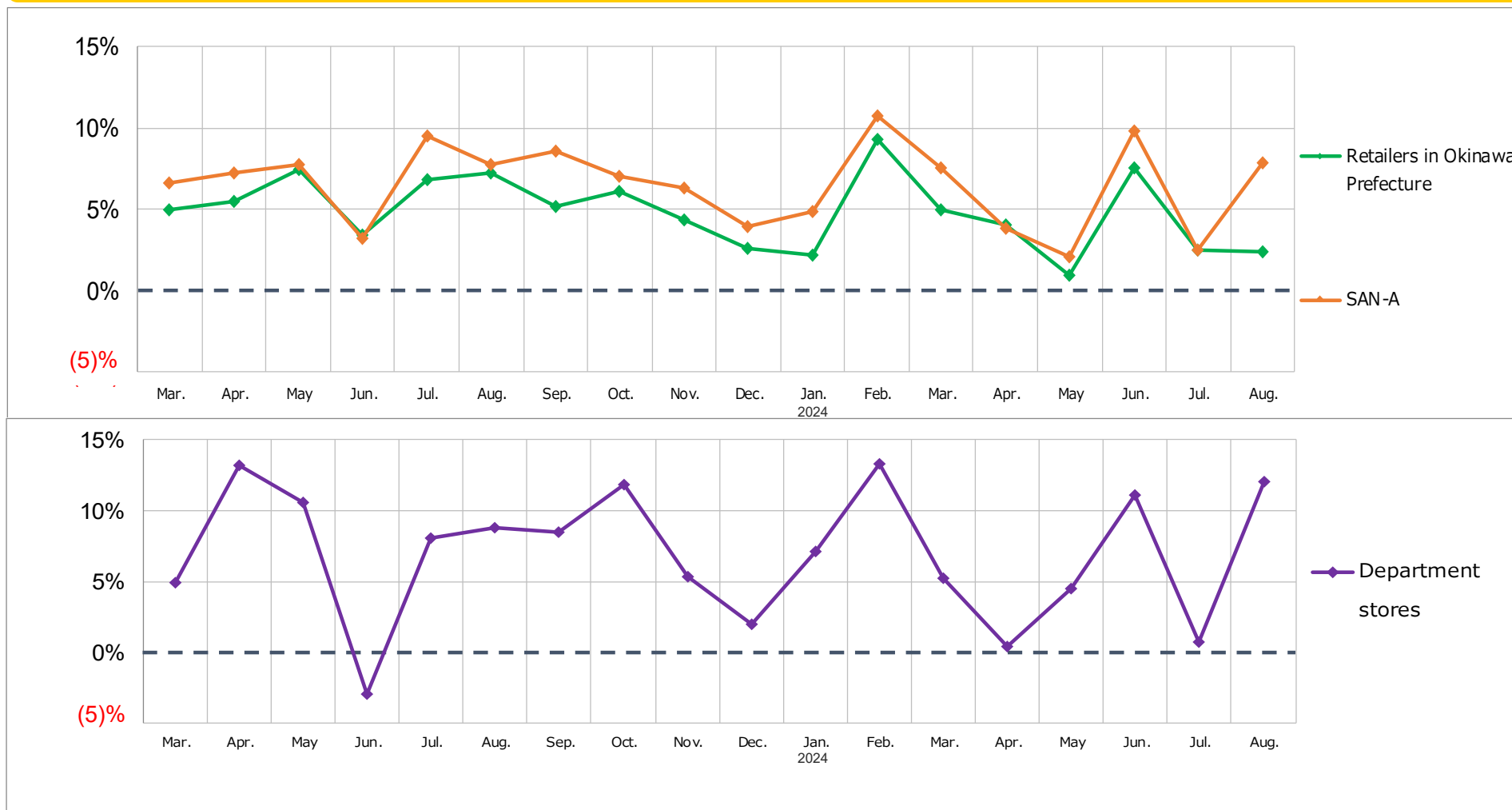
(Source: Tourism Policy Division of the Okinawa Prefectural Government)

2. Current Status Analysis 3) Market Environment (2) Performance of the Company and Other Retailers

- Net sales of comparable stores of retailers in Okinawa Prefecture continue to grow
- The Company, in particular, is increasing sales at comparable stores at a faster rate than other retailers

Net sales at major retailers in Okinawa Prefecture remain strong

Percentage change in net sales at comparable stores of major retailers in Okinawa Prefecture (March 2022-August 2024)



*Retailers in Okinawa Prefecture excludes SAN-A. (Source: "Economic Trends in Okinawa Prefecture", Ryugin Research Institute Ltd.)

(Reference) Sources of the Company's Corporate Value Creation: Unique Business Model and Management Resources

- In a favorable external environment, the Company has achieved a high level of return on capital by (1) opening dominant shops in Okinawa Prefecture and in its own business category and (2) building a unique vertically integrated distribution and retailing business model.

Management capital to support the business model

Human capital

- One of the largest employers in the prefecture in terms of the **number of employees** (1,782 permanent employees and an annual average of 6,360 temporary employees)

Intellectual capital

- Distribution know-how and IT**
- Know-how on the operation and opening of **original category stores**

Social/Relational Capital

- High profile, **customer trust and brand recognition** in Okinawa Prefecture

Manufacturing capital

- Unique distribution centers** for processing, manufacturing and distribution of products, and **comparable store stock**

Unique business model

Opening dominant stores in unique business category in Okinawa Prefecture

- Operate 78 stores in Okinawa Prefecture (as of August 31, 2024, non-consolidated)**
 - 24 of these stores are unique general stores that offer a wide range of products including food, clothing, and home electronics
 - 43 stores are food stores

Mutually complementary

Vertically integrated distribution and retail model

- Increased store sales strength through in-house production of fresh food products**
 - Streamline store operations by centrally processing and commercializing products under tight control at the Company's Food Processing Center
- Internal distribution network covering the entire island**
 - Control shipping costs by sorting and shipping products to stores via our own distribution center

Financial performance and corporate value creation

High barrier to imitations

- Build a business model that cannot be easily imitated by other companies

High profitability (return on capital)

- High rate of operating profit to net sales and high ROE among GMS businesses
- However, there is room for further improvement for effective use of surplus assets, etc.

Sales growth

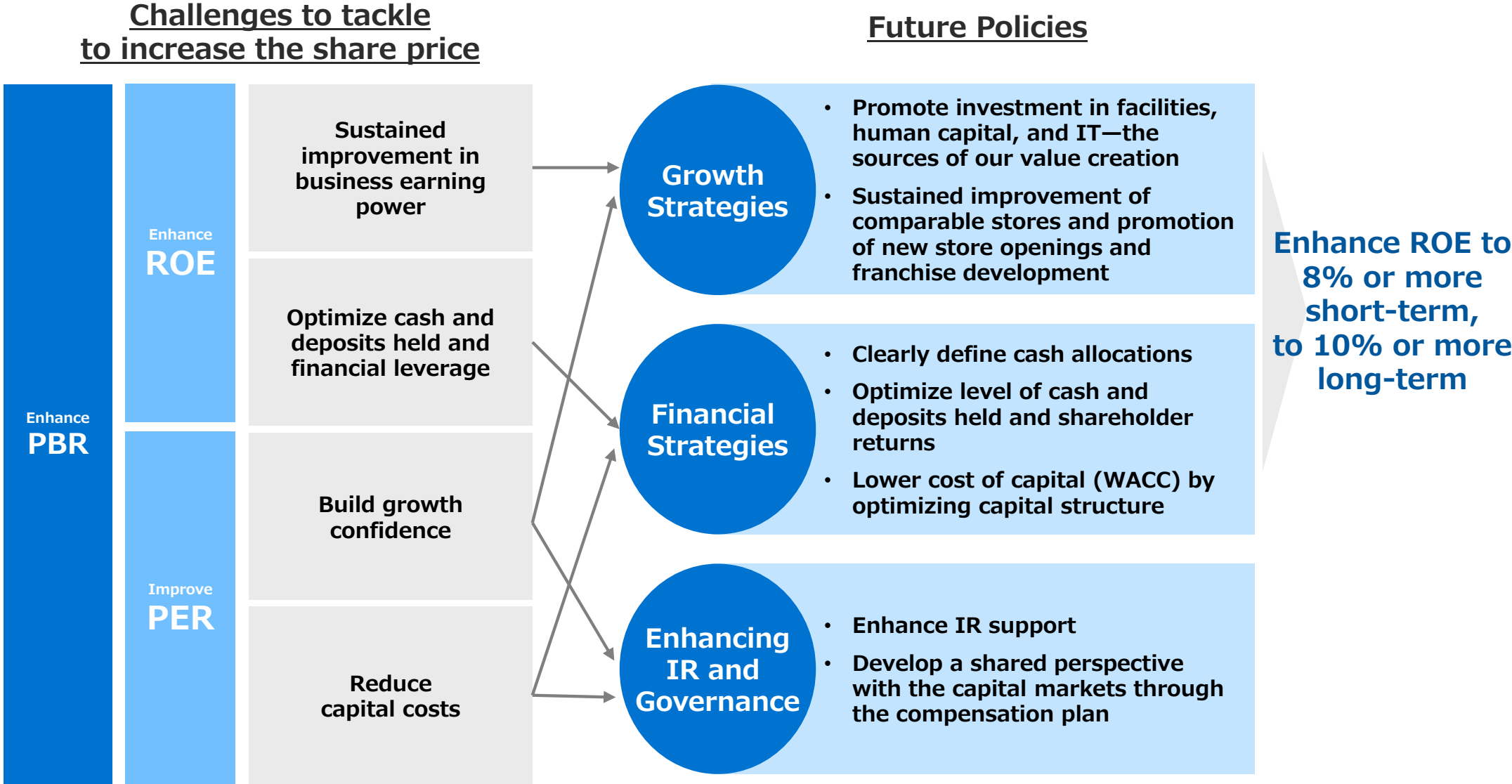
- Maintain and improve comparable store sales through ongoing renewal of store facilities and tenants
- Increase comparable store sales due to increase in inbound tourists
- New store openings and development of new business categories (franchise, etc.) leveraging comparable store facilities and distribution networks

Financial capital

- Stable cash flow from a robust business model
- Stable financial base underpinning proactive investment in new store openings and management resources

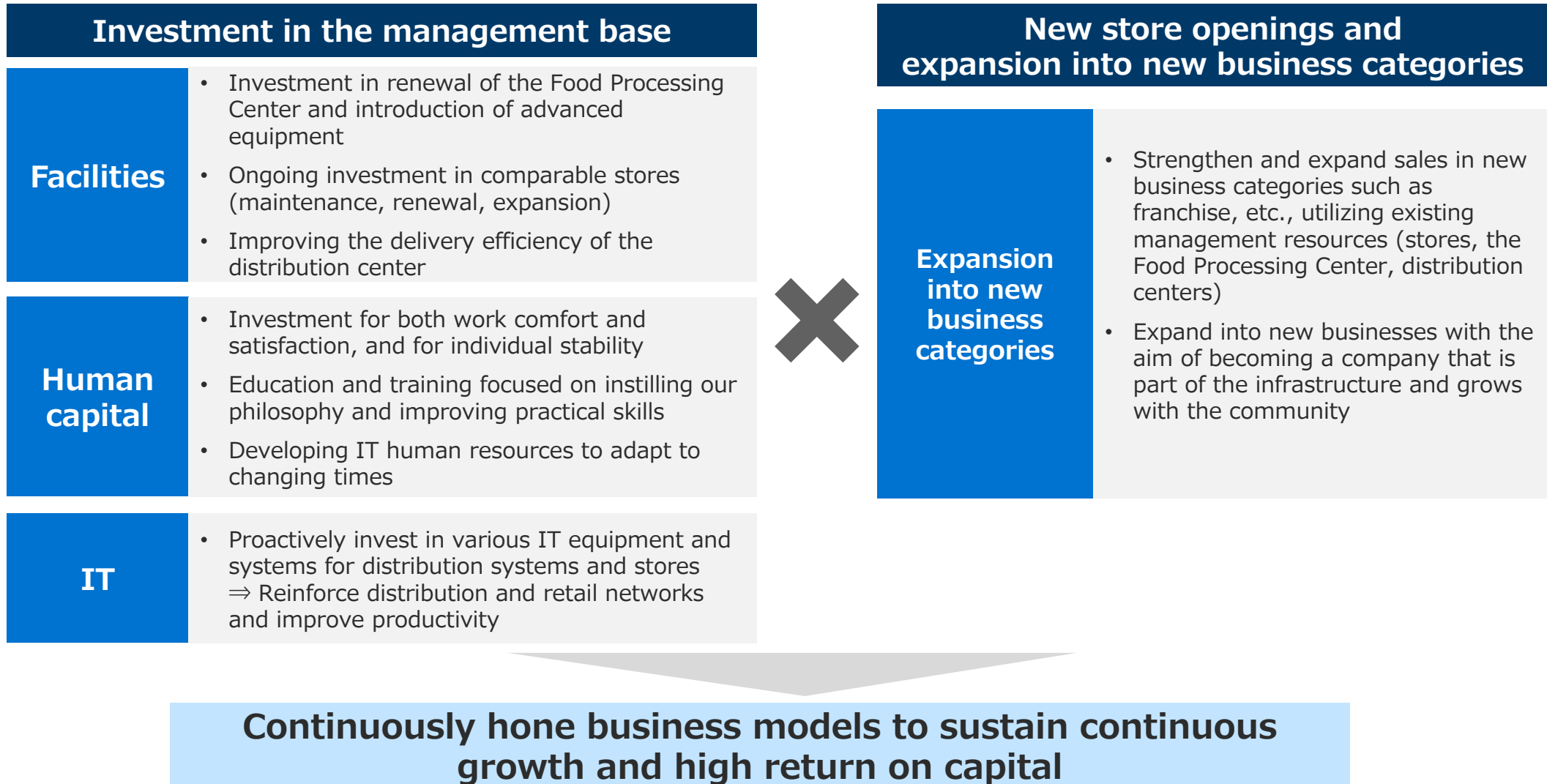
3. Challenges to Tackle to Enhance Corporate Value and Future Policies

- To enhance corporate value, we will pursue growth investment and financial strategies, aiming for ROE of 10% or more, and enhance IR and governance.



4. Growth Strategies

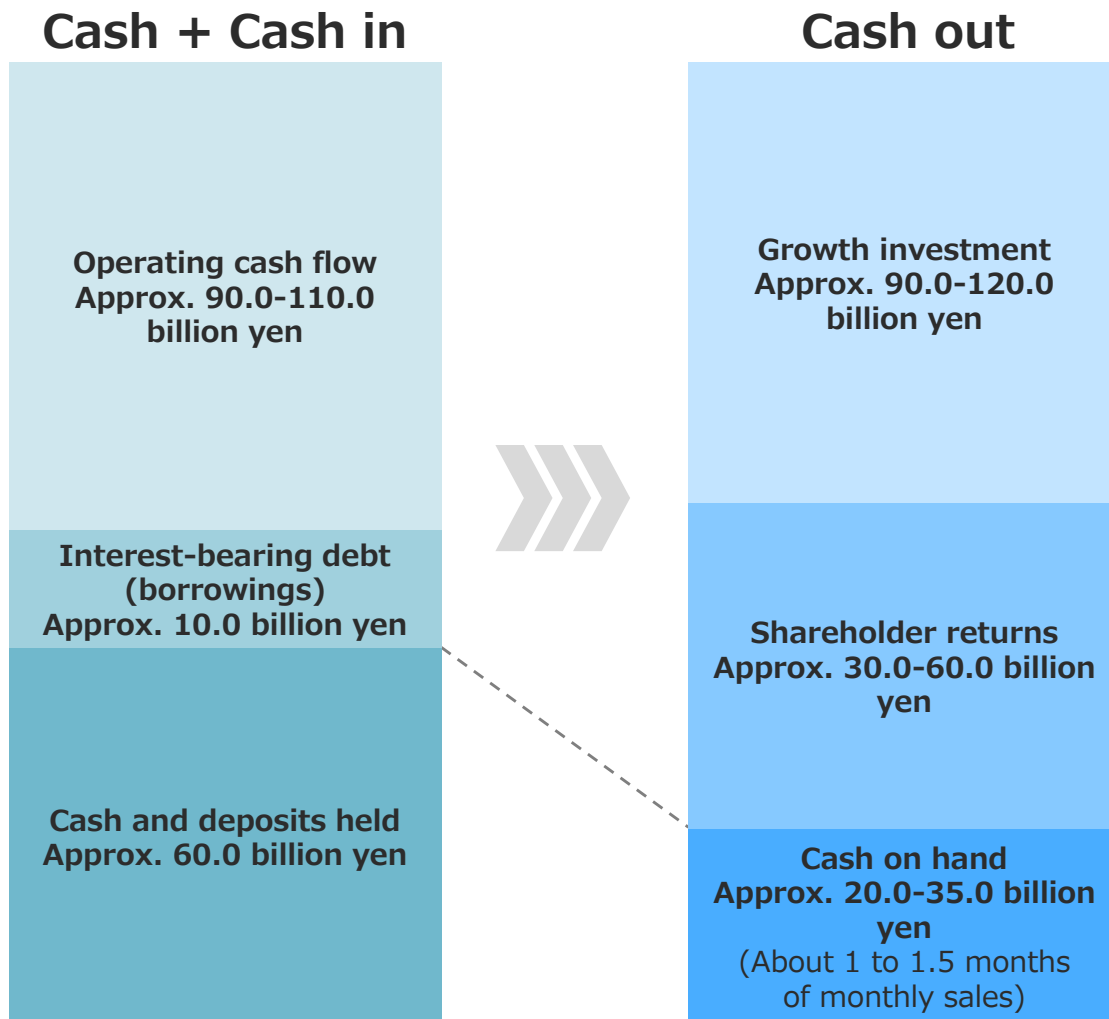
- To improve ROE and PER, we will focus on increasing management efficiency and profitability at comparable stores and boosting sales by investing extensively in the management base, opening new stores, and expanding into new business categories.



5. Financial Strategies - Cash Allocation

- The Company's policy is to actively invest in growth using operating cash flow generated from its business operations, interest-bearing debt, and cash and deposits it holds as sources of funds, and to use surplus funds to return profits to shareholders.

Cash allocation from FY2025 to FY2029



Investment Details

- Relocation of the Food Processing Center (PC, Delicatessen Center) and Head Office
- Investment in facilities, IT, and human resources
- New store openings and improvements to comparable stores
- Consider flexible M&As as needed

Shareholder Return Policy

- Dividend payment based on DOE of 5% or more
- Consider acquiring treasury shares, if necessary

* DOE guidelines reviewed as appropriate

6. Enhancing IR and Governance

Dialogue with shareholders and investors and feedback to management

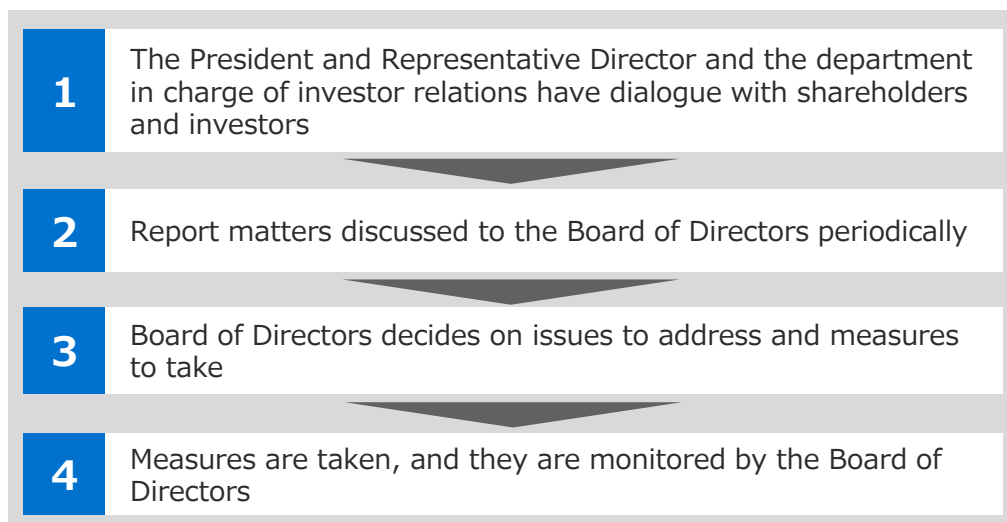
(1) Dialogue in progress

- ✓ IR results for the fiscal year ended February 29, 2024 are as follows. We will continue to provide extra opportunities for dialogue and establish points of contact with the capital market.

Financial Results Briefing	2 times
IR Conference	4 times
Individual dialogue	88 times

(2) Establish a framework for dialogue with investors and feedback to management

- ✓ We will internally share feedback received through dialogue with shareholders and investors and reflect it appropriately in our business management.



Bolster performance-based compensation linked to shareholder returns

(1) Executive Compensation System

- ✓ The Company has introduced performance-linked compensation and stock compensation (restricted shares). We will review the compensation ratio and evaluation criteria from time to time to develop a shared perspective with the capital markets.

Compensation for Directors (Total of 5 Directors excluding Audit and Supervisory Committee Members and Outside Directors)

	Basic Compensation	Performance-linked Compensation	Share-based Compensation
Compensation Amount	90 million yen	28 million yen	36 million yen
Payment Method	Cash	Cash	Shares
Payment Criteria/ KPI	—	Achievement of plans for consolidated net sales, gross profit and operating profit plan	Paid according to position, responsibility, and years of service

(2) Employee Stock Ownership Plan

- ✓ The Company has an employee stock ownership plan. Through this plan, we aim to sustain and enhance our employees' interest in the corporate value.

