Steady implementation of the Medium-term Management Plan: A group-wide drive for substantial growth

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Yoshinoya surpasses forecasts and Hanamaru returns to profitability Performance targets of the Medium-term Management Plan achieved one year ahead of schedule

Looking back at the business landscape in FY2023, the impact of the COVID-19 pandemic that devastated the restaurant industry for three years has largely faded, both domestically and internationally. However, a strong wave of inflation has hit the shores, requiring agile responses to evolving economic conditions throughout the year.

Notably, in the U.S. market, the rapid escalation of inflation in recent years has led to a noticeable increase in overall prices, accompanied by significant increases in minimum wages. Meanwhile, in the Chinese market, the economic slowdown triggered by the real estate downturn has dampened consumer confidence. On the recruitment side, the rise in youth unemployment provides an opportunity to attract talented people, but on the sales side, as in other regions, rising raw material and utility costs are putting pressure on profits.

Prices in the Japanese market have not risen as much as in the U.S., but the deflationary trend of the past 30 years has turned into inflation, which is expected to have a positive impact on economic growth. However, calling this "benign inflation" does not accurately reflect the current business environment of our restaurant industry, given the sluggish growth in consumer disposable income. On the cost side, utility and logistics costs are rising, and the depreciation of the yen is exacerbating the situation. In addition, the price of U.S. beef, a key raw material for the Group, is expected to continue to increase due to supply constraints in the local market.

Against this backdrop, our primary business, Yoshinoya achieved higher-than-expected revenue and profit in FY2023 thanks to net sales growth in existing stores and solid performance in the direct sales business, while the Hanamaru business also achieved sales growth and a return to profitability. The impact of lowering the break-even point between FY2020 and FY2021 to manage the challenging COVID-19 environment was evident, enabling us to secure profitability by offsetting the increase in variable costs and the rising expenses associated with the expansion of the top line. Overseas, our U.S. operations continued to perform well, and China and the ASEAN region also posted higher sales and improved profits over the previous fiscal year.

As a consequence, with net sales of 187.4 billion yen (up 11.5% from the previous year) and operating income of 7.9 billion yen (up 132.1% from the previous year), we successfully achieved results that exceeded the forecast made at the beginning of the fiscal year, thus reaching the performance targets of the Medium-term Management Plan (FY2022–FY2024) of 180 billion yen in net sales and 7 billion yen in operating income a year ahead of schedule.

A year that achieved increased sales and improved profits in each business segment Yoshinoya launches the expansion of takeout/delivery specialty stores

Yoshinoya business in FY2023 focused on the themes of "prioritizing customer counts" and "intensifying growth investment." To attract new customers and increase the frequency of visits by existing customers, we continued the conversion to C&C (Cooking & Comfort) restaurants and "zig-zagged counter" restaurants through new store openings and renovations. In terms of product offering, we reviewed the recipe and operations for *karaage* chicken, a staple item on our year-round menu after Gyudon beef bowls, to ensure quick service and promote sales expansion.

Regarding our focus on "prioritizing customer counts," we successfully captured the recovery of human traffic by enhancing the quality of our products and services and making concerted efforts to raise awareness among store managers and area managers of key performance indicators (KPIs) such as the number of unique users and the repeat rate. In October 2023, we were compelled to revise the prices of our key products including Gyudon Namimori (regular-size beef bowl) due to escalating costs, but we were able to maintain positive growth without a decline in customer numbers.

As part of the "intensifying growth investment" initiative, we expanded the number of C&C stores to 412 by the end of FY2023, raising their share of the total store base to 33.5%. In addition to accelerating the speed of conversion by introducing low-investment models, we are holding quarterly "upgrade meetings" on store remodeling to incorporate suggestions from the field into the next remodeling orders. The conversion to C&C stores, which are designed to be more appealing to female customers, helped increase the percentage of female customers to 28%, approaching Yoshinoya's target of 30%. In addition, C&C restaurants offer convenient access to takeout in addition to dine-in options, which also contributed to the rise in the number of female customers. In response to the growing demand for takeout, we are expanding the introduction of takeout/delivery specialty stores from FY2023.

The direct sales business remained solid in FY2023, achieving net sales of approximately 11 billion yen, continuing the growth in sales of frozen beef bowl topping and retort pouch beef bowl tapping that began during the COVID-19 pandemic. Our future challenge in the next stages of growth will be to attract customers and promote the development of products offered by Group companies other than Yoshinoya.

Our paramount objective for the Hanamaru business has been to achieve operating profitability for the first time in four years. To expand the top line by capturing the flow of returning customers, we initiated company-wide efforts focused on developing human capital, refining product quality, and enriching the store environment. As a result, Hanamaru's operating income returned to profitability in FY2023, supporting the Group's overall profits. However, it may not be entirely accurate to characterize the recovery as robust, as a significant portion of it can be attributed to favorable market conditions. We need to clarify the strategic direction of the Hanamaru business for medium- and long-term growth, while accelerating efforts to improve profitability and implementing a rebranding initiative.

In the overseas business, performance in China and the ASEAN region improved significantly as markets recovered from the effects of the COVID-19 pandemic. However, in China, as noted above, consumer confidence deteriorated amid the real estate downturn, with the impact becoming evident in the second half of the period. In this context, our Group has adopted new measures, such as expanding store openings in the outskirts of Shanghai and consolidating local operating company (companies), which are proving successful. Our U.S. business maintained its robust performance throughout FY2023, driven by menu diversification, store remodels, and the introduction of kitchens that improve operational efficiency. However, we experienced delays in key initiatives, including the planned year-end opening of a commissary center (food processing plant) and the expansion of store openings into other states beyond California. This underscores the need for rapid execution of growth strategies in FY2024.

Our ramen noodle business, which we have been cultivating, also showed improved business performance thanks to an influx of returning customers. In particular, Setagaya, which operates outlets at busy airports or railway station hubs, recovered from sluggish sales in the previous year and posted sales growth. With Link, which operates ramen noodle shops in suburban areas, also performed well. As a pioneering step, we plan to open our first outlet in Scotland this fiscal year. This will be the Group's first venture into the European market and is expected to pave the way for future business prospects.

Significant increase in growth investments in the final year of the Medium-term Management Plan Aggressive store opening for the first time in 20 years to accelerate Yoshinoya's "evolution"

As mentioned above, in FY2023, we exceeded the sales and operating income targets for consolidated performance set in our Medium-term Management Plan one year ahead of schedule, thanks to the robust performance of each business segment. The operating income of 7.9 billion yen is the highest profit level in 20 years since FY2004 when our performance was significantly impacted by the BSE issue. However, as corporate management, we recognize that we cannot afford to be complacent. The performance targets of 180 billion yen in net sales and 7 billion yen in operating income set forth in the Medium-term Management Plan are the minimum levels required to return the funds entrusted to us by our shareholders through stable dividends, and we believe that the achievement itself is nothing to be proud of.

The COVID-19 pandemic forced us to suspend and postpone our long-term ten-year vision, NEW BEGINNINGS 2025 (NB2025), which began in FY2016 just as it was about to enter its expansion phase. As a result, the current Medium-term Management Plan was formulated as our promise to shareholders to achieve at least this much in the three years to FY2024. Under this plan, we are pursuing regeneration to restore the performance of the Hanamaru and ramen noodle business to pre-pandemic levels, while promoting the evolution of the Group through the expansion of overseas operations and the strengthening of the Yoshinoya business, including the conversion of store formats to C&C. Our regeneration efforts were behind schedule in FY2022, the first year of the plan, but we were almost back on track by the end of FY2023.

In FY2024, the final year of the plan, we will significantly increase our growth investments to further accelerate our evolution and take our business to new heights. Central to this strategy will be bold initiatives to open new stores within the Yoshinoya business segment. We aim to raise the number of Yoshinoya stores in Japan from 1,229 at the end of FY2023 to 1,323 by the end of FY2024. With the largest net increase in 20 years, the total number of Yoshinoya stores in Japan will exceed 1,300 for the first time. This expansion campaign is a milestone in that it is the first time during my tenure as President that I have personally overseen an aggressive initiative of this magnitude.

These new store openings include an increase in the number of takeout/delivery specialty stores, which began in FY2023 and have demonstrated steady performance. In addition to actively capitalizing on the surge in takeout demand, a consumer behavior pattern that spread during the COVID-19 pandemic, we see significant potential in takeout-focused store formats given the challenges of securing prime real estate and staffing new store openings. We plan to increase the number of such stores to 117 in FY2024 (an increase of 80 stores from the previous year).

Ready to embark on a new endeavor, the YOSHINOYA business has set the theme for FY2024 as "Reignition—Challenge for All." Reignition symbolizes the act of reigniting momentum and moving forward by departing from the conventional trajectory of stability. The expansion of our store network requires the development of the people who will manage them, which means training new store managers, area managers, and sales managers. To ensure the success of this strategy, every employee is challenged to develop their skills and abilities to achieve growth beyond today. While accepting challenges does not guarantee success, it does guarantee growth. In this spirit, we have demonstrated our company-wide commitment to growth, as embodied in the phrase "Challenge for All."

It is fair to say that the success of our efforts in this one year will determine the trajectory of Yoshinoya's business toward a significant return to growth in the coming years. In addition, looking beyond Yoshinoya, FY2024 is critical to the growth and development of all of our business segments, to improve profitability and rebranding efforts within the Hanamaru business, to strengthen our overseas operations, and more. We are committed to fostering a shared awareness of this challenge for everyone in the Group.

The Medium-term Management Plan calls for 40 billion yen in growth investments over the next three years, with 10 billion yen earmarked for mergers and acquisitions (M&A). Our primary focus for M&A is, in principle, to promote the expansion of our ramen noodle business, and have recently completed the acquisition of shares in a manufacturing and development company that handles ramen products in Japan as well as abroad. We will continue to aggressively scrutinize and review potential projects.

For FY2024, we expect to continue to reach the final year targets of our Medium-term Management Plan with increased revenue and decreased profits, net sales of 203.0 billion yen (up 8.3% year on year), operating income of 7.0 billion yen (down 12.2% year on year), ordinary income of 7.4 billion yen (down 14.0% year on year), and net income attributable to parent company shareholders of 4.1 billion yen (down 26.8% year on year). The main factor contributing to the decline in profits is the temporary increase in expenses associated with the expansion of Yoshinoya restaurants, as mentioned above. However, the deteriorating cost environment, including the escalating price of U.S. beef, is also expected to put pressure on profits. However, regardless of the assumptions outlined in our budget, our firm stance as management is to pursue growth with higher profitability. We remain steadfast in our determination to increase profits and will continue to work diligently toward this goal.

Creating a new long-term vision toward 2040 Embodying the future direction of our "For the People" management philosophy

Over the past two years, we have been working to create a new long-term vision to succeed NB2025 by launching the Forum 2040, which consists of members who were recruited and selected from Group companies in Japan and overseas. As a first step, in FY2022, the 56 members were organized into eight teams, with each team working on a specific topic to create scenarios for the year 2040, using the method of future forecasting, to envision the environment and society in which our Group will be located in the future. And then in FY2023, based on the new vision, they explored what we want to be in the future and compiled the recommendations for the Forum. The new vision will challenge our own intentions, asking us to answer what we want to achieve and how we will go about achieving it.

The reason we began to formulate a new long-term vision in the midst of the prolonged COVID-19 pandemic was that as NB2025 came to a standstill and it became very difficult to see what lay ahead, we felt the need to look beyond the immediate needs to the future and move forward together. As a result, the Forum 2040 activities provided an opportunity for the participating members to share their constructive thoughts through lively discussions. This has had the effect of spreading expectations and hope throughout the company.

The responsibility for developing a new long-term vision has been entrusted to me, the top management, by the Forum 2040. Based on the recommendations compiled by Forum members, we are currently exploring the issue in greater depth toward concrete decision-making. I plan to outline the direction and issue more specific guidelines by the end of FY2024.

However, we find the process of formulating this year's plan much more challenging than when we developed NB2025 in 2015. In developing the previous plan, which required us to "redefine the restaurant industry" as a prerequisite for the Group's sustainable growth and development, we used keywords such as "from competition to co-creation" and "people, health, and technology." We felt it was almost certain that society would move in the direction indicated by these keywords. This time, it is critical to consider how to embody the "For the People" management philosophy in a way that goes beyond the mere continuation of past practices, in the face of projections of a declining global population.

Setting materiality KPIs that enable monitoring to drive company-wide sustainability initiatives

In January 2024, we established the Sustainability Promotion Committee to strengthen our efforts to realize a sustainable society and defined KPIs that represent the targets of our initiatives for the five material issues (critical issues) identified in the previous two years. Each KPI was assigned a numerical target to be achieved by FY2030, with a keen awareness of our contribution to the Sustainable Development Goals (SDGs) to be realized by 2030.

Each of the five material issues represents an important topic that underpins the Group's relevance in society, but the focus on people is particularly important to us as a company guided by the

"For the People" management philosophy, and we recognize that we must take this issue more seriously than any other party. In terms of KPIs, we have set KPIs to improve employee engagement along with the percentage of female employees and managers, and the percentage of employees taking paid leave. In addition to implementing life-work balance initiatives and fostering an organizational culture that encourages positive change, I personally believe it is critical that employees actually feel that the company is growing.

In addition, as a food company, we believe it is our social responsibility to expand store community contribution activities through children's cafeterias and other forms. The employees who have participated in these activities say that we should do more and that they want to do it, demonstrating a level of attention that is much higher than mine. "No poverty" is listed at the top of the SDGs, and I am personally committed to addressing this issue. In terms of materiality KPIs, our goal for FY2030 is to establish a network of initiatives across all prefectures. At the same time, we plan to increase the number of meals served throughout the Group and expand the total number of employees participating in these initiatives.

As part of our efforts to address environmental issues and climate change, we have set targets and KPIs for recycling waste from our domestic factories, reducing the use of certain plastics, and sustaining the continued designation as eco-friendly restaurant. However, addressing environmental issues and reducing our environmental burden is a highly complex undertaking due to the interrelated nature of various factors within our operations and supply chain. In addition, environmental initiatives evolve over time, as responses that were effective a decade ago may not be effective today, and vice versa. What we need here is to examine whether the environmental initiative contributes to cost reduction and quality improvement. In other words, our basic position is that using economic value as the measure of our efforts should make our environmental activities sustainable.

In the future, we will drive sustainability initiatives across the company that lead to the enhancement of our corporate and social value by setting materiality KPIs that enable monitoring. Our business operations have reached a point where profitability, a long-standing concern for the Group, is showing signs of improvement and stabilization. We intend to take on the challenge of growing as a group. In this regard, FY2024 will be a pivotal year for the Group.

We look forward to the expectations of our stakeholders for the future leap forward our Group will realize, and we sincerely appreciate their continued long-term support.

Message from the CFO

Execute financial strategies that support the growth investment acceleration phase and contribute to corporate value

Norihiro Ozawa

Managing Director
YOSHINOYA HOLDINGS CO., LTD.

Strengthening earning power toward sustainable profit growth

Properly manage increased variable costs associated with top-line growth

The Group's medium-term financial strategy features four basic policies: sustainable profit growth, maintenance of financial soundness, improvement of invested capital efficiency, and continuation of shareholder return measures.

In FY2023, all business segments recorded sales increase and profit improvement, and we achieved the final year targets of our Medium-term Management Plan (FY2022–FY2024) of 180 billion yen in net sales and 7 billion yen in operating income, a year faster than originally anticipated. The Group's operating income in excess of 7 billion yen is the highest in two decades.

Looking at key points of our performance, we achieved top-line growth attributable to an increase in customer numbers in all segments as a result of a recovery in foot traffic as the effects of the pandemic waned, and an increase in per-customer spend on the back of price revisions implemented in response to soaring costs. With regard to profit, the recovery of the Hanamaru and ramen noodle business was noteworthy. With a higher marginal profit ratio than other businesses, Hanamaru in particular achieved a marked improvement in profits in addition to increased sales, contributing significantly to the Group's profit growth.

Having achieved regeneration, a policy of the Medium-term Management Plan, Hanamaru will promote a rebranding scheme with new outlet openings so it can shift to the evolution phase from FY2024. Now let's look at Yoshinoya's results. In addition to transitioning to a new service model and expanding takeout/delivery specialty stores, we will refine our ability to attract customers, the foundation for achieving sustainable profitable growth.

Meanwhile, the continued high cost of raw materials and increases in labor and other costs pose challenges to profit growth. The soaring price of U.S. beef in particular has become a prime concern for the Yoshinoya business.Amidst this cost environment, we expect profit to decline in FY2024, attributable in part to a temporary rise in expenses as we will invest aggressively in growth through new outlet openings. Despite this, we do expect to maintain our target for operating income of 7 billion yen set forth in our Medium-term Management Plan.

While properly managing the variable cost increase associated with top-line growth, we will focus on measures to enhance efficiency—such as line expansion at outlets and food processing plants, and the application of technology—to ensure profitability. Initiatives by the finance department will also optimize the scheme to match the scale expansion, such as holding down commission fees through group contracts for cashless payments.

Maintain sound financial condition and boost capital efficiency

The finance department spearheads measures to improve the invested capital turnover ratio

In FY2023, in addition to enhanced profits, we made further progress in financial soundness by lowering interest-bearing debt as intended, raising the equity ratio to 53.4% from 50.9% in FY2022. The debt-to-equity ratio declined to 0.30 from 0.44 in the previous year, well below the target of 0.6 stipulated in the Medium-term Management Plan. Therefore, we recognize that the Group is already well positioned to maintain financial soundness, and we believe that the future capital structure should focus on allocation to growth investments in a more leveraged manner.

Recent growth investments have been funded using EBITDA and cash on hand. The company generated 24.1 billion yen of EBITDA in FY2022 and FY2023 and executed 19.5 billion yen of investments over those two years. In FY2024, the company plans to utilize the margin in the debt-to-equity ratio to finance in-depth investments including the expansion of new outlet openings. In concrete terms, we expect to generate EBITDA of 14.2 billion yen and invest slightly more than that—16 billion yen—in capital.

Looking at capital efficiency, we are conscious that return on invested capital (ROIC) has to exceed the cost of capital as a requirement in expanding corporate value. An ROIC of 5.0% or more is one of the financial targets of our Medium-term Management Plan. We recorded ROIC of 2.9% in FY2022 and 7.0% in FY2023. It is expected to remain above 5.0% in FY2024.

In addition to improving profitability for each business, the finance department is taking the lead in shortening the cash conversion cycle and liquidating idle real estate assets toward boosting the investment capital turnover rate. In FY2023, we succeeded in shortening the cash conversion cycle by four days due to the early collection of notes and accounts receivable related to cashless payments and improved notes and accounts receivable management in the direct sales business. Moreover, the amount of idle real estate assets is currently half that prior to the pandemic, owing to liquidation. This has resulted in the benefits of a slimmed-down balance sheet and the generation of cash.

Furthermore, we have expanded the scope of group finance coverage—which we introduced to our domestic operating companies to improve fund procurement and management efficiency—to our overseas operating companies starting in FY2023. Managing surplus funds not only in yen but also in dollars to optimize capital efficiency and satisfy overseas needs has been very effective.

Key points in FY2024 financial strategy

Ensure effectiveness and certainty of offensive investments in growth

We initially declared a total target EBITDA of 35.0 billion yen over the three years of the Medium-term Management Plan, and we plan to channel 40.0 billion yen into growth investment. That 40.0-billion-yen figure consists of 30.0 billion for growth investment in existing businesses, such as the shift of Yoshinoya business to a new service model, and 10.0 billion yen for inorganic growth investments, such as M&As. However, performance is improving more rapidly than anticipated. In FY2024, we expect final EBITDA to total 38.3 billion yen for the three-year period, with 35.5 billion yen invested in the growth of existing businesses, as we actively invest in the expansion of takeout/delivery specialty stores at Yoshinoya, rebranding Hanamaru, and augmenting overseas businesses.

Meanwhile, turning to inorganic growth investments, we have recently finished acquiring shares in a maker and developer of ramen soup and noodles, and we are actively in pursuit of other M&A projects to grow our business portfolio.

FY2024 is a year in which we adopt an aggressive stance as we transition from defense to offense. To ensure that the company remains financially sound, Yoshinoya Holdings will be required to ensure growth investment effectiveness and certainty while exercising governance over the entire Group.

Continuation of shareholder return measures and awareness of stock price

Annual dividend back to pre-pandemic level of 20 yen per share

Where shareholder return measures are concerned, we were forced to suspend dividends in FY2020 when the pandemic hit. Since resuming dividend distribution in FY2021, we have been working to restore the annual dividend to the pre-pandemic level of 20 yen per share. In FY2023, based on increased profits, we will pay an interim dividend of 8 yen per share and a year-end dividend of 10 yen per share, for a total of 18 yen. And, finally, we intend to pay interim and year-end dividends of 10 yen per share each, for a total of 20 yen per share in FY2024.

As of the end of February 2024, Yoshinoya Holdings' shares were trading at a P/B ratio of 3.41 and P/E ratio of 36.75. The share prices of food service companies that have introduced numerous special benefit plans for shareholders generally do not necessarily depend solely on an earning power evaluation.

We will work to further augment our corporate value by enhancing profitability and guaranteeing growth potential. We will also manage our business in a manner that will allow us to gain the support of more shareholders and investors. Our finance department will play a part in devising effective financial and capital strategies toward realizing this goal and in sharing the development of our business with everyone.

Roundtable: President and Outside Directors

Supporting the transition to the next growth stage from an outside perspective

President **Yasutaka Kawamura** × Outside Director **Daisaku Fujikawa** × Outside Director **Nobuko Sowa**

Assessment of our corporate culture that values people

Kawamura: Ms. Sowa, you assumed the position of outside director a year ago, and I would like to ask you again—from an external perspective—your impression of our Group and its characteristics.

Sowa: During the past year, in addition to attending meetings of the Board and advisory committees, I participated in various internal meetings and inspected factories and other sites. In the course of my work, I felt strongly that this company has a deeply rooted corporate culture that values people. I personally have been a fan of Yoshinoya beef bowls since my days as a student, so I am impressed that the origin of the deliciousness of the dish is indeed people. That feeling is consistent with, and embodied in, the business philosophy, "For the People."

With regard to diversity, numerical figures such as the proportion of female managers can still improve, but I believe that the entire Group is striving to foster a workplace where all people can play an active role regardless of gender, age, nationality, and disabilities.

Kawamura: Both of you are active in foreign-affiliated companies and have a great deal of experience in overseas business. As such, we expect that you will be able to offer us many useful suggestions and remarks that are necessary in expanding the Group's business globally. Furthermore, since digital technology is one of our central themes, Ms. Sowa's expertise in IT and DX is very encouraging.

Sowa: My appointment as an outside director came just as the company has established the Group Digital Technology Promotion Division and is steering toward a new digital strategy. While sorting out issues faced to date and identifying priorities, I look forward to working with you in helping to create digital tools that our customers and employees can utilize, and to contributing to the growth of the Group.

Kawamura: Mr. Fujikawa, you continued to serve as an outside director in FY2022, providing us with multifaceted advice underpinned by your vast knowledge in finance and other areas. In your second year in this capacity, did you experience any changes in the Group from the preceding fiscal year?

Fujikawa: In my second year as an outside director, I began to see connections between various pieces of information and the Group's activities became visible. Numerically, recovery in foot traffic led to improvement in our business performance, but this is also true of the rest of the food service industry. I believe this was a year for us to determine what the post-pandemic landscape looks like for us and to consider our next steps. I got the impression that there was a shared, positive sense of urgency among all employees and that the atmosphere changed to one that is more energetic. I think we have also seen a sense of speed, a driver of growth.

Vitality of the Board of Directors and intent to grow further

Kawamura: Discussions at meetings such as those of the Board have been more active during the past year than ever. How do the two of you assess the Group's management for FY2023?

Sowa: The company's Board of Directors engages in a vigorous exchange of opinions on matters to be resolved and a host of other topics. In response to reports from divisions and operating companies, we, as outside directors, ask frank questions and receive detailed explanations from the executive side. Even if we do not get an answer immediately, there is always a comprehensive follow-up. This is also true of the various meetings. I like that there is an opportunity for further in-depth discussion at a later date, or where there is no scenario, and the atmosphere is somewhat less formal.

In FY2023, we achieved excellent results in terms of performance, as evidenced by our achievement of the targets of the Medium-term Management Plan ahead of schedule. We can also say that we made significant progress in evolution and regeneration. But what we are saying to the Board is that we cannot afford to rest on our laurels. We are now in a situation where we have gained a foothold with the recovery in foot traffic serving as a tailwind. From this point, how will we achieve growth as a group? The way I see it, the success or failure of evolution and regeneration is at stake.

Kawamura: The entire management team and I myself, of course, share the common understanding that we are not satisfied with the current situation.

Fujikawa: It was a year of noteworthy turnaround—including the recovery of the Hanamaru business—and it goes without saying that our employees made a tremendous effort. It comes as no surprise, however, that the performance of the restaurant industry has improved as the pandemic has subsided.

I mentioned earlier regarding the changes in our Group that I have seen a sense of speed, which drives growth, but how we will adjust our business portfolio going forward has yet to be determined. Looking at competitors in our industry, they have already begun implementing changes to their business portfolios, such as accelerating their expansion overseas. We also must not simply be satisfied with improved performance. It is imperative that we set the next goal and shift from a defensive stance to an offensive one.

Sowa: When we establish that next goal, we will ask the executive side to be transparent in explaining the purpose and rationale for why we are undertaking it and how we will make it happen. Furthermore, I believe that the role of the outside director is to offer an external perspective on how the Group as a whole should function and how to enhance synergies for growth.

Fujikawa: In my position as an agent of shareholders and outside director, I will continue to encourage growth investment and, through higher growth, look to satisfy shareholder expectations.

I already sense that morale is rising inside the company as people share the wish for the entire Group's further growth. The meeting of the Group Strategy Council held in September 2023 was attended not only by members of the Board of Directors and executive side, but also by approximately 40 employees who will be the leaders of the next generation. The gathering provided the younger employees with an opportunity to discuss their own notions about the future of the company and engage in a frank exchange of opinions.

Kawamura: Previously, Group Strategy Council meetings had been held as so-called "executive camps." In FY2023, though, the discussion was extremely active, including members of the forum spearheading the formulation of our next long-term vision. In a straightforward exchange, I was scolded by many employees.

Fujikawa: I think it is wonderful that employees can honestly say, "Hang in there, boss!"

Nomination and remuneration functions required of the Group for the future

Fujikawa: The Remuneration Advisory Committee, on which I serve as chair, works to ensure the transparency and soundness of executive remuneration by crafting a system that reflects the performance of our business, and reports to the Board of Directors. In FY2023, from the perspective of the move toward benchmarking and the balance between remuneration and personnel evaluation, the Committee deliberated the need to revisit the remuneration determination policy.

Kawamura: Before this committee was established, I was conducting performance evaluations of each Board member. Because, however, of the influence of the external environment and other factors that must be accounted for—as well as my own remuneration—I have asked the outside directors who attend the Commitment Council meetings and budget approval meetings to take the lead.

Sowa: We likely cannot achieve transparency and soundness without system maintenance. I intend to be involved in all discussions to make the remuneration system more appropriate going forward.

Kawamura: Meanwhile, I chair the Nomination Advisory Committee, which considers and reports on the appointment and dismissal of directors as well as succession plans. The Committee includes experts from outside the company who have been involved in training our younger leaders for some time. This is because we feel it is a challenge for outside directors to gain a detailed understanding of and appropriately assess the qualifications and eligibility of employees in-house who are candidates for the next management and executive slots.

Fujikawa: That is a valid view, and from an external standpoint what we need to do is to monitor the process for appropriateness. This includes the criteria used to select candidate personnel and the kinds of training and personnel reassignments used to create succession plans, and we need to ensure transparency and soundness throughout. Both Ms. Sowa and I have experienced the skillful use of personnel for promotion in the past. We can objectively check, for instance, for unbalanced promotions. I believe we can provide effective monitoring.

Another challenge with regard to the nomination function is securing personnel to succeed the president. This is crucial not only from a generational perspective but also in terms of emergency contingency planning and business continuity. It is important that successor personnel be present within the company at all times.

Kawamura: In recent years, the introduction of the quota and the fixed-term systems has created depth in the population of executive candidates and promoted the appointment of younger executives. The question of how to provide them with management experience, however, remains a difficult topic going forward.

Sowa: I hope that Mr. Kawamura's leadership ethos of never resting on our laurels and looking forward to the next growth stage will be handed forward to future management and that we will continue to develop as an exciting corporate group.