

Growth Strategy

Message from the Chairman

**With a genuine and sincere focus on our customers,
we will refine and sustainably grow our business.**



Akihiro Aoki

AOKI Holdings Inc.
Chairman and
Representative Director

Introduction

I would like to express my appreciation to all of our stakeholders for their continued support of the AOKI Group. Further, I would like to take this opportunity to apologize to our customers and all our stakeholders for the inconvenience and concern caused by the arrest and indictment of our former officers and others on charges of bribery and for their suspended convictions.

We established the Corporate Governance Inspection and Reform Committee on September 5, 2022 to look into the causes of this matter, including issues with governance, and to verify measures to prevent recurrence. At the same time, this is making concrete efforts to reflect the recommendations in the report received from the Committee so that we can implement measures to prevent recurrence.

We are treating this matter with the utmost seriousness, and will work to restore the trust of customers and all other stakeholders in order to create a new AOKI Group.

Business environment awareness and short-term policy

In the current business environment, we are seeing an improvement in the situation with a visible increase in the number of customers at our stores in response to the downgrading of COVID-19 to a category V infectious disease. Although unavoidably curtailed over the last three years, we feel that this human need to meet, talk with, and eat with others—in general the desire to go out—has now been given free rein, and this has become a strong factor bolstering all of our businesses.

However, we have realized from the three years of COVID-19 that lifestyles and business styles change from year to year, and the experience that “previous year’s efforts cannot set a precedent,” result in dizzying changes in the products required. Accordingly, even though the flow of customers has recovered, we feel we should not simply follow a play that relies purely on precedent. We feel that the important thing is to take into account the values, needs, and wants of customers in their daily lives—all of which have changed because of COVID-19—through attentive customer service and proactive communication, and apply them carefully in the development of new products, services and content.

One example of this is in AOKI’s Fashion Business, where the year before last we created a system called Voice of Customer (VOC) which regularly aggregates customer

feedback from email, social media chats, and other sources. We quantify customers’ latent needs and wants, including not only feedback and support, but also their requests and suggestions. Management monitors these on a weekly basis, and so we are able to take speedy action based on the current situation.

Medium- to long-term growth strategy

As a direction for increasing corporate value over the medium- to long-term, we believe that combining in-store customer service and communication with customer feedback centered around our three existing mainstay businesses of Fashion, Anniversaire and Bridal, and Entertainment is the only way to further increase the number of existing and new customers, and to raise the top line. In addition, renewing the IT system which uses a cross-functional paradigm common throughout the three group businesses will allow us to both further increase business efficiency and maximize profits, and will also create a premium conglomerate by building a system that consolidates and utilizes customer information, one of our most important resources.

Also, in order to increase synergy among businesses, it is essential to foster and utilize human resources who will be responsible for this synergy, as well as to carry out human resource exchanges among businesses. Understanding the value of both the tangible offerings from our Fashion Business and the intangible offerings from our Anniversaire and Bridal Business and Entertainment Business, as well as experiencing the differences in experiential value from both of these intangible businesses will lead to new product and service ideas and discoveries. We will continue to develop hybrid human resources with experience in being rotated amongst these three businesses, and going forward we will foster management candidates with the skills to manage the entire group.

In view of rising prices due to the rising energy and raw materials costs, coupled with the geopolitical social situation, customers’ consumer sentiment is still hesitant in spite of increased store visits. In such an environment, each business in the AOKI Group will develop unique products and services borne of customer feedback, and fusing the tangible and intangible we will work to create and propose new value. You can expect great things from the AOKI Group going forward.

Growth Strategy

Message from the President



Haruo Tamura

AOKI Holdings Inc.
President and
Representative Director

We will create an AOKI Group that brings sustainable growth through objectively focusing on our strengths and the challenges we face.

Balancing quick and decisive decision-making with the pursuit of the AOKI Group Philosophy

I am Haruo Tamura, and I took up the position of President and Representative Director in December 2022.

After working for a financial institution in the Tokyo metropolitan area, I became a member of the AOKI Group in 2003. I later became Executive Vice President of AOKI Holdings in 2010, and for approximately 20 years since joining the company have been responsible for the management of the AOKI Group, focusing on overall financial and administrative operations. Through my experience in these roles, I have come to realize that it is essential that sustainable growth of corporate management have a high sensitivity to social and consumer trends and that we make quick and decisive decisions. At the same time it is also important that we pursue the AOKI Group Philosophy from a medium- to long- term perspective without hesitation, ensuring that both of these are in balance. The social situation is changing at a bewildering pace with an ongoing uncertain business environment, however in my role as a representative of AOKI Holdings, I will take this opportunity to reaffirm my commitment to achieving these two goals and to living up to these responsibilities.

Quickly providing products, services, and experiences that respond to changes based around customer feedback

Here I will discuss our current business performance, and my perception of the market environment. In the fiscal year ended March 31, 2023, we have seen an upturn in customer sentiment stemming from a gradual relaxation in restrictions on activities in place stemming from the COVID-19 pandemic. As a result, in the fiscal year ended March 31, 2023, we posted net sales of ¥176.1 billion and operating profit of ¥10.2 billion, up 88.0% from the previous year, due in part to successful cost-cutting efforts, achieving increases in both sales and profit in our Fashion, Anniversaire and Bridal, and Entertainment businesses. We remain aware of the figures from before the outbreak of COVID-19, (¥195 billion in net sales and ¥13.4 billion in operating profit for the fiscal year ended March 31, 2019), and we have confirmed that these are returning to similar levels during the current fiscal year.

For the most recent market environment, consumption trends have been gradually picking up against the backdrop of the downgrading of COVID-19 to a category V infectious disease, but the impact of soaring energy and raw material

prices coupled with the yen's depreciation caused by the situation overseas remains uncertain. Based on our experience of "previous year's efforts cannot set a precedent," we will hold back on new store openings in the fiscal year ended March 31, 2024, and continue to promptly provide products, services, and experiences based around customer feedback, with these responding to changes in the market environment and lifestyles. In addition, we will continue to work to improve profitability by increasing operational efficiency within each business, and enhancing synergies between our businesses. Based upon this, we are planning net sales of ¥180.5 billion and operating profit of ¥10.8 billion for the fiscal year ending March 31, 2024.

Three strategies to strengthen profitability in existing stores

Next, I will touch upon our efforts to promote growth strategies from a medium- to long-term perspective. In the fiscal year ending March 31, 2024, we will again review the store formats for each of our businesses, and ensure that the fiscal year is one of solid profitability in our existing stores.

Our main directions are threefold: (1) to create synergies among businesses and new profit opportunities by leveraging the Group's nationwide network of more than 1,400 stores, (2) to diversify points of contact with customers and improve operational efficiencies by investing in group-wide IT infrastructure, and (3) to create a system to consolidate and utilize customer data, an important management resource. Based around this policy, we will present key measures during the fiscal year ending March 31, 2025, and announce a new medium-term management plan comprising specific indicators and targets that factor in stakeholder feedback.

Implementing investment weighting that factor in changes in environments of each business, and time frames for generating results

Next, I will discuss our financial and investment policies and the directionality of sustainability management in promoting our growth strategy.

I get asked by shareholders and investors which of our three business segments we will be focusing on. In this, we intend to continue to invest in growth in each of our businesses. However, this is not an even distribution—instead we believe that it is important to

provide a weighting for the results based on the time frame until results are produced, taking into account changes in business environments experienced by each business. For example, in our Fashion Business, our basic strategy is to in the future grow the overall business by changing the product mix, such as by expanding casual and ladies' products. However, achieving the target sales mix takes a certain amount of investment and time, such as that required to develop new products and to gain recognition from customers. Therefore in the Entertainment Business, we envisage small-scale investments that can be recovered in a relatively small time-frame, such as store renewals, content expansion, and increased fully private rooms with locks in the KAIKATSU CLUB, and in the Fashion Business, bridging the time-lag until results are observed. In these, strategic investments will be made in each business over both single-year and medium- to long-term time frames.

In financing, we refrained from financing during COVID-19, and we are currently able to finance our operations with cash on hand and existing loans. Also, we currently have an internal rule to set and monitor payback periods of invested funds on a cash basis as one criteria for our investment decisions, however looking forward we hope to consider new criteria and management methods such as by setting hurdle rates per business segment, aimed at improving investment efficiency.

Strengthening measures related to “human resources” and “environment” towards sustainability management

There are multiple trends related to sustainability, and these are constantly changing. So that we can respond appropriately to these changes and enhance our corporate value, we must not only think by ourselves, but also keep attentive to the situation both within the company and externally, collaborate with related industry associations and other companies, share information, and promote diverse and multifaceted ways to address issues.

Such thinking led to the establishment of the Sustainability Committee in 2021, which has identified material issues (materiality) and key performance indicators (KPIs) that correspond to the characteristics of our businesses, and we have been further strengthening our efforts in the fiscal year ended March 31, 2023. As one part of these efforts, in cooperation with personnel from each Group company, the Sustainability Promotion

Department established in December 2021 is taking the lead in confirming progress toward achieving KPIs and in sharing information on specific initiatives. While continuing with discussions in the future, the Committee will be central in following up with these members in achieving these targets. We are also considering incorporating sustainability-related KPIs as one part of the evaluation of directors and other members of the management team in order to link our initiatives to our day-to-day management decision-making processes.

As regards individual issues, we intend to actively engage long-term in the practice of “human capital management” spearheaded by the Ministry of Economy, Trade and Industry (METI). Human resources comprise one of the materialities of our Group, and we believe that in order to achieve KPIs such as increasing the number of female managers and improving employee engagement, it is necessary to position these as growth strategies and have management take independent action. Confronting the issues of the environment, which might better be termed a climate crisis, is now the paramount theme for companies, and so we will continue to focus on developing environmentally friendly products as a materiality and a KPI, and on reducing CO₂ emissions during production and in our stores. Furthermore, in line with the framework of the TCFD recommendations we will also support the development and sale of eco-friendly products and services in each of our businesses, while disclosing and monitoring information.

Strengthening governance and compliance as a company with an Audit and Supervisory Committee

Corporate governance and compliance is one of the materialities of our Group for which our stakeholders have high expectations. In strengthening these, we are working to enhance our monitoring and evaluation system from the perspective of a third party outside the company. Specifically, in June 2023, with the aim of improving management transparency and speeding up decision-making we transitioned from being a company with a Board of Auditors to one with an Audit and Supervisory Committee. In addition to the existing Board of Directors, we plan to incorporate an evaluation of the effectiveness of the Nomination and Remuneration Committee. In addition, we will provide External Directors with more detailed information than in the past through ensuring their participation in meetings of Subsidiaries, so that they can learn about the Group's

management decision-making and execution processes as well as understand realities of the business.

Meanwhile, we are also implementing various internal measures, including the establishment of a new Compliance Office as of November 11, 2022 aimed at strengthening our governance and compliance systems.

→ For Initiatives to Reinforce the Governance and Compliance Framework, please refer to P.17-18.

Implementing disciplined and strategic financial measures while aware of the cost of capital

We are aware that the March 2023 announcement by the Tokyo Stock Exchange to “take action toward achieving management that recognizes the cost of capital and stock prices” poses major challenges for the AOKI Group. Along with continuing to improve profitability and asset efficiency, our current response will be to also repurchase our own shares as one part of our return policy. We also recognize the importance of implementing more strategic

and rigorous investment decisions and monitoring, such as by considering the establishment of hurdle rates for each business segment as mentioned above, along with further raising awareness of the cost of capital and stock price trends among management as a whole. We believe that using such efforts to achieve a ROE of at least 8% is a necessary condition for improving PBR.

I feel that my long years of experience in observing the AOKI Group's overall financial and administrative operations means that I have an objective understanding of its strengths as well as the challenges it faces. I believe that my duty, and an important role expected of me by our stakeholders, lies in strengthening sustainability management and in developing and implementing more precise and innovative financial and capital strategies—both of which are currently required. I ask for your understanding and support of the AOKI Group in our efforts to tackle various challenges and make new changes.



Initiatives to Reinforce the Governance and Compliance Framework

The following is a report on the state of initiatives to reinforce the governance and compliance framework as it pertains to an act of bribery (“the incident”) committed by individuals who include former Company executives.

Establishment of the Corporate Governance Inspection and Reform Committee

In response to the incident, the Company established the Corporate Governance Inspection and Reform Committee on September 5, 2022. The Committee comprises two external experts with no vested interests in the Company and one External Director from the Company. It has begun the process of researching and discussing recommendations for measures to prevent similar incidents in the future, which include confirming facts related to the incident and investigating the

causes, among which are the Company’s governance and internal control framework that enabled the incident. Under the leadership of the President and Representative Director, on September 21, 2022, the Company established the Governance Task Force to promptly investigate the causes of the incident and carry out all protocols and measures appropriate for a company to carry out.

Recurrence prevention measures taken ahead of recommendations from the Corporate Governance Inspection and Reform Committee

Recurrence prevention measures	Actions taken
• Re-examine mechanisms for assessing compliance risks concerning dealings with new trading partners	Make changes to the process for assessing risks involving new trading partners
• Further strengthen internal audits aimed at ensuring that the above risk assessments are being done properly and continuously	Make changes to the protocol for assigning the above risks to audits conducted by the Internal Auditing Office
• Revamp a compliance training program for officers and employees, including Group Directors	Provide compliance training to all Group Directors, officers, and employees
• Re-familiarize Group Directors, officers, and employees with the details of the internal reporting system, and make revisions as necessary	Make changes to the process for responding to internal reports
• Build and implement a system for promptly reporting risk information to, and regularly sharing information among, External Directors and Auditors	Build a system to enable External Directors and Auditors to re-evaluate matters such as dealings between Group companies, high-risk dealings, and reputational risks
• Revise and implement organizational changes aimed at reinforcing the Company’s governance and risk management framework	Established the Compliance Office on November 11, 2022

Receipt of and response to the Investigative Report from the Corporate Governance Inspection and Reform Committee

On March 28, 2023, the Corporate Governance Inspection and Reform Committee released a report following its investigation into and confirmation of facts concerning the incident. As examples of measures to prevent similar incidents, the report recommends “strengthening oversight by the Board of Directors and External Directors,” “granting more authority to the Nomination and Remuneration Committee,” “reinforcing the new governance framework in light of the incident,” and “bolstering the Company’s internal reporting system and compliance framework.”

The Company is now diligently executing recurrence prevention measures based on the recommendations. Additional measures are also being taken as necessary based on a comprehensive review of existing recurrence prevention and other measures. Going forward, the Company will faithfully reflect on insights and recommendations from the Committee, and will make a concerted effort to restore people’s trust in the Company and remake the AOKI Group based on a strong commitment from management to preventing similar incidents.

Actions in response to recommendations from the report

Having once again identified specific issues and established deadlines and staffing for each organization, the situation is being monitored through a project that reports directly to the President and Representative Director, and steady progress is being made toward solving these issues.

Main recommendations	Actions taken and to be taken
Strengthening oversight by the Board of Directors and External Directors	<ul style="list-style-type: none"> Utilization of External Directors (putting more External Directors on the Board of Directors, ensuring the independence of External Directors, and building a support system for External Directors) Reinforcing the oversight functions of the Board of Directors (transitioning to a company with an Audit and Supervisory Committee) Review of agenda items covered by the Board of Directors
Granting more authority to the Nomination and Remuneration Committee	<ul style="list-style-type: none"> Status, authorities, and operations of the Nomination and Remuneration Committee Documenting and storage of discussions held by the Nomination and Remuneration Committee Effectiveness assessments by the Nomination and Remuneration Committee
Reinforcing the new governance framework in light of the incident	<ul style="list-style-type: none"> Reorganizing Group company relationships (building a mechanism for establishing Group company roles and management strategies, and monitoring subsidiaries)
Bolstering the Company’s internal reporting system and compliance framework	<ul style="list-style-type: none"> Properly conducting the decision-making and approval process, and establishing related rules Reviewing the discussion process and building an information sharing system for management meetings Reinforcing checks and balances through organizations such as the Internal Auditing Office and Compliance Office Reinforcing checks and balances through internal audits Redefining and re-familiarizing employees with the Code of Conduct

Investigative Report from the Corporate Governance Inspection and Reform Committee

https://ir.aoki-hd.co.jp/ja/news/news/houkoku_20230328/main/0/link/houkoku20230328.pdf
(Japanese text only)

Transitioning to a company with an Audit and Supervisory Committee

Following approval at the 47th Ordinary General Meeting of Shareholders on June 29, 2023, AOKI Holdings became a company with an Audit and Supervisory Committee from a company with a board of auditors.

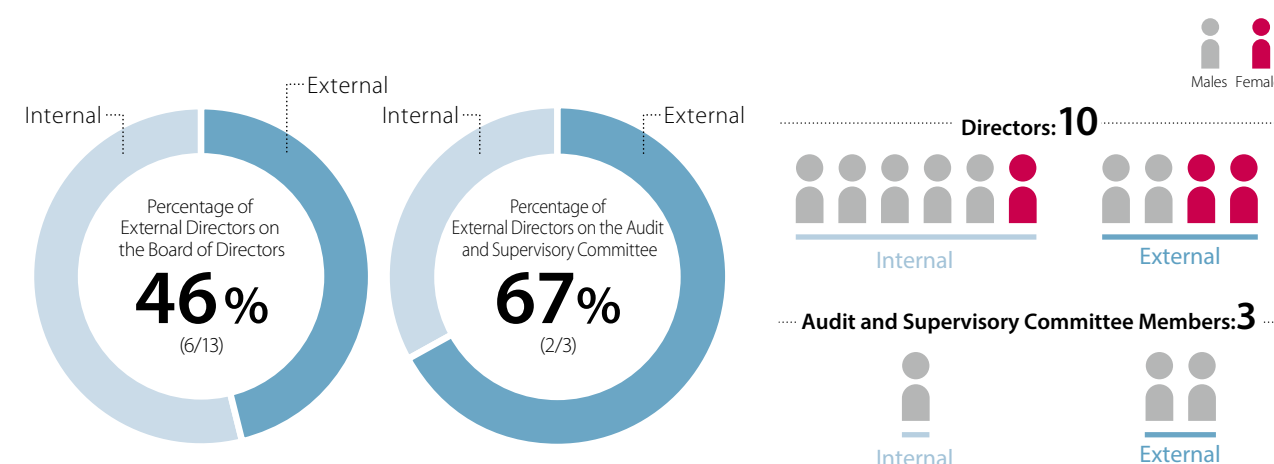
Purpose of the change to a new governance system

(1) Increase transparency of AOKI Holdings’ management

The Audit and Supervisory Committee, where the majority of members are external directors, has the role of strengthening corporate governance by performing supervision to ensure that businesses are operated in compliance with laws and regulations and are managed properly.

(2) Faster decision-making

By giving directors more authority for making decisions about business operations, a supervisory committee system makes it possible for directors to more quickly reach management decisions and take follow-up action.



Growth Strategy

Value Creation Model

Enriching lives by creating joy and driving innovation in line with the times

Over the years, the AOKI Group has sought to develop new products and services befitting the business environment. That same ideal holds true today as we continue cultivating businesses that address social issues and help us make our sustainability vision, “enrich lives by innovating new joy” a reality. To this end, we leverage our four strengths of customer service capabilities/human resources, store development and operating capabilities, product and service planning capabilities, and customer base.

