

Third Quarter of FY2024 FAQ

Oisix ra daichi Inc.

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Oisix ra daichi

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- Q Social Service Business
- Q Vehicle Operation Service Business
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Others

- Q Acquisition Cost and Churn Rate
- Q BtoC - Food Delivery Market
- Q BtoB - Food Delivery Market
- Q Macro Environment - Soaring Food Prices

Q

What are your views on sales for Q3 and your forecast for FY24?

A

In cumulative Q3, sales were 76% of the initial full-year forecast, indicating steady progress. We expect full-year results to be essentially in line with our initial forecast for FY24.

In the BtoC subscription business, the number of subscribers is growing more slowly than we had expected, because we continue to focus on acquiring subscribers with a view to cost-effectiveness. However, sales are progressing steadily, due to improvements in ARPU.

The BtoB subscription, social service, and vehicle operation service businesses are also progressing steadily.

Q What are your views on EBITDA and operating profit for cumulative Q3 and your forecast for FY24?

A In cumulative Q3, EBITDA was 94% and operating profit was 84% of our initial full-year forecast, indicating steady progress. For FY24, we expect EBITDA to exceed our initial forecast. We believe operating profit will be essentially in line with the initial forecast.

In the BtoC subscription business, the profit margin improved due to the cost-effective acquisition of new subscribers and an increase in ARPU.

On the other hand, progress in the BtoB subscription business is behind our initial forecasts due to soaring costs of ingredients, especially rice, since the start of Q3. We are currently working to increase prices, but we expect the results of these efforts to first become apparent in our financial results after April 2025.

Q

What are your views on net income for Q3 and your forecast for FY24?

A

In cumulative Q3, net income progressed steadily. We have already surpassed our initial forecast for the full year. However, we have not revised our annual forecast, as we anticipate extraordinary losses we expect to incur in Q4.

We generated non-operating income and extraordinary income in cumulative Q3 due to the sale of part of an affiliated company's business, as well as the sale of shares in a subsidiary CVC investment. However, in Q4 we expect to incur extraordinary losses due to costs of investigating inappropriate accounting by SLOGIX (approx. JPY 200MM).

After applying tax-effect accounting, we expect the effective tax rate to be 40–45%, after adjustments for such items as amortization of goodwill and valuation allowances (including carried-over losses) are made to the statutory tax rate (30.6%).

Q What are your views on the BtoC Subscription Business in cumulative Q3 and your forecast for FY24?

A In cumulative Q3, sales reached 74% and profit was 82% of our initial full-year forecast. We believe profit is likely to exceed our initial full-year forecast for FY24.

As mentioned earlier, we are seeing steady progress with our three brands in Japan.

On the other hand, while sales of Purple Carrot (US) are progressing as initially forecast, profit is below initial expectations. This business is generating losses due to soaring costs of cooling materials in the summer and ingredients in Q3. However, this business is profitable in its Q4 (October to December in U.S.).

Q What are your views on the BtoB Subscription Business in cumulative Q3 and your forecast for FY24?

A In cumulative Q3, sales were 77% and profit was 64% of our initial full-year forecast. We believe profit is likely to finish below our initial full-year forecast for FY24.

This performance stems from the soaring cost of ingredients, especially rice, since the start of Q3. We are currently working to increase prices, but we expect the results of these efforts to first become apparent in our financial results after April 2025.

Q

What are your views on the Social Business in cumulative Q3 and your forecast for FY24?

A

In cumulative Q3, sales were 76% and profit was 84% of our initial full-year forecast. We believe both sales and profit are likely to exceed our initial full-year forecast for FY24.

The Social Business is divided into the following segments: After-school Childcare, Public School Meals Services, and Social Services (operation of local government facilities such as roadside stations and libraries).

In After-School Childcare, which accounts for approximately 50% of sales and profit, new project acquisition remains steady.

Q What are your views on the Vehicle Operation Business in cumulative Q3 and your forecast for FY24?

A In cumulative Q3, sales were 79% and profit was 94% of our initial full-year forecast. We believe both sales and profit are likely to exceed our initial full-year forecast for FY24.

The Vehicle Operation Business is divided into the following segments: Executive Vehicles, General Vehicles and Passenger Transport.

In the Executive Vehicles and General Vehicles segments, which account for approximately 40% of sales and profit, the acquisition of new projects and increasing prices have progressed steadily.

Q

What are your views on the Other Business in cumulative Q3 and your forecast for FY24?

A

In cumulative Q3, sales were 87% and profit was 59% of our initial full-year forecast. We believe profit is likely to finish below our initial full-year forecast for FY24.

Other businesses include BtoC subscription business (ISETAN DOOR) outsourced from other companies, and the businesses of consolidated subsidiaries such as Tokushimaru.

Sales are progressing steadily, due to the impact of AGRIGATE and HiOLI, which became subsidiaries in and after January 2024, but profit is low due to such factors as the discontinuation of the “d- Meal Kit Service.”

Q

What trends are you seeing in the cost of acquiring new subscribers and the churn rate?

A

Although the cost of acquiring new subscribers and the churn rate are improving, they have not yet reached our targets.

In the short term, the number of subscribers will not increase significantly, but in the medium to long term, we aim to optimize the cost of acquiring new subscribers and reduce the churn rate of new subscribers immediately after they join.

In addition, we are implementing several measures to improve the churn rate immediately after subscribers join, because subscribers immediately after joining have the highest churn rate. For instance, we are introducing a follow-up system for people who are satisfied with the contents of the “trial set” they purchase, but lack some understanding of the service or product.

We plan to continue acquiring new subscribers with a focus on cost effectiveness.

Q

What are your views on the food delivery market, and what is your strategy for differentiating your service from that of other companies?

A

Japan's food delivery market is currently worth around JPY3 trillion and is expected to continue annual growth of around 3%. Our share of the Japanese market is only a few percent, and taking into account the examples of global companies, we think we can grow the market share. Also, online food sales are a niche market in Japan, accounting for only around 4% of the total, and we expect the overall market to become more active.

We are developing services that target specialty subscription areas. We have established high barriers to entry, such as by forming a direct network with contract farmers who produce high-value-added products and by honing service development skills based on customer insights. Finally, we have established the No. 1 position in terms of total distribution amount.

We aim to continue increasing the number of subscribers to our services and improving our profit margin.

Q

What are your views on the BtoB food delivery market, and what is your strategy for differentiating your service from that of other companies?

A

Japan's BtoB food delivery market is currently worth around JPY5 trillion. The market is stable and growing, centered on company cafeterias and elderly care facilities. On the other hand, there are concerns about a decline in the quality of food due to recent shortages of human resources and rising costs of ingredients and labor. The industry has been marked by instances of poor performance and bankruptcy among food service providers.

We aim to expand the know-how we have gained through our BtoC business into the BtoB food delivery business. We also intend to build and introduce a "time-effectiveness food delivery model," which will save labor and achieve high added value. We will also actively pursue M&A opportunities and aim to become a top-tier player in the BtoB food delivery market.

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Q

What are your views on the BtoB food delivery market, and what is your strategy for differentiating your service from that of other companies?

A

We can reduce facility cooking times by up to 50% and improve the rate of food being eaten, while also applying the know-how we have gained from our meal kit business to the BtoC food delivery business. In the future, we aim to accelerate the development of our meal kit by creating models that align with the characteristics of each facility, such as company cafeterias, elderly care facilities, and nursery schools.

Q

What are your views on the soaring prices of ingredients, especially vegetables and rice?

A

We purchase directly from our contract farmers through our network. By entering into contracts in advance and purchasing directly, we are able to minimize the impact of rising ingredient prices compared with traditional distribution channels that rely on wholesalers.

We handle organic/low-pesticide vegetables and additive-free processed foods, and as many of these foods are in the higher price range compared to regular foods, we expect the relative price difference with regular retailers to shrink as inflation rises.

We are also proactive in purchasing non-standard and surplus fruits and vegetables, and using them as ingredients for processed products, such as meal kits. We will continue working to balance price optimization efforts and reduce the cost of goods.

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Q

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A

On the other hand, the BtoB subscription business involves many traditional distribution channels that go through wholesalers, so this business model is sensitive to market prices. Recently, we have been working to optimize prices despite soaring costs, but the effects of our efforts to optimize prices may be delayed due to rising food costs, which could affect our profit margin.

In the Kanto area, we have already started joint procurement of some fruits and vegetables for facility meals. We intend to expand our procurement of ingredients that are less sensitive to market conditions. To achieve this, we will employ the direct network with contract producers that we have cultivated through BtoC subscription businesses such as Oisix to the BtoB subscription business.

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Contact:

Investor Relations Department, Oisix ra daichi Inc.

E-mail: ir@oisixradaichi.co.jp

Oisix ra daichi