

Overview of Q&A session at analysts briefing for 1H FY June 2019. (July-December, 2018)

This document illustrates an overview of Q&A session at analysts briefing for the first quarter results. Questions and answers are edited for clarity.

Q1. How will you change the organization structure in the second half of the year?

A : Any company can not be changed unless the place of authority is changed. Since we are in the service industry, if the place of authority is not properly changed to on-site, the store will not change. If stores change, the link to customers change, the relationship will change, and ultimately, that will translate into results. We will change our organization by delegation authority more to front line staff member.

Q2. How do you see your growth potential for domestic business?

A : We think that the same store sales should grow. We will be able to maintain the stable growth at existing stores at an operating income growth of 1% or 2%.

Q3. When will your overseas business account for a half of your total sales, and what percentage of your operating income will come from overseas then?

A : Yasuda and Ohara are taking the lead for overseas business. We need to have three organizations: the head office organization, the indirect operations organization, and the sales organization. Establishing format while bringing these organizations together is the approach taken by personnel. Accordingly, we are currently working to expand overseas by sending more and more personnel overseas who are motivated in Japan as well as overseas. It is a bit early to say what profits will be, but by the time overseas sales will reach 33%, we would like to enjoy 33% of profit from overseas.

Q4. How did you make an assumption for UNY conversion project to add 20 billion yen of operating income?

A : The assumption is calculated based on the analysis data when opening new stores and our actual store performance data applied to UNY stores.

Q5. What needs to be done for UNY to achieve profit growth at retail business?

A : UNY is covering the loss from retail business with tenant leasing business. Thus, UNY is leasing the best locations for its tenants in some cases. It is important for UNY stores to maximize profit by attracting customers to retail business.

Q6. Do you plan to change the system of personnel, pay and evaluation at UNY?

A : Various systems are different between us. We are in the process of matching various systems such as personnel to be united as a group and now formulating concrete plans. It is necessary to foresee a bright future together with UNY associates and create enjoyable working environment.

Q7. What order and in what time span are you going to reform besides stores, such as logistics and IT system.

A : There is a subsidiary called UDR under UNY, which is for conversion. We will upgrade UDR to a subsidiary directly under Pan Pacific International Holdings. Conversion stores will be transferred from UNY to UDR. Positive discussion is carried out with labor union of UNY.

Q8. How do you deal with the lack of power of the next generation's executives?

A : Organization structure was changed on February 1, 2019. We had internal discussions for newly appointed directors to execute strategies based on our corporate philosophies called "Genryu"(The Source) to be long-lasting company. We checked whether or not we do excellent management, and replace human resources accordingly.

Q9. How much will the management team allocated to look at UNY's growth and DQ existing stores?

A : The growth of DQ existing stores will be maintained by front-line staff who exercise their authority. On the other hand, the management team should set out policies and strategies for the revitalization of UNY. We are determined to see the bright future with UNY associates by communicating with each other.

Q10. What is the reason for the improvement of gross margin and what is the situation of inventory?

A : We were not able to increase topline as we expected because we tried to reduce inventory for luxuries in 1H. We were not able to fully exercise our competitiveness, that was one of the reasons for the drop in topline. On the other hand, the inventory became healthy and gross margin went up. We found out issues in 1H and we will do our best effort to solve these.