

Overview of Q&A session at analysts briefing for Q3 FY June 2019. (July,2018-March,2019)

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 was the consumption environment and competitive landscape for price in Q3 ?

A : Daily necessities are the mainstay of the consumption at our store as discount retailer. Low price and value-added products were chosen by customers.

Q2. How is your inventory level overall including watches and fashion?

A : To be honest, the gap between good selling items and stagnant items widened. Cosmetics and pharmaceutical items were strong due mainly to accelerated tax-free sales from overseas tourists. Meanwhile, the sales for seasonal items were weak and some items missed the selling opportunity. We are working on to clear slow-moving inventory toward the end of the current fiscal year and we will update on this matter.

Q3. PPIH revised its guidance for recurring profit by 2 billion yen. Does Don Quijote have reason for upward revision or UNY?

A : The full-year forecast is revised upward because the nine months results beat our forecast. Also the facts that UNY controlled its cost and sales were stable contributed to the revision.

Q4. Why the operating profit at Don Quijote Co., Ltd. declined?
Why was the impairment loss being posted?

A : It was because of the rise in cost. Don Quijote Co., Ltd. plays a role as a head office for retail company, it has product development division, digital development division and so on. Every subsidiary pay "management instruction fee" to PPIH. Payment for management instruction fee increased at Don Quijote Co., Ltd. associated with the increase in store count and business scale. A little more than 10 billion yen of impairment loss was posted to take care of cannibalization because the store count rapidly increased. Some small stores were closed and impairment loss was posted based on our future assumption.

Q5. How are your newly converted stores in 2019 going?

A : The sales for converted stores doubled to 2.5 times as large as pre-conversion time after 1-2 months of openings. 1.5 times to 2 times the sales were achieved after third months. Traffic and gross profit made 1.7 times to 2 times growth. Gross margins for 6 stores converted in 2018 are improving in the second year.

Q6. How do you invest in human resource?

A : We aim at growing our sales and gross profit by taking the market share from competitors. We will aggressively invest in people instead of reducing cost. The performance of UNY's associates are phenomenal. Some stores mainly operated by employees of UNY by executing "delegation of authority" and "localization". PPIH empower part-time associates and working on to be more productive.

Q7. What are the outcomes for organization structure change?

A : The organization is invigorated and same store sales are gaining momentum. There were 60 branches in our former structure. The number of branch decreased to 20. "Sales division" changed its name to "Sales support division" so that more authority is given to front line staff.

Q8. Is operating profit at Don Quijote Co., Ltd. going to be up in 2H and onwards?

A : Current trend will be maintained in 2H. While the sales at Don Quijote Co., Ltd. go up, operating profit goes down by about 10%. This is because Don Quijote Co., Ltd. plays a role of the headquarter of retail business.

Q9. There will be consumption tax hike in October. What measures are taken right before and after tax hike?

A : Our basic policy is to maintain our aggressive strategy to win the competition. We will achieve 30 year of consecutive growth and keep renewing the record by having more happy customers. We will meet the expectation of stakeholders.