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# 【Speech Summary for FY2021 Third Quarter Financial Results Briefing】

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## 1. Overview of FY2021 Third Quarter Financial Results

Director & Senior Managing Executive Officer, CSO Seiji Shintani

Thank you for taking the time to attend today's Third Quarter Financial Results Briefing.
Now, I will give an overview of the third quarter.

### ▪Earnings Summary for Q3 (presentation p. 4)

This is a summary of the cumulative financial results for the third quarter.
The cumulative financial results for the third quarter were net sales of 1,268.2 billion yen, operating profit of 66.9 billion yen, recurring profit of 67.5 billion yen, and profit attributable to owners of parent of 45.2 billion yen. We were able to achieve record-highs in the third quarter of the fiscal year ending June 2021, and, compared to the same period of the previous year, net sales were 100.2%, operating profit was 112.6%, recurring profit was 114.7%, and profit attributable to owners of parent was 119.9%.
The full-year earnings forecast remains unchanged from the forecast announced at the time of the second quarter financial results.

### ▪Summary report of consolidated financial results for Q3 (presentation p. 5)

Next I will give an overview of each business.
In the Discount Store Business, although pure DQ (mainly stores near stations) continued to struggle due to the evaporation of inbound tourism and changes in customer traffic, the strong performance of MEGA DQ (mainly suburban stores) filled the gap, resulting in higher sales year on year. Sales of household appliances, sports and outdoors products, training and health products, and home furniture, etc. increased.
In the GMS Business, same-store-sales increased with stay-at-home demand that was driven by COVID-19, and sales of processed, frozen and fresh foods grew. Seven stores were reopened as New GMS, which matches the characteristics of a region with specialty stores such as U-food, U-drug, and general store warehouses, etc. Six stores were converted to UDR during the current fiscal year.
For the Overseas Business, I will discuss North America and Asia separately. Due to the financial settlement

month, the results for the Overseas Business are from April to December. Overseas sales were high, particularly due to the busy season in December.
In North America, the effects of the spread of COVID-19 continued, and there was continued demand for food and hygiene products. In addition, there was also continued demand for alternatives to eating out, which contributed to a rise in net sales.
In Asia, our products, especially Japanese agricultural products, are gaining popularity and many customers continue to visit our stores. In particular, in Hong Kong, we opened flagship stores in quick succession that rank in the top 10 of the entire PPIH Group, and their good performance boosted our results. SG&A expenses increased due to the opening of four new stores in the third quarter, which incurred new store costs. In addition, SG&A expenses increased due to additional costs incurred from the opening of our first stores in Taiwan in January and Malaysia in March. However, we were able to maintain a high operating profit.

▪Consolidated financial results for Q3 (Year-on-year changes by retailer) (presentation p. 6)

These are the year-on-year changes by retailer.
First, for net sales, there was a decrease of 19.4 billion yen due to the business transfer of two consolidated subsidiaries (Doit and 99 Ichiba) and a decrease of 40.6 billion yen due to the evaporation of tax-free sales in the previous fiscal year, which had a total impact of 60.0 billion yen. Although this impact was significant, we absorbed the negative impact through strong sales at UNY, UD Retail, and in the Overseas Business, and we were able to increase year-on-year net sales.
I would also like to point out that there was a 5.9 billion yen year-on-year increase in Don Quijote's non-tax-free net sales.
As with net sales, UNY, UD Retail, and the Overseas Business also made significant contributions to operating profit.

▪Retail operations information for Q3 (presentation p. 7)

These are the financial results by retailer.
In Japan, although Don Quijote struggled, the non-Don Quijote stores of Nagasakiya, UD Retail, and UNY are doing well. In particular, UD Retail posted a cumulative operating profit of 1.4 billion yen for Q3. Overseas sales also continued to perform well.

▪Summary of results by company (presentation p. 8-10)

Next are slides for each company.

First is Don Quijote.

Stores near stations, mainly in the Kanto region, continued to struggle due to the evaporation of inbound tourism and changes in the flow of people due to COVID-19. On the other hand, suburban stores are maintaining good performance due to the influx of customers who used to shop at stores near stations.

In addition, although SG&A expenses decreased, there was significant impact from decreased revenue, resulting in operating profit decrease by 6.8 billion yen from 19.8 billion yen in the previous year to 13.0 billion yen. Today, we also disclosed monthly sales for April, and Don Quijote's same-store sales in April were 94.6% year on year.

For UNY, existing stores saw an increase in gross profit due to increased revenue, and they improved their gross profit margin due to accounting consolidation, which mitigated the negative portion of gross profit that was due to a decrease in stores.

SG&A expenses were lower than the previous year due to the decrease in the number of stores that accompanied conversion to UD retail, as well as cost reductions due to PMI effects. As a result, operating profit increased by 2.0 billion yen from 21.4 billion yen in the previous fiscal year to 2.35 billion yen, which is higher than the same period in the previous fiscal year despite the decrease in the number of stores. Similarly to Don Quijote, today, we disclosed UNY's monthly sales for April, and same-store sales remained strong, at 105.3% year on year.

In North America, sales are growing due to demand for alternatives to eating out against a backdrop of special demand that was accompanied by the spread of COVID-19. Operating profit also increased alongside an increase in revenue. Operating profit was 5.2 billion yen, an increase of 3.0 billion yen.

In Asia, three years have passed since we opened in Singapore, and operating profit is now in the black. Additionally, Hong Kong has several strong stores that are in PPIH's top 10, and they are gaining in popularity. Supported by the strong performance in Hong Kong, sales and operating profit across Asia as a whole are increasing. Operating profit increased by 4.1 billion yen, from -0.7 billion yen in the same period of the previous fiscal year, to 3.4 billion yen.

2. Progress in Strategy and Measures

President & CEO, Representative Director Naoki Yoshida

▪Discount Store Business (presentation p. 18-19)

I believe many of you are very interested in the Discount Store Business.

We recently implemented the 100-day project. We used six Don Quijote stores, so-called pure Don Quijote, as test stores, and implemented new measures with certain cost for 100 days from December 21, 2020 to March 31, 2021.

Please refer to page 18 of the presentation for the details of this 100-day project. First, let me preface my remarks by addressing any concerns you may have about "Is Don Quijote doing OK?"
In February, when I spoke to all of you from this same stage, I said, "Please rest assured about Don Quijote." One reason for this is that Don Quijote's current status is primarily due to the sluggishness of the approximately 50 stores that are centered on inbound tourism, which located in city center areas. Taking these points into consideration, there have been quite a few irregular numbers because of the impacts of COVID-19, particularly those since March 2020. With this having run its course, and from looking at the results from last year and the year before that, we are confident about our future results.

For example, if you look at UD Retail, you can see that the situation is favorable. To add to that, if you look at other Don Quijote stores as well, besides the 50 stores located in city center, the numbers are reassuring.

The 100-day project has reminded us that we have continued to be successful, and I think that we achieved this success by rejecting the past. However, we somehow started to seek success by imitating the past. That is one major lesson we have learned this time.
It only costs 30 million yen per store to try such new initiatives.
As I have explained before, the cost to convert a UNY store to a UDR store ranges from 500 million to 700 million yen per store. GMS UNY store development costs 300 million to 500 million yen. Meanwhile, in the case of Don Quijote, of course the floor space is relatively small in the case of pure Don Quijote stores, we found that we can quite drastically change things such as the store's image and the way it operates, for just 30 million yen.

Our executive officers and Million Star branch presidents have made about 200 hypotheses for what to do for Don Quijote stores, and we will have our first discussions about them tomorrow. We will select hypotheses, allocate budgets for them, and then start working on the individual measures from June.

In addition, we are seeing medium-term issues that we will implement on a Company-wide basis via digital or strategic PB development, automated order placement, or a review of business flow, etc., and we will explain this in more detail in August.

▪GMS Business (presentation p. 20)

For the GMS Business, in the past three financial results briefings, I have talked about the existence of alternative demand.

However, given GMS' reliance on groceries or special demand products, we wondered what we could actually do differently from conventional GMS. Based on that, we have been developing new GMS, starting with the Myokoji store. The Myokoji store has undergone its second renewal and produced the results shown on page 20.

This is further exemplified by the Inazawa store, the Fujinomiya store, and other such stores, where the results have been quite strong. Going forward, I'd like to continue to prove that GMS is not dying out as a business format.

▪Overseas Business (presentation p. 21)

This slide refers to Asia, where we have newly expanded into Malaysia and Taiwan. Meanwhile, in the United States, we acquired Gelson's (GRCY Holdings, Inc.) in March. We now have a store network consisting of the new 27 stores in addition to the 10 existing Marukai stores in California.

Generally speaking, these financial results show there is still room for growth and there are still some areas where our measures are insufficient. However, we are starting to see signs of growth in several areas, and they show us which paths would be strategically sound for us to take. We believe those are the big changes of the last three or six months.

We will continue to take on many challenges and to thoroughly carry out the things that make PPIH a contender.

We will create numerous hypotheses, repeat the cycle of hypothesis and verification, undertake many challenges, and then keep only the ones that do well. In fields such as digital and finance, which are irreversible, we are now able to establish a structure that enables new businesses to stand firmly on their own.

▪Closing

Mr. Shimizu joined the company last month as our CFO, and we will continue to ensure the rigorous running of the company with him onboard. We ask for your continued kind support.