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【Speech Summary for FY2022 Second Quarter Financial Results Briefing】

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1. Overview of FY2022 Second Quarter Financial Results

Director & Executive Officer, CFO, Keita Shimizu

Thank you for taking time to attend PPIH's FY2022 Second Quarter Financial Results Briefing today. I will begin by providing an overview of the entire presentation materials. This will be followed by additional explanations from the sales perspective by Mr. Sekiguchi and Mr. Moriya. Last but not least, CEO Mr. Yoshida will summarize and conclude the briefing.

▪Report of Financial Results for Q2 (presentation p.4)

In the second quarter of FY2022, cumulative figures were 917.7 billion yen in net sales, 43.6 billion yen in operating profit, 44.5 billion yen in recurring profit, and 30.1 billion yen in net income. The achievement rate based on the earnings forecast for the first half of the year were approximately 98.8% for net sales, 98.1% for operating profit, 101.9% for recurring profit, and 99.5% for net income. We landed quite close to the forecast.

▪Executive Summary for Q2 (presentation p.5)

Operating profit had increased by 1.4 billion yen year-on-year in Q2 alone, and registered a record high on a quarterly basis.

Thanks to the successful recovery of existing stores centering on the discount store business from the previous year and improvement in gross profit margin, we were able to reduce the shortfall of the actual figures from the forecasted results, from the approximately 3 billion yen reported in the first quarter to about 900 million yen. Hence, I think we can say that we have made steady progress in our management measures.

In the second half of the year, we aim to keep up these results and at the same time, continue to promote the measures that we have already begun to put in place. The management team will continue to work as one with the aim of achieving our full-year targets.

▪Domestic Discount Store Business (presentation p.6)

Firstly, the domestic discount store business made a significant recovery from the first quarter, when it faced a difficult struggle due to external factors. It ended Q2 with growth in both sales and profit.

With the lifting of the state of emergency from October, sales from existing stores recovered to 100.9% year-on-year in the first half, due to the products such as cosmetics and alcoholic beverages, which the company has been putting effort into strengthening from before, as well as our success in actively capturing event demand at Halloween, Christmas, etc.

Operating profit also increased significantly as a result of the steady progress of priority measures for this period, including the strengthening of private brands (PB) and improvement in pricing accuracy. In addition, the launch of new stores and conversion of business format to UDR are progressing as planned.

▪Strengthening of PB/Original equipment manufacturing (OEM) (presentation p.7)

▪Digital Data Strategy (presentation p.8)

PB progressed steadily toward the aim of achieving 250 billion yen group-wide for this fiscal year. Its sales composition ratio within the discount store business rose to more than 14%, and the accompanying gross profit contribution also reached close to the 0.4% level that we committed to at the beginning of the fiscal period. The digital measures shown on page 8 are currently being implemented on a trial basis, and we are commencing with an approach that involves developing an environment for properly analyzing customer information alongside with customer clustering or segmentation. The measures shown are an example, but we are already producing a certain degree of results, so we hope to also set the PDCA cycle in motion going forward.

▪GMS Business (presentation p.9)

In the first quarter, the GMS business faced an even greater struggle than the discount store business due to the severe external environment. However, it has similarly moved onto a recovery trend in the second quarter. I would also like to add that sales for existing stores continue to register a positive growth compared to before the COVID-19 pandemic.

In the second quarter, with the rebound in customer numbers thanks to our price appeal and improvements in the external environment that contributed to the recovery of the clothing segment, gross profit margin declined to a smaller extent. As food products continue to remain steady, we hope to further improve gross profit margin from the third quarter and beyond, and bring about the recovery of operating profit.

In addition, our top priority initiatives of strengthening human resource development for individual store management, as well as renovation of stores into the New GMS format, are also progressing steadily.

▪GMS Business: Progress of Renovation (presentation p.10)

Piago Power Nishishiro and Apita Hamakita stores were renovated to suit the needs of their respective regions, while also strengthening the directly-managed retail floors.

▪Overseas Business (presentation p.11)

The Asia Business is advancing smoothly, with the main focus being put on expanding the scale of the business by opening new stores in the region. At the same time, we are also strengthening content creation efforts to expand the customer base by further penetrating local markets in the Japanese food segment.

In the North America business existing businesses are also performing well. While Gelson's operating profit may seem a little high as this is the figure before deductions for goodwill amortization, we can say that Gelson's is contributing steadily to both sales and profit.

▪Overseas Business: Progress in the Opening of New Stores (presentation p.12)

In Macau, the new store was important not only toward the expansion of the business area, but also in the sense that we took up the challenge of launching a new store with only local staff members due to the impact of the COVID-19 pandemic.

As for Thailand, we resumed work on expansion with the opening of the third store on October 1. I would like to note that the third store, in particular, was opened in an area with many locals, marking our move to expand the potential for future development.

▪Initiatives for Q3 and Onwards (presentation p.15)

As initiatives for Q3 and onwards are beginning to produce various results steadily, we will keep up the promotion of the measures that we spoke about at the beginning of the fiscal year, and continue in our aim to achieve our full-year targets.

▪Domestic DS/GMS Business Overview for January (Flash Report) (presentation p.16)

I would like to report that we are maintaining the strong performance from December, and achieving positive growth for gross profit margin, which is one of our priority measures. There is a need to continue close monitoring of the impact of the Omicron variant going forward.

▪Full-year Forecast of Consolidated Results (presentation p.17)

There are no changes to the full-year forecast.

While there are factors such as the spread of COVID-19 infections, we shall work steadily toward the achievement of our full-year targets.

▪Status of Shares (presentation p.18)

As you can see from the shareholder composition, the percentage of individual shareholders of the company has remained in the 1% range.

I have to say that this is a very low percentage for a company in the retail industry. Going forward, I hope that we can deepen engagement with the customers who use our stores regularly, and strengthen their involvement with our company as shareholders, through the shareholder special benefit program which was announced on January 11. Increasing the potential population of shareholders can also contribute to the stabilization of share prices, so I seek your understanding in this respect.

▪ESG-related Initiatives (presentation p.19)

As I have communicated in the financial results announcement in August, we have been working to strengthen our ESG system since the beginning of this fiscal year. Today, I shall report on some of the results of these initiatives.

▪ESG Promotion Roadmap (from Passion 2030) (presentation p.20)

We moved into the second phase from this fiscal year, established the Sustainability Committee, and strengthened activities. Among these, we established medium-term goals related to climate change, supply chain, and diversity, which I shall report on today.

▪Response to Climate Change and Realization of a Decarbonized Society (1) (2) (presentation p. 21, 22)

As a retail company, we recognize that the realization of a sustainable society through the promotion of decarbonization is an important theme. To that end, we have declared support for the TCFD and conducted scenario analysis and disclosure based on the TCFD recommendations.

In tandem with that, we have also established CO_2 emission reduction targets. We have conducted various analyses and reviews with the help of an external consulting company, and disclosed the results on our corporate website. We have also reported the results to various ESG evaluation organizations.

▪Sustainable Procurement and Responsible Sales (presentation p.23)

The second point is about the supply chain.

While learning from and working with our partners, we have continued to create stores and products based on the principle of "The Customer Matters Most." To further develop these efforts in a way that also gives consideration to human rights and the environment, we have formulated the PPIH Group Sustainable Procurement Policy and the PPIH Group Supply Chain Code of Conduct.

Going forward, we aim to achieve sustainable product procurement across the whole of our supply chain, with the support of our partners.

▪Establishing a Diversity-Oriented Organization (presentation p.24)

The third point is about the promotion of diversity.

The Diversity Management Committee has been working for more than a year to promote female empowerment. As a result, it has recently established two new targets—to improve the retention rate of female employees, and to increase the number of female store managers to 100. We will promote various activities with the aim of achieving the respective targets by 2026 and 2030.

▪Materiality (presentation p.25)

Last but not least, we have updated the materiality as shown on page 25, to reflect the contents that I have reported on today. Going forward, we will work on achieving not only our financial targets, but also our non-financial goals, with the aim of becoming a sustainable retail corporation.

2. Initiatives for FY 2022 Third Quarter and Onwards (Discount Store Business)

Director & Managing Executive Officer, Hideki Moriya

Most recently, our efforts in expanding PB/OEM and optimizing pricing have been gradually bearing fruit.

From the third quarter and onwards, we will further strengthen these two measures while keeping in mind current challenges such as rising costs and inflation. At the same time, we will work on the third measure related to the “interest expiration date,” as well as establish mechanisms to generate a high earnings rate.

▪Initiatives for Q3 and Onwards: Discount Store Business (presentation p.15)

Firstly, I will talk about the PB/OEM strategy.
In the first half of the fiscal year, we focused on expanding convenience goods such as food products and consumables. From Q3 and onwards, we will engage in product development and introduction of products into the market in high-value-added products such as large home appliance items, electric bicycles, cosmetics, and aromatherapy products, with having strong originality and specialized functions. Taking the opportunity of rising material costs, we will make a further shift from National Brands to strengthening sales in PB/OEM products. In particular, we will increase the sale composition rate of PB/OEM products to 50% in categories such as household goods and car supplies.

Next, I will talk about pricing.
Market prices are expected to change even more significantly than before as a result of soaring costs and other factors. For products such as food and consumables, we will work even harder than before as a discount retailer to compete with other companies and strengthen the appeal of prices within our areas. On the other hand, in response to the demand for enjoying staying at home amidst the prolonged COVID-19 pandemic, we have developed new categories that take advantage of Don Quijote’s distinct character. Some representative examples include mobility and gaming, as well as relaxation items such as bath bombs, shisha, and aromatherapy.

With regard to such high value-added products, we aim to raise the top line for sales and gross profit through the lateral expansion of price measures that have been implemented successfully in individual stores.

Thirdly, we aim to improve product change and abolition speed through our “interest expiration date” measures.
This also forms a part of measures to improve productivity. It involves setting our unique “interest expiration date,” similar to the concept of expiration dates, to non-food items as a management standard for product newness, speeding up product change and abolition, and improving turnover rate.
We will build a simple, self-propelling inventory management system while guaranteeing “something new,” which is our lifeline for Don Quijote’s shop floors, as well as securing spaces and opportunities to introduce spot products.

3. Initiatives for Q3 and Onwards: GMS Business
Director & Senior Managing Executive Officer, Kenji Sekiguchi

I shall now talk about the initiatives for the GMS business for Q3 and onwards.
Prior to that, I will first look back briefly on the past three years.

▪Reflecting on the past three years
This year marks three years since UNY became a consolidated member of the PPIH Group in January 2019.

While the number of stores under the UNY name is decreasing as a result of the conversion to UD Retail Co., Ltd., sales and operating profit per store has increased. As of the end of FY2021, we achieved operating profit of 29 billion yen, significantly exceeding the 21.7 billion yen prior to consolidation.

When I first assumed office with UNY, it looked like a “gold vein” to me.
Before I assumed office, I had always been watching UNY’s internal and sales systems on the side while engaging in the renovation of six stores during the initial phase of the business format conversion to UD Retail.
In doing so, I observed that UNY faced two major challenges—one was its centralized chain store management system. Instead of taking 200 different approaches to operating 200 stores, it was operating 200 stores with a single approach. The second challenge was its human resource system, which followed a seniority-based, non-meritocratic system, was entirely unsuccessful in

reinvigorating human resources, and gave similar evaluation to employees regardless of their achievements. It was an extremely rigid and unrewarding human resource system.

To overcome these challenges, I changed one policy and implemented five reforms upon my assumption of office.
The policy change was a change in the management philosophy. We made the shift, in name and reality, to the principle of "The Customer Matters Most" based on *Genryu* (The Source). We listened to feedback from the frontlines closest to our customers, regardless of whether they were employees or mates, and applied the feedback to reforms.

We also worked on structural reform based on reforms in the following five areas: organization, human resource and evaluation systems, trading mechanisms, sales planning, and store development.

By making this transition to individual store management, many stores have been successfully achieving the reforms despite disparities between stores and individuals. In particular, since June 2020 when we began working on the large-scale renovations for existing stores, we are seeing an effect through gradual but significant changes not only in the mindset but also in the actions of mainly members involved in the renovations. I have confidence in the reform.

The period until the previous fiscal year had been a preparatory phase in which we advanced the change in policy and five reforms.
We regard this fiscal year as a period for conducting numerous experiments.
There are aspects that have not gone well, such as the temporary decline in gross profit margin, a slump in the figures during the COVID-19 pandemic, and renovated stores that have been unsuccessful. However, we are right in the midst of setting in motion the PDCA cycle, such that various events all lead on and contribute to the second half of the fiscal year and beyond.

The lackluster performance of UNY in the past was not the result of a decline in the GMS business itself, but rather, of a failure to respond to changes in relation to management and sales issues. UNY is undergoing a rebirth to become a completely new company. I believe that the new form of general retail that such a new UNY is creating definitely has a bright future, and that we can clear the path toward this future.

▪Initiatives for Q3 and Onwards: GMS Business (presentation p.15)

Firstly, with regard to gross profit, we are working on improvements with a view to making a quick

recovery from the slump in the first half of the year.
In the second half of the year, we will strive to improve earnings through the following three pillars that can be expected to generate gross profit: store development, product development, and human resource development.

Secondly, UNY has been conducting various initiatives and experiments from the previous fiscal year, in areas such as the New GMS, large-scale renovations, and human resource development. There are both successes and problems in the process of keeping the PDCA cycle in motion, and we are making revisions while observing the contents of our attempts to carry out full renovations for stores of varying patterns.
Based on the results of our observations and verification, in the second half of the year, we aim to raise the bar for some of the figures by shrinking the number of the stores that undergo large-scale renovations while increasing the number of small-scale renovations that produce visible results, and through the roll-out of successful renovations to other stores.

Thirdly, we will also implement organizational reform in order to evolve to individual store management, which is our theme for the medium-term.
In order to compete with stores in the local trade area, we will make the change to a sales system that we call the UNY version of the Million Star Program, by assigning a person-in-charge to each existing area to enable further delegation of authority.

We will continue to advance these reforms in the GMS business.

4. Overall Summary
President & CEO, Representative Director, Naoki Yoshida

While the severe conditions of the first quarter are dragging on, we have achieved a historical high in our financial results for the second quarter. This is a sign that we are beginning to see the results of measures implemented on the frontlines.
Looking at figures that exclude Gelson's, we have also achieved the highest sales and operating profits on record for the domestic business alone. This is also the result of these measures.

Looking at the overseas business, in Asia, firstly, we opened seven stores from October to January. All of these are performing well, and we will continue to strengthen our efforts in establishing new stores in countries where we already have a presence.

Furthermore, we will work on expanding our base of supporters of the Japan brand, in order to expand our store network in the local areas of each country. By using the "sale of food and beverages that people can easily enjoy at home" as our point of entry, we will strengthen the sale of products that can make DON DON DONKI a familiar presence to local customers.

Next, I shall talk about North America.
We have concluded the first phase of PMI with Gelson's, and are advancing preparations for the new store in Hawaii. Next, we will work urgently on business format creation in California. In the same way as for Asia, we will take the approach of creating a business format that takes advantage of the Japan brand. At the same time, we plan to tackle the challenge of rolling out Japanese food products in existing local stores as well as expand food and beverage sales.
It is precisely because recent figures have been positive and performing well, that we consider it even more vital to create a business format that will make us even more well-known among the general public.

With regard to domestic policies, we believe that the time has come to move from a defensive to an offensive approach.

Now that we have successfully and firmly responded to changes as individual stores, there is a pressing need to respond to changes as a corporate group. In particular, we are confident that updates in the digital, finance, and marketing areas will serve as a weapon for existing stores. Hence, we will drive forward such measures as we have committed to doing.

On the other hand, the Group also shares a sense of crisis in the need to increase productivity considerably going forward. To that end, we will also steadily implement measures that can guarantee a high rate of returns. These include controlling SG&A expenses, and organizing the tasks that employees should engage in as well as replacement with systems. From the next fiscal year, we will implement initiatives to introduce a labor sharing ratio into KPIs. We will introduce this company-wide as an issue to be addressed by managers and executives above a certain level. On top of that, we will make various creative efforts, as well as develop stores, select MD, and develop PB so that customers can get a sense of the unique values that we provide, particularly in regard to the "amusement" factor.

At the conclusion of six months, we have left our targets for this fiscal year unchanged. While these are not simple figures to achieve, we have agreed internally that they are not impossible to achieve, and we have therefore decided to maintain our targets for the end of this fiscal year.

In terms of figures, things are proceeding smoothly in January. While the Omicron variant, among other factors, is definitely having an impact, please rest assured that we are firmly and steadily implementing the policies that we should advance both in Japan and overseas.