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Post-GMS Business Model

In Japan's general merchandise store (GMS) market, several companies leading the industry in sales are suffering in terms of profit. Against this backdrop, in 2008 the PPIH Group began developing stores using the MEGA Don Quijote format, thereby growing its share of the massive GMS market.

The PPIH Group's post-GMS business model is a new format for realizing an ultimate comprehensive discount store created by augmenting lineups of both food and non-food products. We are therefore working to establish a unique post-GMS model that is distinctly different from the Japanese-style GMS models of competitors.

Conversion of UNY into a Wholly Owned Subsidiary

UNY Co., Ltd. develops GMS chains with offerings encompassing clothing, food, home-related products, and leisure goods primarily in the Tokai area but also in the Kanto, Hokuriku, and Kinki areas. UNY has maintained the favor of its customers for years as an operator of stores that are necessary to the regions they serve through community-rooted operations and discerningly selected products.

UNY was converted into a wholly owned subsidiary in January 2019 based on the belief that this move would lead to improvements in the corporate value of both UNY and the PPIH Group through the utilization of UNY's strong customer bases built on years of customer support.



Principal Businesses of the UNY Group

The UNY Group develops stores that primarily target home-makers, families, and senior citizens with product mixes focused on fresh foods, daily consumables, and other items essential to daily life.

This group also engages in a wide range of other operations

to provide multifaceted coverage for the lifestyles of local customers. These operations include small-sized urban supermarket formats operating mini Piago stores in locations centered on the Tokyo metropolitan area and financial service businesses providing UCS Cards and other credit cards.



Apita
General supermarkets designed to propose ways of enriching customers' lifestyles in a wide range of business areas



Piago
General supermarkets offering robust lineups of food and other products and services that are tailored to their respective regions



Piago La: Foods Core
Supermarkets smaller than standard Piago stores that feature carefully selected lineups of food products



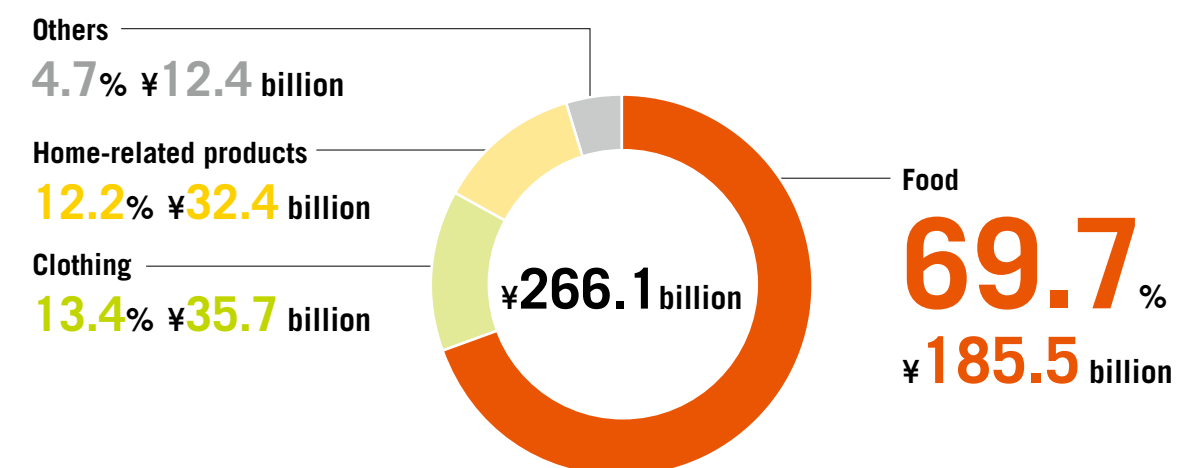
mini Piago
Small-sized urban supermarkets located in local neighborhoods primarily within the Tokyo metropolitan area to offer customers greater convenience

The UNY Group's Strength in Food Products

The most distinctive trait of the UNY Group is its strength in food products. UNY's stores feature vast arrays of competitively priced products that exude a sense of value, all carefully selected based on the needs of customers and the trends of rivals. In 2018, we launched a prepared food project aimed at improving quality and expanding our lineup of prepared food, thereby building the frameworks necessary for bolstering our competitiveness in the prepared food market.

The strength of UNY's original brand products is undeniable, and it was these food products that drove growth in GMS business sales in the fiscal year ended June 30, 2019. Going forward, we will continue to capitalize on the expertise of the UNY Group to differentiate our GMS business with food and other high-quality original products and thereby cater to the needs of a broad range of customers.

Sales by Product Category in the GMS Business (FY2019)



Prime ONE—Regard for Safety, Health, and the Environment

One of UNY's original brands, Prime ONE is a new lifestyle creation brand that delivers carefully crafted levels of quality in food and home-related products. With care paid to producing regions, components, and manufacturing processes, Prime ONE products boast the pinnacle of taste and quality. Considerate of safety, health, and the environment, these products go a step further to deliver unparalleled satisfaction to customers through affordable prices.

We are particularly confident in the taste and safety of UNY's brand-name pork and poultry products, which are delivered through coordination between feed companies, producers, and UNY.



In producing Yukenton pork products, UNY directly manages everything from feed development to production environments. The livestock used to produce Yukenton is raised by certified producers in Japan with proprietarily developed feed consisting of herbs and flaxseeds to ensure superb taste. Moreover, targets for meat flavor, quality, and color are set. Annual meat inspections and regular meetings are conducted to maintain the high quality standards for this brand.



Yusendori poultry products are made from livestock raised under a stress-free environment, realized through thorough management and careful cultivation, to draw out the natural flavor of the meat. Livestock is raised in environments submitted to thorough hygiene and health management with high-quality water subject to periodic water inspections. Using four different types of feed based on growth stage in order to meet the needs of health-conscious customers, we deliver healthy poultry products.

Don Quijote UNY and MEGA Don Quijote UNY Stores Forming Core of Post-GMS Strategy

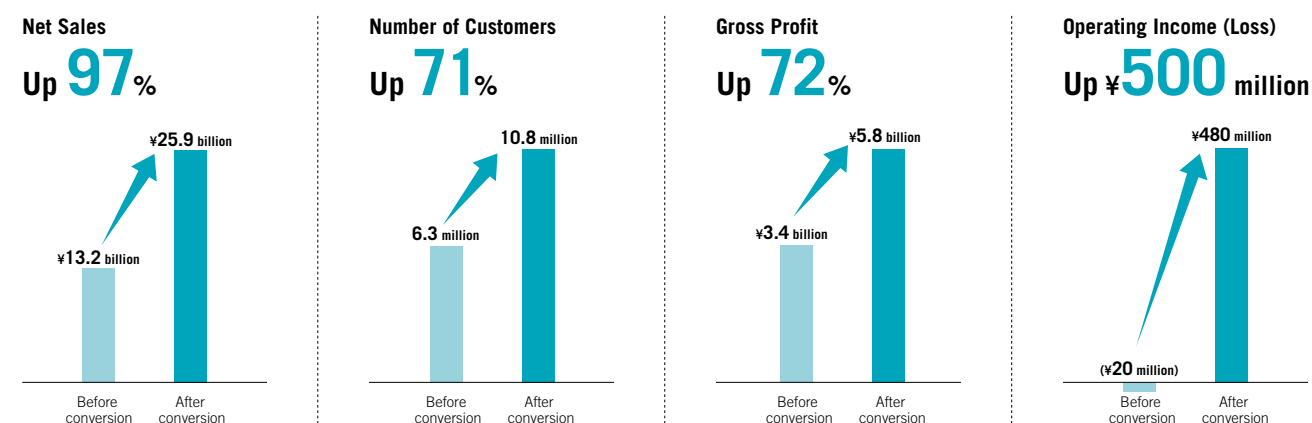
We are moving forward with a plan for a phased conversion of UNY's existing Apita and Piago stores to the Don Quijote UNY and MEGA Don Quijote UNY format. As of June 30, 2019, we had completed the conversion of 16 such stores, and we plan to convert approximately 100 stores by the end of 2022.

MEGA Don Quijote UNY leverages the strengths of both the PPIH Group and the UNY Group by offering a combination of hobby items and miscellaneous household goods, which Don Quijote specializes in, and food products, which are the strength of UNY, for a more diverse product mix.

Stores that have been reborn in this manner have thus been able to win the favor of a wide range of customers.



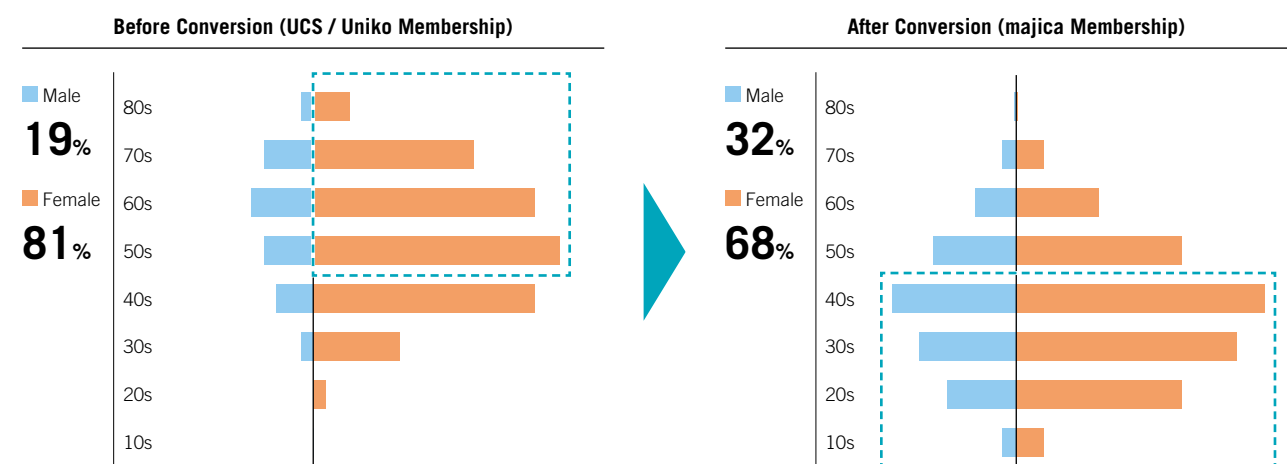
Changes in Metrics at Six Stores That Completed Conversion in 2018



Scope: March 2018–February 2019

Directly operated sales floors excluding tenants and consignment (Yokohama Oguchi store, Tokaidori store, Zama store, Hoshikawa store, Toyota Motomachi store, Kou store)

Change in Distribution of Cardholder Base



Scope: Six MEGA Don Quijote UNY stores (Yokohama Oguchi store, Tokaidori store, Zama store, Hoshikawa store, Toyota Motomachi store, Kou store)
 (Before conversion) Members who visited any of the applicable stores above over the period from February 21, 2017 to February 20, 2018
 (After conversion) Members as of March 16, 2019

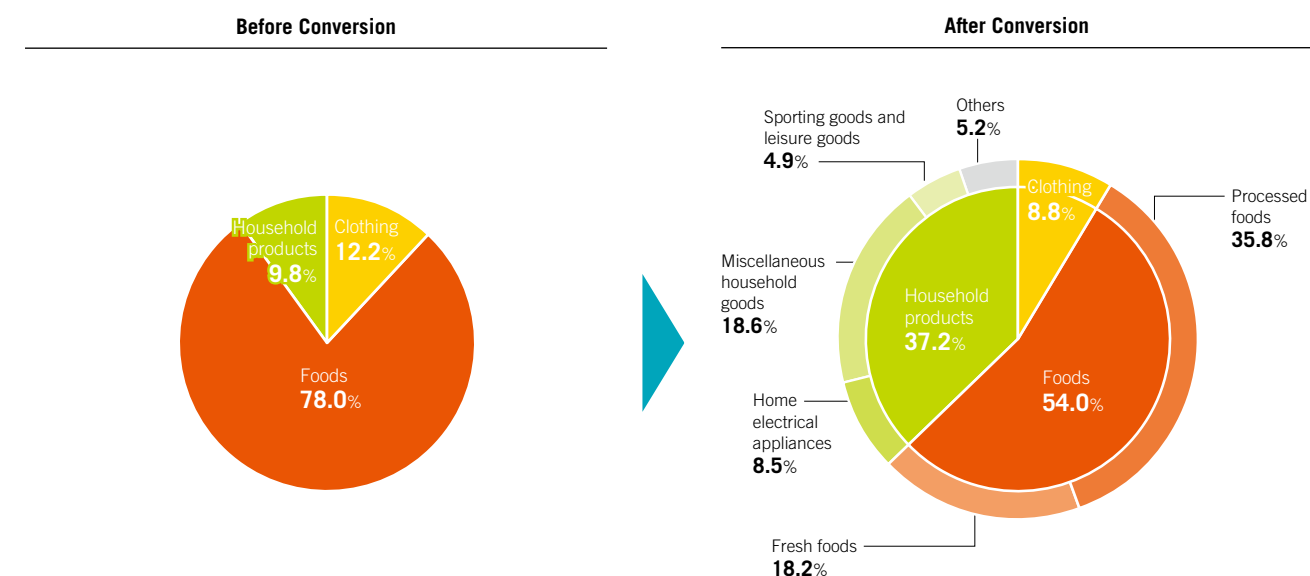
New Brand Conversion Initiatives

The product mixes at all converted stores changed greatly after conversion. In the area of food products, we were able to cultivate new demand centered on the new family demographic while growing sales. Meanwhile, the portion of sales accounted for by household necessities, which define the strengths of

Don Quijote stores, such as miscellaneous household goods and home electrical appliances, is rising.

Meanwhile, there is room for further growth in sales of clothing items. We are therefore rolling out new strategies for this product category (see the column below for details).

Change in Breakdown of Sales by Product Category



Clothing Specialty Store Merging Expertise

The MEGA Don Quijote UNY Suzuka store, an Apita store reopened in this format in June 2019, features APITA CLOTHING, a directly operated clothing store tenant representing a first-time initiative for this store format. APITA CLOTHING boasts a product lineup selected under the scrutiny of UNY clothing division specialists. Seeking to cater to the needs of customers who had been using this store for years prior to its conversion, we prepared a selection of practical men's, women's, and children's clothing along with women's clothing aimed at the young adult market. In addition, we established a youth casual wear and fashion accessory shop floor at this store to address the needs of new families.

