Mitsuo Takahashi
Senior Managing Executive Officer, CFO

The PPIH Group will improve corporate value through an aggressive management approach with an emphasis on the ratio of ROIC to WACC.

Review of the Fiscal Year Ended June 30, 2019

The PPIH Group's Vision 2020 medium-term management plan puts forth the targets of ¥1 trillion in net sales, a store network of 500 locations, and ROE of 15% for its final year, all of which were accomplished a year ahead of schedule in the fiscal year ended June 30, 2019. Furthermore, the consolidation of UNY Co., Ltd., in January 2019 helped us raise the levels of net sales, total assets, and market capitalization above ¥1.0 trillion.

Also, the fiscal year ended June 30, 2019 marked two important milestones: the 30th anniversary of the opening of the first Don Quijote store in 1989 and the impressive accomplishment of 30 consecutive years of higher net sales and operating income. At the same time, a total of 529 million customers, our greatest asset, enjoyed shopping at PPIH Group stores during this year.

Outlook for Retail Industry Operating Environment

The retail industry continues to face a challenging operating environment, and consumer confidence has been low since fall 2018. Meanwhile, increases in non-consumption spending, including taxes and social security payments, have been cutting into disposable income, sparking an unavoidable rise in price sensitivity when it comes to the consumption of goods. Consumers are thus becoming increasingly price-conscious in their purchasing decisions. In this manner, the principal consumption trends are being characterized by thriftiness and selective consumption.

The Consumer Confidence Index disclosed by the Cabinet Office shows an ongoing deterioration in consumer confidence, which remains low. It can only be expected that consumer confidence will drop even further as a result of the consumption tax hike instituted in Japan in October 2019.

In other words, the difference between successful and unsuccessful stores will be exceptionally polarizing. This environment will be beneficial to the ongoing growth of the PPIH Group.

Aggressive Management and Financial Strategies

The PPIH Group will continue to focus on domestic operations up until the mid-2020s. We will therefore concentrate management resources on these operations. At the same time, we will steadily march forward with the development of stores overseas while conducting experiments and verifying their results.

Our greatest growth driver for the foreseeable future in domestic operations will be the brand conversion of the approximately 100 UNY stores. However, we will also need to open new stores while achieving robust growth in existing stores.

Our proactive investments in business expansion and growth are projected to total around ¥40.0 billion a year, of which roughly 75% will be directed toward retail operations. The remaining 25% will be used for IT investments and maintenance expenses at existing stores.

The procurement of funds for growth investments will be conducted as appropriate while exercising leverage. During this process, we intend to keep the net debt-to-equity ratio below 1.0 times.

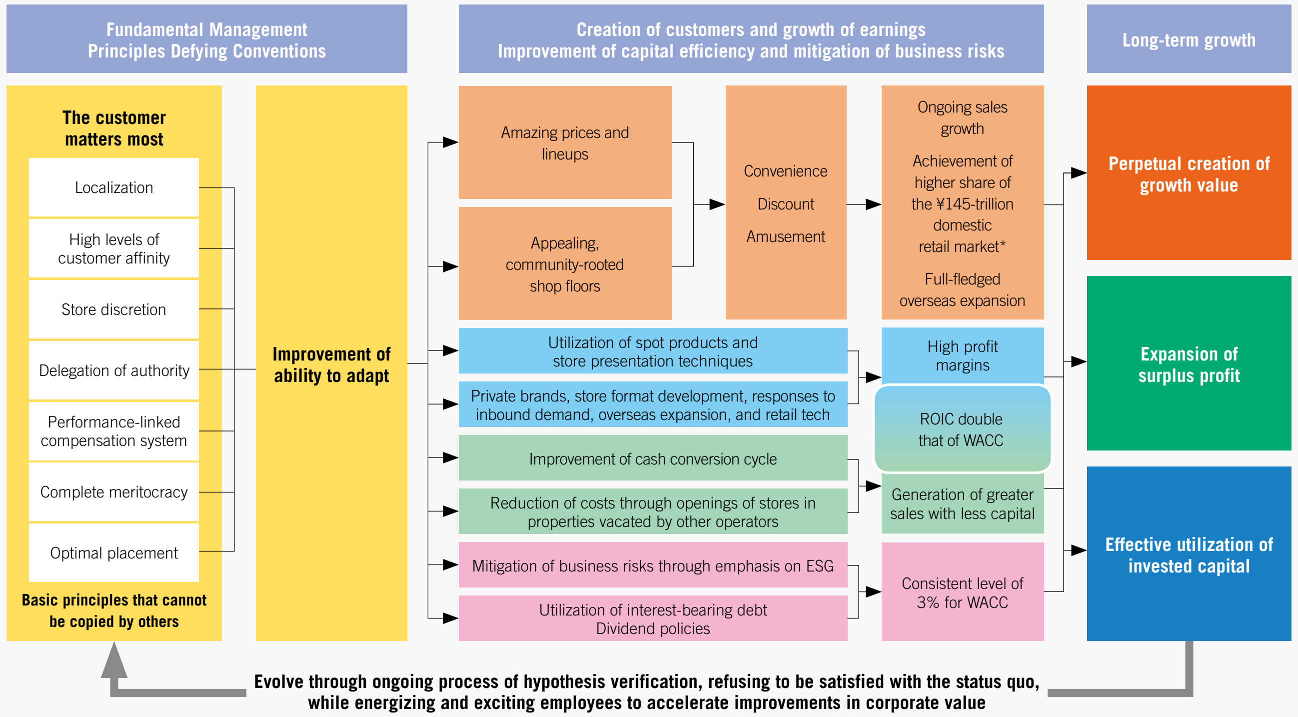
As for our inflated balance sheet, we look to bring assets and liabilities to an appropriate level by increasing asset efficiency and boosting our ability to generate cash flows.

Capital Measures and ESG

The PPIH Group recognizes the importance of achieving ROE that exceeds cost of capital in the implementation of strategies oriented toward improved capital efficiency and the ongoing creation of corporate value.

Looking ahead, we intend to run various simulations to plan our approach toward growth over the long term. We will emphasize the ratio of return on invested capital (ROIC) to weighted average cost of capital (WACC) in this undertaking, and return on investment will be used as the common yardstick for communication with stakeholders.

In addition, we realize that the disclosure of ESG matters is an important form of communication for mitigating future risks and lowering the cost of capital, and accordingly, we will look to enhance such disclosure in the future. We have also defined material issues needing to be addressed and are taking steps in response to these issues. By operating its stores in an eco-friendly manner and contributing to society as a retailer while reinforcing its corporate governance systems, the PPIH Group aims to increase its presence as a responsible corporate citizen.



* Source: Commercial industry statistics, Ministry of Economy, Trade and Industry

Shareholder Return Policy

Our basic policy on shareholder returns consists of conducting high-return investments in our core business and issuing progressive dividends. In the fiscal year ended June 30, 2019, ROE came to 15.6%, and we decided to issue an annual dividend of ¥40 per share, a 25% year-on-year increase. This made for our 17th consecutive year of higher dividends and a dividend payout ratio of 13.1%. A payout ratio of more than 20.0% will be targeted over the medium term.

Going forward, our corporate principle of "the customer matters most" will continue to guide us as we pursue the expansion of corporate value. At the same time, we will boost shareholder returns by increasing dividends in line with long-term growth in earnings per share.