

TOP MESSAGE

Breaking into new growth fields through further delegation of authority under a new organizational structure



Naoki Yoshida
President and CEO, Representative Director

► Overcoming Difficult Times Thanks to Group Unity

At the outset, I would like to express my sympathies to all persons who have been affected by the novel coronavirus (COVID-19) and their families and loved ones.

At the same time, in order to ensure the safety of our customers, we remain committed to not only implementing thorough management of our stores and offices, but also to advancing measures that help and assist our employees, who themselves are facing difficult situations in the midst of this global pandemic.

In the fiscal year ended June 30, 2020, we recorded consolidated net sales of ¥1.682 trillion (up 26.6% year on year), operating income of ¥75.9 billion (up 20.4%), and delivered an increase in sales and profits for the 31st consecutive year since the establishment of the first Don Quijote store. I recognize that this is the sum of the efforts of each and every one of our Group employees, who have amply demonstrated their ability to adapt through delegation of authority, even under the most challenging of circumstances.

Looking back on the previous fiscal year, September 2019 saw only lackluster last-minute sales, even though it was the month before the hike in the consumption tax. When the increase in the tax rate hit sales in October, it looked as though in the run-up to the year-end our existing stores would fail to exceed their sales results from the previous year.

As the new year dawned, just as we were starting to see signs of improvement, we found ourselves struck by the tremendous impact of the COVID-19 pandemic.

In order to overcome this critical situation, we held a series of meetings, starting with the first Group Rally on March 5. At these meetings, we proposed policies and strategies unique to our company, with the aim of turning this unprecedented crisis into an opportunity. We then started to implement these one after the other.

I reiterate my analysis that it was as a result of these efforts that the unity of the PPIH Group was further strengthened, and as I noted above, we were able to achieve an increase in sales and profits for the 31st consecutive year.

► True Sense of Unity Born Out of the Global Pandemic

Whatever the case, there is no doubt that the global COVID-19 pandemic, which is said to be an unprecedented, once-in-a-century event, has demonstrated our Group's strengths, namely our ability to adapt and our thorough commitment to our corporate principle of "The Customer Matters Most."

Symbolic of these efforts are the whiteboards that employees took the initiative in placing outside many of our Group stores.

The front of these boards detailed the location and quantities available of "emergency necessity" products, such as masks and disinfectants, while the back of the boards was crammed full of handwritten messages of support and gratitude spontaneously written by customers. These messages were spread via social media, and as a result, they attracted many customers.

In short, this extremely "analogue" method of communication—writing by hand on a whiteboard—helped to bring together employees and customers to "mingle" in the setting of our stores. This episode is truly the perfect example of our company's strengths in action.

As for UNY, however, it is necessary to look back in a slightly different context. In October 2019, we launched a full-fledged post-merger integration (PMI) of UNY, but unexpectedly it was perhaps the external changes caused by the COVID-19 pandemic that brought about a true sense of unity between Don Quijote and UNY, including also in an emotional sense.

At the very least, in the midst of the pandemic, where the commercial environment was facing truly critical conditions, UNY leveraged its strengths in the suburban commercial markets, standing firm to provide solid support for our consolidated results.

Of course, Don Quijote also boosted the Group's momentum by fully demonstrating its "ability to adapt," mainly at suburban roadside stores, as demand led by inbound tourism and city center commercial needs evaporated.

To put it another way, the COVID-19 pandemic could be said to have presented us with a good opportunity to engage in friendly competition and hold each other in mutual respect.

► Responding to Issues That Need to Be Resolved in the Fiscal Year Ending June 30, 2021

Next, I would like to touch on the issues that have arisen as a result of looking back on the previous fiscal year, and how we intend to respond to them.

Firstly, if we had secured e-commerce and other channels in addition to our existing (real) stores, there is no mistaking that our results would have been greatly improved in the midst of the COVID-19 crisis. We are currently working hard to respond to this issue through the Marshmallow Project.

Secondly, our "individualism," which can be said to be both one of our strengths and also one of our weaknesses, was particularly noticeable this time around in terms of securing products such as masks and also in inventory management.

That is to say, it is possible that the burden on employees could have been reduced considerably if the response to such an abnormal situation had been properly systematized instead of relying on individualism. This is an important issue that needs to be addressed as soon as possible from this fiscal year onwards.

Thirdly, we should have been quicker to bring forward the deployment of our new pricing strategy. We have now reached approximately the halfway point in the rollout of the new system, and plan for it to be fully operational in all stores by the end of the current fiscal year. We will continue to optimize pricing and inventory through repeated trials going forward.

Fourthly, and most importantly for this fiscal year is the challenge to enhance our product strengths, including spot products and private brands.

On September 1, 2020, the Company transitioned to a system of 102 branches. This is a system in which one branch manager is responsible for a trading area that encompasses one million people and transcends the corporate boundaries of Don Quijote, Nagasakiya, and UD Retail. By completely delegating authority to these 102 branch managers, our sales and marketing capabilities will be greatly enhanced.

Next, we will have to make sure that we brush up not only our store-centered approach, but also our product-centered approach.

Our fifth challenge is to make a break from "conventionalism," the definition of which can be said to be looking back and making comparisons with past practices. In a sense, this is the complete opposite of the "creative destruction" that the PPIH Group should be aiming to achieve. From the current fiscal year onwards, we will set out to establish a new path of increasing sales and profits that breaks away from such conventionalism.

Finally, we will move to enhance ESG management. In a fast changing social and business environment, we must establish a platform for ESG management so that we can achieve sustainable growth and increase our corporate value in the medium-to-long term.

It is to this end that our new medium-to-long-term management plan "Passion 2030" sets out basic policies for ESG, important challenges (materiality), and a roadmap for the promotion of ESG. We will endeavor to build a structure capable of more proactively promoting ESG management.

► Aiming for Organizational Simplicity under a System of Individual Companies

In order to ensure that we are well positioned to realize the above measures swiftly and surely, from July 1, 2020, we transitioned to a new organizational structure of individual companies, under which our core value of delegating authority is enhanced even further.

Under this "company system," the company presidents and CMOs*¹ are delegated broad authority, by which it will be possible to speed up the decision-making process. In the merchandise division (product policy), we plan to announce a new policy soon that brings us in line with the changing needs of our customers.

The single largest feature of the "company system" is that it is centered around the three axes of business (in-house companies), products and holding company functions, and delegates significant authority to each.

In addition, an Executive Committee in accordance with these three axes has also been established. Based on this management policy, the presidents responsible for the business axis and the CMOs tasked with overseeing the products axis will be delegated to actively take on the challenge of drastic business expansion, while the CSO*² of the holdings axis will provide firm support.

In any event, this broad-ranging delegation of authority through these three axes will open up new fields, realizing the overall optimization of the PPIH Group, rather than the individual optimization of Group companies.

In addition, in order to steadily foster and ensure the permeation of this new organizational structure, we have formed a new Corporate Philosophy Promotion Headquarters, which will act as a pillar of the PPIH Group's action guidelines.

One of the reasons for the establishment of this new headquarters is that in the process of implementing organizational restructuring, I personally once again found enlightenment in the "Rules for Bosses" contained in *Genryu* (The Source), the fourth of which is "Don't rule by fear." This demonstrates that the misuse of human resources' rights threatens our corporate principle of "The Customer Matters Most."

I, as CEO, as well as all directors and executives, must put into practice the principle of "The Customer Matters Most" by ensuring that our management practices are in line with *Genryu*. I pledge that through the restructuring and creation of a new organizational structure based on *Genryu*, we will boldly move forward to further expand the PPIH Group.

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Naoki Yoshida

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*2 Chief Strategy Officer