

New Format Strategy

Competitive Advantage through New Format Creation: Food-Focused Don Quijote paves the way for market share expansion

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Sustainable Transformation: The key challenge for our future evolution

I joined Don Quijote in 2000, strongly drawn to its culture of "delegation of authority" and "competitive meritocracy." After joining, I started out as an apparel associate and gained extensive frontline experience as a product buyer, store manager, branch general manager, and general manager of MEGA Don Quijote Sales Headquarters before assuming the role of President and Representative Director of UD Retail Co., Ltd.

In the project to convert UNY stores to the discount store format, we did more than simply change the format. Rather, based on the concept of "100 different store concepts for 100 stores" we took on new challenges for each store, focusing on creating new community-based value. As a result, not only did UD Retail act as a growth engine for the PPIH Group, but it also became a breeding ground for the next generation of leaders.

Subsequently, as Vice President of UNY Co., Ltd., I worked to improve profitability, achieving an operating income margin of 7.5% in FY6/25 and transforming it into a highly profitable business. Through these experiences, I have promoted initiatives aimed at achieving sustainable growth by integrating frontline capabilities with management expertise.

New Community-Based Format in Response to Changes in the Consumer Environment

In recent years, there have been significant shifts in consumer behavior due to changes in the social environment, including inflation, declining real wages, and rising Engel coefficients. In

particular, the share of food spending continues to increase year by year, while the non-food market composition ratio is trending downward.

In our discount store business, we have further strengthened our existing product lineup of processed foods, daily items, and frozen foods, while leveraging the fresh food expertise gained from UNY, thereby turning the food category into a crucial pillar driving business growth.

We view these changes in consumer behavior as growth opportunities and are developing a new format called "Food-Focused Don Quijote." This Food-Focused Don Quijote will combine "Don Quijote's merchandising" with "UNY's fresh procurement capabilities," while also incorporating discount elements into the format.

Let me now explain the catchment areas. Traditional Don Quijote stores (excluding urban downtown formats) target broad catchment areas of an approximately 5-10 km radius during daytime in urban areas and an approximately 20 km radius in regional cities or during nighttime, resulting in limited visit frequency per customer. In contrast, the new format targets primary catchment areas of an approximately 1-3 km radius. Through the introduction of fresh foods and price advantages, we aim to turn these into community-based stores and increase visit frequency.

Regarding shop floor composition, whereas food occupied approximately 35% in traditional Don Quijote stores, the new format will allocate approximately 60% of shop floor space to food, with a plan to increase the food sales composition ratio to approximately 70-75%. This will address daily shopping needs and further increase customer visit frequency. For the non-food category, we will introduce not only daily-use products but also the trend-driven products that the PPIH Group excels in, achieving a higher sales composition ratio than typical supermarkets.

The new format is projected to generate approximately 1.5

times the sales of traditional Don Quijote stores.

Unique New Format: Achieving high profitability through food × non-food × PB/OEM!

The value that Food-Focused Don Quijote provides includes overwhelming price competitiveness, convenience such as one-stop shopping and nighttime operations, and an optimized, trend-focused product lineup.

We are planning a wide product range, focusing our strategic product categories on fresh foods, deli, processed foods, confectionery, alcoholic beverages, and daily items, while also incorporating non-food items such as daily necessities, cosmetics, miscellaneous goods, and character merchandise. With changes in the consumer environment and the increase in dual-income households, demand for home-cooked meals and prepared foods is expected to further increase. In particular, we consider deli and other convenience-oriented needs to be key drivers of store visits and will therefore maximize the use of the PPIH Group's resources in this area and invest in new deli initiatives. We will also devote greater efforts to PB/OEM products in order to create novel offerings and differentiate ourselves from competitors.

Declining gross profit margins due to increased food sales composition is a concern, but non-food and PB/OEM products will provide support and we will maintain the overall store gross profit margin balance.

Regarding SG&A expenses, while some increase in personnel costs is expected due to the need to handle fresh foods compared to traditional Don Quijote stores, improved SG&A expense ratio is anticipated through increased net sales driven by higher visit frequency. Through this unique business model, we aim to achieve both high customer traffic and high profitability.

The combination of Don Quijote and UNY fresh foods has already proven successful in stores converted to the MEGA Don Quijote UNY format since 2018. However, given their large store size and catchment areas extending 10-20 km radius, some customers find those stores slightly inconvenient for daily use.

For Food-Focused Don Quijote, we will maximize the expertise we have accumulated and set store sizes and product lineups suitable for daily use, thereby achieving differentiation from existing formats. We will promote store development that enables customers to use different formats for different needs, with Food-Focused Don Quijote for weekdays and MEGA Don Quijote or Apita for weekends.

For future rollout, we will start by converting the UNY business's Piago stores in H2 FY6/26. After verifying the effectiveness of this and establishing the foundation for the new format, we will expand our store network through further format conversions, new store openings, and M&A. We plan to develop 200-300 stores by FY6/35, targeting net sales of 600 billion yen, operating income of 36 billion yen, and an operating income margin of 6.0%, positioning this as the core of the PPIH Group's next growth strategy.

Enhancing the PPIH Group's Competitiveness with Deli as a Core Strategy

The PPIH Group will implement a strategy of strengthening 3 values—"affordability," "enjoyment," and "deliciousness"—to create store visit motivation through our deli offerings.

To realize these values, we will combine the PPIH Group's procurement and planning capabilities with Kanemi Co., Ltd.'s manufacturing capabilities, and through the operation of dedicated factories and investment in human capital, we will build an integrated "food SPA model" from development to sales.

Additionally, by utilizing "maji-voice" as a mechanism to reflect customer feedback and continuously improving products, we will make signature deli items and aim to acquire passionate fans.

We will position the deli strategy at the core of the PPIH Group's growth strategy and make it a pillar for enhancing the PPIH Group's overall competitiveness. As a quantitative target, we aim to achieve net sales of 200 billion yen in FY6/35, compared to 63 billion yen in FY6/25.

Affordability	Enjoyment	Deliciousness
<ul style="list-style-type: none"> Reducing raw material costs through raw material procurement in collaboration with the PPIH Group's fresh food division Competitive pricing conscious of cost per meal 	<ul style="list-style-type: none"> Accelerating product development speed and increasing production volume through dedicated factory operations Accelerating product renewal by expanding manufacturing capacity Providing an assortment that offers something new every day and keeps customers coming back 	<ul style="list-style-type: none"> Strengthening the development system by securing diverse human capital and doubling SKUs Balancing profitability and freshness value by expanding semi-prepared products Focusing on developing unique offerings that provide an extraordinary experience