

## Challenges and Growth Opportunities

To further the Don Quijote Group on its quest to become a retailer that is chosen by customers in every era, we emphasize an understanding of the challenges and growth opportunities in our business activities. This understanding is to be gained through analyses of the operating environment. The Group endeavors to fully exercise its competitiveness to seize hold of growth opportunities and develop an undisputed presence in the industry. At the same time, we remain keenly aware of the challenges that may arise in the future as we boldly tackle new challenges to create value by positioning risks as business opportunities.

### Strategies for Overcoming Challenges

#### Aging Population and Declining Birthrate

The aging population and declining birthrate indicate the unlikelihood of the retail market expanding, and this situation is leading to accelerated reorganization among retailers and a widening gap in the performance of stores. We will overcome these challenges by developing stores that can be enjoyed by customers of a wider range of ages.

P.20 P.24

#### Emergence of E-Commerce

The Group is conducting trials of new services and seeking to create next-generation stores that utilize IT while leveraging the strengths of brick-and-mortar stores. Our aim in these ambitious endeavors is to enhance customer convenience, an objective we will accomplish by exercising the flexibility offered by physical stores and realizing a state of coexistence between these stores and e-commerce.

P.20

#### Shift in Consumption from Goods to Experiences

The Group has continued to create time-eating stores based on its CV+D+A concept, which offers customers convenience (CV), discounts (D), and amusement (A). We constantly strive to be a retailer that is loved for providing stores that foster feelings of excitement and anticipation and that allow customers to enjoy the act of shopping itself.

P.20 P.24 P.26 P.28

### Strategies for Seizing Growth Opportunities

Growth Opportunity

1

#### Higher Inbound Demand Accompanying Increase in Visitors to Japan

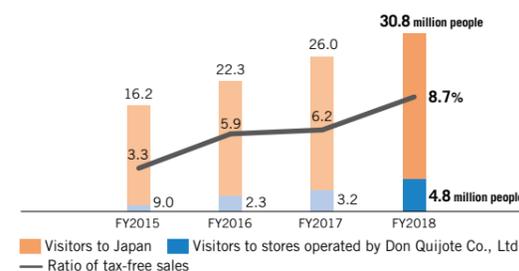
The government has set the target of attracting 40 million non-Japanese visitors to Japan in 2020, the year of the Olympic and Paralympic Games Tokyo 2020, and this target is being pursued through a joint public-private initiative.

#### Goal of Becoming a Leader in Catering to Customers from Overseas

The strengths of Don Quijote Group stores include its locations in shopping districts, late-night operation, rich product lineups, and discount prices. In addition to these inherent strengths, we also have special counters for tax-free sales, offer service in multiple languages, provide free Wi-Fi access, and accept various payment methods. These conveniences culminate into a stress-free shopping environment for non-Japanese visitors to Japan.

P.22

#### Number of Non-Japanese Visitors to Japan and Stores Operated by Don Quijote Co., Ltd. / Ratio of Tax-Free Sales to Total Sales at Stores Operated by Don Quijote Co., Ltd.



Source: Japan National Tourism Organization

Growth Opportunity  
2

#### Competitiveness in the GMS Industry

As industry leaders suffer in terms of profitability, the Don Quijote Group has the opportunity to syphon shares away from these companies by taking advantage of the competitiveness of its low-cost operations.

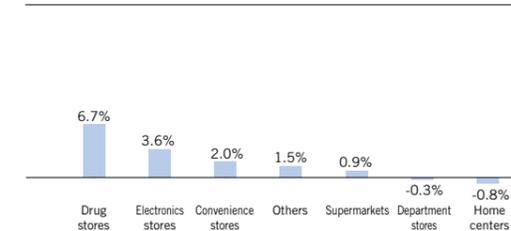
#### Success in Reforming the GMS Format

In 2008, we began converting the stores of Nagasakiya into the MEGA Don Quijote format, successfully achieving stable profits while rivals in the GMS industry suffered in terms of profitability.

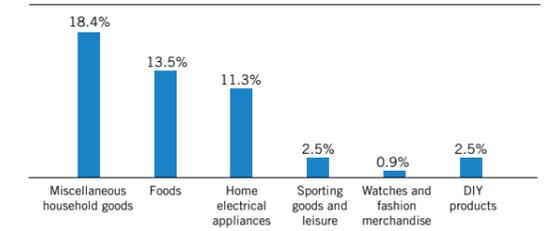
Going forward, we will step up our efforts to develop stores that are chosen by and bring joy to customers of a wider range of ages in order to expand our share in this industry.

P.20 P.24 P.26

#### Sales Growth Rates by Retail Store Format in Japan



#### Sales Growth Rates by Product Category at Don Quijote Group Stores



Source: Commercial industry statistics, Ministry of Economy, Trade and Industry  
Year-on-year comparisons for period from July 1, 2017 to June 30, 2018

Growth Opportunity  
3

#### Rising Popularity of Japanese Products Overseas

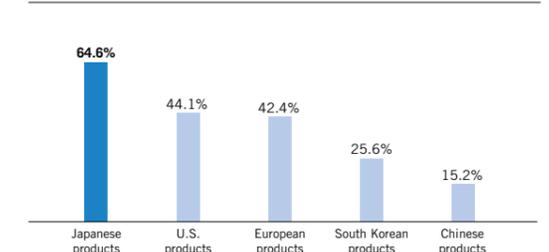
Japanese products have become synonymous with high quality while gaining a strong reputation for safety, contributing to the rising popularity for these products overseas.

#### Medium- to Long-Term Strategy Eying Full-Fledged Overseas Expansion

The rising popularity for and reputation for reliability of Japanese products outside of Japan presents the opportunity for our overseas stores to achieve competitiveness by providing high-quality Japanese products and safe and delicious Japanese foods at reasonable prices. We are currently laying the groundwork for full-fledged overseas expansion by opening several stores on a trial basis each year.

P.22

#### Ratio of People Viewing Products of a Given Country as High Quality



Source: Survey on image and reputation of Japanese products conducted in 14 Asian cities, Hakuodo Incorporated

#### New Initiative Aimed at Further Growth

The first FamilyMart produced by Don Quijote was opened in June 2018 as part of a new initiative aimed at further growth advanced through collaboration with FamilyMart UNY Holdings Co., Ltd. In this initiative, three FamilyMart stores located in Tokyo were converted to this new format, which offers a wider array of products and features unique display and pricing measures that generate synergies between the two companies. As a result, these stores have been enjoying substantially higher sales and customer numbers since being converted.

