

I will practice our corporate principle, which is delineated in *Genryu*, through the ultimate empowerment of employees.

Greetings, my name is Naoki Yoshida, and I took up the mantle of president and CEO of Pan Pacific International Holdings Corporation on September 25, 2019. I recognize the weight of the responsibility with which I have been assigned, and I am committed to fulfilling this responsibility.

Naoki Yoshida

President and CEO

Accomplishment of All Targets of Vision 2020 Medium-Term Management Plan a Year Ahead of Schedule

The fiscal year ended June 30, 2019 marked a major milestone for the PPIH Group. Not only was it a year in which we achieved higher net sales and operating income for the 30th consecutive year since the opening of the first Don Quijote store, it was also a year in which we converted UNY Co., Ltd. into a consolidated subsidiary, which took place in January 2019. With the addition of UNY, the PPIH Group's business scale exceeded ¥1 trillion in terms of net sales, total assets, and market capitalization.

Furthermore, we posted net sales of ¥1,328.9 billion and return on equity (ROE) of 15.6% in the fiscal year ended June 30, 2019, while our store network grew to 693 locations. These figures represent the accomplishment of all targets of the Don Quijote Group's Vision 2020 medium-term management plan—net sales of ¥1 trillion, a store network of 500 locations, and ROE of 15% to be achieved by the fiscal year ending June 30, 2020—a year ahead of schedule.

We are currently in the process of formulating a new medium-term management plan to succeed Vision 2020, and this plan is slated to be announced in February 2020. My most important mission will thus be to ensure that the targets of this new medium-term management plan are accomplished while cultivating future managers.

Bold, Constant, and Ever-More Dedicated Quest to Address the Changing Times

In the domestic market, we continue to face difficult conditions due to the rising maturity of consumption trends as well as demographic circumstances. We are opening new stores while working to improve the earnings structures of existing stores in this market. Meanwhile, our MEGA Don Quijote UNY format has been growing at a pace that has exceeded expectations.

Overseas, we opened our first store in Thailand in February 2019, followed by our first store in Hong Kong in July of the same year. In this manner, we are making smooth progress with our advancement into ASEAN countries. Our stores in these countries supply high-quality, made-in-Japan fruits, vegetables, processed foods, and cosmetics and accessories at reasonable prices. These offerings consistently draw large numbers of customers, making the stores a massive hit. I am confident that this success is the result of our ability to capture the hearts of customers in these countries through the creation of the new DON DON DONKI store format, which is radically different from our traditional store formats.

I see strong potential for the growth of our existing operations both in Japan and overseas. Going forward, the PPIH Group will look to further entrench its distinctive store formats among customers, an endeavor that will include incorporating new earnings models based on lifetime value and other concepts employing long-term time frames. At the same time, we will undertake new challenges as a conglomerate founded on the tradition of constantly creating new formats and with an ability to adapt forming the foundation of our business. In other words, we recognize the need to continue to implement new initiatives in step with the times. This need is expressed by our founder in *Genryu*, a collection of our corporate ideals, in the words “practice creative destruction that reinvents prior successes from the ground up.” We take these words to heart as we go about our daily activities.

Team Management System of the Future

I had the honor of meeting Director Takao Yasuda, the PPIH Group's founder, roughly two decades ago. At first, I was only there to provide outside support, but I later became president of Hawaii-based Don Quijote (USA) Co., Ltd. in 2007.

In the 12 years that followed, I devoted myself to my duties in the retail industry, a field completely different from anything I had experienced. It was also during these 12 years that I became convinced there is no business better than retail.

Even with my limited opportunities to interact directly with customers, I was able to realize the allure of this industry from the employees active on the front lines. The employees truly are our greatest asset. In my capacity as president, I see the best way to repay my debt to our employees for giving me the opportunity to work with them as being to continue to adhere to the principle of “the customer matters most” and to trust the employees who are most directly connected to customers by delegating the greatest amounts of authority to them. These actions should be based on *Genryu* (The Source), which describes our corporate philosophy.

I therefore look to delegate authority, to the greatest degree possible, to the appropriate individuals in our operating divisions. To put it otherwise, the PPIH Group already boasts an unrivaled operating team along with the frameworks to delegate authority to this team. In operating divisions, the four newly appointed managing corporate officers, along with all of the other corporate officers, are exercising their roles and responsibilities in their areas of expertise. Of course, I too maintain close coordination with the operating divisions. Each of our corporate officers, including managing corporate officers, has created remarkable results. The mid-ranked employees, including division and other managers, many of whom are in their 30s, positioned under these officers are also steadily building upon their capabilities.

At the same time, responding to the massive changes being seen in society will require management that better unites both operating and back-office divisions as well as new business partners. I am excited at the prospects of the new stage that lies before us, a stage in which all members of management engage in frank discussion internally to help tackle challenges in a swift yet bold manner. My role is to dedicate my full effort to supporting our current operating team. The most important factor regarding our ability to exercise our corporate principle—“the customer matters most”—is for management to consider the front lines of operations, where employees interact most directly with customers.

Going forward, those of us in management will promote team management through a concerted effort in order to guide the PPIH Group to a brighter future in its new growth stage.

November 2019



Genryu—Foundational Principles for the PPIH Group

Genryu (The Source) is a collection of corporate ideals that clearly delineate the corporate principle and the management philosophy that we expect all PPIH Group employees and officers to abide by. This work compiles the business spirit and DNA that have lived on since our founding, serving as a source of guidance when we lose sight of our path while undertaking new businesses or tackling new challenges. At the PPIH Group, we shape our daily activities based on our corporate principle of “the customer matters most” and other elements of *Genryu*.



The Six Precepts of Our Management Philosophy

- Precept 1:** We commit ourselves to doing business in a manner that is unselfish, 100% honest, and grounded in a strong sense of morality and purpose.
- Precept 2:** In every age, we create shop floors that evoke the anticipation and excitement of finding astonishingly cheap goods.
- Precept 3:** Boldly granting authority to those at the center of things, we are always ready to move people around, to make sure they are in the best possible position.
- Precept 4:** We are committed to creative destruction and the ability to adapt; we reject pre-established harmony and the hesitancy to do anything that might rock the boat.
- Precept 5:** We are unhesitant in the face of daunting challenges, and unafraid to beat a rapid retreat when a cold, hard look at reality tells us this is the best course.
- Precept 6:** Undistracted by easy profits, we hone to perfection the strengths that form our core business.

Ten Precepts Relating to Employee Mindset and Conduct

1. Have the fighting spirit to get back up when you go down, and the presence of mind to learn from the experience.
2. Commit with more passion than anyone to your store, your products, and your customers.
3. Use your work on the floor to hone your insights, sensibility, and ability to be inspired.
4. Go beyond will-power, skillfully deploying guts and passion to make your floor the winner.
5. Make others the subject of the sentence so you can talk from their perspective.
6. Managers must constantly be raising their own successors.
7. Regardless of rank and position, always acknowledge and respect individual diversity.
8. Think of what you do not as “work” but as a “game,” and have fun!
9. Rather than list all the reasons you can’t do something, think long and hard about how you make it possible.
10. Rather than accept the seeming incompatibility of two options, figure out how to make them work together.

Dedicated Practice of “Genryu Management”

Our dedicated practice of “Genryu Management” is aimed at enabling a shift to independent, self-driven management. This type of management is expected to enable the PPIH Group to continue to overcome the challenges presented by the times and grow by exercising the principles contained in *Genryu* and to work toward its vision, even without a charismatic leader.

We hope to create an organizational structure that is not dependent on the leadership of one individual and ensure the never-ending growth of the PPIH Group.

