Interview on Strategic Management

Leveraging our high ability to adapt in order to achieve 120 billion yen in operating profit for the fiscal year ending June 30, 2025, with the midway milestone of 35 consecutive fiscal years of increased sales and operating profit

Director, Managing Executive Officer and CSO
General Manager of Corporation Management and
Strategic Headquarters and Head of the Executive Committee

Hideki Moriya

Management reforms to shift emphasis to profit clearly producing results
Tangible effects of strengthening "earning power"

In the consolidated financial results for the fiscal year ended June 30, 2023, our operating profit exceeded 100 billion yen for the first time and our operating profit margin recovered to over 5% for the first time since the fiscal year ended June 30, 2018. We believe we have made a good start in the first year of our medium-to-long term management plan "Visionary 2025/2030."

I particularly appreciate that the gross profit margin for the full year exceeded 30% for the first time, and that we achieved an operating profit margin of more than 5%, which covered for the rise in SG&A expenses.

Our company's golden ratio under our existing profit structure was to keep our gross profit margin above 25%, limit our SG&A ratio to 20%, and, as a result, achieve an operating profit margin of over 5%. But after UNY became a wholly-owned subsidiary in 2019, we have faced a situation in which our SG&A ratio swung upward from 20% and our operating profit margin remained below 5% with the expansion of our portfolio.

With our traditional profit model no longer viable, we have sought to overcome the challenges and adapt through our shift from a strategy centered on the idea of sales supremacy to one that is profit-oriented. Since then, with the aim of establishing a new business model, we have been working to strengthen our "earning power" (in other words, improve our profit structure) through various measures, such as productivity improvement, strengthening of PBs and OEM, and improvement of our inventory turnover ratio.

In addition, we have recently been facing soaring procurement costs, as well as increases in SG&A expenses, including uncontrollable expenses such as rent, energy costs, and per capita labor costs. Despite these major external changes, we achieved an operating profit margin of over 5% in the fiscal year ended June 30, 2023. Furthermore, for the second consecutive fiscal year since the fiscal year ended June 30, 2022, we have achieved greater operating profit growth than sales growth and an increase in gross profit of more than 100 billion yen. I feel that we are steadily developing "earning power" as a result of the management reforms we have been working on for several years. I can also sense tangible effects setting us up for future growth.

Aiming to achieve 35 consecutive years of increases in sales and operating profit toward achieving 120 billion yen in operating profit after two years

In the fiscal year ending June 30, 2024, based on the performance growth and "earning power" confirmed thus far, we intend to maintain an operating profit margin of over 5% while focusing on investments for growth and human resources development, and to achieve 35 consecutive fiscal years of increased sales and operating profit.

We will open more than 25 new stores in Japan and 12 stores overseas, and in terms of net sales, we will aim to surpass two trillion yen for the first time. We also expect to secure a gross profit margin of 30% or more by increasing the PB/OEM sales composition ratio and improving pricing accuracy. Furthermore, in terms of SG&A expenses, although the absolute amount will increase year on year due to future-oriented growth investments in North America and continued increases in labor costs and utilities costs in Japan, we plan to maintain the SG&A ratio at the same level as the previous fiscal year through cost control. In addition to the effect of this increase in profit, we have firmly developed our "earning power" amid changes such as soaring procurement costs and increased SG&A expenses. As a result, we expect our operating profit to be 111 billion yen (a 5.5% increase year on year) and our profit margin to be 5.4%.

In terms of performance by business segment, we expect the domestic retail business, centered on the discount store business, which grew significantly during the fiscal year ended June 30, 2023, to drive the Group's performance in the fiscal year ending June 30, 2024.

Domestic business

For our discount store business, we plan to achieve increased sales and profits by strengthening sales with existing stores as the core.

In addition to expanding tax-free sales, we will also focus on acquiring more customers. Particularly with regard to tax-free sales, in order to capture sales in the second half of the fiscal year ended June 30, 2023 in response to the rapid increase in demand for tax-free goods immediately after the easing of entry restrictions into Japan, we added more cash registers that can handle tax-free sales, improved the payment environment, and reviewed our personnel allocation, product mix, and store layouts. This resulted in a rapid recovery of tax-free sales to 38.3 billion yen for the fiscal year. Going forward, we aim to achieve further expansion by continuing to review the infrastructure environment as appropriate in response to changes in customer numbers and demand, with the goal of achieving over 80 billion yen in tax-free sales in the fiscal year ending June 30, 2024, surpassing the peak reached before the COVID-19 pandemic. In addition, to further expand our business, we plan to open more than 25 new stores, exceeding the 16 new stores opened in the previous fiscal year.

In the GMS business, based on the progress we have made in strengthening profitability, we expect to increase sales and profits by strengthening sales promotions to expand future sales.

Instead of the unified sales promotions that had been conducted by all stores under the direction of the Headquarters, we are conducting different sales promotions based on business formats and customers, which is a newly-introduced effort, leading to an increase in customer numbers and sales. In addition, we aim to improve the gross profit margin by 0.7 % year on year to 35.1% by strengthening PBs and OEM focusing on non-food merchandising (clothing, household goods), and improving pricing accuracy.

Asia business

Six years have passed since the opening of our first Singapore store in 2017. To date, we have expanded our stores in six areas with a view to achieving a certain scale. I feel now that we have entered a new phase from this expansion phase.

Looking at the positioning of our Asia business in our overall portfolio, its impact on our overall business is limited at the present point. On the other hand, I recognize that our Asia business is, at the same time, an important strategy that will be a source of future growth. For this reason, I feel it is important to firmly rebuild our business model here.

Needless to say, one of our strengths is our individual store operation based on delegation of authority. Since expansion to a certain scale was a very important aspect of our expansion in Asia, there are still areas and stores where the individual store operation concept has not fully penetrated, and there is room for improvement. The improvement in the next phase will be different from that in the previous expansion phase. I think there will be both failures and successes, but what will be most important is to tolerate such failures and take on "bold challenges." I believe that now is the most effective time while we still have a small scale.

North America business

For the North America business, we plan to increase profits based on our existing stores this fiscal year by strengthening deli products, which have high product profit margins, and improving gross profit margins through expansion of PB/OEM direct trade products. At the same time, we plan to make upfront investments to expand the scale of business and improve operations going forward. First, we plan to open new stores in California and Guam in the fiscal year ending June 30, 2024. We also expect to incur preparation and start-up costs in the fiscal year ending June 30, 2024 for new stores that we will open in the fiscal year ending June 30, 2025 and beyond, as well as costs related to the establishment of a central kitchen in California, expansion of warehouses in Hawaii, and personnel hiring at our various headquarters locations. Although operating profit is expected to temporarily fall below the previous year's level due to several such major investments, our plan is to aggressively execute these investments based on the recognition that they are essential for business growth and expansion of operating profit over the medium to long term.

Becoming a visionary company needed by society through PPIH's unique adaptation

What kind of company is PPIH? To put it briefly, I believe that PPIH is a company that grows by adapting. Since its establishment, the Group has shown its approach of making great strides by adapting to changes in the environment, taking on bold challenges, and transforming itself. This is evidenced by the 34 consecutive years of growth in sales and operating profits since the opening of the first Don Quijote store in 1989.

Launched in 2022 with a view to 2030 and beyond, our medium-to-long term management plan "Visionary 2025/2030" declares that we aim to be a visionary company defined as "a company that adheres to the principle 'The Customer Matters Most,'" "a company that responds to change and boldly takes on daunting challenges," and "a company that constantly grows and continues to set bold goals." The plan sets numerical targets of operating profit of 120 billion yen (operating profit margin of 6.0%) for the fiscal year ending June 30, 2025, and 200 billion yen for the fiscal year ending June 30, 2030. All of our employees and executive officers have started FY2024 with high motivation and confidence, recognizing that we are already on track to achieve our target of 120 billion yen in operating profit. We humbly ask for your continued kind support and patronage as we continue to strive to achieve our target.