General Merchandise Store Business

Message from the President

GMS

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Realizing Our Vision of a New Lifestyle Creation Retail Business

Looking Back at Fiscal 2017—A Pivotal Year

"Back to Basics" was the slogan in fiscal 2017, the year ended February 28, 2018. This slogan urges us to think carefully about how to make stores points of contact with customers, offer lineups of sought-after products, and create stores that customers want to visit. Revisiting these imperatives, all of our employees focused on individual store management, store appeal, and budget attainment. Thanks to these efforts, we outperformed targets.

In August, we entered into a capital and operational tie-up with Don Quijote Holdings Co., Ltd. At the outset, our employees were somewhat surprised and unsettled due to the differences in our business methods and cultures. Until then, they had viewed Don Quijote Holdings as an exemplary company in another business category. However, they have since begun participating actively as the tie-up takes concrete form. Given the progress of advanced technology and major changes in the financial sector in Japan and overseas, fiscal 2017 was a pivotal year not only for the Company but for society as a whole.

Offering Experiences That Are More Than Shopping

We are paying close attention to the following three changes in business conditions. First, Japan's demographics are changing. In many rural and urban areas, the effects of population decline on industry are becoming evident. As society ages and single-person households increase, consumption behavior is changing. Moreover, we cannot ignore the decline in mom-and-pop stores. Second, competition is beginning to transcend business categories in earnest, with drugstores and discount stores that offer competitively priced products earning customer endorsement. Third, the e-commerce market is expanding, making it difficult for GMS (general merchandising store) businesses to establish differentiation and superiority based on existing business models.

There is no shortcut to overcoming these business conditions and winning out. The only way is to exploit advantages that brick-and-mortar stores have over Internet shopping to provide experiences that go beyond shopping and thereby encourage store visits. We must transform into a store where customers find even more products that they want to eat, wear, or use. In other words, we have to create sales floors that cater to customers' lifestyles, offer innovative product mixes that suggest ideas for everyday life, and provide an enhanced service menu that extends beyond product sales. With these points in mind, we will revitalize existing stores by renewing product lineups and sales floor space allocation and leveraging in-house cards in marketing. At the same time, we will strengthen management foundations through mind-set reform at our head office, which supports store management. In the medium to long term, we must create mold-breaking store formats. In fiscal 2018, the year ending February 28, 2019, we will complete the closure of underperforming stores and the withdrawal from underperforming businesses that we decided before management integration. These steps will allow us to become more proactive and tackle full-scale store reform from fiscal 2019, the year ending February 29, 2020.

Using Tie-Up "Chemical Reactions" as Opportunities

The timing of the tie-up with Don Quijote Holdings has had stimulating effect on the Company. UNY originated from the merger of two companies—one originally a clothing store business and the other originally a footwear store business. Having experienced several management integrations, I feel that the "chemical reactions" resulting from human interaction produce significant opportunities. Moreover, I think that tie-ups between companies in different business categories promise greater benefits than tie-ups between companies in the same business category.

To ensure that we convert such opportunities into growth, we set out *New UNY* as a slogan in fiscal 2018. We cannot win out in tough competitive conditions by trying to replicate past successes. Instead, with our sights set on the coming fiscal year and beyond, we will begin reforming personnel evaluation through the introduction of performance-based systems. Also, we will rapidly establish *a new mind-set, new sales floors,* and *new stores* in accordance with management policies. Further, the tie-up will add significant momentum as we move forward to achieve these three new goals. Thus, in a concerted effort, UNY will take on the challenge of realizing its vision of *a new lifestyle creation retail business*.

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Realizing a New UNY through Decisive Reform

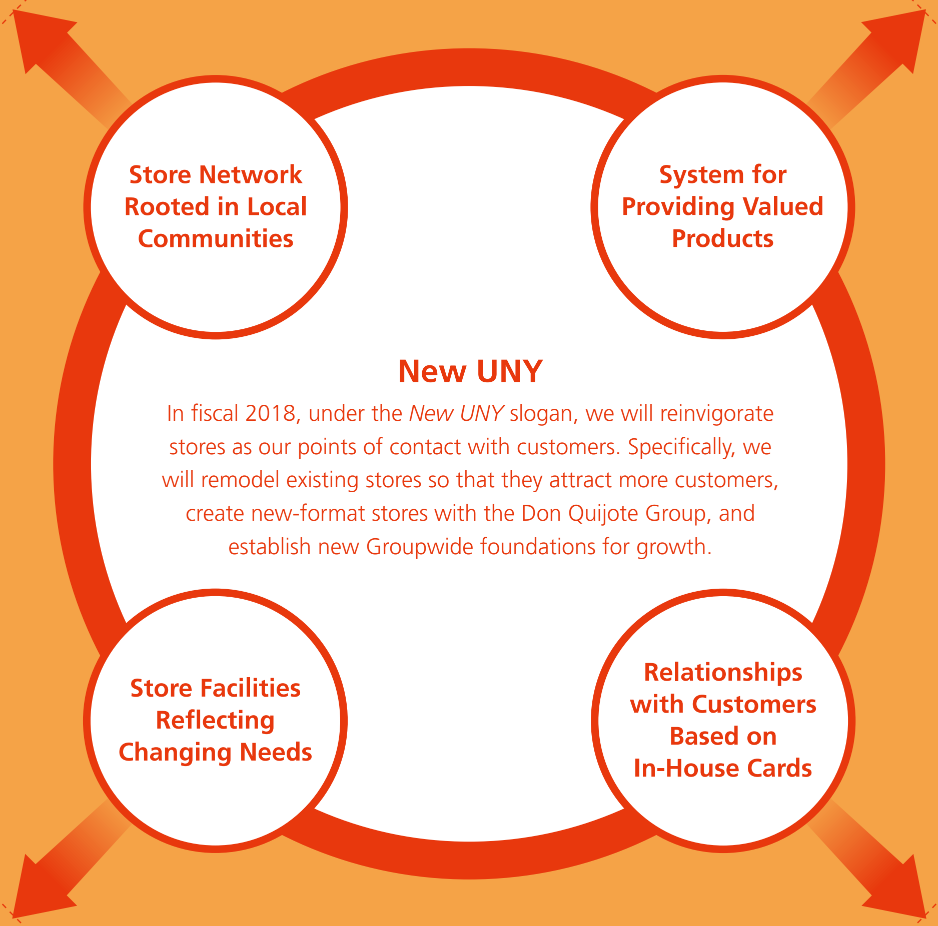
Overview of Business Conditions

The GMS business operates a variety of stores that specialize in particular retail zones and which carry essential everyday items, such as food, clothing, and household goods. As consumer behavior changes, the business is facing fierce competition from drugstores; discount stores; and, in recent years, from e-commerce businesses, which do not have brick-and-mortar stores. In such conditions, transitioning to a business model that creates unique value that companies in other business categories cannot match has become a pressing task.

Remodel existing stores and convert to discount store format

Strengthen product appeal with focus on food field

- Advance Prepared Dishes Project
- Make Kanemi a subsidiary



Invest in systems with a view to establishing next-generation stores

Prepare for full-scale establishment of businesses peripheral to financial and e-commerce services

- Make UCS a subsidiary

STRATEGY 1

Revitalizing Existing Stores

In fiscal 2018, we have set out management policies that call on the Company to *rebuild existing businesses*. Accordingly, we will remodel stores with a focus on directly managed sales floors and take an array of measures to enhance store quality. As well as offering a full range of products that cater to customers' lifestyles, we will create sales floors that not only reflect actual demand but also make shopping fun and encourage store visits. In particular, for APITA stores, which operate in medium-sized retail zones, we will proceed with drastic remodeling of all stores to establish sales floors with competitive space allocation. In fiscal 2018, we plan to invest approximately ¥13 billion in these stores, most of which is for store remodeling and investment in new cash registers and other systems.

APITA Yokohama TERRACE Tsunashima compact shopping center, which opened in March 2018

STRATEGY 2

Increasing Product Appeal

The Company will identify changes in customer demand and take product-focused measures to create attractive sales floors. In the food field, where our affordable quality products are particularly popular, we will focus on price competitiveness while carefully analyzing customer demand as well as trends among local stores. At the same time, we will expand and improve our lineup of products that evoke a sense of added value. In June 2017, we decided to make Kanemi Co., Ltd., a subsidiary by taking a 52.47% stake in the company, which manufactures and sells prepared dishes and boxed lunches. This has enabled the new subsidiary to work in unison with UNY to strengthen the competitiveness of prepared dish sales floors. Further, in fiscal 2018 we launched the Prepared Dishes Project to improve the quality and product lineup of prepared dishes. With our suppliers, we will advance the project while giving first priority to product quality enhancement and keeping in mind the kind of prepared dish sales floors we want.

In fiscal 2018, we will concentrate efforts on prepared dishes.

STRATEGY 3

Strengthening Management Foundations

As well as working to *rebuild existing businesses*, we are taking steps to *strengthen management foundations*. Since fiscal 2016, the year ended February 28, 2017, we have been decisively disposing of underperforming stores. In fiscal 2018, plans call for the closure of 11 stores. Also, we are steadily selling such inefficient assets as closed stores and idle assets. By reorganizing and reducing our assets through selection and concentration, we are laying the foundations of proactive measures for new growth. Going forward, we intend to invest actively in new IT systems that increase management efficiency and in the streamlining of logistics. While fostering a sense of responsibility and ownership among employees for the earnings of stores and of the chain as a whole, we will transform ourselves into an organization focused on earnings growth and concentrate management resources on existing stores.

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STRATEGY 4

Joining Forces with Don Quijote Holdings

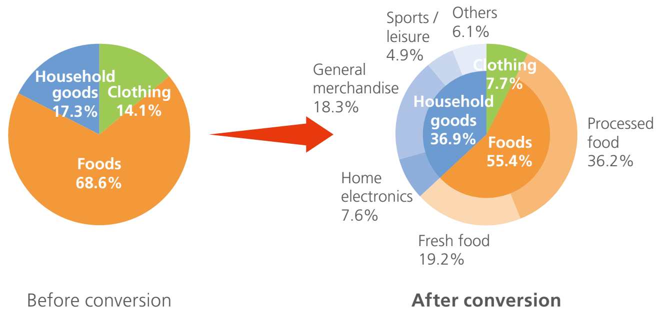
Concluded in August 2017 with the aim of creating a new retail category, our capital and operational tie-up with Don Quijote Holdings is progressing. By March 2018, we had opened six converted MEGA Don Quijote UNY stores, which combine UNY's strengths in the food field with the entertainment value that differentiates Don Quijote stores. The main difference between these stores and conventional UNY stores is that the household goods and clothing account for approximately half of total revenues. As these products promise higher profit margins than food, the new stores' business model enables us to use earnings from household goods and clothing to pursue added value and price competitiveness in the food field. By any measure, the six stores are performing robustly. Approximate cumulative results for March and April 2018 showed increases of 120% in sales, 90% in daily customer numbers, and 75% in gross profit compared with pre-conversion results. In fiscal 2018, we will analyze the six stores' results and issues, select stores to be converted to the new format from fiscal 2019, and determine our store format strategy.

At the new company tasked with leading the tie-up project, UD Retail Co., Ltd., roughly 100 UNY employees who responded to in-house job postings and about 60 employees temporarily seconded by Don Quijote Holdings have been preparing to open stores under the new business category. This joint team will also cooperate in the management of stores after they open. Through this tie-up, we want to absorb the unique store management know-how of Don Quijote Holdings and apply it to the management of other new-format stores and UNY stores.

Performance of Six Converted Stores

Six Converted stores (Oguchi, Tokai-Dori, Zama, Hoshikawa, Toyota Motomachi, and Kou)
Approximate cumulative results for March and April 2018

Composition of Sales at Six Converted Stores



CLOSE UP

Double-Branded MEGA Don Quijote UNY Stores Herald a New Beginning

For customers, the six double-branded MEGA Don Quijote UNY stores that opened in February and March 2018 do not resemble conventional UNY stores. The new stores include astonishingly low prices, mass displays and point-of-purchase advertising in sales floors, and reflect a customer-first philosophy. Based on this store format, UNY will take on the challenge of providing customers with new value.

A Leading Discount Store and Rival

In the highly competitive conditions of recent years, one of our benchmarks has been discount stores, which have continued to grow earnings by strongly emphasizing low prices. Among these stores, Don Quijote Holdings was a worthy adversary that we sought to surpass. In addition to distinctive stores and an ability to attract large numbers of customers, some Don Quijote stores include highly competitive supermarkets.

At first, there was considerable trepidation among our employees about the decision to enter into a capital and operational tie-up with Don Quijote Holdings. However, as details of the tie-up became clear, the prospect of tackling a new retail business engendered a more positive attitude.

Assimilation of the Don Quijote Way and Synergy Creation

Many young employees stepped forward when we were recruiting employees for UD Retail, which manages the stores after their conversion to the new business category. These employees are highly motivated and want to tackle a new business and experience the excitement of selling products in a new field—which is the starting point of retailing. In preparing for the openings of the first double-branded stores, our employees worked with employees from Don Quijote Holdings.

Don Quijote Holdings' corporate culture comprises delegation of authority to individual stores, a bottom-up approach to management, performance-based personnel systems, and intensity. In other words, the kind of corporate culture essential for a retailer is deeply rooted in the company. Our basic store management strategy is to cherry-pick both companies' best methods and leverage them to maximize benefits. However, UNY will also use the tie-up as an opportunity to assimilate the know-how of Don Quijote Holdings and apply it to existing UNY stores.

Creation of a New Business Model

From fiscal 2019, we will convert approximately 20 stores per year. The tie-up will broaden our customer base among younger generations and families, attract more customers by extending business hours, and encourage store visits by establishing unconventional store layouts. By combining these changes with the advantages of UNY, namely appealing products and its relationships with existing customers, UNY will create a unique business model that drives growth.