

AN INTERVIEW WITH THE PRESIDENT

Q

What is your view of the current business environment?



A

The ongoing decline in new vehicle sales urges the emergence of new business opportunities in car maintenance as the age of vehicles increases.

Conditions in Japan's automotive industry are becoming increasingly challenging in the face of the nation's low birthrate, wildly fluctuating oil prices, and the worldwide recession that was totally unexpected. However, more than these macroeconomic challenges, we are concerned over the structural contraction of vehicle-related markets, due to a lack of interest in cars among the younger generation and other factors.

We can expect an increase in opportunities to use cars owing to government-led initiatives, such as demand for eco-friendly vehicles and reduction of expressway toll charges. However, we will not take the position of waiting for the unpredictable recovery in demand. Instead, we believe it is vital to enhance customer satisfaction, the cornerstone of the retail industry, while communicating the added joy in life by owing a car. In other words, our main challenge in the medium and long terms is to become the first choice among customers as underscored by our slogan "Anything about cars, you find at AUTOBACS." To this end, we will strengthen marketing activities that respond flexibly to changes in the external environment, addressing the needs of consumers wanting to safeguard their lifestyles and shift to more energy-efficient motoring.

The other side to slumping new vehicles sales in Japan is that consumers want to use their cars for longer periods. For several years now, the AUTOBACS Chain has been building up its statutory safety inspections and other car maintenance services. By meeting the changing needs of consumers in this way, we will continue developing this business as a platform for further growth of the Chain.

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What are the Group's strengths that will enable it to demonstrate its competitive edge?

A

Our strengths are our ability to build customer-oriented stores and our unparalleled brand power.

AUTOBACS is known in the domestic automotive goods and services industry for its unparalleled brand power and high profile. For many years, we have striven to build stores that are customer-oriented. One of the strengths we have built up is our vast merchandise lineup that, by meeting every conceivable need, sets us apart from others in the industry. Our sales staff actively listen to customer concerns, and our highly skilled pit and workshop staff provide meticulous service. By creating this kind of customer-oriented store, we are sure that people nationwide will be placing their trust in AUTOBACS.

Still, with players from other industries entering the market, our business is becoming increasingly competitive. To remain a leader, therefore, it is imperative that we synchronize the enhancement of customer satisfaction together with the maintenance of store profitability. To this end, we will operate our stores more efficiently and return gains to our customers while adhering to our fundamental approach of putting the customer first.

Q

What is your winning strategy within the current market, where competitors such as home centers and car dealers have been opening stores in the past few years to sell automotive goods?

A

Enhancing the quality of our brand power is important. Our goal is to have stores where we can put our confidence in the professional staffs whose collective skills and knowledge cover all aspects of cars.

As a leader in the industry, our strategy has been based on being able to address every car-related request, irrespective of manufacturer or whether a car is new or second-hand. First let us compare ourselves with home centers, one of our competitors. Although they may stock incidentals like waxes and deodorizers, you can not buy tires there because they do not have service pits. In this sense, dealers are in a better position as they have repair workshops. The steps taken by dealers recently are noteworthy, since they have sought to offset the slump in new vehicle sales by selling automotive goods and offering maintenance services in addition to extending the standard options of new vehicles. However, dealers' stores have a limited product range because they are affiliated with a particular manufacturer and their main business is strictly in new vehicle sales. By contrast, goods sold at our stores are not limited to specific manufacturers, so we are able to always provide customers instantly with the best possible product. Our strength also lies with our merchandise lineup, speedy service, and handy locations. Of course, as we target all customers regardless of region, gender, age, and other attributes, the number of customers' store visits we record bears no comparison with those of dealers.

We believe that further enhancing the quality of our brand power is important from the viewpoint of competition with dealers. By quality I mean that customers must be able to have confidence in the professionalism available at our stores, covering all aspects of vehicle-related goods and services.

BUSINESS ENVIRONMENT



Picture: AUTOBACS HIGASHI TOTSUKA Store

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What are the key strategies of the mid-term business plan?



A

Our strategies are to reinforce our core domestic franchise chain business and revise our expansion strategy with a focus on efficiency.

Over the past few years, our domestic business profits have been curbed due to our excessive pursuit of business domain expansion at the expense of efficiency. Therefore, we have concluded that extending our reach to overseas markets, where we have insufficient competitiveness, is highly risky, especially when the foundation of our domestic business is somewhat shaky. In the immediate term we will focus on returning to a lean and robust structure by concentrating on our core domestic franchise business and taking a fresh look at profitability.

Framework of the Mid-Term Business Plan

Business Strategies

- Reinforce the domestic franchise chain business
- Review overseas operations
- Improve efficiency of headquarters and expenditures

Financial Strategy

- Enhance asset and capital efficiency

Governance System

- Rebuild management system and reinforce risk management

Q

What is the current state of progress with respect to the mid-term business plan that emphasizes on improving profitability?

A

Measures to improve profitability are mostly proceeding according to plan. For example, we have restructured our business portfolio with a focus on withdrawing from unprofitable businesses. We have also streamlined our shared service subsidiaries and consolidated our store network.

In the mid-term business plan, we promised to improve profitability by reinforcing the domestic franchise chain business, conducting a review of overseas operations, and making headquarters functions and costs more efficient.

For the first strategy of reinforcing the domestic franchise chain business, we have raised gross profit margins by increasing the number of statutory safety inspections and maintenance services performed, and by strengthening sales promotion of maintenance-related goods, such as tires, oil, and batteries. We have consolidated stores and subsidiaries in order to strengthen competitiveness in areas where we have a presence. In addition, we made a careful examination of businesses from the standpoint of growth potential and contribution to the domestic franchise chain business. This resulted in the dissolution and liquidation of DIA·BACS Co., Ltd., a gasoline distribution subsidiary, and the sale of the franchisor's business of RICOLAND, our chain of motorcycle accessories business.

With respect to the second strategy, we have conducted careful examination of our competitive advantage and growth potential in each area of the overseas operations. As a result, we have stopped financing our U.S. subsidiaries, and both subsidiaries have filed applications for bankruptcy proceedings. We have also sold all of our shares in our Taiwanese subsidiary. After examining our businesses in France, Thailand, and Singapore, meanwhile, we have decided to target performance improvements and continue with these businesses for the time being. And in view of the high growth potential of the Chinese market, we are working to establish our own business model for that country.

As for making headquarters functions and costs more efficient, we have reduced costs of our stores and headquarters and integrated the overlapping functions of the Company and shared service subsidiaries.

As I have explained above, one year has passed since the measures to improve profitability in the mid-term business plan were taken, and they are proceeding according to schedule.



Picture: Super AUTOBACS ICHIKAWA Store

C O R P O R A T E S T R A T E G Y

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How will you reinforce the domestic franchise chain business?
Also, what is your projection for store openings and closures?

A

We will aim for higher net sales by reinforcing measures to improve the frequency in customers' visits. However, for the time being, matters relating to the opening and closing of stores, we will concentrate on strengthening existing stores rather than establishing new ones.

As a strategy for attracting more customers to our domestic franchise chain stores, we will expand store sales by increasing the frequency of customer visits. We are realizing this by introducing a variety of sales promotion activities that tie in with regular statutory safety inspections and tires and oil changes for customers who belong to our point-up card membership programs. We are also remodeling our stores to ensure that our brand power remains consistent. To improve the efficiency of store operations, we have adopted an area strategy that encourages the reorganization of stores within a particular area, including alliances among franchisees. Accordingly, our immediate plan is to focus on reinforcing existing stores rather than setting up new ones.

As for fiscal 2010, we plan to establish three new stores, reopen four stores via scrap-and-build and relocation programs, and close four existing stores.



Picture: Lineup of exclusive merchandises and private brands

C O R P O R A T E S T R A T E G Y

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How do you intend to improve the profitability of automotive goods and services sales?

A

We will enhance profitability by improving layouts at store fronts and merchandise lineup, and by improving procurement efficiency.

There is no denying that in the first half of fiscal 2009, we were delayed in pinpointing the varying needs of customers as they faced soaring gasoline prices. We were also slow to offer substitutes and cheaper prices to customers who were cutting back on spending. From this experience, we have learned about the importance of accurately ascertaining customer needs in each area and passing this information on to suppliers, in light of our close interaction with customers.

Also, when trying to build a strong merchandise lineup, we must be sure to create a range that makes selection easy. For instance, our headquarters selects similar goods, which are then arranged according to function. This permits more efficient procurement of necessary goods while making the task of selection easier for customers.

We believe we can increase the revenue of automotive goods in the end by changing the purchasing conditions as we narrow down the suppliers for each merchandise, and through mutually beneficial business terms between the company and suppliers that leads to enhanced value for customers.

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Used car market is languishing. What are your plans for this business?

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We have set a timeframe of two years within which to establish an effective business model for our used car sales business.

The slump in new car sales means that people are not replacing their cars, which in turn is making it difficult for us to get an adequate lineup of used cars. Consequently, used car sales (CORS) agreements with some chain stores have placed a heavy burden on their capital resources. Following a review of the business we decided to revise the used car sales expansion strategy for all outlets. Accordingly, we reduced the number of affiliated outlets to 191 by the start of the new fiscal year, compared with 300 a year earlier.

Although we have rapidly expanded our used car sales business, we did not have the purchasing and other skills to keep pace with such growth, because we decided to join the used cars business somewhat belatedly. We have, therefore, decided to rebuild the business over the next two years by working together with our franchisees while immediately downsizing the business and accruing a successful model. In specific terms, this means that we will solidify our business base, centering on training where supervisors visit our stores giving advice on purchasing and other necessary skills. We will then concentrate on establishing a successful business model by training staff capable of developing a used car lineup that meets customer needs.



Picture: Super AUTOBACS KODAIRA Store

Q

One of the targets of the mid-term business plan is to achieve operating income of ¥16 billion and an ROE of 7% by the year ending March 31, 2011. In light of the increasingly difficult operating environment, what specific measures are you taking to achieve these targets?

A

We will work hard to strengthen customer relationships and improve the profitability of each business process, including purchasing and merchandise lineup development.

In light of the worsening employment situation and other recent developments, the business outlook for the period beyond fiscal 2010 appears far worse than when we formulated the mid-term business plan. Even so, we can definitely expect to see an increase in the use of cars, given the growing trend among customers to keep their cars for longer, as well as the lower gas prices than last year and lower expressway tolls. Meanwhile, the Group has nearly completed the task of discarding unprofitable businesses. Accordingly, we forecast consolidated operating income of ¥9.0 billion in fiscal 2010. This forecast is based on expected stronger sales of tires, oil, and batteries, which have relatively high profit margins, and increased earnings from statutory safety inspections and maintenance services. These factors will improve our gross profit margin and help us maintain tighter control of selling, general, and administrative expenses.

To achieve our mid-term business plan targets beyond fiscal 2010, it is essential that we boost the earnings capacity of stores. This involves both strengthening customer relationships and improving the profitability of each business process. In concrete terms, we must continue building community based lifelong customers, where we provide statutory safety inspections and subsequent tires and oil changes for point-up card program members. We will also continue targeting better purchasing terms in cooperation with our business partners. At the same time, we will adopt a high-profit-margin merchandise mix strategy, reassess our area strategy, and strive to reduce store costs.

While it is clear that the plan's numerical targets are somewhat ambitious, at present we believe that they are not unachievable. However, we will make changes to the targets in accordance to environmental conditions as we take account of the growing uncertainties associated with the economic situation and trends in vehicle-related markets.



Picture: Super AUTOBACS ATSUGI Store

Q

What are your thoughts on balance sheet management in the context of pursuing the Group's business strategies?

A

We will continue to reduce the size of our asset portfolio while having sufficient liquidity to maintain financial soundness.

In order to increase the competitiveness of our core business in domestic automotive goods and services, in fiscal 2009 we wasted no time in discontinuing unprofitable businesses. Although this resulted in a temporary need for funds, we managed to maintain financial soundness even in the face of tough economic conditions since we had ample liquidity to begin with. At fiscal year-end, we had approximately ¥53.1 billion in cash and cash equivalents and marketable securities.

For the time being, conditions are not right for aggressively increasing new stores. At the same time, we have proceeded according to plan with sales of assets with low profitability, and we think there is further scope for improving cash flows. Therefore, we believe that we will be able to reduce the level of cash liquidity.

As a result, our medium-term target for cash liquidity (cash and cash equivalents, and marketable securities) is around ¥30.0 billion. This should be sufficient as a contingency for even harsher economic conditions and as a reserve to support franchisees. By holding enough reserves to support franchisees in times of emergency, we think both customers and business partners will continue having confidence in the AUTOBACS Chain.

RETURN TO SHAREHOLDERS

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What is the Group's basic shareholder return policy?

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With a target DOE (Dividend on Equity) of 3%, we will make stable returns to shareholders and take a flexible approach to share buybacks.

Given our ample cash reserves at the end of fiscal 2009, we recognize returning profits to shareholders as the top management priority. Even though the business environment is worsening, we plan to continue paying stable dividends and implementing share buybacks flexibly, while achieving the 3% DOE target announced in the mid-term business plan. We are assured that shareholders expect us to increase cash flows by deploying our management resources rather than simply drawing down our ample cash reserves. Therefore, we intend to strike a balance between returning profits to shareholders and making investments for growth, while judging the right timing for adopting a more assertive posture.

DOE and Dividend Payout Ratio

