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On **October 11, 2018**, Don Quijote Holdings Co., Ltd. announced: 1) it would acquire 60% of the shares of Uny Co., Ltd., making it a wholly-owned subsidiary; 2) an opinion in favor of the planned commencement of a tender offer for shares (20.17% ownership ratio [planned]) in Don Quijote Holdings. by FamilyMart UNY Holdings (FU-HD, TSE: 8028); 3) the submission of shelf registration documents for the issuance of corporate bonds worth JPY200bn (scheduled between October 19, 2018 and October 18, 2020); 4) the change in company name to Pan Pacific International Holdings Corporation, subject to completion of the conversion of Uny Co., Ltd. to a wholly-owned subsidiary.

The result will be a group with total sales of JPY4.7tn operating in three formats: general merchandise stores (GMS), discount stores, and convenience stores. President Ohara stated, "Our intention is to ride over the rough waves coming to the distribution industry through mutual organic integration." He added that the name change reflected the company's commitment to creating a retail format that can be recognized globally. President Takayanagi of FU-HD commented, "We would like to expand overseas together, such as bringing the Donki format into Taiwan through FamilyMart. We want to mobilize the combined strengths of the group, including Itochu, to reach a new strength," and, "The meaning of acquiring 20% of Don Quijote Holdings is that although we will give up our shareholding (60%) in Uny, we can be comfortable in continuing to hold 20% of Uny by acquiring 20% of Don Quijote Holdings."

The company plans to change the format of 100 of approximately 200 Uny stores over five years (approximately 20 stores in 2019). There are no plans at present to close stores due to the overlap of areas served by Don Quijote and Uny stores.

#### **Conversion of Uny into a wholly-owned subsidiary**

As of October 11, 2018, the company held 40% of the shares of Uny. At the board of directors meeting held on the same day, the company resolved to make Uny a wholly-owned subsidiary through the acquisition of 120,000 ordinary shares in Uny (60% of voting rights) from FU-HD. As a result of Uny becoming a wholly-owned subsidiary of the company, UCS Co., Ltd. (which is a wholly-owned subsidiary of Uny) will also become a wholly-owned subsidiary of the company (a second-tier subsidiary). The date of the share purchase agreement is October 11, 2018; the share transfer is scheduled for execution in January 2019; the acquisition value is JPY28.2bn. The consolidated results forecast will likely require revision. The company is currently reviewing the impact and will announce any revisions when detailed figures are established.

The reasons for the share acquisition are as follows: 1) the companies have a minimal competitive relationship due to a different business focus for both company groups; 2) one can expect cooperative business and mutual complementary outcomes that leverage each company's management resources, individual strengths, and know-how to go beyond the limits of either group; 3) it was agreed that, in order to achieve growth in FU-HD's GMS business, and to consequently improve the corporate value of UNY over the medium- to long-term, it is important to make use of the company's strengths (namely the support of a broad customer base that includes younger people; its highly entertaining time-spending-type retail format; and its know-how on operating stores overnight and addressing inbound customer needs), while further enhancing Uny's existing strengths in its food and other business segments.

In the six-month period from March to August 2018 considerable growth was seen at the six joint name stores with Uny: sales increased 90% YoY to JPY13.2bn (JPY6.8bn in the same period of the previous year), and the average number of customers per day increased by 60% YoY to approximately 32,000 people (approximately 20,000 people in the same period of the previous year). Negotiations regarding the capital relationship with Uny began from late August 2018. In relation to the necessary funds for the share acquisition, the company will procure funds through hybrid financing, in addition to funds on hand and borrowings from financial institutions; the company does not plan to procure funds by issuing new shares.

## Uny results

(JPYmn)	FY02/16	FY02/17	FY02/18
Sales	716,994	699,822	670,649
OP	10,623	13,866	17,977
OPM	1.5%	2.0%	2.7%
Recurring profit	10,939	13,925	16,963
Net income	2,541	-56,599	9,265

Source: Shared Research based on company data

(JPYmn, JPY)	FY02/16	FY02/17	FY02/18
Net assets	163,177	108,785	90,040
Total assets	560,255	505,797	438,389
Book value per share	815,885.7	543,929.3	450,204.1
EPS	12,707.6	-282,996.5	46,330.0
Dividend per share	-	-	3,387.9

## UCS results

(JPYmn)	FY02/16	FY02/17	FY02/18
Sales	19,500	19,997	20,103
OP	3,837	301	3,381
OPM	19.7%	1.5%	16.8%
Recurring profit	3,840	304	3,835
Net income	2,333	19	2,599

Source: Shared Research based on company data

(JPYmn, JPY)	FY02/16	FY02/17	FY02/18
Net assets	24,665	24,216	26,346
Total assets	144,611	150,442	148,843
Book value per share	1,311.5	1,287.6	1,400.8
EPS	124.1	1.0	138.2
Dividend per share	25.0	25.0	-

## Opinion regarding the tender offer for the company's shares from FU-HD

On October 11, 2018, Don Quijote Holdings announced its support for the tender offer for the company's shares made by FU-HD. The tender offer has the purpose of making the company an equity method affiliate of FU-HD; it will commence in early November 2018, prices one ordinary share at JPY6,600, and sets the maximum number of shares to be purchased at 32,108,700 shares (20.17% ownership ratio). On October 11, 2018, the company resolved at its board of directors meeting to support the tender offer, and to leave the decision of whether or not shareholders should tender their shares to shareholders.

This note is the most recent addition to the [full report](#).

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