

## TOP INTERVIEW

### What is PC DEPOT?

Mr. Takahisa Nojima, President and Chief Executive Officer of PC DEPOT, spoke with Mr. Yukio Suzuki, Chief Analyst from Belle Investment Research of Japan Inc., about various topics ranging from business models to future prospects.

**An “IT Solutions Provider” that builds longer-term ties with customers through continuous support for longer use.**

#### Mr. Yukio Suzuki (Suzuki)

What value does PC DEPOT provide to customers?



Takahisa Nojima

#### Mr. Takahisa Nojima (Nojima)

As an IT solutions provider, our stores offer products and services based on the concept of “attractive prices, safety, convenience, and kindness.” Previously, we were a mass retailer that simply sold PCs and peripherals, and customers used to visit our stores for our attractive prices, ease of purchase, and familiarity. However, our stores have now changed into IT solutions providers that build longer-term ties with customers through continuous support for longer use of products they purchase.

#### Suzuki

Regarding “longer-term ties with customers for longer use,” are your stores able to build such ties because the products you deal with are PCs?

#### Nojima

I believe that stores dealing with PCs and other smart devices need to have long-term ties with customers who purchase such products.

PCs and tablets (so-called “smart devices”) require replacement or additional settings as a result of changing environments and release of new services, even if no changes occur to such devices themselves. This is one of the characteristics of digital networks, making these devices quite different from household appliances.

I believe that we deliver value by continuing to provide support that resolves customers’ inconveniences in the use of products they own. Customers are able to receive our services for any inconvenience that they experience while using such products, while we are able to receive service fees from customers.

**Our sole CSR policy is to “eliminate the digital information divide.” We strive to narrow the digital divide, aiming at the elimination of disparities.**

#### Suzuki

There seem to be many people who see PC DEPOT as a retailer. What products do your stores actually deal with?

#### Nojima

Although our line of business is retailing, sales of services make up a larger proportion of gross margins than commodity sales. We are a retailer that conducts service business from the viewpoint of sales, while a service provider that conducts retailing from the perspective of contribution to earnings.

Of course, we need to grow our retailing business as well. As more and more useful and necessary products for customers are expected to be released, we will sell merchandise that our customers need as a retailer while providing services that they require for the use of such products.

#### Suzuki

Don’t you think that a business model such as the one you have just described applies to TVs, refrigerators, laundry machines, and other household appliances?

#### Nojima

No, I don’t think it applies only to such products. The difference can be attributed to ways of thinking, in terms of implementing a product-oriented approach or a customer-oriented approach.

Let me give a specific example of a product-oriented approach. As TV sales have become sluggish, what product would take the place of TVs? PCs equipped with terrestrial digital TV tuners have enabled customers to watch TV programs on their PCs. However, if the sales of these PCs fall, what product would replace them and become popular? This way of thinking characterizes the product-oriented approach.

On the other hand, let’s look at the other way of thinking, the customer-oriented approach. We have been selling devices that connect to the infrastructure known as the Internet (Internet devices). We are able to continue to provide services to customers even after their PCs are replaced with tablets. When selling commodities, stores may have to change the products they are selling depending on market conditions; and such changes would require modifications to the store’s layout, product displays, and product explanations related to the new products. On the other hand, when selling services, the same engineers can remain in charge of providing services, and we receive almost the same service fees even after replacement of devices.

#### Suzuki

Your stores engage in both sales of products and ongoing support. I have almost never heard of this type of business model. Are there any similar business models?

#### Nojima

Our gross margins are generated through the following three operations: sales of products, technical services for repair and maintenance, and subscriber support. Our business model contains a mixture of sales of products and subscriber support, and I think that there are almost no other business models like ours.

Our goals are to make the Internet take root in the communities in which we operate and to enhance customer convenience so that those who are unfamiliar with the Internet will be able to enjoy it safely. After consideration of approaches for achieving these goals, we decided to establish a membership system in which we provide subscribers with support at any time they need in exchange for receiving monthly fees

from them. This allows those who are unfamiliar with the Internet and Internet devices to continue to use them safely.

Our sole CSR policy is to strive to narrow the disparities in the information society (the so-called “digital divide”) that arise as a result of differences in age, gender, income, education, place of residence, and other factors, aiming at elimination of such disparities. This is the basic philosophy of our Group. It is conceivable that the three components of gross margins could vary in accordance with our CSR policy, but there will be no changes in this philosophy.



Yukio Suzuki

#### Suzuki

Although PC DEPOT stores can be found nationwide, I suppose some of your shareholders don’t have your stores in their neighborhoods. In the service model you have just explained, do your customers need to visit your stores in order to receive settings and sales support? If not, are they able to receive the same services online?

#### Nojima

Although we use our website for advertisement purposes, we basically don’t offer online services to customers at present. The customers need to visit our stores first to receive the services there. At first, we should focus on stabilizing the quality of our services and providing broader and better services. In the future, there may be a possibility that we would begin to provide partial services with a limit on scope and quality, if our customers accept such services.

**What generates profit for your Group amid the trend of decreases in the number of PCs?  
The Group's strengths, conversion of business model, and the progress.**

**Suzuki**

PCs have been experiencing a downward trend in sales volume. What do you think about the future development of your business?

**Nojima**

I can't deny the fact that sales of PCs have continued to decrease, but sales of devices have been increasing. I expect that we would be able to compensate for decreased sales of PCs with sales of devices having lower unit prices. We can also anticipate that their affordable unit prices would contribute to an increase in the number of such devices owned per customer. Such an increase would lead to further diversification of the services that customers need, such as those relating to more stable networks, a higher-speed Internet environment, and data sharing. A diversified range of devices would increase the variety of services.

Currently, data can be synchronized in different devices. Apple's iPhones and iPads are well-known examples of devices with this capability. We can offer services to respond to the needs of customers who want to access the same emails from different devices, such as PCs and smartphones. This is one of our strengths, and I believe we can do this because we are a provider of a variety of services, with a focus on PCs.

**Suzuki**

Are PCs going to fade away in the future?  
What positions are PCs going to hold in peoples' lives?

**Nojima**

I expect that PCs will become a common language and platforms for Internet devices. PCs play the role of hubs linking different smart devices. Photos and other data in smartphones, iPhones, iPads and Android devices can be stored on a PC to enable data sharing among these different devices. It has become possible to save such data in external pools of storage operated by third parties (known as "cloud storage"), but we would still feel a greater sense of security when storing data on PCs that we can see in front of us.

**Suzuki**

Please tell me about your business model, or your system to create value for customers?

**Nojima**

There are four components of our value creation system. The first is gross margins from the sales of PCs and other products.

The second is profits from the provision of services for longer use of products that customers own. The third is income from the provision of support for various devices including PCs, and comprehensive support for connecting these devices.

The last is our content service, which offers a combination of device support and content such as electronic books for devices. These four components create our values.

**Suzuki**

Do you have any plans for areas in which there are no nearby PC DEPOT stores?

**Nojima**

We will gradually open new stores in such areas over the long term. During the period from the year 2013 through the year 2014, our profit will be generated mainly from stores in the Kanto region. Although the economy is said to be recovering, I don't think we should pursue the expansion of our business simply by making use of such a recovery. Instead, I believe it is time for us to focus on establishing a solid foothold.

Sales of services account for only 30% of total sales, but occupy 70% of total income. Ensuring such a high level of profitability will eventually have the same effect for us as the opening of new stores. I believe it would be possible to increase the variety of services while maintaining this earnings structure. In order to realize this goal, we should now build a solid foothold, and as a next step, I would like to consider the opening stores in new areas.

I believe that the increase in the variety of content services will have the same effect as the opening of new stores. Even if the opening of new stores is delayed one year as a result of efforts to increase sales of services, it would cause less inconvenience to customers when viewed over a five-year timespan.

**A business model that creates prosperity for us and for the customers we serve in the decade ahead.**

**Suzuki**

Please tell me about your prospects for the coming five to ten years? Do you have any ideas about business models for the future? If so, how will you implement them?

**Nojima**

There will be no changes to our basic philosophy or our CSR policy of "contributing to the elimination of the digital divide." As the products with which we deal will vary in accordance with changes in the business environment over the next ten years, what we do a decade in the future will only become clear at such time.

**Suzuki**

It looks as though you might deal with automobiles in the future, doesn't it?

**Nojima**

I am not sure at the moment, but I think we will need to respond to electric vehicles that connect to networks. The variety of networkable products such as automobiles and electric appliances will continue to increase. For instance, possible new services that we could provide include the handling of devices and networks that are used in schools as well as

care for elderly people and local customers who feel inconveniences by daily shopping. We will strive to eliminate disadvantages that arise as a result of the digital divide by continuing our contribution to the maximum possible extent. The "digital divide" to which we refer does not relate to whether or not people can use social networks and new services. We think that the elimination of the digital divide means that anyone will be able to do what they used to do manually or offline using digital solutions. If you have carried several heavy magazines with you until yesterday, all you have to do from now on is to carry a single iPad with multiple downloaded files of magazine content. There is no need to use items that are heavier than an iPad. You can read newspapers on the tablet comfortably by adjusting the size of characters and brightness. I would say the digital divide is eliminated only when people can do the same thing more conveniently at lower cost through digital solutions.

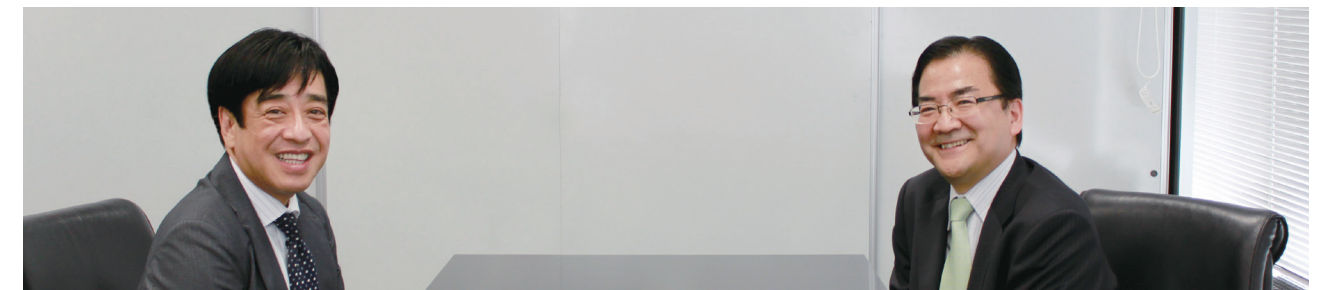
I believe that the most precious value that our Group can offer is to make such a significant contribution that customers will say, "It's good to have PC DEPOT nearby."

**Suzuki**

I understand quite well that the greatest value of your Group is the "elimination of disadvantages that arise as a result of the digital divide." Thank you very much for your time today.

**Nojima**

Thank you.



**Takahisa Nojima**

President and Chief Executive Officer, PC DEPOT Corporation  
Graduated from J.F. Oberlin University. Joined Nojima Denki Shokai (currently Nojima Corporation).  
Established PC Merchandise Corporation (currently PC DEPOT Corporation) in 1994.

**Yukio Suzuki**

Graduated from Tokyo University of Science, Graduate School of Industrial Engineering, Master of Engineering. Joined Nomura Research Institute, Ltd. in 1975. After serving as a corporate analyst in Tokyo, Osaka, and Paris, took office as Director of Nomura Research Institute, Ltd. in 1996, Director of Nomura Securities Co., Ltd. in 1997, Senior Managing Director of Nomura Asset Management Co., Ltd. in 2000, Director of Nomura Holdings, Inc. in 2005, and Chairman of the Securities Analysts Association of Japan in 2007 (until August 2009). Established Belle Investment Research of Japan Inc. in July 2010. Currently serving as chief analyst.