Pan Pacific International Holdings Corporation
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Overview of Q&A Session at Analysts Briefing for Q3 FY June 2021. (July 2020 – March 2021)

This document provides an overview of the Q&A session at the analysts briefing for the third quarter results. Questions and answers have been edited for clarity.

Q1. Please explain in detail about President Yoshida's explanation that "It was necessary to reject the past, but, before we knew it, we were imitating the past."

A: In terms of ordinary challenges, we are making steady efforts at each store, such as by responding to the demand for hygiene products from COVID-19.
However, management believes that the changes over the last year are the ones that we have never experienced before, therefore, our efforts are insufficient. One of the biggest changes are our customers. Customers' behavior is now premised on collecting information, primarily from their smartphones. So, based on that premise and from management's viewpoint of "Isn't there more that we can do?", we came up with 200 hypotheses.
In addition, we have been reminded that we cannot underestimate our competitors. For example, there are many drugstores that are responding to changes in a way we should have been addressing such as opening 24 hours a day, starting to handle fresh foods, etc.
With the changes of our customers and the competitive environment, we will shift to being more aggressive. We think that there are large business opportunities under such circumstances.

Q2. Overseas Business: How do you think the newly opened store in Malaysia has done over the last three months? Also, has the acquisition of Gelson's revealed a strategic path for the U.S.?

A: Firstly, regarding the store in Malaysia, although it has just opened and the country is currently battling COVID-19, our business model has resonated with the local customers, and we have the same impression regarding the store in Taiwan which we also recently opened.
However, it is necessary to adapt to the fact that Malaysia being largely a Muslim country. There were some minor issues such as delay in store opening, but in any case, we will strive to understand local customers better using our experience with this store.

As for Gelson's, its PMI are about to begin, so we would like to ask for your patience until the year-end financial results. However, looking at the numbers, we consider the acquisition of such company is necessary for doing business in the U.S. going forward, because we think the expansion of our business would be difficult without acquiring high-level local talent, for various areas such as MD, sales, labor, etc.

Q3. Is it correct to understand that the PPIH Group acquired the talent, knowhow, pipelines, etc. for operating in the U.S.?

A: In terms of talent, yes, we have acquired it. In terms of the stores, although we haven't decided how to proceed in California with respect to a business format, we think it is significant that we have obtained 27 locations (Gelson's stores) with the customer bases we should be targeting.

Q4. The guidance was not mentioned earlier, but what is the progress of operating profit in Q3? In the first half, operating profit exceeded the forecast by approx. 9.3 billion yen, and the full-year earnings forecast has been revised upward by 3.0 billion yen. I think SG&A expenses of approx. 3.3 billion yen were deferred to the second half as the background of the forecast revision above. Could you confirm those numbers?

A: At the previous briefing, we explained that approx. 3.3 billion yen in SG&A expenses will be deferred to the second half. In Q3, approx. 1.0 billion yen out of those expenses has been deferred to Q4. We will use them in line with the budget. The full-year earnings forecast has not been changed partly due to the impacts of COVID-19, and the current situation is within our expectations.

Q5. In February, you shared with us some internal changes such as Don Quijote's reorganization, MD, pricing, etc. You said that there were some impacts, but they aren’t necessarily visible in the numbers, which leaves the impression that the improvement were only at the suburban stores. I understand that there would be some difficulties with a state of emergency declared once again, but how have the impacts you mentioned in February changed so far?

A: I have been addressing that the results will be shown around July. It is a precondition that a certain amount of time is necessary for the measures to permeate throughout our stores.

On top of that, regarding what was said in February (about the impacts of organizational changes and MD that we are recognizing), we can say that it is progressing very smoothly, even though we have not yet announced a specific schedule.

For example, in the case of PB, we have decided on a policy of collaborating with marketing, but the actual release will be done in the future.

While we are steadily preparing our medium-to-long term policies, we are also beginning to grasp near-term impacts at the store level.

As for the state of emergency, we will adapt to changes and will respond to the needs of our customers in a level-headed manner.

Q6. Last time, there was a figure showing the spot ratio has been decreased, as an illustration of changes in the product mix. Is the spot ratio improvement progressing gradually?

A: That is correct. Stores dislike "selling at a loss", but in this 100-day project, we set a budget of 30 million yen to increase the turnover rate. To break this down, 20 million yen is budgeted for renovations, and 10 million yen is budgeted for increasing the turnover rate (i.e. selling at a loss). Taking such drastic measures also made it easier to introduce PB, and stores were able to design their inventories as they wanted, with a higher degree of freedom.

In this experiment, we learned that reducing NB and increasing spot/PB is not that difficult. However, vacating the existing inventory needs to be implemented first, and that’s why we had them experience challenges such as selling at a loss.

For your information, we have traditionally increased the turnover rate by sending non-moving inventory to the new stores, and that acted as an escape route. However, as the total number of stores increases, naturally the new stores proportion of the total will be smaller, making us impossible to do the same way in the future. In that context, we are proceeding in a way that stores can fully understand.

Q7. Regarding Asia, which seems to be performing well, what is the development structure for opening new stores? Also, please explain about the store opening plans for the next fiscal year.

A: There are no changes to the 2024 target opening 76 stores.
We plan to open approximately 15 stores in the next fiscal year in Macau, Malaysia, Singapore, Hong Kong, and Thailand. The situation in each country will differ due to the impacts of COVID-19, but at the moment we intend to proceed as planned.
We will update in a timely manner about the plan, in case of any changes.

Q8. For the 100-day project, as you dispose of non-moving inventory and approach the ideal to some extent, how will the SKU change compared to the past, and what are the impacts for the sales and gross profit?
Also, please provide some supplementary information on issues related to the horizontal expansion to other stores.

A: At this stage, I would like to refrain from commenting about this since we are in the experimenting phase in six stores and about to come to conclusions about what the SKU form should be.
As for the overall numbers, we have put a significant amount of effort into the experiments at the six stores, and we have produced some results. For that reason, there is the possibility that the results could be misleading, so we will provide further explanation on the year-end financial results announcement.
In terms of issues with horizontal expansion, the PB sales target of 180 billion to 300 billion yen for instance, we cannot tell whether or not we will be able to achieve that right away just from the results of six stores, considering the factors such as our current development, marketing, and stores situation.
That being said, we are talking internally about changing the evaluation axis.
The standard inventory that is created based on regional characteristics, etc., would be the “compulsory” element and the handling of spot products would be the “free” element. In the former, MD takes responsibility for P/L, while the latter falls under the evaluation axis for Million Star. Although that has been our conventional approach, but, at some point, we somehow began to implement both along the store axis only. Although this is an issue to ameliorate, we believe we have identified the first step for resolving it in the case of MD.
In addition, when it comes to narrowing down SKUs and switching from NB

products to PB products, there are times each store not being able to make such bold decisions. But through the experiment in six stores, we came to realize that sales do not actually change or increase even if we switch from NB to PB, and narrowing down SKUs does not inconvenience the customer. We are going to gradually roll out those successful initiatives.

On the other hand, product replacement should be done sensitively because it has to be done according to customer needs. Rather than simply cutting SKUs by 30%, we need to do a product-by-product review, and that remains as an issue of horizontal expansion.

Q9. I think that this will be explained in the year-end financial results, but, at this point, is there any additional information on payments, finance, EC, or marketing?

A: We will explain that in more detail at the year-end financial results announcement, but, in terms of finance, we are considering an app-based platform. UCS is also in the process of making its final decision by June as the internal deadline.

In addition, even though DX isn't yet possible, the number of app members is steadily increasing. In the future, we intend to address customer changes through digital solutions.

Q10. I understand that the full-year plan will not be revised considering the progress by Q3. Is it correct that Don Quijote is underperforming while other businesses are outperforming their plans, and that total progress is in line with expectations?

A: That is correct. Don Quijote performed relatively well during April to June in the previous year, due to the special demand. However, this year, there is no special demand like there was last year, so now is the time for us to dig in our heels. Under such circumstances, we are taking a variety of measures and being conservative about Don Quijote's numbers.

We think all of the other businesses are on track to meet their targets.

Q11. (To CFO Shimizu) Is there anything noteworthy or any point that can be improved regarding PPIH's financial structure?

A: In terms of finance in general, it is true that the amount of borrowing is sizable, but considering the abundance in cash we have accumulated and the high profitability, I don't think that there are any issues at this point.

Nevertheless, in order to realize high growth in line with Passion 2030 (medium-to-long term management plan), we need to think flexibly about how to respond to any issues that possibly emerge. Additionally, we intend to make the necessary preparations, taking into account the risk of possible profit volatility.