Pan Pacific International Holdings Corporation
February 8, 2023

Overview of Q&A Session at Analysts Briefing for Q2 FY June 2023

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

Q1. With regard to the domestic DS business, could you explain the reasons behind the improvement in the figures from Q1 to Q2 with relevance to the separate elements of top line, gross profit, and expenses? In addition, I believe the hurdles will also be higher than the previous year for Q3 and beyond. Do you think this trend will continue?

A: In Q2, active event demand due to Halloween, Christmas, and year-end celebrations led to significant growth in customer numbers across all time periods, including the late-night period, at stores in the city and station front stores. This boosted the top line. GPM ratio improved due to the strengthening of PB/OEM, which we have been advancing since last fiscal year. We also increased floor space for PB/OEM through measures to reduce inventory, making it possible to roll out even more PB/OEM products and thereby contributing to improvements in GPM ratio.
With regard to continuity from Q3 and beyond, as inventory reduction that was initially scheduled for the full year was completed in the first half of the year thanks to the strong performance in the first half. Since inventory budget for the full year has remained unchanged, improvement in the second half of the year will be slower due to the inventory released in the first half of the year.
As for profit margin for products, the gap with the previous year will be narrowed due to the ongoing PB/OEM strengthening efforts since Q2 last year, and GPM ratio will continue to grow. There was only a slight difference in SG&A ratio between Q1 and Q2, and the rise in top line is one of the reasons why the ratio appears to have increased. Amidst the rising utility costs, we will continue to control SG&A ratio in Q3 and beyond.

Q2. I felt that a stark difference has emerged between regions where measures for the overseas business were implemented successfully, and regions where they were less successful. Could you provide additional explanation on how to organize the internal factors and external factors in this respect?

A: We believe there are both external and internal factors. In North America, even as the retail environment deteriorates, we are gradually having success in addressing the factors, for example, by changing our approach to shifts such as rising hourly pay and labor shortage.
There seems to be somewhat fewer external factors in Asia than in North America. Although it has only been a short time, since we opened our first store in Singapore in December 2017, we get the sense that we are now in Phase 2. As we consider the types of lineups that will bring us success overseas, positive

examples are emerging in each country. Hence, we should be able to improve profit margin quickly by matching the respective strengths and weaknesses.

Q3. With regard to the published budget for this fiscal year, there were no changes to the GMS budget while the budget for the DS business had increased. In the actual results up to Q2, the GMS business registered an annual profit increase of more than 2 billion yen, in contrast to the initial forecast of single-digit growth. What was the reason for not changing the published budget for the GMS business?

A: The GMS business faced difficult circumstances in the previous fiscal year, particularly in the first quarter. Therefore, we had planned for largely flat results throughout the year, with profit increases in the first half and decline in profits in the second half. The progress in the first half was on track with this budget, so we had maintained it as it was.

Q4. What is the basic stance amidst growing calls to increase wages?

A: In the Medium-to-Long Term Management Plan (Visionary 2025/2030) announced last August, we committed to operating profit of 120 billion yen for FY2025, based on the assumption of an increase in wages.

Q5. The Medium-to-Long Term Management Plan sets out the goal of increasing overseas profits by 15 billion yen over three years going forward, but there were changes of as much as 6 billion yen in the revision to planned figures this year. Are there also plans to make changes to the Medium-to-Long Term Management Plan?

A: Changes will be communicated precisely at the appropriate timing. We have no intentions of changing the overall operating profit target of 120 billion yen for FY2025. However, we would like to take some time to consider what the composition of this operating profit will be like.

Q6. Is the business slump in Hong Kong, Macau, and Hawaii during the first half a factor for the downward revision for the second half?

A: Yes, that is correct.

Q7. With the new outlook for the domestic DS business, consolidated operating profit increases by 5 billion yen in the first half and 1 billion yen in the second half. On the other hand, inbound sales has been revised upward by 16 billion yen. Isn’t the forecast for the second half too low?

A: In response to the recovery in inbound demand, we have also factored in the drop in non-tax-free sales due to changes in product composition to specialize in inbound-oriented lineup in inbound flagship stores. Moreover, profits increased in the first half of the year due to a larger-than-expected boost received from a decrease in the inventory write-down. However, since we will not reduce the inventory more than the budget for the full year, the boost in profits in the second half will be smaller than the first half.