Pan Pacific International Holdings Corporation
May, 8, 2020

Overview of Q&A session at analysts briefing for Q3 FY June 2020.
(July,2019–March,2020)

This document illustrates an overview of Q&A session at analysts briefing.
Questions and answers are edited for clarity.

Q1. What are Mr. Yoshida's current focus points?

A: When it comes to the short-term, my focus is to “stick to the numbers”.
On March 2, we had an in-house meeting named “Looking ahead to the era of Covid-19”, and we came up with several measures and ideas. The next step is execution.
We have revised our operating and recurring profit targets from 72 billion yen to 71 billion yen. PPIH has been continuing to grow sales and profits, but a sense of crisis is coming from both Don Quijote and UNY, since tax-free sales at Don Quijote has plummeted to zero and we are hearing from the tenants about their troublesome situation at UNY.
In medium term perspective, as CEO, I am focusing on “deciding the major direction”. The first is digitalization. The second is to find the products that greatly exceed our market share in the retail industry, which is from 1.4% to 1.5%. It is my duty to create an organizational approach to these matters.

Q2. What is the background to the 1 billion yen revision of operating and recurring profit in the full-year earnings forecast?

A: We have revised the forecast this time with the idea that we will always achieve the target.
Since tax-free sales have nosedived, we have revised our profit forecast as well.

Q3. Looking over the three months of the third quarter at UNY, it seems that profits have declined.

A: UNY's operating profit for the three months was 6.3 billion yen, up 15% from 5.5 billion yen in Q3 for FY2019.

Q4. Is it correct that the revision of the consolidated earnings forecast reflects the changes in the situation of Don Quijote, not UNY?

A: Yes, that is correct. The tax-free sales in the fourth quarter of the previous fiscal year were 18.4 billion yen. Prior to the spread of the Covid-19, tax-free sales had been on the same trend as the previous year, but we appreciate your understanding that due mainly to travel restriction, we cannot expect tax-free sales for the foreseeable future.

Q5. It was previously explained that you are proceeding the PMI and the supplier integration at UNY which will bring you 30 billion yen in profit consolidated basis. Please tell us about the progress.

A: The first session had completed and the second session is currently underway.
We are currently preparing for digitalization with system integration to begin in July.
Regarding PMI, we successfully completed it in February, and I got the impression that the gap between UNY being independent and working together as a PPIH group is decreasing.

Q6. Is it correct that you are in the stage of executing three initiatives as you have explained in the past, including the execution of digitalization?

A: That is correct.

Q7. I understand that the background to the forecast revision is the loss of tax-free sales at Don Quijote Co., Ltd., but are domestic sales factors also included?

A: The main reason for revising the full-year sales forecast by 20 billion yen is because we anticipate a sharp decline in tax-free sales (18.4 billion yen in the previous fiscal year).
Other factors include the fact that it is difficult to sell high-priced products due to the self-restraint mode and the decrease the number of people going-out due to Covid-19, and the decrease in tenant rent due to variable lease contract at UNY.

Q8. Are there any delays happening on store openings or system repairments?

A: The opening of three stores, which was scheduled to open in May, was shifted after June, but the impact on the store opening is limited.
In terms of the system, there is no delay and we are making steady progress.

Q9. Looking at the revised full-year earnings forecast, is it correct to say that the gross profit margin for the fourth quarter alone will improve by 0.8 points?

A: We have set it at a reasonable level.

On a consolidated basis in the fourth quarter, the gross profit for the previous fiscal year was 28.9%, but we are forecasting an improvement of 0.1 points to 29.0% in the current fiscal year.

We believe that this is a gross profit ratio that can be reasonably achieved by clarifying good and bad products based on the current sales situation, controlling prices, increasing PPIH's total capability to keep the sales momentum, and diversifying spot procurement.

Q10. If the sales forecast is reduced by 20 billion yen, the gross profit will be reduced by 5.6 billion yen if calculated from your company's gross profit margin, but the full-year forecast for gross profit is only reduced by 2 billion yen. Is this imply that gross margin goes up?

A: Yes. It is true that Covid-19 is affecting sales, but we have the know-how to earn a margin while setting a price that is supported by customers. In addition, the marshmallow project is gradually penetrating.

We are convinced that we will be able to accumulate gross profits while carrying out finely-tuned store operation as usual.

Q11. The marshmallow project is still small in scale, so is it correct to understand that the results will show up in earnest next year and onwards?

A: Yes. The number of experimental stores related to the marshmallow project (blue marshmallow) is still small, but the positive results are being propagated laterally, and the non-experiment stores have higher motivation by facing positive results.

Q12. What are your thoughts on “channel strategy” and “digital strategy”?

A: I do not intend to do general EC (for example, having a large fulfillment center).

It is necessary to be digitally connected with customers in order to execute the "digital strategy", and we are setting goals.

We are currently considering how we can lead to product pick-up by staying connected with customers.

End