Pan Pacific International Holdings Corporation
February 10, 2021

Overview of Q&A session at analysts briefing for 1H FY June 2021. (July - December 2020)

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

Q1. OP has already exceeded 5 billion yen in the first half, but the upside revision for the full year is only 3 billion yen. What risks do you foresee for the second half of the year, and what are your concerns?

A: The upturn in the first half of the year was due to improved GP resulting from increased sales, changes in GPM, and delays in the timing of planned investments. We based the revision for the second half on a careful assessment of the current COVID-19 situation. Although inbound demand has disappeared, sales or city center stores remain at about 100% YoY excluding tax-free sales. However, customers' CV+D+A*1 have been redefined by COVID-19 and it will take a certain amount of time for us to adapt to this change. We are taking a conservative approach and remaining aware that if COVID-19 is somewhat contained in the second half of the year, the strong performance of our suburban stores (UNY, UDR, etc.), which propelled the first half numbers, may subside to some extent. We remain committed to our full-year guidance as we promised at the beginning of the fiscal year, taking into account the upturn in the first half.

*1 CV = convenience, D = discount, A = amusement

Q2. Can you tell us about the annual progress of the main group companies in terms of earnings revisions?

A: Due to COVID-19, the future remains highly unpredictable, as evidenced by the recent third wave of infections in Japan. We have therefore left the overall sales figures unchanged.
Broadly speaking, during this pandemic, we have made three plans, each specific to the types of stores as follows: stores that sell fresh food, stores that don't sell fresh food, and stores in urban areas. Our three companies that sell fresh food, UNY, UD Retail, and Nagasakiya, have outperformed their initial

budgets. We expect this trend to continue in the second half.
Additionally, although inbound demand has disappeared, we believe that some of those lost inbound customers are instead going to our overseas DON DON DONKI stores in Asia, and there is high room for growth in Asia.

Q3. In the current fiscal year, performance was driven by several positive factors, especially overseas stores and UNY. Do you believe there will be a negative rebound in the next fiscal year? Additionally, is there any risk of Don Quijote's structural reform becoming misaligned? Will you be able to maintain the sustainable growth of the Group?

A: At this point, we are relatively optimistic about the next fiscal year.
At this meeting, we focused on Don Quijote, and explained our new CV+D+A, productivity improvements, digitalization efforts, and PB. However, these initiatives are not unduly center skewed towards Don Quijote. Rather, our view is that they reflect overall customer changes, with Don Quijote being the most affected. We have been gradually announcing our commitment to the major parts of our strategic actions, towards bringing this issue to a successful results. There is no need to worry about the outlook for the next fiscal year.
Of course, there may be some irregular figures later on. In the U.S., for example, stores that were able to capture stay-at-home demand performed well, while stores that usually rely on high inbound demand declined, but this has started to be equalized. We are working to capture even more demand by catering to customers' new lifestyles, such as creating eateries and grocerants. Asia is now in a growth phase, so we are not particularly worried.

Q4. You have good results from your stores in Asia. Other than the two stores in Hong Kong that you highlighted, how are the trends in your other stores?

A: We believe there is little risk of market cannibalization in Hong Kong in the future. Our current stores are performing well with average monthly sales per store towards the upper end of 300 to 400 million yen.
In Singapore, each store averages around 200 to 250 million yen.

Q5: Your overseas business is centered on food products. What are your thoughts on GPM?

A: As we mentioned in our overview of the first-quarter results, our business model and value chain in overseas markets are different from those in Japan. We are making good progress in capturing more of the value chain, although this may take time to bear fruit. We are seeing signs that sales themselves will lead to higher profit margins.
We are also being aggressive with store openings.

Q6: What are your plans for your overseas locations? Are you only planning to roll out stores in the countries listed on page 27 for the time being / over the next three years?

A: We're considering new areas for store openings. Each market has its own way of doing things, and we haven't excluded any particular countries, so we can't be specific at this time. However, since many countries have import regulations, we believe that having an extended value chain will give us a competitive edge.

Q7. What is the timeline for the Don Quijote revitalization project (100-day plan)? Cutting 30% of your SKUs, etc., could be considered as a risky move. Can you provide more details on this, including the risks and challenges?

A: Our internal teams are implementing the 100-day plan at several stores, by coming up with and testing various hypotheses.
We will continue this process of trial and error and keep only the successful changes. This strategy does not contain abrupt and drastic changes of stores such as cutting SKUs all of a sudden. Our sole guiding principle for these changes is whether our customers will support them, not whether we think they are good or not.

End