Pan Pacific International Holdings Corporation
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Overview of Q&A Session at Analysts Briefing for FY2021

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

Q1. (Presentation p.21) Regarding the full-year forecast for the Discount Store Business, could you tell us if the 3.1% growth in sales for existing stores will be achieved through actual capabilities or through the renovation effect or through the efforts of the Million Star in the field? Please explain in relation to the current measures.

A: On the basis of actual capabilities, we believe that the introduction of PB and strengthening of development efforts will boost the numbers. With regard to Million Star, we will continue to put the emphasis on strengthening price competitiveness against competitors, with stores playing a central role. As for the renovation effect, we have set up various test stores, including “Meat Donki,” as a part of the hypothesis verification process. We will speedily roll out and expand the ones that produce results, and we believe that the numerical results will follow.

Of these, we are also seeing results in some single-item products and categories, so we will also quickly and successively roll out these products to other stores, which will contribute to pushing up the numbers.

Q2. Does the 3% growth mean that you are feeling solid response to the current situation?

A: Yes, that is right. While we are still not necessarily optimistic, we aim to firmly achieve this figure in the current fiscal year.

Q3. You spoke about increasing capital expenditure. In which area do you plan to increase investment, and what results do you expect that to produce? In addition, is it related to the plans for SG&A expenses?

A: We have reflected on how little capital investment we have made in the previous fiscal year. However, we will firmly implement the plans and utilize the knowledge that we have accumulated over the past year. I would like to make particular note that information systems and DX are now ready for full-scale launch.

As for SG&A expenses, the situation has become somewhat complicated due to the consolidation of Gelson's. Gelson's figures are expected to be as follows at the budget stage: a little less than 80 billion yen in sales, and about 34 billion yen in SG&A expenses including the amortization of goodwill. If these are excluded, sales growth will be 106.1% and the growth rate for SG&A expenses will be 106.7%, so they are broadly linked.

Q4. Is it right to say that the efforts and initiatives made over the past year have produced their results respectively?

A: I generally think that would be a correct understanding of the situation. However, concerning the initiatives for the Discount Store Business, I have spoken about improvements in the field, and this is something that we have to continue implementing.

On the other hand, I think this is a separate issue from the question of whether or not we have successfully responded to the essential changes in customers.

In that sense, "digital" does not mean doing anything completely eccentric and out of the ordinary. Rather, we recognize that it is important to compensate for Donki's inadequacies, based on what customers consider normal and take for granted during this COVID-19 pandemic. With regard to store renovations and PB expansion, we have achieved a certain degree of results and will continue boosting efforts in these areas.

Q5. A fall in operating income is predicted for the first half of FY2022. Could you tell us the background behind this forecast?

A: This forecast takes into consideration factors such as the impact of restrictions on human traffic and the reactionary demand for alternatives to eating out, brought about by the ongoing state of emergency declared by the government. SG&A expenses, too, will be impacted by the significant cost controls put in place last year in response to the reduction in opening hours and control of SG&A expenses.

Q6. For the first half of FY2022, there are no forecasts for increases in profit for Don Quijote, while UNY is expected to see a decline in profit. Would it be right to say that operating profit will be on a par with the two years ago?

A: Yes.

Q7. (Earnings forecast for the FY 2022) The forecast for operating profit is an increase of 3.31 billion yen for the domestic business, an increase of 950 million yen for the overseas business, and a decrease of 580 million yen for other businesses. What is the outlook on increases or decreases in profit in the main areas of business in Japan and abroad?

A: We expect a profit increase for the Discount Store Business, and a slight decrease for the GMS Business. Overseas, we expect profits to increase in both North America and Asia.

Q8. (Earnings forecast for the FY 2022) What is the full-year profit increase margin for Gelson's, and is goodwill included?

A: For the full-year, we believe that Gelson's profit contribution margin will range from 700 million yen to 1 billion yen, including goodwill.

Q9. (Earnings forecast for the FY 2022) This means that of the increase in profits overseas of 950 million yen, 700 million yen will come from Gelson's. Is goodwill included for the full-year in the waterfall chart shown on page 21 of the presentation?

A: The waterfall chart shows the difference from the previous fiscal year, so Gelson's contribution would be flat on this chart. When the goodwill for the previous fiscal year is captured, profit contribution for the full year will be flat as a result.

Q10. In the past two to three months, the COVID-19 situation is becoming increasingly fluid. Against this backdrop, what discussions were held with regard to topics such as the extraordinary loss of 16.7 billion yen that was recorded, how operating profit is generated, and the direction of guidance?

A: Customer psychology has undergone changes during the COVID-19 pandemic. As the GDP statistics published the other day also revealed, the premise is that consumption is on the decline. Regarding the overseas market, we have been paying attention to how people's behavior changes after a certain proportion of the population has been vaccinated.

Under these circumstances, there are parts of the guidance that we could not make any decisions on until the very last minute. The conclusion was that it is better to adopt a conservative stance with regard to the COVID-19 pandemic. In view of that, while the extraordinary loss was processed mainly through the inbound stores, we decided to process the portion that was postponed because real estate values could not be changed, during the previous fiscal year. Operating profit figures have remained as they are.

Q11. Inventory levels were increasing as of the end of the previous fiscal year (FY2021). What is your view for the inventory level and for the valuation loss of about 11 billion yen in FY2021?

A: We are not particularly worried about inventory.

With regard to valuation loss, I believe we made the right assessment of impairment for FY2020.

While there is a certain level of valuation loss for FY2021, it is not such a major loss. There are no items such as those for FY2020, so the loss is being processed in line with the principles.

Regarding this increase in inventory, if we incorporate contributions from the consolidation of Gelson's, the newly established stores in Asia and the increase in sales in the North America business, sales increase will be a little over 8 billion yen.

The business format conversion to UDR, combined with renovation to new GMS stores, have resulted in an increase of 5 billion yen.

Consequently, Don Quijote's inventory had fallen by a little more than 1 billion yen. There is no sense that inventory has increased.

As for the inventory reserve for the end of the fiscal year, no special compensation was made as in the previous fiscal year. Reserves were allocated in line with accounting principles.

Q12. With regard to the breakdown for the business results forecast, is UDR expected to generate a profit loss?

A: There will be a decrease in the number of stores converted to UDR, so that the cost for newly established stores will be reduced. Hence, it is expected to generate a profit increase.

Q13. Despite the uncertainty in the outlook due to the COVID-19 situation this fiscal year, there are plans to invest proactively. Will it be possible to achieve 100 billion yen during President Yoshida's term in office?

A: I think that depends on what we do with regard to priorities. Even in the difficult current situation, I think an important point is how COVID-19 has changed the way consumers behave. Investing in that now would be the main focus of the management.

During the next announcement of the interim results, we will offer an indication of what we will do in the next three years.

Q14. Did sales increase by 10% after renovations for the 100 day project? Did gross profit also increase? What is the degree of progress for rolling out going forward?

A: The months of April to June after the renovations were the period of special demand for hygiene products last year. As such, it was difficult to tell the changes from the previous year during this period. Overall, it is decreasing compared with the previous year, but these stores have achieved strong sales year-on-year, and have registered a 10-point improvement if we were to look at the relative difference in comparison with neighboring stores.

As for profit margin, we have not reached the final verification of the effect on profits, including inventory disposal and renewal. Hence, this information has not been included.

Concerning the roll out, some standard product groups that are successful have already been rolled out to all stores. Depending on the product category, some have been rolled out to 80% to 90% of the stores. On the other hand, there are also some that have not yet been rolled out at all.