November 10, 2021

【Speech Summary for FY2022 First Quarter Financial Results Briefing】

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1. Overview of FY2022 First Quarter Financial Results

Director & Executive Officer, CFO, Keita Shimizu

Thank you for taking time to attend PPIH's FY2022 First Quarter Financial Results Briefing today.
I now will reflect on the first quarter of FY2022, explain the initiatives and measures for the second quarter and after, and talk about our future initiatives for the financial business that was established in September.

･Earnings Summary for Q1 (presentation p.4)

I will first explain two of the footnotes.

Firstly, we have applied the Accounting Standard for Revenue Recognition starting from the current fiscal year. While majica points, etc. had been reported as sales and Selling, General, and Administrative Expenses (SG&A), they are now deducted from sales. Accordingly, sales, gross profit, and SG&A have decreased by approximately 2.1 billion yen respectively. As a result, gross profit margin has also decreased. Please keep this in mind when comparing the figures to results for the first quarter in the preceding period.

Secondly, PPIH repurchased shares of treasury stock on September 7 based on a resolution of the Board of Directors meeting held on September 6. Net income per share has improved accordingly, but this means that earnings forecast that has already been announced had to be recalculated. Hence, while net income per share announced for the first half was 47.78 yen, this was revised to 49.63 yen after the recalculation. This is also reflected in the results for the first quarter, and I can say that capital efficiency is improving.

▪Summary report of consolidated financial results for Q1 (presentation p.5)

I will now give a broad overview of the consolidated financial results. We achieved 27 billion yen increase in sales when compared to the same period last fiscal year. The new consolidation of Gelson's generated an impact of 20 billion yen, while net increase was 7 billion yen. The increase in sales brought about by new store openings and business format conversions in the domestic and overseas retail business offset the decline in existing store sales to a certain degree, so we were able to achieve sales growth.

On the other hand, operating profit ended with a fall of 7.1 billion yen from the previous fiscal year. The impact of the COVID-19 pandemic and inclement weather contributed to sluggish profit growth at existing stores in August. In addition, our active investment in new stores and renovations is also a factor contributing to the fall in profit. In this sense, while we will of course continue to firmly invest in growth from the second quarter onward, we aim to reduce the margin of decrease in profit by raising the top line for existing stores and putting effort into improving gross profit.

With regard to other results, as the financial business was established in September, I shall explain this in detail later. In tandem with the evolution of the app, we aim to further enhance customer convenience and thereby significantly increase the company's earnings. With regard to the share buyback, as I mentioned earlier, this has helped us to achieve improvements in capital efficiency.

▪Domestic Discount Store Business (presentation p.6)

Broadly speaking, the domestic discount store business registered an increase in sales and a fall in profit. This follows the same trend as the overall results. While we achieved a steady increase in sales through the opening of new stores and business format conversions, this nevertheless led a decrease in profits in August.

Sales for existing stores finished at 99.8% year-on-year. Although sales increase in July and September, the significant decline in August pushed the figures back down to a similar level as in the previous fiscal year. Furthermore, sales were sluggish for seasonal products as well as night-time sales, which usually increase in August every year. This also had an impact on gross profit margin and resulted in an operating profit loss.

At the end of the preceding period, we set out about four measures that we intended to work on in the current period. These were the development and strengthening of products, promotion of private brands (PB)/ original equipment manufacturing (OEM), improving profits, and improving productivity. The progress status for two of these measures is detailed here.

With regard to "Meat Donki," we have quickly moved on to open three stores. To improve profit margin in the food category, we have narrowed down the products and focused on meat. This has already started to produce some results, and we hope to continue on this trajectory.
With regard to PB, we have established the targets of 250 billion yen overall and 158 billion yen for the discount store business for the current fiscal year. In this respect, we are progressing smoothly and are on track to meet these targets.

▪GMS Business (presentation p.7)

In the GMS Business, similarly, the impact of the inclement weather and temperature in August was a major factor that held back our performance. On the other hand, we have continued to work steadily on the medium to long-term evolution of our business model. The details are set out in the bullet points.
Due to sluggish sales brought about by the poor weather and other factors in August and September, existing stores recorded sales of 98.1% year-on-year. Sales of clothing were sluggish in particular, which resulted in a fall in gross profit margin.
On the other hand, when compared with the situation before the COVID-19 pandemic, we have exceeded 100% and firmly maintained our high standards. Hence, we aim to work on improving sales for clothing, etc., and at the same time, work on raising the top line.
We are continuing with business format conversion and renovations within the GMS business. In tandem with efforts to strengthen human resources, we will continue to bring about the evolution of the business model and create a new GMS business format that can increase sales and profit significantly. Although results are unfavorable at the moment, we will continue to pour effort into realizing the medium- to long-term evolution of the business model.

▪Overseas Business (presentation p.8)

The consolidation of Gelson's brought about a significant increase in sales and profits. Looking at the breakdown, we see that sales are growing steadily in Asia. With regard to Hong Kong, as I have explained during this briefing, because we have been very active in opening new stores, the new stores have been effective in contributing to an increase in profit even though existing stores have struggled somewhat from the impact of cannibalization.

With regard to the Asia business, despite registering a loss in the fourth quarter of the previous fiscal year, that has firmly bounced back to register a positive profit. Although operating profit declined by 0.4 billion yen year-on-year, profits have returned firmly to the black. Hence, we hope that this growth in sales and profit will continue steadily.

With regard to the North America business, while we have firmly maintained the top line in sales, as you are all aware, soaring material costs are now holding us back significantly. Therefore, operating profit has declined slightly. Nevertheless, we have reaped back all of these later through Gelson's contributions, so the overseas business achieved increases in both sales and profits.
I would like to add, for reference, that Gelson's achieved operating profit of 1.6 billion yen before amortization of goodwill, which is approximately 0.7 billion yen.

▪Status of Major Assets, Liabilities, and Net Assets (presentation p.9)
Here, we can see the impact of the share buyback in September through the cash and deposits, as well as the increase in liabilities. With regard to ROE, a certain degree of improvement is seen even when compared to calculations for the case if the share buyback had not been implemented. Hence, in any case, we have achieved significant improvement in capital efficiency during the first quarter.

▪Status of Cash Flows and Capital Expenditure (presentation p.10)
With regard to capital expenditure, we have announced that we aim to invest 75 billion yen during the current period. As allocation is uneven and heavily weighted on the second quarter onward to begin with, capital expenditure for the first quarter registered as 11.6 billion yen.
There are also investments that have been postponed slightly, so there may be some amounts that seem a little low. However, I believe we will continue to invest steadily going forward. The breakdown is set out here, so please refer to the material for details.

2. Initiatives for FY 2022 Second Quarter and Onwards

Director & Managing Executive Officer, Hideki Moriya

▪Full-year Forecast for the Consolidated Results (presentation p.12)
There are no changes to both the half-year forecast and the full-year forecast for the consolidated results.

▪October Overview for Domestic Discount Store Business and GMS Business (presentation p.13)

Following the lifting of the state of emergency in October 1, the flow of people resumed and led to an improvement in sales mainly on weekends and at stores near the stations. Sales for existing stores at the four major domestic retail companies were 103.6% year-on-year. Accordingly, cumulative sales for existing stores from July to October 2021 were 100.3% year-on-year.

For the domestic discount store business, all three companies achieved higher sales than in the previous fiscal year, reaching 105.3% year-on-year. After the lifting of restrictions on the operating hours of food and beverage outlets from October 25, and mainly in the Tokyo Metropolitan region, sales at night-time also began to recover gradually. Among the product categories, there was significant growth for personal care products, such as cosmetics, that we have consistently worked on strengthening till now. In addition to that, while products related to Halloween and autumn excursions had performed badly last year, demand for these categories grew toward the end of the month and had an impact on sales. Sales for food products also continued to grow steadily after the lifting of the state of emergency.

As for the GMS business, sales finished at 99.8% year-on-year. With regard to food products, although sales record from previous fiscal year is high due to the demands in substitutes to dining out, succeeded in recording sales above that of the previous fiscal year. This was achieved by expanding sales mainly for fresh foods, such as expanding the sale of domestic beef and strengthening sales for side dishes using fish, despite the challenges, as well as by steadily securing demand for drinking at home.
On the other hand, in the clothing category, demand for seasonal products for autumn and winter did not grow due to the prolonged high temperatures that lasted from the beginning to middle of the month. Despite a rebound at the end of the month when temperatures fell, stores faced a great struggle in this area.

▪Domestic Discount Store Business (presentation p.14)

As for the initiatives required for the immediate future, we will clarify roles along the axis of MD products as well as stores, with a focus on "Million Star" branch presidents, and implement measures to improve sales and gross profit.
In order to reduce the workload on the sites in relation to the implementation of these measures, the Head Office will provide maximum support and further promote initiatives to create hours, which it has begun working on since the preceding period.

I will now explain the concrete initiatives.
Firstly, I will talk about the initiatives for stores, which are focused on the "Million Star" branch

presidents.
Amid growing expectations for recovery of consumption to make up for reduced consumption when restrictions were in place, we will continue to counter the competitors through price appeal based on analysis of the competitors, and work on creating popular stores that can beat the competitors within the trade area. To respond to the major lifestyle changes which customers are experiencing as a result of the COVID-19 pandemic, we will further advance product communication with a focus on social media, which we have been putting effort into strengthening so far, as well as to promote the strengthening of sales promotion efforts in collaboration with influencers, etc. On the other hand, we will actively renovate pure Don Quijote stores at roadside locations, and work on large-scale product replenishment and the roll-out of shelf layouts that maximize the introduction of PB/OEM products. Particularly for small and narrow stores, we will expand passageways and change zoning while keeping the customers' perspective in mind, and narrow down the excessive number of items.

Next, I will talk about initiatives that are related to products. In this respect, we will work on strengthening our products for the end of the stay-at-home era based on the theme of increased opportunities for going out, such as personal care products with a focus on cosmetics, as well as various event demand products. On the other hand, as the COVID-19 pandemic has not come completely to an end, we will also work on expanding our range of products for staying-at-home that are related to the greater time spent at home, which will continue for a certain period of time. To differentiate ourselves from other companies, we are expanding the introduction of PB/OEM products as we have been doing from before, as well as rolling out imports that have never been sold in Japan and products that are highly original. Furthermore, we will deepen and strengthen product categories, and work on motivating customers to visit our stores.
Here, as Shimizu explained earlier, we will expand the sale and roll-out of "Meat Donki." We will also further strengthen efforts in the area of alcoholic beverages, which we acquired the customer market for as a result of the COVID-19 pandemic.
Initiatives to create hours to implement these store and product measures include introducing order support systems and adjusting the ordering and delivery frequencies. By doing so, we will reduce the workload for those working on the frontline.

▪GMS Business (presentation p.15)
While this includes the contents that have already been explained earlier, UNY is breaking away from traditional GMS management methods and engaging in busines reform with a view to realizing "New GMS management," in the form of individual store management, product line-up corresponding to each trade area, and a small head office to support the stores.

To date, as part of the first phase, we have first worked on converting the business format for under-performing UNY stores to UD Retail. To create a foundation for individual store management, we have integrated core systems and cash register systems to enable purchasing and pricing to be carried out individually by each store. Furthermore, by promoting PMI, we have also reduced costs by integrating bookkeeping and integrated subsidiaries and departments with duplicate functions.

In this fiscal year, we will take the measures mentioned here, on the full-scale implementation of the second phase, aimed at realizing New GMS management, which had already kicked off since the second half of the previous fiscal year. Firstly, with regard to stores, business format conversion has ended for under-performing stores, while existing stores that are generating profits have undergone renovations to further enhance their profitability. We are also working on strengthening human resources for the stores, which is indispensable in supporting individual store management. On top of that, we are building an environment in all stores to enable each store to engage in price competition corresponding to their respective trade areas.
The head office will also make the shift from traditional instruction-based style to sales support-style, so as to support the migration to a small head office structure to support the stores. To achieve these, we will streamline work through the integration of infrastructure in the back offices, such as accounting systems and internal information-sharing tools.

As for the overseas business, which is not covered in the presentation material, our plans for this fiscal year are to open about two stores by the end of this year and more than six stores next year. Thus, we will expand the business by opening new stores.

3. Financial Business

President of Pan Pacific International Financial Service Corporation (PPIF), Kotaro Iwabuchi

▪Financial Business Structure (presentation p.17)

On September 10, the PPIH Group established PPIF with a view to positioning the financial business as a new pillar in its growth strategy. At the same time, the credit card company UCS, a former subsidiary of UNY, was reorganized and placed under the umbrella of PPIF.

In the process leading up to this change in structure, we recognized some issues in promoting the financial business.

Firstly, amid the changing needs of consumers, we recognize our inability to provide payment services that are on par or superior to those provided by our competitors. Secondly, we are also unable to provide payment services that are linked to our stores, products, and services.
To resolve these issues, we will develop payment services by a sequence of production that is centered on the app, as well as transform it into a system that can deliver services that are linked to stores and products, which are the greatest strength of the PPIH Group.
To that end, PPIF will manage majica centrally, formulate strategies, cooperate with UCS and the stores, and develop financial businesses for the new smartphone-based finance.

▪The Role of Financial Businesses in Meeting Customer Needs (presentation p.18)

I will explain the background behind the renewed decision by the PPIH Group to undertake the financial business at this point in time.
As described at the beginning, the reason is none other than the intensification of competition to retain customers through payment services such as QR code payment and transportation IC card payment, brought about by the rapid widespread expansion of the cashless policy and various payment services.
We feel a strong sense of crisis that customers of our Group may be retained by other companies and payments flow to services offered by other companies, thereby leading to an increase in payment fees and loss of earning opportunities resulting from the leakage of purchasing information.
On the other hand, we already own services in the form of the majica app and UCS credit card, which make up 40% of the payment ratio in domestic group stores. Hence, by focusing on these business assets, we aim to retain customers further, keep payment fees low, and increase earnings opportunities for financial services that utilize data.
However, we recognize that we are currently unable to provide services at the level demanded by customers. As majica is currently our own form of e-money, there are limitations on the places where payments are accepted, and on the top-up methods. We also feel that we are unable to offer services that other companies offer, such as our inability to issue the UCS credit card immediately. However, there is no need to take a pessimistic outlook here. With a focus on the 8 million majica app members and 3 million UCS credit card members that we already have, making up 40% of the payment ratio, we will be able to gain an edge in the competition with other companies to retain customers and improve profits by making this infrastructure even more convenient, and by improving services in ways that suit our customers. These are issues that must be addressed now. At the same time, we believe that it presents a business opportunity.

▪Business Plan (presentation p.19)

As a measure to resolve these issues, we will strengthen our payment functions by using the majica app as a gateway, with the aim of achieving operating profit of 10 billion yen in five years. To realize this business plan, we have concluded a comprehensive partnership with Visa to enhance the versatility of our payment functions.

With regard to the business plan, in order to achieve operating profit of 10 billion yen in five years, we aim to reach majica membership of 16 million people, and generate credit card transactions of 1.5 trillion yen and majica transactions of 700 billion yen to hit a combined transaction volume of 2 trillion yen within and outside the group.

We have positioned the provision of services for the credit card business, majica money business, merchant management, and new financial products as the pillar of our earnings. Through this pillar, we aim to achieve our target operating profit.

To achieve our target operating profit through these businesses, we have made the decision to enter into a partnership with Visa, our ideal partner.

Services that are linked to a new majica app and the Visa prepaid card. Also, as set out in the second point, we are considering co-marketing, including the NFC touch payment system aimed at accepting payments from customers at group stores in Southeast Asia, where we are putting particular effort into, as well as from inbound customers with a view to travel resumption after the COVID-19 pandemic.

We aim to launch these new services in summer next year. After that, we also aim to launch other services successively in stages. By making full use of the PPIH Group's assets, which are its stores, products, and customers, PPIF and UCS will work together to advance these strategies.