Pan Pacific International Holdings Corporation
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Overview of Q&A Session at Analysts Briefing for Q2 FY June 2022

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 discount store business, how effective have the various reform measures been, such as store measures, merchandise (MD), and private brands (PB)? Has the policy for the next one to two years become clearer?

A: We can see the change in the numerical figures for PB. The COVID-19 situation improved at the end of the year as compared to August, but, more than that, there have been changes in the substance and we have felt a good level of activity on the frontlines.

The policy has become clearer for on-site areas such as sales and MD. There is a need to carry out some “multiplication” in these areas, such as considering how to combine digital technologies with finance. We are holding ongoing discussions to review our policies on pricing, based on our projections of the labor sharing ratio, labor productivity, and future price increases.

Q2. With regard to the GMS business, what is your vision for how the current preliminary preparations will contribute to profitability from next year onward?

A: With regard to this fiscal year, we originally forecasted having a difficult time in the first half of the year and were very conservative when making our projections at the budget stage. Compared to the first half of the year last year, when figures increased significantly due to the COVID-19 pandemic, the current numbers have declined, but we are preparing a schedule to make up for it in the second half of the year.

We will discover better ways of doing things as we undertake preparations toward the next fiscal year, so we may move somewhat slowly. Initially, we were being propelled by the discount store business.

Particularly in the first half of the year, gross profit margin fell as a result of price reductions. What we learned from this is that GMS very much has its own way of doing business. Rather than compete in the low-price range, for middle- and high-priced items, we will stress their value, while for things that should be presented as inexpensive, we will present them as being inexpensive.

As various renovations are ongoing, we share the common understanding across the company that new GMS cannot be achieved without advancing a three-part reform that includes not only the renovation of stores, but also products and sales personnel.

If we are successful, it would eliminate the need to compare gross profit margins with the discount store business. From the second half of the year to next fiscal year, we aim to come up with an approach for how to increase gross profit in a different way from the discount store business.

Q3. What are the reasons behind narrowing down the GMS renovations from large-scale to small-scale stores? If large-scale renovations are not accompanied by products and human resources, they would also be ineffective, so we may as well do it on a small scale—is that the stance behind this approach?

A: For large-scale GMS, we have refurbished each of the different patterns.

There have been successes and failures in the renovations, but our stance is that they must be accompanied by products and human resource development. If the speed of progress for these three elements is aligned, we will also carry out reforms for the large-scale stores. Until then, as a kind of short-cut, we will try to do whatever we can to improve the current figures.

Q4. With Gelson’s joining the group, what are the inventory levels for the discount store business and GMS business? How are the valuation reserves doing as compared to a standard year?

A: Consolidated inventory has increased by about 13.8 billion yen. Of this, 12 billion yen is from new stores. Gelson’s inventory is about 5 billion yen. As for existing stores, inventory for the discount store business fell by approximately 5 billion yen due to improvements in the stock turnover rate.

Valuation reserves have increased by several hundreds of million yen year-on-year. We will implement the measures of product revision/abolition and “interest expiration date” in the second half of the year, aiming to return to the level of the previous fiscal year.

Q5. Selling, general and administrative (SG&A) expenses have been kept down by about 7.1 billion yen against the forecast of business results. What is the breakdown for this amount? Will the cut-off error or other factors lead to an increase in the second half of the year? Alternatively, is there room for further restraint?

A: Of the approximately 7.1 billion-yen difference between actual and forecasted SG&A expenses, approximately 5 billion yen of that is due to the discount store business. Success in controlling SG&A expenses is the greatest factor. The cut-off error will not have an adverse impact on the second half of the year.

Q6. With regard to the success in controlling SG&A expenses in the discount store business, could you tell us what the breakdown in the reduction of expenses is?

A: A significant element in the reduction of expenses is personnel expenses. Please think of it as us using less than planned due to successful efforts to limit spending.

Other elements include the impact of a reduction in allocation costs, brought about by limiting expenses associated with the Holdings.

Q7. If you continue to limit expenses in the second half of the year, will it be possible to achieve a reduction of about 10 billion yen over the original plan for the whole fiscal year?

A: We will use SG&A expenses depending on the situation.

We have set out the target of achieving operating profit of 85 billion yen, which was the forecast for the whole fiscal year. Based on a comprehensive assessment, we will use what we need to use and limit the portions that can be limited.

Q8. Concerning the response to inflation, what are the measures that seem effective, and what are the areas that require modifications or response in the future?

A: Concerning our response to price increases, we are conscious of the following four points within the company: controlling SG&A expenses, rebuilding the value-chain, developing high-gross profit products that feel reasonably priced, and controlling appropriate selling prices. On top of that, we also feel that there are still many areas in MD, the GMS business, and the overseas business that we should put creative efforts into.

As our roots and origin lie in being a discount retailer, we are good at measures such as controlling SG&A expenses and adjusting selling prices. Therefore, we will continue doing what we have always done in a straightforward manner. In addition to that, we will put in place medium-term measures in areas such as the rebuilding of the value-chain.

Q9. No changes were made to the plans for the whole fiscal year. Do you consider the improvement of margins and limiting of expenses more important for achieving the target operating profit than the uncertain top line? What is the stance and direction with regard to the plan?

A: While there is, of course, a need to consider the top line, it is not realistic to raise it rapidly in existing stores. We consider it more practical to take the approach that you have mentioned.

Since we are supposed to achieve our targets, we shall respond as necessary in the short-term.

Q10. The operating profit fell short of the plan by 900 million yen. Which were the businesses that failed to reach the target?

A: A significant portion of the shortfall came from the GMS business.