Pan Pacific International Holdings Corporation
May 10, 2022

Overview of Q&A Session at Analysts Briefing for Q3 FY June 2022

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

Q1. How far have net sales, gross profit, and SG&A expenses diverged from the initial outlook? What efforts is the company making to achieve the full-year targets?

A: With regard to the progress toward the targeted operating profit of 85 billion yen, which was announced in our budget, we have not achieved the sales target, but have mostly achieved the projected operating profit by regaining our footing through improvements in gross profit and controlling SG&A expenses. The shortfall from the target has remained at the same level from Q2.

For Q3, despite the severe external environment such as the spread of COVID-19 in Japan, we achieved the expected results. We are advancing various strategic measures toward achieving the full-year targets.

Q2. Which are the specific countries that are driving the growth of the overseas business?

A: In the Asia business, existing stores in Singapore, as well as in Hong Kong where there is a large number of existing stores, are registering more than double-digit profit margins. Although performance varies from month to month due to the COVID-19 situation, the opening of new stores is progressing without any significant delays. In countries such as Taiwan and Malaysia where we are new, we are making prior investments with a view to gaining popularity.

In North America, the spread of COVID-19 had driven demand for alternatives to eating out, and we had successfully captured this demand last year. This did not shrink as much as we had expected, and our continued success in capturing much of the demand was one of the factors behind the strong performance of stores in North America. On the other hand, although we had expected the return of tourism demand in places such as Hawaii, the prolonged impact of COVID-19 has impeded full-scale recovery.

Q3. Will the effects of PB/OEM gradually emerge going forward? Did the effect of improvements in inventory turnover ratio emerge from this quarter?

A: Our private brand (PB), “Jonetz” was rebranded in February last year, and we are moving ahead with introducing its products into stores with a focus on the Discount Store (DS) business. In the GMS business, we are focusing on product rollout for existing PB. At the same time, we are also introducing newly developed products, or, like in the DS business, manufacturing products together while bringing them into stores under different labels.

Going forward, the Group will advance on the development of PB while also expanding rollout in the GMS business. However, full-scale rollout will take place in the next financial year. As for individual products, there is ongoing collaboration between the PB Business Strategy Headquarters and the DS and GMS businesses.

The effect of improvements in inventory turnover ratio was brought about by the “interest expiration date” measure with changes to internal evaluation. This measure has boosted the morale of employees in the stores.

Q4. Will the pricing and individual store management measures in the GMS business continue to produce results going forward?

A: Yes. A growing percentage of stores are successfully achieving the gross profit margin target, and the continuation of this trend will see gross profit increase year-on-year again in the fourth quarter.

Q5. Is COVID-19 likely to have an impact on the overseas business, particularly in Asia? Could you offer an outlook for profit margin for Asia in the next financial year based on the assumption that the COVID-19 pandemic under control, as well as the direction and outlook after the establishment of new stores in the region?

A: In Hong Kong, the spread of COVID-19 has resulted in varying sales performance from month to month. We have put in controls in areas including

SG&A expenses, and are advancing efforts to improve profit margin. As a result, sales did not decline significantly in comparison with Q2. For the Asia business, we are increasing the number of new stores in Macao, Malaysia, Taiwan, and Thailand. However, in the three countries other than Thailand, we are right in the midst of setting up new stores, and we are making prior investments.

In Hong Kong, we are at the stage of investing, such as by acquiring our own company warehouses.

As the number of existing stores will increase in the next financial year, we will continue to improve profit margin. However, we are unable to present a specific outlook for now. We will present the outlook during the announcement of business results and the mid-term corporation plan going forward. We are now making steady progress, as projected, toward a profit margin of 8% based on the mid-term results that have been announced.

Q6. It has been established that earnings and profits will not grow in the current financial year due to investments in systems and finance. Were these Q3 results achieved upon the completion of investments that should be undertaken, such as renovations?

A: Yes. We made the investments that are necessary although there were delays in the opening of new stores overseas due to the COVID-19 pandemic. In regard to renovations, we have assessed the effectiveness and employed measures that are more effective. Therefore, investments are progressing as planned.

Q7. With regard to the 0.5% improvement in gross profit margin at existing stores in the DS business, what is the breakdown between contribution from PB and price optimization? Also, does the disposal of inventory have a great impact on gross profit margin?

A: It is difficult to clearly break down the improvement in gross profit separately for PB and the effect of pricing measures. PB contributes to approximately 0.4% of profits. While the disposal of inventory has an impact on profit margin, we are implementing pricing measures in addition to inventory disposal, and the result was an overall improvement of 0.5%.

Q8. Can the company maintain the same level of gross profit in the fourth quarter and beyond, through the continued implementation of measures?

A: Yes. As PB sales are also presently performing well, we expect to see a similar effect.

Q9. With the soaring utility costs, I believe the company is controlling SG&A expenses through staffing and other means. Overall, how far can we expect to minimize SG&A expenses against the planned figures?

A: Although soaring utility costs have had an impact, we are continuing to strengthen controls, and are progressing at the same pace as we have in the first half with cost reduction of 7 billion yen.

Q10. Are labor costs during the night-time hours the main focus of controls on SG&A expenses?

A: Although the proportion of labor costs are high, they do not necessarily form a major part of cost control. We are successfully cutting costs in various items.

Q11. As the company is putting effort into attracting members for the majica app in the current financial year, is it correct to say that it does not offer any business merits in the current financial year, but will produce effects in CRM from the next financial year and after?

A: Yes. For CRM in the current financial year, we are only implementing various trial measures.
We will launch full-scale efforts from the next financial year by spending more on measures to obtain results.

Q12. What is the scale of effects on CRM if the majica app were utilized as a sales promotion tool? Also, will there be a decrease in app-related expenditures in the next financial year?

A: We will announce in August the costs expended on acquiring members, investment in CRM measures, as well as the returns on the investment.

Q13. Based on the full-year plan for operating profit, profit is expected to increase significantly year-on-year in Q4. What is the background behind this projected growth in profit?

A: Looking back on the results for the previous year, we can see that we faced a greater struggle in Q4 last year than we had before, due to restrictions imposed by the COVID-19 pandemic.

In addition, we have been expanding PB/OEM in the current financial year. It is expected to have a greater impact on business earnings and profits in the second half, so we projected profit to grow significantly in Q4.

Q14. What is the driving force behind profit growth in the fourth quarter?

A: The greatest driving force is the domestic DS business.

Q15. The earnings and profit environment has become more severe than before. How will the company control gross profit margin?

A: The purchasing trends and needs of customers have undergone major changes during the COVID-19 pandemic. We feel that determining what customers desire is the most important factor in controlling profit margin.

In overseas stores, we are feeding back and reflecting customers' reviews in our product line-up and prices as a "Japan Brand Specialty Store."

In the domestic DS business, we feel that the significant growth of PB and its contribution to profit margin can be attributed to the development of products that meet the needs of our customers. Hence, the source of profits lies in determining the consumption trends of customers.