Pan Pacific International Holdings Corporation
February 13, 2025

Overview of Q&A Session at Analysts Briefing for Q2 FY June 2025

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

Q1. Please provide details on the revision to the full-year forecast.

A: Operating income has been revised upward by 5 billion yen to 155 billion yen.

We revised the Discount Store business upward by 11 billion yen. Along with strong domestic consumption, inbound had record-high sales in many countries and regions. Factors included continued growth in PB/OEM, which contributed to the gross profit margin, and control of SG&A expenses.

We revised the North America business downward by 4 billion yen in H2. Its operating income through Q2 (until the end of September) went according to plan because its fiscal period starts three months earlier. However, we made downward revisions in anticipation of the impacts from losing Gelson's flagship store in Southern California due to the wildfires, a system glitch in Hawaii, and sluggish performance in Guam.

The additional downward revision of 2 billion yen is related to certain PPIH Group subsidiaries due to provisions in the financial business and offsetting of intergroup transactions. There were no revisions for the UNY business or the Asia business.

Q2. During Q1 briefing, it was explained that the Asia business requires drastic revisions, and improvements will take time. Are we now seeing results? Also, what areas are showing improvement, and what challenges do you feel remain?

A: The Asia business has emerged from its worst period. However, it is not in an ideal state. There is still room for improvement in terms of profit margins and the challenges faced. We feel that it will require a little more time. Furthermore, we are addressing challenges individually since they vary by countries.

Although we have already provided brief answers to the question of what constitutes the Asia business, a more comprehensive answer will take a bit more time to uncover.

Q3. Has there been any changes concerning the target figures for FY6/30 (operating income: 5.3 billion yen for the Asia business, 20.2 billion yen for the North America business)?

A: We haven't currently made any changes to the figures for our overseas businesses. However, when considering shorter timeframes, we believe our resources should be directed toward our strong domestic operations. We have not reached a point where we need to change the numbers previously presented for overseas.

Q4. UNY has achieved a recovery in performance, but what is the significance of having GMS, including from the perspective of M&A, going forward?

A: We will refrain from commenting on M&A as we have in the past.
We believe that UNY still has a long way to go. There is a need for further initiatives to expand the non-food sector. Considering how lifestyles are changing, a product mix limited to apparel, food, and housing cannot fully satisfy consumer needs. For example, at the Apita Chiyodabashi store, reducing the handling of traditional apparel by 30% was unthinkable following our regular conventions. To overcome these fixed notions, we believe it is better not to use the term GMS.
It is also essential to consider new business formats, given that disposable income is declining due to changes in social structure. However, as the Engel's coefficient for the middle-income group is rising, we believe there is still room to challenge ourselves, even in the food sector. While dining out in Japan is inexpensive by global standards, we must create alternative solutions as price increases become inevitable in that industry.

Q5. Regarding the Discount Store business, as initiatives related to PB/OEM and inbound start to show results and further growth appears possible, what are your thoughts on developing talent and your progress in that area?

A: Our executives are in their late 40s to early 50s; however, when I (President Yoshida) joined the company 18 years ago, most of them were in their 20s, and there were only a handful of executives in their 40s. Today, employees of all age groups work together, and the population pyramid amongst our staff has changed dramatically compared to 10 years ago.
Even 10 years from now, the current executives will be younger than I am now, and our company has a unique model with large numbers of employees participating in management. We have exceptionally balanced and talented candidates in their 30s and 20s who are being groomed as next-generation management executives, so please expect further appointments. Based on this situation, we consider our talent development entirely satisfactory.

Q6. There was mention of new Marukai store openings in the next fiscal year. But you said previously that the North America business would begin multi-store expansions once its format was finalized. What is the background behind Marukai now being able to pursue multi-store expansions?

A: Over the past two years, Marukai has succeeded in attracting popularity from local residents through an Asia-centric focus, and its standalone performance has been strong. However, it has not yet reached the stage where full-scale multi-store expansions can begin; this year's opening will serve as a test, with an eye to future expansion. The launch will be limited to specific regions, and we have not yet made large-scale investments in logistics or networking for expansion into other states.