Pan Pacific International Holdings Corporation
May 14, 2025

Overview of Q&A Session at Small Meeting for Sell-Side Analysts for Q3 FY June 2025

This document provides an overview of the Q&A session at the small meeting for sell-side analysts for the third quarter results. Questions and answers have been edited for clarity.

Q1. The operating income of the North America business was revised downward in H1. Have there been any changes since then?

- We revised the operating income of the North America business downward by 4 billion yen in H1. The breakdown of this figure is as follows: 1.5 billion yen for Gelson's, 1 billion yen for Hawaii, and 1.5 billion yen for Guam.
- In Hawaii, system issues contributed to the downward revision of operating income. However, we expect to be able to reduce the downward revision of 1 billion yen by about half, since we were able to control losses and waste to a greater extent than anticipated.
- Regarding Gelson's, we expect to be able to reduce the downward revision of 1.5 billion yen by about half. The reason is that despite the anticipated impact of wildfire-related store loss, many loyal customers who have been long-time supporters of the business visited nearby Gelson's locations and boosted sales.
- Marukai CA is contributing positively to operating income due to Tokyo Central's continued solid performance.
- As a result, we expect to reduce the downward revision of 4 billion yen by 1.5 billion yen.

Q2. In the North America business, have there been any substantive improvements?

- In Guam, the number of tourists is gradually increasing but not yet to the point of having a major impact on our figures. Nevertheless, we are seeing signs of improvement in domestic customer numbers after the store renovation in March. As our accounting period is from April to next March, the effects will only be reflected in the figures next fiscal year.
- We have 2 business formats in Hawaii: DQ USA and TIMES, the local supermarket. We are again conducting a market analysis and will report on the future direction in the financial results briefing in August.

Q3. Could you provide details on reinforcing the food categories for the inbound business, which was mentioned earlier?

- Our inbound sales are currently growing not only in the cities, but also in regional stores. The items selling well in regional stores include those doing similarly well in the cities, as well as items unique to the particular region, such as fresh food products.

- The market share for inbound consumption is approximately 8 trillion yen annually. This is classified into transportation, accommodation, food, and other spending. We hold about 10% of the market share in the "other spending" category, which includes shopping spending, as PPIH sees strong demand for souvenirs.
- For example, inbound tourists often have difficulty finding places to dine out when they visit the regions. Therefore, we can aim to expand our market share by delving deeper into the dining needs that are unique to each region and capturing food spending.

Q4. A new management structure was announced this March. Please share with us the subsequent internal discussions.

- Personnel announcements are typically made without prior notice, so it came as a surprise within the company.
- For the development of our Long-Term Management Plan, not only various executives but also officers were involved, resulting in bold ideas.

Q5. In the Asia business, there was an explanation that the figures for Hong Kong and Thailand are improving. Could you elaborate on that?

- For DON DON DONKI, which is our business format in Asia, we were slow in responding to the needs of local customers due to our strong fixation on pursuing a "Japan" brand image.
- Upon seeking feedback from local customers, they expressed the view that it may not be necessary to be entirely fixated on "Made in Japan," so we needed to review our strategy.
- We are now shifting to a product composition that is tailored to collaborations with local companies and the needs of local customers.
- The ASEAN market will far surpass the scale of the Japanese market by 2050. At the current stage, we are focused on improving brand recognition and building our business model.

Q6. Is the North America business likely to experience a profit decline in the fourth quarter?

- We forecasted a profit decline when announcing the downward revision in the interim financial results briefing for the second quarter. A profit decline is possible based on the current progress.
- Results may be better than our current expectations due to Marukai CA's improvements brought about by extending opening hours and other factors and depending on Gelson's status.

Q7. Gross margin for the Discount Store business increased YoY by 1.4pt in the first quarter, 0.3pt in the second quarter, and 0.3pt in the third quarter. Are these YoY changes in line with expectations?

- Yes, they are generally in line with expectations.
- The surge in the price of rice and the last-minute demand for alcohol before its price increase had a negative impact on our gross margin. In addition, customers are becoming more price-sensitive due to their real wages. Therefore, we are strategically reducing our gross margins for some product categories in order to meet their expectations.

Q8. For the UNY business, "significant growth" is mentioned on page 7 of the presentation slides for financial results briefing. What do you mean by that?

- We are currently working to strengthen the non-food categories, and some individual items in stores in the pilot areas are already achieving sales that are up by over 50% YoY. Other stores, influenced by the pilot areas, are also seeing product sales that are up by over 30% YoY.
- Under the Million Star Program, the respective branch and store managers are eagerly introducing items into their own areas, in the same way as in the Discount Store business, to boost their own evaluation.
- An example is Asian cosmetics. We introduced items with the hypothesis that they may do well among UNY customers due to the influence of the "Korean Wave" (popularity of Korean pop culture). They have done even better than anticipated.
- Only six months have passed since top-class employees from the Discount Store business were seconded to UNY, and only a few stores have actually undergone major renovations. Nevertheless, we are already seeing results, so there is likely to be dramatic advancement from next fiscal year onwards.

Q9. There was mention of removing the boundary between the Discount Store and UNY businesses in the next fiscal year. What does that signify?

- Last year, we spoke about the completion of post-merger integration for the UNY business. The next step will be genuine, on-the-ground integration.
- Six years have passed since the merger. There have been many successes but also many failures. In the process, we have been able to assign employees to positions they are suitable for in the Discount Store and UNY businesses.
- Based on this, the Discount Store and UNY business will tackle new challenges together going forward. We will share the details at the final results briefing for this fiscal year.

Q10. For “Others/Adjustments” segment, what are the reasons for the YoY decline in operating income?

- The YoY decline is not due to any negative factors.
- We have recorded a significant increase in investments compared to the previous year, such as for TV commercials, IT, etc., under “Others/Adjustments” segment. We will offset them by charging them to each company in the form of outsourcing fees.

Q11. What are the factors behind the YoY increase in the value of product inventory?

- Several years ago, we had accumulated inventory of over 13 billion yen. In the previous fiscal year, we reduced it to below 3 billion yen in our efforts to incorporate inventory value into our evaluation and reduce inventory such as through “interest expiration date” initiatives. As I have stated, this does not mean that inventory will continue decreasing indefinitely.
- Inventory is increasing due to our PB/OEM strategy, in addition to the increase in net sales across the business. On PB/OEM, inventory levels are also influenced by the increase in the inventory of non-food products with long sales periods.
- The inventory turnover rate is trending at a level on par with the previous year. There is no cause for concern.

Q12. Regarding new store openings in Japan, it was explained that you will focus on small commercial zones. I think that small stores are inefficient in terms of development costs, but what are your thoughts on this?

- Firstly, as a premise, our focus is “small commercial zones” and not “small stores.”
- Until now, we have been operating many of our stores in secondary commercial zones with a radius of about 10 km. We consider that we will also be able to operate successfully in primary commercial zones with a radius of about 5 km.
- When we plot secondary commercial zones, we see that they have, to some extent, become filled with stores. On the other hand, there is still much room for store openings in primary commercial zones.
- Our strength lies in nighttime commercial zones, and commercial zones that operate from the afternoon into the evening have yet to be filled up across Japan. As for which items to sell, we need to focus on food.
- We are now formulating various strategies and will report on them in the final results briefing in August.

Q13. M&A was mentioned. Could you reiterate your stance on this?

- We will carry out M&A where necessary, considering not only the value of the acquisition, but also other factors such as construction costs and capital investment.
- A certain amount of allocation is also necessary overseas. The Asian market will undergo significant growth sooner or later. It is necessary to also invest in the U.S. in order to ensure business continuity.
- “The biggest risk is not taking any risk,” and we will continue to invest steadily going forward.

Q14. My impression is that SG&A for the Discount Store business is increasing. Is this in line with expectations?

- In fact, we had already incorporated an anticipated increase in SG&A for the Discount Store business into our budget. On the personnel costs, we are improving compensation and benefits for employees. We are in line with our budget.

Q15. You spoke about aligning the compensation systems for the Discount Store and UNY businesses. Please share with us more about that.

- Actually, what we are aligning is the evaluation systems, not all aspects of the compensation systems. That means the method of paying out bonuses when evaluating employees and the approach to grading job responsibilities. In these respects, we have eliminated differences between the two businesses.

Q16. PPIH’s fiscal year ends in June. When are you revising the personnel systems?

- Revisions and other changes most frequently occur in October, as the Million Star Program covers a 1-year period from October to next September.
- In other respects, bonuses are paid in July and December, and improvements to the compensation package for fresh graduates takes place in April.
- The revision with the greatest impact this fiscal year was to bonuses. As a result, we have been incurring higher compensation costs since December of last year.