Pan Pacific International Holdings Corporation
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Overview of Q&A Session at Small Meeting for Sell-Side Analysts for Q4 FY June 2025

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

Q1. What should we focus on regarding the human capital strategy in the "Double Impact 2035" long-term management plan?

- While individual capabilities remain central to our culture, we've started emphasizing team-based results over the past year.
- Our growth stems from a "raise-your-hand" culture, where those who volunteer to take on challenges deliver results.
- Although we haven't explicitly emphasized team-building in the past, it has always been a key focus.

Q2. What is the background behind the phrase "discontinuous growth"?

- Over the past 18 months, we've viewed sales and profit growth as outcomes, not priorities.
- We won't hold back on growth investments just to maintain a track record of sales and profit growth. While this may result in temporary losses, it's necessary for long-term expansion. This doesn't mean we're deprioritizing growth entirely, but rather that it's not our priority.

Q3. What kind of locations are planned for the new small catchment-area food-focused Don Quijote stores? Also, what's the logic behind the 6% operating margin?

- Store openings will begin with roadside locations in the Chukyo area. In precise terms, we plan to convert 4 to 5 Piago stores in FY6/26. From FY6/27, roadside sites in both Chukyo and Kanto regions will be considered.
- These stores are projected to generate approximately 1.5 times the net sales of Don Quijote stores of comparable size. due to higher visit frequency. Although gross margin may be slightly lower than our discount format, improved net sales and cost structure will help us maintain a 6% operating margin.

Q4. Overseas business is expected to have a 6% operating margin by 2035. How does this break down between Asia and North America?

- We currently expect mid-7% margins in Asia and mid-5% in North America.

Q5. After one year, how will net sales and operating margin change following Piago's conversion?

- We expect net sales to increase 1.2 times to 1.3 times.
- Conversions will focus first on Piago stores with approximately 500 *tsubo* (about 1,650 sqm), which will serve as the benchmark. SG&A expenses will be adjusted in line with those of Piago stores prior to conversion.
- Rather than investing heavily in equipment, we'll rebrand existing Piago stores, keeping costs low.

Q6. Which categories will drive the increase in net sales after Piago's conversion?

- Non-food categories will expand first, followed by prepared foods, which will become a key driver of store visits.
- Despite over a year of pricing initiatives, Piago stores have struggled to outperform nearby competitors. Sales improved, but not enough. A strategic shift is now necessary.

Q7. What is the overall investment policy?

- We had previously stated that IT investments would total ¥20 billion over approximately three years, but we now intend to expand those investments. Since we believe marketing and PB product development can generate significant returns if successful, we think it is necessary to revise the investment scale.
- Major investments will also go toward the food-focused Don Quijote stores and regular Don Quijote store openings.

Q8. Attracting customers through food leads to cross-selling. How does the discount business uniquely approach food?

- With sales exceeding ¥2 trillion, we would like to leverage on our scale advantage to further strengthen our processed food segment. While our PB share is increasing, we're not merely producing low-cost alternatives to NB products. We're co-developing exclusive items with manufacturers. Our purchasing volume allows us to reduce costs.

- Fresh food has even greater potential. To double net sales over the next decade, we must strengthen upstream supply chains.
- UNY operates three meat processing centers, which we'll utilize more effectively. We're also considering investments in new processing centers.
- We have to expand direct contracts with farmers as well. For prepared foods, we face two challenges: outsourced production lacks our added value, and in-store production needs localized menu development.

Q9. What caused the impairment loss in North America for FY6/25?

- Guam was the largest contributor. During the pandemic, we increased investments based on flawed assumptions, which we've now corrected.
- We also recorded impairment loss in Hawaii and California. Opening a second store in Guam is unlikely due to market conditions. However, the first store continues to generate a certain level of sales. External tenants and our sushi business at the site are performing well, so we don't plan to make major changes to our strategy.

Q10. Are multi-floor formats being considered for the food-focused Don Quijote stores?

- Not at this time. We aim to establish a successful single-floor format first.

Q11. Food retail is highly competitive. What is PPIH's strength?

- We target single and two-person households. By offering strong prepared food options for daily use, we aim to attract customers who are unsatisfied with what convenience stores and supermarkets typically offer.

Q12. Has there been a strategic shift in financial and advertising businesses?

- Financial and advertising businesses are part of our domestic business and are included in the long-term management plan.
- The key change is recognizing their synergy with retail. We don't aim to generate standalone profits.
- The financial business will maintain a defensive stance.

Q13. Forecasted operating income for the first half of FY6/26 is flat. Is there a major investment?

- Costs will rise due to reduced government subsidies and higher utility expenses. We also implemented a ¥3 billion external standard tax in Q4 of FY6/25. In FY6/26, this will be spread monthly, resulting in an estimated additional cost of ¥1.5 billion in the first half compared to FY6/25.
- We revised compensation, starting with bonuses in December and salaries in April.
  As a result, even with the same number of employees, labor cost per person increased YoY.

Q14. The FY6/35 store opening plan averages 25 stores per year. Is there still room for expansion?

- Yes. While annual numbers may vary, we still see significant room for new store openings, even excluding the new format.