

Pan Pacific International Holdings Corporation

Q1 Results for FY 2020

Earnings Results
July 1, 2019 – September 30, 2019

November 6, 2019

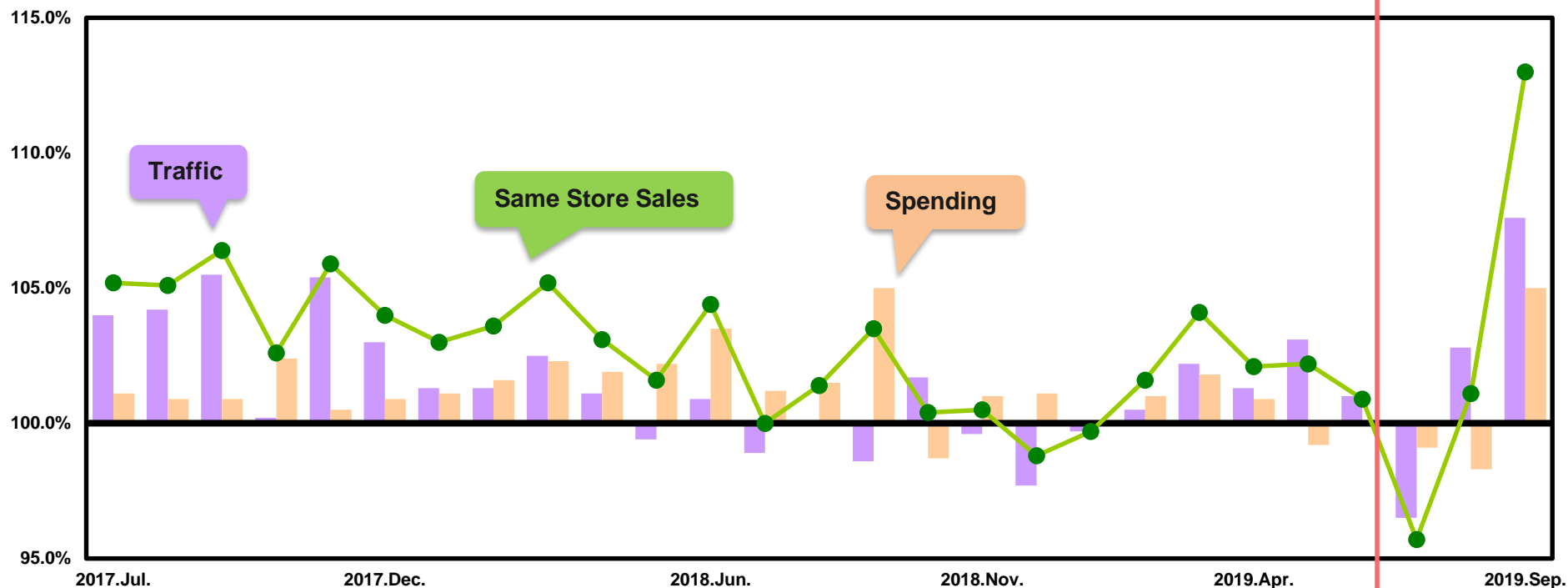


Earnings summary for Q1

Consolidated (Millions of yen)	3 months to September 2019			3 months to September 2018	
	Actual	Share	YoY	Actual	Share
Net sales	428,736	100.0%	171.4%	250,080	100.0%
Gross profit	122,620	28.6%	183.8%	66,732	26.7%
SGA	101,488	23.7%	194.3%	52,229	20.9%
Operating profit	21,132	4.9%	145.7%	14,503	5.8%
Recurring profit	20,449	4.8%	114.1%	17,917	7.2%
Profit attributable to owners of parent	12,604	2.9%	108.2%	11,646	4.7%
EPS(Yen)	19.90	—	108.2%	18.40	—

- Q1 profits hit an all time high by localizing the store operation further to meet the customer needs. Consumer sentiment is getting even more tougher than ever before. A serious of natural disasters and unusual low temperature gave a negative impact on the domestic consumption. SSS for Don Quijote went up by 2.9%, 2.7% for Nagasakiya and 0.1% for UNY. Tax-free sales went down 4.1% due largely to the drop in sales from South Korea.
- GPM was up 1.9pts backed by the consolidation of UNY. Fine-tuned pricing strategy contributed to the GP growth.
- SGA rose sharply mainly because of the consolidation of UNY. Personnel cost and commission paid increased due to the rapid expansion of business scale. Cost is controlling with disciplines.
- Operating profit and net profit went up 45.7% and 8.2% respectively. Guidance for FY 2020 made an upward revision with this strong results.

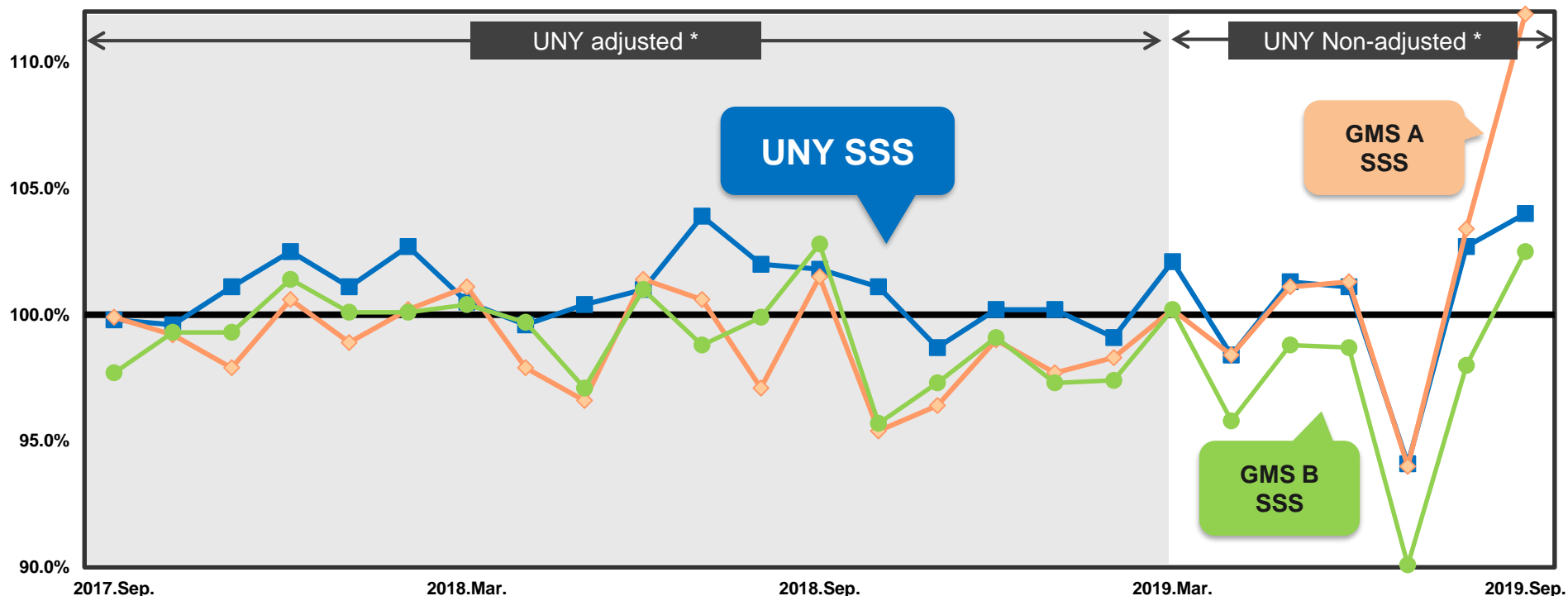
Same-store sales (Don Quijote Co., Ltd.)



Existing stores	2018 Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	2019 Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.
Sales (%)	100.0	101.4	103.5	100.4	100.5	98.8	99.7	101.6	104.1	102.1	102.2	100.9	95.7	101.1%	113.0%
Customer traffic (%)	98.9	99.9	98.6	101.7	99.6	97.7	99.7	100.5	102.2	101.3	103.1	101.0	96.5	102.8%	107.6%
Customer spending (%)	101.2	101.5	105.0	98.7	101.0	101.1	99.9	101.0	101.8	100.9	99.2	99.9	99.1	98.3%	105.0%
Existing store count	288	291	283	291	294	299	301	301	301	295	296	297	297	302	296

- DQ SSS went up 2.9% (3.7pts from domestic sales, negative 0.8pts from tax-free sales), traffic went up 2.2% and spending went up 0.7%.
- There were some negative factors such as devastating natural disasters and sudden change for tax-free consumption. Strong domestic sales prior to tax hike was more than offset those negative factors.

Same-store sales (UNY Co., Ltd.)



Existing stores	2018															
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	2019 Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	
Sales (%)	103.9	102.0	101.8	101.1	98.7	100.2	100.2	99.1	102.1	98.4	101.3	101.1	94.1	102.7	104.0	
Customer traffic (%)	102.6	101.0	100.1	100.6	98.9	99.6	99.6	99.5	100.9	98.0	100.3	99.8	94.5	101.1	102.0	
Customer spending (%)	102.4	100.5	101.7	102.4	99.3	100.6	99.8	99.5	101.1	100.5	101.0	101.3	99.5	101.6	101.9	
Existing store count	190	190	189	188	186	187	181	178	177	173	173	169	168	166	161	

* In terms of SSS sales of UNY, day of the week has been adjusted until Feb. 2019. From Mar. 2019, the figures are of non-adjusted. For the customer traffic and spending, all the figures are of non-adjusted.

* The fiscal month are from 21th to 20th of next month until the figure of Nov. 2018. From Dec. 2018, the fiscal month has been revised from 1st to the end of the month.

- UNY SSS went up 0.1%, traffic went down 0.9% and spending went up 1.0% for 1Q in FY2020.

Sales breakdown by product category

Consolidated (Millions of yen)	3 months to September 2019			3 months to September 2018	
	Actual	Share	YoY	Actual	Share
Home electrical appliances	21,696	5.1%	111.8%	19,405	7.8%
Miscellaneous household goods	65,125	15.2%	113.8%	57,232	22.9%
Foods	98,753	23.0%	121.7%	81,143	32.4%
Watches & fashion merchandise	42,963	10.0%	103.5%	41,491	16.6%
Sporting goods & leisure goods	16,199	3.8%	102.4%	15,821	6.3%
DIY goods	4,033	0.9%	108.4%	3,720	1.5%
Overseas	25,723	6.0%	122.7%	20,957	8.4%
Other products	7,107	1.7%	134.7%	5,277	2.1%
Total discount store business (Former Don Quijote HD stores)	281,599	65.7%	114.9%	245,046	98.0%
Clothings	16,851	3.9%	—	—	—
Household goods	19,764	4.6%	—	—	—
Foods	86,779	20.3%	—	—	—
Other products	4,759	1.1%	—	—	—
Total GMS business (Former UNY group stores)	128,153	29.9%	—	—	—
Tenant leasing business	15,172	3.5%	320.7%	4,731	1.9%
Other business	3,812	0.9%	1258.1%	303	0.1%
Total sales	428,736	100.0%	171.4%	250,080	100.0%

Sales breakdown by product category

Home electrical appliances	Small-sized seasonal items such as portable fans were gainers. POSA cards and TVs delivered a good sales momentum.
Miscellaneous household goods	There was bulk-buying for daily necessities such as detergents and paper products. Kitchen goods and medicine also contributed.
Foods	Processed food (e.g. snacks, beverages) and dairies recorded high growth rate. Fresh meat was strong in MEGA stores.
Watches & fashion merchandise	Although cigarettes were stagnant, sporting wears were strong. Branded watches and luxury goods such as jewelry were encouraged by the before tax hike demand.
Sporting goods & leisure goods	Electric assist bicycles were popular. Although outdoor goods were affected by bad weather condition, car appliances and toys were contributors.
DIY goods	Exterior and gardening goods were weak because of unstable temperature and bad weather. Small parts and working clothes were good.
Overseas	Fresh foods were popular. Ready-made meals and everyday goods were also strong.
Total discount store business (Former Don Quijote HD stores)	Seasonal items were weak due to low temperature during summer. There were last-minute demand before tax hike, especially daily necessities.
Clothing	Ladies' inner wear and kids' wear grew. Sales promotion worked well for shoes and designer's bags.
Household goods	Smartphone items and portable home electronics contributed to sales. Beddings, bicycles and daily necessities were boosted by strong demand before tax hike.
Foods	Rice and packaged food were strong. Market price for vegetables was lower than last year.
Total GMS business (Former UNY group stores)	Clothing and household goods took the lead. Processed food sales and packaged meals were solid.

The number of stores

Breakdown by format

(stores)

	FY2018	FY2019	FY2020-1Q
Don Quijote	209	212	213
MEGA	43	44	44
New MEGA	80	88	89
MEGA DQ UNY (Conversion Store)	—	16	22
Apita / Piago	—	176	169
Picasso	23	21	22
Kyo-yasu-do	4	4	4
mini Piago	—	73	73
Doit	18	15	15
Nagasakiya	2	2	2
Total stores in Japan	379	651	653
Overseas	39	42	43
Global Total	418	693	696
Domestic opening	55	292	3
Domestic closure	5	20	1
Net increase	50	272	2

* Opening store count includes both organic new store openings and M&A.

The number of stores

Breakdown by company

(stores)

	FY2018	FY2019	FY2020-1Q
Don Quijote Co., Ltd. (DQ, New MEGA and small format)	313	322	325
Nagasakiya Co., Ltd. (MEGA)	43	44	44
UD Retail Co., Ltd. (MEGA UNY; conversion store from UNY)	—	16	22
UNY Co., Ltd. (Apita, Piago)	—	176	169
Lirack Co., Ltd. (Kyo-yasu-do)	4	4	4
99 Ichiba Co., Ltd. (mini-piago)	—	73	73
Doit Co., Ltd. (Doit)	18	15	15
Daishin Co., Ltd. (MEGA Omori sanno)	1	1	1
Domestic Total	379	651	653
DQ USA (Stores in Hawaii)	4	4	4
MARUKAI (California)	9	10	10
QSI (Hawaii)	24	24	24
PPRM (Singapore)	2	3	4
DONKI Thonglor (Thailand)	—	1	1
Overseas Total	39	42	43
Global Total	418	693	696

Key components in SG&A for Q1

Consolidated (Millions of yen)	3 months to September 2019			3 months to September 2018	
	Actual	Share	YoY	Actual	Share
Net sales	428,736	100.0%	171.4%	250,080	100.0%
Salary allowance	35,499	8.3%	182.7%	19,425	7.8%
Rent	13,411	3.1%	179.9%	7,453	3.0%
Commission paid	15,018	3.5%	248.9%	6,033	2.4%
Depreciation and amortization	5,830	1.4%	158.9%	3,669	1.5%
Others	31,730	7.4%	202.8%	15,648	6.3%
SG&A	101,488	23.7%	194.3%	52,229	20.9%

- The consolidated SG&A increased due to UNY consolidation. Personnel cost and commission paid increased by expanding the business scale rapidly. One-off cost related to UNY consolidation and initial cost for new stores were added.
- SG&A for former Don Quijote group stood at 20.2% as a percentage of sales, while that of UNY was at 30.0%.

Sales and profit by business

Sales, profit and loss by segment from Jul.1, 2019, to Sep.30, 2019

(Millions of yen)

Consolidated	Discount store	GMS	Tenant leasing	Others	Total	Adjusted	Consolidated
Sales to external customers	281,599	128,153	15,172	3,812	428,736	-	428,736
Internal sales or transfers between segments	1,404	992	1,024	1,566	4,986	(4,986)	-
Total	283,003	129,145	16,196	5,378	433,722	(4,986)	428,736
Segment profit	14,963	2,864	3,159	12	20,998	134	21,132

Sales, profit and loss by segment from Jul.1, 2018, to Sep.30, 2018

(Millions of yen)

Consolidated	Discount store	GMS	Tenant leasing	Others	Total	Adjusted	Consolidated
Sales to external customers	245,047	-	4,731	302	250,080	-	250,080
Internal sales or transfers between segments	723	-	476	-	1,199	(1,199)	-
Total	245,770	-	5,207	302	251,279	(1,199)	250,080
Segment profit	14,188	-	779	(459)	14,508	(5)	14,503

- Segment profit : 14.9 billion yen for discount store business, 2.9 billion yen for GMS business and 3.2 billion yen for tenant leasing business.

Balance Sheet

(Millions of yen)

Consolidated	As of September 30, 2019	Change from June 30, 2019
Total current assets	483,266	(13,139)
Cash and deposits	160,742	(11,931)
Installment account receivable	73,345	5,928
Merchandise	181,939	(6,571)
Total noncurrent assets	783,755	1,593
Total property, plan and equipment	611,219	339
Buildings	262,744	(211)
Land	314,750	(297)
Total intangible assets	37,434	(168)
Goodwill	16,551	(665)
Total investments and other assets	135,102	1,422
Lease and guarantee deposits	80,414	(29)
Total assets	1,267,021	(11,546)

(Millions of yen)

Consolidated	As of September 30, 2019	Change from June 30, 2019
Total current liabilities	326,519	(11,466)
Accounts payable	148,773	(10,291)
Short-term liabilities*	37,878	(4,782)
Total noncurrent liabilities	579,701	(7,394)
Long-term bonds	237,250	(1,208)
Long-term borrowings	251,578	(5,199)
Long-term payables under fluidity lease receivables	2,859	(1,844)
Total liabilities	906,220	(18,860)
Net assets	360,801	7,314
Total shareholders' equity	337,419	8,123
Non-controlling interests	23,473	256
Liabilities and net assets	1,267,021	(11,546)

* Short-term liabilities = Short-term loans payable + Current portion of long-term loans payable + Current portion of bonds

- **Assets** : Major reasons for decrease in assets were cash and deposits (-11.9 bil yen) and merchandise (-6.6 bil yen). There was an increase in notes and accounts receivable (+4.1 bil yen) and installment account receivable (+5.9 bil yen).
- **Liabilities** : Accounts payables – other (+2 bil yen) and deposits received (+0.8 bil yen) increased. Account payables – trade (-10.3 bil yen), accrued expenses (-2.8 bil yen), interest bearing debt (-11.2 bil yen: -4.8 bil yen from short-term and -6.4 bil yen from long-term debt) and payables under fluidity lease receivables (-1.8 bil yen).

Cash flows and Capital expenditure

(Millions of yen)

Consolidated Cash Flows	3 months to September 2019	3 months to September 2018	Change
Cash and equivalents at beginning of period	185,136	75,833	109,253
Cash flows from operating activities	10,879	14,603	(3,724)
Cash flows from investing activities	(9,909)	(14,623)	4,714
Cash flows from financing activities	(17,682)	49,591	(67,273)
Net increase (decrease) in cash and equivalents	(17,234)	49,999	(67,233)
Cash and equivalents at end of period	167,902	125,882	42,020

(Millions of yen)

Consolidated Capital Expenditures	3 months to September 2019	3 months to September 2018	Change
Capital expenditures	10,306	15,530	(5,224)
Cash flows*	14,797	11,323	3,474
Net increase (decrease)	4,491	(4,207)	8,698

* Cash flows = Net income + Depreciation and amortization + Extraordinary loss - Dividend

- Cash flow from operating activities was 10.9 billion yen positive. Positive factors : 19.6 billion yen of income before income taxes, 7.1 billion yen of depreciation and amortization and 6.4 billion yen of increase in inventories contributed.
Negative factors : 4.2 billion yen of increase in notes and accounts receivables, 10.2 billion yen of notes and accounts payables decrease and 5.8 billion yen of income taxes paid.
- Cash flow from financing activities was 17.7 billion yen negative. 10 billion yen of long-term loans payables repayments, 1.1 billion yen of bonds redemption, 1.9 billion yen of payables under fluidity lease receivables repayments and 4.8 billion yen of cash dividends paid were major factors.
- Capex was 10.3 billion yen (DQ:2.2 bil, Nagasakiya:1.7 bil, UDR:3.1 bil, UNY:0.8 bil, JAM:0.4 bil).
- Free cash flow was 4.5 billion yen positive.

Forecast for 1H in June 2020

Consolidated (Millions of yen)	FY2020 1H Revised Forecast			FY2019 1H Forecast (Announced Aug.13,2019)	
	Plan	Share	YoY	Plan	Share
Net sales	840,000	100.0%	163.6%	830,000	100.0%
Gross profit	238,000	28.3%	175.5%	234,000	28.2%
SGA	202,000	24.0%	191.3%	200,000	24.1%
Operating profit	36,000	4.3%	119.9%	34,000	4.1%
Recurring profit	36,000	4.3%	101.9%	34,000	4.1%
Net profit	21,800	2.6%	92.3%	21,000	2.5%
EPS (Yen)	34.41	-	92.2%	33.16	-
Depreciation	12,500	1.5%	164.3%	12,500	1.5%

- Considering the strong results in 1Q, 1H forecast in FY2020 has been revised upward.
Net sales of 840 billion yen (63.6% YoY increase, original forecast figure 830 billion yen), operating profit of 36 billion yen (19.9% YoY increase, originally 34 billion yen), recurring profit 36 billion yen (1.9% YoY increase, originally 34 billion yen) and net profit of 21.8 billion yen (7.7% YoY decrease, originally 21 billion yen).
- SSS forecasts for Don Quijote and UNY are both flat.
- Capex is expected to be 40 billion yen with opening more than 20 organic stores and more than 25 UNY conversion stores.