

Pan Pacific International Holdings Corporation

Results for FY 2019

Earnings Results
July 1, 2018 – June 30, 2019

August 13, 2019

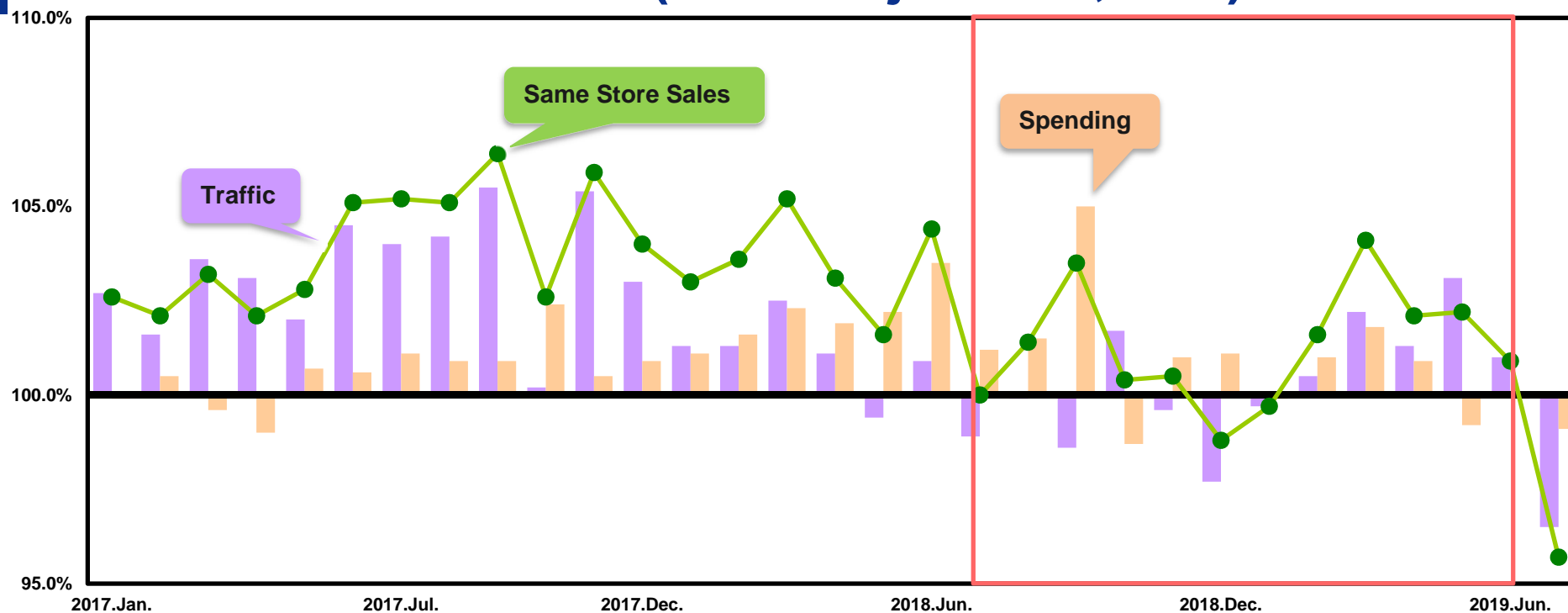


Earnings summary

Consolidated (Millions of yen)	12 months to June 2019			12 months to June 2018	
	Actual	Share	YoY	Actual	Share
Net sales	1,328,874	100.0%	141.1%	941,508	100.0%
Gross profit	370,527	27.9%	151.9%	243,991	25.9%
SGA	307,417	23.1%	159.8%	192,423	20.4%
Operating profit	63,110	4.7%	122.4%	51,568	5.5%
Recurring profit	68,240	5.1%	119.3%	57,218	6.1%
Profit attributable to owners of parent	48,253	3.6%	132.5%	36,405	3.9%
EPS(Yen)	304.93	—	132.5%	230.14	-

- Consumption environment clearly changed in October 2018 with sluggish consumer sentiment and a series of unfavorable weather. PPIH focused on being more competitive in each commercial area to prepare the upcoming consumption tax hike. Tax-free sales delivered very strong momentum beating the last year's sales for 57 consecutive months. SSS for Don Quijote went up by 1.2% (0.2pts came from domestic, 1.0pt from tax-free). Nagasakiya SSS: +0.4pts, UNY SSS:0.7%.
- Gross profit and margin went up due mainly to the consolidation of UNY group. Right pricing strategy was executed to deal with the consumers' price-consciousness.
- SG&A went up due in part to rise in personnel cost and commission paid. The consolidation of UNY pushed up total SG&A.ratio.
- Operating profit and net profit surged. Net profit grew for 10 consecutive years while sales and OP grew for 30 years.

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



Comparable stores	2018 Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	2019 Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.
Sales (%)	103.0	103.6	105.2	103.1	101.6	104.4	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
Customer traffic (%)	101.3	101.3	102.5	101.1	99.4	100.9	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
Customer spending (%)	101.6	102.3	102.6	101.9	102.2	103.5	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
Comparable store count	278	278	278	280	283	283	288	291	283	291	294	299	301	301	301	295	296	297	297

- DQ SSS went up 1.2% (0.2 pts came from domestic sales and 1.0pts came from tax-free sales), traffic went up 0.3% and spending went up 0.9% for FY June 2019, beat the high bar of last year (4.1% growth yoy).
- A series of natural disasters and unusual temperature affected the traffic and sales for seasonal items, however, the sales for consumable items delivered a strong sales momentum.

Sales breakdown by product category

Consolidated (Millions of yen)	12 months to June 2019			12 months to June 2018	
	Actual	Share	YoY	Actual	Share
Home electrical appliances	80,125	6.0%	104.5%	76,698	8.1%
Miscellaneous household goods	231,835	17.5%	106.7%	217,257	23.1%
Foods	350,897	26.4%	112.6%	311,565	33.1%
Watches & fashion merchandise	162,397	12.2%	101.6%	159,904	17.0%
Sporting goods & leisure goods	55,889	4.2%	101.7%	54,946	5.8%
DIY goods	15,448	1.2%	95.3%	16,216	1.7%
Overseas	96,996	7.3%	148.1%	65,480	7.0%
Other products	22,337	1.7%	106.5%	20,976	2.2%
Total discount store business (Former Don Quijote HD stores)	1,015,924	76.5%	110.1%	923,042	98.0%
Clothings	35,719	2.7%	—	—	—
Household goods	32,378	2.4%	—	—	—
Foods	185,532	14.0%	—	—	—
Other products	12,429	0.9%	—	—	—
Total GMS business (Former UNY group stores)	266,058	20.0%	—	—	—
Tenant leasing business	39,132	2.9%	224.6%	17,420	1.9%
Other business	7,760	0.6%	741.9%	1,046	0.1%
Total sales	1,328,874	100.0%	141.1%	941,508	100.0%

Sales breakdown by product category

Home electrical appliances	POSA cards and wireless headsets were gainers. Seasonal appliances were encouraged by temperature change.
Miscellaneous household goods	Daily necessities such as detergents and hair care items attracted the domestic customers. Cosmetics and drugs went up due to strong tourists' shopping appetite.
Foods	Processed food (eg. snacks, instant noodles), alcohols and dairies were strong. MEGA stores had strong sales for meat and ready-made meals.
Watches & fashion merchandise	Though luxury items were stagnant, sporting wear and inner wear were contributors.
Sporting goods & leisure goods	Outdoor goods were affected by bad weather. Toys and souvenir goods were popular.
DIY goods	Exterior and gardening goods were weak because of unstable temperature and bad weather. Small parts and consumable items were good.
Overseas	Processed foods, meat, ready-made meals, fruits and vegetables(incl. sweet potatoes). took the lead for the rise in sales. (1USD:110.71yen, 1SGD:81.73yen, 1THB:3.43yen)
Total discount store business (Former Don Quijote HD stores)	Foods and daily consumables drove the domestic sales, drugs were the leader of strong tax-free sales.
Clothing	Ladies' outer wear and casual wear for kids grew. Sales promotion worked well for shoes and bags.
Household goods	Seasonal home appliances such as fans and heaters as well as storage goods were strong.
Foods	Small-sized packaged food were popular. Processed foods and dairies took the lead.
Total GMS business (Former UNY group stores)	Clothing and household goods were gainers. Processed food sales offset the weak fresh food sales.

The number of stores

Breakdown by format

(stores)

	FY2017	FY2018	FY2019
Don Quijote	198	209	212
MEGA	40	43	44
New MEGA	72	80	88
MEGA DQ UNY (Conversion Store)	—	—	16
Apita / Piago	—	—	176
Picasso	21	23	21
Kyo-yasu-do	4	4	4
mini Piago	—	—	73
Doit	17	18	15
Nagasakiya	2	2	2
Total stores in Japan	354	379	651
Overseas	14	39	42
Global Total	368	418	693
Domestic opening	32	55	255
Domestic closure	5	5	20
Net increase	27	50	275

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

The number of stores

Breakdown by company

(stores)

	FY2017	FY2018	FY2019
Don Quijote Co., Ltd. (DQ, New MEGA and small format)	292	313	322
Nagasakiya Co., Ltd. (MEGA)	40	43	44
UD Retail Co., Ltd. (MEGA UNY; conversion store from UNY)	—	—	16
UNY Co., Ltd. (Apita, Piago)	—	—	176
Lirack Co., Ltd. (Kyo-yasu-do)	4	4	4
99 Ichiba Co., Ltd. (mini-piago)	—	—	73
Doit Co., Ltd. (Doit)	17	18	15
Daishin Co., Ltd. (MEGA Omori sanno)	1	1	1
Domestic Total	354	379	651
DQ USA (Stores in Hawaii)	3	4	4
MARUKAI (California)	11	9	10
QSI (Hawaii)	—	24	24
PPRM (Singapore)	—	2	3
DONKI Thonglor (Thailand)	—	—	1
Overseas Total	14	39	42
Global Total	368	418	693

Key components in SG&A

Consolidated (Millions of yen)	12 months to June 2019			12 months to June 2018	
	Actual	Share	YoY	Actual	Share
Net sales	1,328,874	100.0%	141.1%	941,508	100.0%
Salary allowance	111,485	8.4%	155.0%	71,941	7.6%
Rent	42,131	3.2%	148.7%	28,330	3.0%
Commission paid	43,772	3.3%	190.7%	22,957	2.4%
Depreciation and amortization	20,012	1.5%	135.1%	14,815	1.6%
Others	90,017	6.8%	165.5%	54,380	5.8%
SG&A	307,417	23.1%	159.8%	192,423	20.4%

- The consolidated SG&A went up by 59.8% largely 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 21.0% as a percentage of sales, while that of UNY was 30.4%.

Sales and profit by business

Sales, profit and loss by segment from Jul.1, 2018, to June.30, 2019

(Millions of yen)

Consolidated	Discount store	GMS	Tenant leasing	Others	Total	Adjusted	Consolidated
Sales to external customers	1,015,924	266,058	39,132	7,760	1,328,874	—	1,328,874
Internal sales or transfers between segments	3,567	551	1,762	3,153	9,033	(9,033)	—
Total	1,019,491	266,609	40,894	10,913	1,337,907	(9,033)	1,328,874
Segment profit	49,589	7,039	7,795	(1,240)	63,183	(73)	63,110

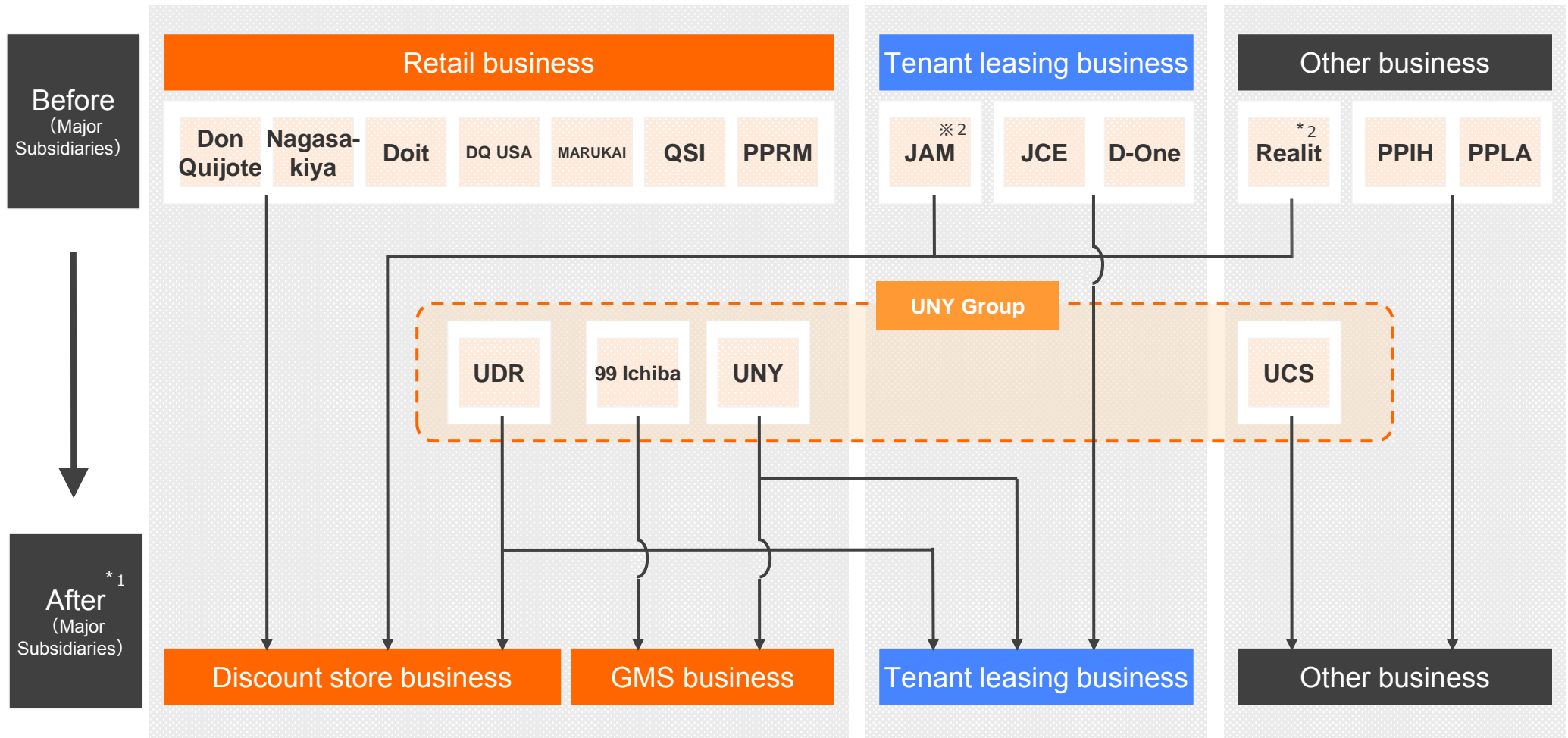
Sales, profit and loss by segment from Jul.1, 2017, to June.30, 2018

(Millions of yen)

Consolidated	Discount store	GMS	Tenant leasing	Others	Total	Adjusted	Consolidated
Sales to external customers	923,042	—	17,420	1,046	941,508	—	941,508
Internal sales or transfers between segments	2,581	—	1,874	—	4,455	(4,455)	—
Total	925,623	—	19,294	1,046	945,963	(4,455)	941,508
Segment profit	51,508	—	2,768	(2,691)	51,585	(17)	51,568

- Disclosed business segments were changed from Q3 FYJune 2019 (March quarter).
- Segment profit for discount store business stood at 49.6 billion yen, 7 billion yen for GMS business and 7.8 billion yen for tenant leasing business.

New segment category



*1. Disclosed business segments were changed from Q3 FYJune 2019 (March quarter).

*2. JAM (Japan Asset Marketing) and Realit are included in "Discount store business".

Balance Sheet

(Millions of yen)

Consolidated	As of June 30, 2019	Change from June 30, 2018
Total current assets	496,405	259,792
Cash and deposits	172,673	100,700
Installment account receivable	67,417	67,417
Merchandise	188,510	52,729
Total noncurrent assets	782,162	211,997
Total property, plan and equipment	610,880	262,967
Buildings	262,955	129,540
Land	315,047	126,181
Total intangible assets	37,602	9,355
Goodwill	17,216	(384)
Total investments and other assets	133,680	(60,325)
Lease and guarantee deposits	80,443	33,949
Total assets	1,278,567	471,789

(Millions of yen)

Consolidated	As of June 30, 2019	Change from June 30, 2018
Total current liabilities	337,985	166,099
Accounts payable	159,064	66,034
Short-term liabilities*	42,660	21,256
Total noncurrent liabilities	587,095	264,698
Long-term bonds	238,458	147,184
Long-term borrowings	256,777	56,109
Long-term payables under fluidity lease receivables	4,703	(7,401)
Total liabilities	925,080	430,797
Net assets	353,487	40,992
Total shareholders' equity	329,296	37,959
Non-controlling interests	23,217	1,430
Liabilities and net assets	1,278,567	471,789

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

- **Assets** : Major reasons for increase in assets were cash and deposits (+100.7 billion yen), notes receivable and account receivable (+5.9 bil yen), installment account receivable (+67.4 bil yen), merchandise inventory (+52.7 bil yen), tangible assets (+263 bil yen), intangible assets (+9.4 bil yen) and lease and guarantee deposits (+33.9 bil yen). On the other hand, long-term loan receivable decreased by 92.9 billion yen.
- **Liabilities** : 400.8 billion yen of liability for UNY and its subsidiaries were consolidated. Total liabilities went up 430.8 billion yen mostly came from UNY.

Cash flows and Capital expenditure

(Millions of yen)

Consolidated Cash Flows	12 months to June 2019	12 months to June 2018	Change
Cash and equivalents at beginning of period	75,883	78,094	(2,211)
Cash flows from operating activities	101,978	46,081	55,897
Cash flows from investing activities	(37,113)	(164,443)	127,330
Cash flows from financing activities	43,456	116,083	(72,627)
Net increase (decrease) in cash and equivalents	109,253	(2,211)	111,464
Cash and equivalents at end of period	185,136	75,883	109,253

(Millions of yen)

Consolidated Capital Expenditures	12 months to June 2019	12 months to June 2018	Change
Capital expenditures	49,908	56,061	(6,153)
Cash flows*	76,138	48,603	27,535
Net increase (decrease)	26,230	(7,458)	33,688

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

- Cash flow from operating activities was 102 billion yen positive. Positive factors : 67.5 billion yen of income before income taxes, 23.7 billion yen of depreciation and amortization and 59.7 billion yen of decrease in installment account receivable.
Negative factors : 9.3 billion yen of gain on negative goodwill, 6 billion yen of investment gain from equity affiliates, 14.5 billion yen increase in inventory and 27.5 billion yen for corporate tax payment.
- Cash flow from financing activities was 43.5 billion yen positive. 165 billion yen of net increase in long-term bonds, 106.6 billion yen of net decrease of long-term loans and 5.9 billion yen of dividend payment were major factors.
- Capex was 49.9 billion yen. (DQ:16.2 bil, Nagasakiya:3.2 bil, UNY:1.4 bil, UDR:1.9 bil JAM: 10.8bil). Free cash flow was 26.2 billion yen positive.

Earnings summary for Q4

Consolidated (Millions of yen)	3 months to June 2019			3 months to June 2018	
	Actual	Share	YoY	Actual	Share
Net sales	409,884	100.0%	172.0%	238,352	100.0%
Gross profit	118,410	28.9%	186.8%	63,376	26.6%
SGA	101,632	24.8%	195.9%	51,868	21.8%
Operating profit	16,778	4.1%	145.8%	11,508	4.8%
Recurring profit	16,482	4.0%	119.6%	13,777	5.8%
Profit attributable to owners of parent	11,201	2.7%	121.2%	9,242	3.9%
EPS(Yen)	70.76	-	121.1%	58.42	-

Sales breakdown by product category for Q4

Consolidated (Millions of yen)	3 months to June 2019			3 months to June 2018	
	Actual	Share	YoY	Actual	Share
Home electrical appliances	18,239	4.4%	109.0%	16,728	7.0%
Miscellaneous household goods	59,672	14.6%	108.9%	54,775	23.0%
Foods	93,273	22.8%	118.3%	78,820	33.1%
Watches & fashion merchandise	40,504	9.9%	107.3%	37,751	15.8%
Sporting goods & leisure goods	13,318	3.2%	107.4%	12,398	5.2%
DIY goods	3,906	1.0%	91.0%	4,290	1.8%
Overseas	24,727	6.0%	104.2%	23,739	10.0%
Other products	5,836	1.4%	113.4%	5,148	2.2%
Total discount store business (Former Don Quijote HD stores)	259,475	63.3%	102.5%	233,649	98.0%
Clothings	18,274	4.5%	—	—	—
Household goods	13,008	3.2%	—	—	—
Foods	93,032	22.7%	—	—	—
Other products	7,792	1.9%	—	—	—
Total GMS business (Former UNY group stores)	132,106	32.2%	—	—	—
Tenant leasing business	14,976	3.7%	337.6%	4,436	1.9%
Other business	3,327	0.8%	1,246.1%	267	0.1%
Total sales	409,884	100.0%	172.0%	238,352	100.0%

Key components in SG&A for Q4

Consolidated (Millions of yen)	3 months to June 2019			3 months to June 2018	
	Actual	Share	YoY	Actual	Share
Net sales	409,884	100.0%	172.0%	238,352	100.0%
Salary allowance	35,978	8.8%	187.9%	19,150	8.0%
Rent	13,536	3.3%	180.8%	7,485	3.1%
Commission paid	15,428	3.8%	239.6%	6,439	2.7%
Depreciation and amortization	6,210	1.5%	152.3%	4,078	1.7%
Others	30,480	7.4%	207.1%	14,716	6.2%
SG&A	101,632	40.2%	317.4%	51,868	21.8%

Forecast for fiscal June 2020

Consolidated (Millions of yen)	FY2020 forecast			FY2020 1H forecast	
	Plan	Share	YoY	Plan	Share
Net sales	1,650,000	100.0%	124.2%	830,000	100.0%
Gross profit	466,000	26.2%	125.8%	234,000	28.2%
SGA	400,000	24.2%	130.1%	200,000	24.1%
Operating profit	66,000	4.0%	104.6%	34,000	4.1%
Recurring profit	66,000	4.0%	96.7%	34,000	4.1%
Net profit	45,000	2.7%	93.3%	21,000	2.5%
EPS (Yen)	71.06	—	93.2%	33.16	—
Dividend per share	11.00	—	110.0%	2.50	—
Capital expenditure	40,000	—	80.1%	—	—
Depreciation	25,000	1.5%	124.9%	—	—

- All items in “Vision 2020” (medium-term goals for FY 2020 set in 2015) was accomplished one year before the target year.
- SSS forecasts for Don Quijote and UNY are both flat from a year ago.
- Capex is likely to be 40 billion yen with 20 plus organic new stores and 25 plus UNY conversion stores.