

Pan Pacific International Holdings Corporation

Q3 Results for FY 2019

Earnings Results
July 1, 2018 – March 31, 2019

May 8, 2019



Earnings summary

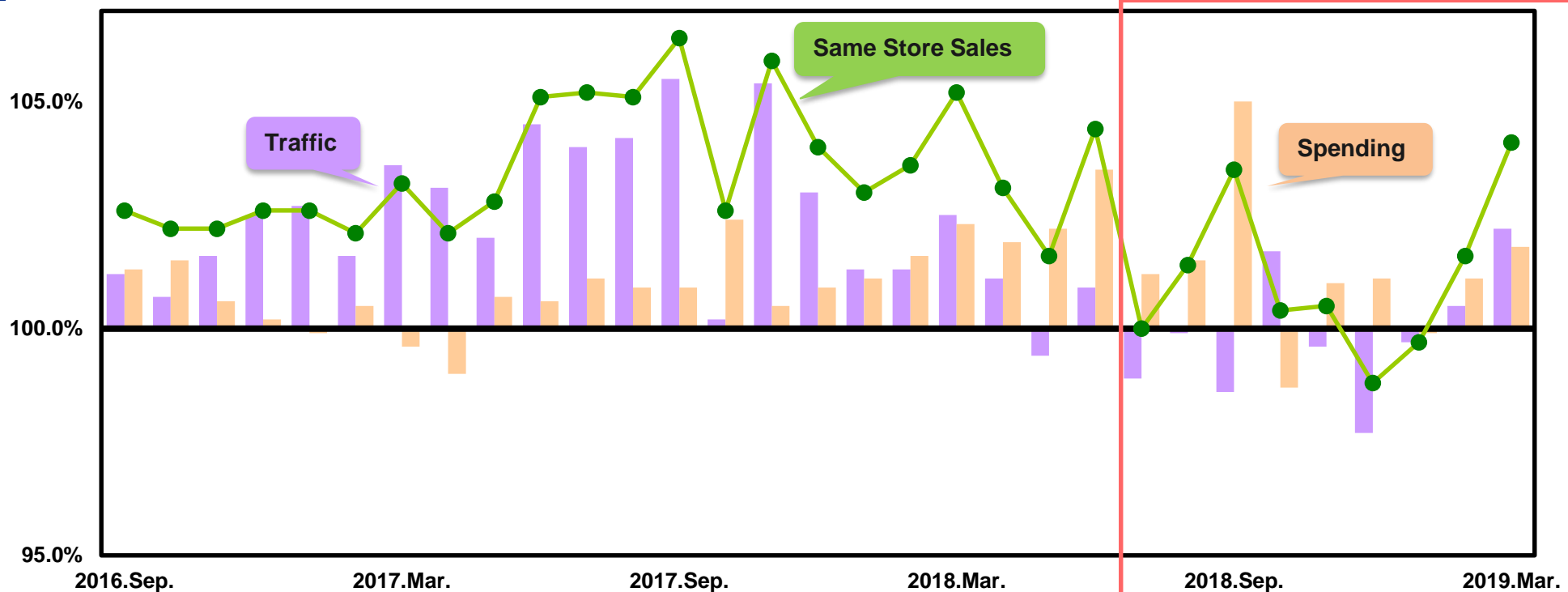
Consolidated (Millions of yen)	9 months to March 2019			9 months to March 2018	
	Actual	Share	YoY	Actual	Share
Net sales	918,990	100.0%	130.7%	703,156	100.0%
Gross profit	252,117	27.4%	139.6%	180,615	25.7%
SGA	205,785	22.4%	146.4%	140,555	20.0%
Operating profit	46,332	5.0%	115.7%	40,060	5.7%
Recurring profit	51,758	5.6%	119.1%	43,441	6.2%
Profit attributable to owners of parent	37,052	4.0%	136.4%	27,163	3.9%
EPS(Yen)	234.17	—	136.4%	171.71	-

- Consumption environment overall in Japan was stagnant. Some negative factors including rise in raw material price and bad weather affected our business, however, those were offset by strong necessities' sales. Tax-free sales grew by 21%yoy, hit the record high sales of 50 billion yen.

UNY Co., Ltd. newly came under the group's umbrella. 9.1 billion yen of negative goodwill was posted due to this consolidation. UNY conversion stores are turning around even in initial year. 100 stores will be converted within 5 years.

- Gross profit and margin went up sharply triggered by our accelerated sales growth.
- SG&A went up due in part to rise in commission paid. Initial cost for new store openings and cost related to the consolidation of UNY were the factors for increase in SG&A.
- Operating profit and net profit hit an all-time-high. Non-operating profit and loss in net was 5.4billion yen, extraordinary profit and loss in net was 1.6billion yen.

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



Existing stores	2017 Oct.	Nov.	Dec.	2018 Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	2019 Jan.	Feb.	Mar.
Sales (%)	102.6	105.9	104.0	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
Customer traffic (%)	100.2	105.4	103.0	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
Customer spending (%)	102.4	100.5	100.9	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
Existing store count	274	275	277	278	278	278	280	283	283	288	291	283	291	294	299	301	301	301

- DQ SSS went up 1.0% (0.2 pts decline for domestic sales and 1.2pts contribution from tax-free sales), traffic went down 0.2% and spending went up 1.2% for the first nine months in FY June 2019, beat the high bar of last year (4.5% growth yoy).
- A series of natural disasters and unusual high temperature affected the traffic and sales for seasonal items. Sales momentum for tax-free sales were the strongest ever before by attracting customers with cosmetics and pharmaceutical items.

Sales breakdown by product category

Consolidated (Millions of yen)	9 months to March 2019			9 months to March 2018	
	Actual	Share	YoY	Actual	Share
Home electrical appliances	61,886	6.7%	103.2%	59,970	8.5%
Miscellaneous household goods	172,163	18.7%	106.0%	162,482	23.1%
Foods	257,625	28.0%	110.7%	232,745	33.1%
Watches & fashion merchandise	121,893	13.3%	99.8%	122,153	17.4%
Sporting goods & leisure goods	42,570	4.6%	100.0%	42,549	6.1%
DIY goods	11,542	1.3%	96.8%	11,927	1.7%
Overseas	72,268	7.9%	173.1%	41,741	5.9%
Other products	16,502	1.8%	104.3%	15,826	2.2%
Total discount store business (Former Don Quijote HD stores)	756,449	82.3%	109.7%	689,393	98.0%
Clothings	17,445	1.9%	—	—	—
Household goods	19,370	2.1%	—	—	—
Foods	92,500	10.1%	—	—	—
Total GMS business (Former UNY group stores)	133,953	14.6%	—	—	—
Tenant leasing business	24,156	2.6%	186.0%	12,984	1.9%
Other business	4,432	0.5%	568.9%	779	0.1%
Total sales	918,990	100.0%	130.7%	703,156	100.0%

Sales breakdown by product category

Home electrical appliances	Seasonal items and wireless headsets were two biggest earners. POSA cards and gaming consoles became popular.
Miscellaneous household goods	Daily necessities such as detergents took the lead. Cosmetics and pharmaceutical items were robust due to strong tax-free sales.
Foods	Processed food such as noodles as well as snacks and drinks were strong. MEGA stores were affected by lower vegetable price than last year. Delis were good.
Watches & fashion merchandise	Though outer wear were soft, inner wear and casual outfit were enough to cover. Fashion items were good.
Sporting goods & leisure goods	Outdoor goods struggled, however, Japanese souvenir and bicycles were contributors.
DIY goods	Exterior goods were stagnant due to natural disasters. Tools and parts were stable.
Overseas	Fresh foods and Japanese delis were strong. (1USD=¥111.3, 1SGD=¥81.8)
Total discount store business (Former Don Quijote HD stores)	Stable domestic sales mainly daily necessities such as food, and accelerated tax-free sales made up strong discount store sales.
Clothing	Clearance sale promoted the sales for ladies outer wear and inner.
Household goods	Beddings and storage boxes were good. Sales for seasonal appliances and gaming consoles went up sharply.
Foods	Processed food such as snacks and daily delivered food were strong. Fruits and fries boosted foods sales.
Total GMS business (Former UNY group stores)	Weak foods sales due to lower vegetable price were offset by robust outer wear and household goods.

The number of stores

Breakdown by format

(stores)

	FY2017	FY2018	FY2019-Q1	FY2019-Q2	FY2019-Q3
Don Quijote	198	209	212	215	213
MEGA	40	43	43	43	43
New MEGA	72	80	81	83	87
MEGA DQ UNY (Conversion Store)	—	—	—	—	10
Apita / Piago	—	—	—	—	182
Picasso	21	23	26	26	26
Kyo-yasu-do	4	4	4	4	3
mini Piago	—	—	—	—	74
Doit	17	18	17	16	15
Nagasakiya	2	2	2	2	2
Total stores in Japan	354	379	385	389	655
Overseas	14	39	39	40	40
Global Total	368	418	424	429	695
Domestic opening	32	55	7	7	4
Domestic closure	5	5	1	2	10
Net increase	27	50	6	5	(6)

The number of stores

Breakdown by company

(stores)

	FY2017	FY2018	FY2019-Q1	FY2019-Q2	FY2019-Q3
Don Quijote Co., Ltd. (DQ, New MEGA and small format)	292	313	320	325	327
Nagasakiya Co., Ltd. (MEGA)	40	43	43	43	43
UD Retail Co., Ltd. (MEGA UNY; conversion store from UNY)	—	—	—	—	10
UNY Co., Ltd. (Apita, Piago)	—	—	—	—	182
Lirack Co., Ltd. (Kyo-yasu-do)	4	4	4	4	3
99 Ichiba Co., Ltd. (mini-piago)	—	—	—	—	74
Doit Co., Ltd. (Doit)	17	18	17	16	15
Daishin Co., Ltd. (MEGA Omori sanno)	1	1	1	1	1
Domestic Total	354	379	385	389	655
DQ USA (Stores in Hawaii)	3	4	4	3	3
MARUKAI (California)	11	9	9	11	11
QSI (Hawaii)	—	24	24	24	24
PPRM (Singapore)	—	2	2	2	2
Overseas Total	14	39	39	40	40
Global Total	368	418	424	429	695

Key components in SG&A

Consolidated (Millions of yen)	9 months to March 2019			9 months to March 2018	
	Actual	Share	YoY	Actual	Share
Net sales	918,990	100.0%	130.7%	703,156	100.0%
Salary allowance	75,506	8.2%	143.0%	52,791	7.5%
Rent	28,596	3.1%	137.2%	20,846	3.0%
Commission paid	28,344	3.1%	171.6%	16,517	2.3%
Depreciation and amortization	13,802	1.5%	128.5%	10,737	1.5%
Others	59,537	6.5%	150.1%	39,664	5.7%
SG&A	205,785	22.4%	146.4%	140,555	20.0%

- The consolidated SG&A went up by 46.4% 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.
- Without UNY, SG&A would have increased by 13.2%.
(Former Don Quijote Holdings posted its SG&A 159.1 billion yen. /SG&A as a percentage of sales : 20.8%)

Sales and profit by business

Sales, profit and loss by segment from Jul.1, 2018, to March.31, 2019

(Millions of yen)

Consolidated	Discount store	GMS	Tenant leasing	Others	Total	Adjusted	Consolidated
Sales to external customers	756,449	133,953	24,156	4,432	918,990	—	918,990
Internal sales or transfers between segments	2,304	214	1,086	1,337	4,941	(4,941)	—
Total	758,753	134,167	25,242	5,769	923,931	(4,941)	918,990
Segment profit	39,355	3,141	4,495	(768)	46,223	109	46,332

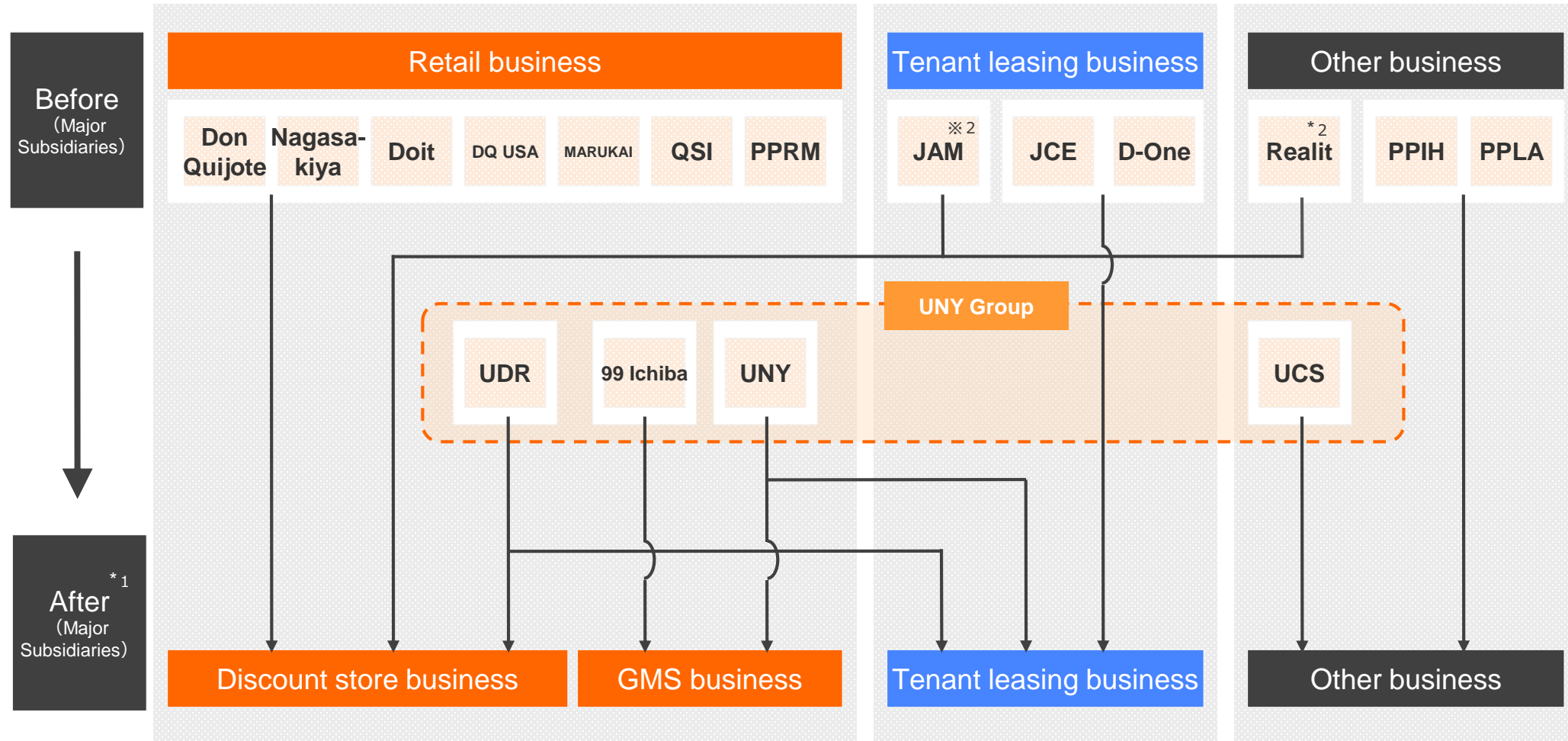
Sales, profit and loss by segment from Jul.1, 2017, to March.31, 2018

(Millions of yen)

Consolidated	Retail business	GMS	Tenant leasing	Others	Total	Adjusted	Consolidated
Sales to external customers	689,393	—	12,984	779	703,156	—	703,156
Internal sales or transfers between segments	1,901	—	1,025	—	2,926	(2,926)	—
Total	691,294	—	14,009	779	706,082	(2,926)	703,156
Segment profit	39,906	—	2,067	(1,916)	40,057	3	40,060

- Retail business is separated into “Discount store business” and “GMS (General Merchandize Store) business” from March quarter of 2019 because UNY and its subsidiaries came under PPIH (Pan Pacific International Holdings; former Don Quijote Holdings).

New segment category



* 1 . Disclosed business segments were changed from Q3 FYJune 2019 (March quarter). Former “Retail business” is divided into two after consolidating UNY. (“Discount store business”, and “GMS (General Merchandize Store) business”).

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

Balance Sheet

(Millions of yen)

Consolidated	As of March 31, 2019	Change from June 30, 2018
Total current assets	494,980	258,367
Cash and deposits	177,048	105,075
Installment account receivable	66,109	66,109
Merchandise	181,578	45,797
Total noncurrent assets	791,078	220,913
Total property, plan and equipment	611,354	263,441
Buildings	264,590	131,175
Land	317,547	128,681
Total intangible assets	37,220	8,973
Goodwill	17,457	(143)
Total investments and other assets	142,504	(51,501)
Lease and guarantee deposits	80,853	34,359
Total assets	1,286,058	479,280

(Millions of yen)

Consolidated	As of March 31, 2019	Change from June 30, 2018
Total current liabilities	343,398	171,512
Accounts payable	156,172	63,142
Short-term liabilities*	43,135	21,731
Total noncurrent liabilities	602,269	279,872
Long-term bonds	238,458	147,184
Long-term borrowings	271,101	70,433
Long-term payables under fluidity lease receivables	6,539	(5,565)
Total liabilities	945,667	451,384
Net assets	340,391	27,896
Total shareholders' equity	319,507	28,170
Non-controlling interests	19,962	(1,825)
Liabilities and net assets	1,286,058	479,280

* 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 (105.1 billion yen added), notes receivable and account receivable (7.6 bil yen), installment account receivable (66.1 bil yen/newly posted due to UNY consolidation), merchandise inventory (45.8 bil yen), tangible assets (263.4 bil yen) and intangible assets (9 bil yen). On the other hand, investment and other assets decreased by 51.5 billion yen.
- **Liabilities** : 398.8 billion yen of liability for UNY and its subsidiaries were consolidated. Total liabilities went up 451.4 billion yen mostly came from UNY.

Cash flows and Capital expenditure

(Millions of yen)

Consolidated Cash Flows	9 months to March 2019	9 months to March 2018	Change
Cash and equivalents at beginning of period	75,883	78,094	(2,211)
Cash flows from operating activities	93,087	25,891	67,196
Cash flows from investing activities	(35,992)	(144,716)	108,724
Cash flows from financing activities	56,476	119,596	(63,120)
Net increase (decrease) in cash and equivalents	114,086	375	113,711
Cash and equivalents at end of period	189,969	78,469	111,500

(Millions of yen)

Consolidated Capital Expenditures	9 months to March 2019	9 months to March 2018	Change
Capital expenditures	37,200	34,538	2,662
Cash flows*	57,783	34,054	23,729
Net increase (decrease)	20,583	(484)	21,067

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

- Cash flow from operating activities was 93.1 billion yen positive. Positive factors : 50.0 billion yen of income before income taxes, 16.5 billion yen of depreciation and amortization and 61.0 billion yen of decrease in installment account receivable.
Negative factors : 9.1 billion yen of negative goodwill, 5.9 billion yen of investment gain from equity affiliates, 7.6 billion yen increase in inventory and 23.2 billion yen for corporate tax payment.
- Cash flow from financing activities was 56.5 billion yen positive. 165.6 billion yen of net increase in long-term bonds, 92.4 billion yen of net decrease of long-term loans and 5.9 billion yen of dividend payment were major factors.
- Capex was 37.2 billion yen. (DQ:13.8 bil, Nagasakiya:2 bil, UDR:500 mil JAM: 9.9bil). Free cash flow was 20.6 billion yen positive.

Earnings summary for Q3

Consolidated (Millions of yen)	3 months to March 2019			3 months to March 2018	
	Actual	Share	YoY	Actual	Share
Net sales	405,575	100.0%	168.8%	240,326	100.0%
Gross profit	116,506	28.7%	192.8%	60,439	25.1%
SGA	100,191	24.7%	201.9%	49,626	20.6%
Operating profit	16,316	4.0%	150.9%	10,813	4.5%
Recurring profit	16,428	4.1%	132.7%	12,383	5.2%
Profit attributable to owners of parent	13,436	3.3%	158.4%	8,485	3.5%
EPS(Yen)	84.90	-	158.3%	53.64	-

Sales breakdown by product category for Q3

Consolidated (Millions of yen)	3 months to March 2019			3 months to March 2018	
	Actual	Share	YoY	Actual	Share
Home electrical appliances	20,597	5.1%	103.2%	19,959	8.3%
Miscellaneous household goods	57,201	14.1%	105.8%	54,074	22.5%
Foods	89,682	22.1%	113.3%	79,188	33.0%
Watches & fashion merchandise	37,987	9.4%	99.1%	38,316	15.9%
Sporting goods & leisure goods	11,700	2.9%	102.0%	11,470	4.8%
DIY goods	3,646	0.9%	97.0%	3,760	1.5%
Overseas	27,013	6.7%	113.4%	23,814	9.9%
Other products	10,473	2.6%	104.5%	10,021	4.2%
Total discount store business (Former Don Quijote HD stores)	258,299	63.7%	107.4%	240,602	100.1%
Clothings	17,445	4.3%	—	—	—
Household goods	19,370	4.8%	—	—	—
Foods	92,500	22.8%	—	—	—
Total GMS business (Former UNY group stores)	133,953	33.0%	—	—	—
Tenant leasing business	12,799	3.2%	557.2%	2,298	1.0%
Other business	524	0.1%	—	(2,574)	(1.1)%
Total sales	405,575	100.0%	168.8%	240,326	100.0%

Key components in SG&A for Q3

Consolidated (Millions of yen)	3 months to March 2019			3 months to March 2018	
	Actual	Share	YoY	Actual	Share
Net sales	405,575	100.0%	168.8%	240,326	100.0%
Salary allowance	35,901	8.9%	191.4%	18,760	7.8%
Rent	13,453	3.3%	180.7%	7,443	3.1%
Commission paid	15,565	3.8%	290.8%	5,352	2.2%
Depreciation and amortization	6,193	1.5%	159.0%	3,896	1.6%
Others	29,079	7.2%	205.1%	14,175	5.9%
SG&A	100,191	24.7%	201.9%	49,626	20.6%

Forecast for fiscal June 2019

Consolidated (Millions of yen)	FY2019 Revised Forecast			FY2019 previously announced forecast	
	Plan	Share	YoY	Plan	Share
Net sales	1,330,000	100.0%	141.3%	1,370,000	100.0%
Gross profit	370,000	27.8%	151.6%	360,000	26.3%
SGA	307,000	23.1%	159.5%	297,000	21.7%
Operating profit	63,000	4.7%	122.2%	63,000	4.6%
Recurring profit	67,000	5.0%	117.1%	65,000	4.7%
Net profit	48,000	3.6%	131.9%	48,000	3.5%
EPS (Yen)	303.25	—	131.8%	303.31	—
Dividend per share	38.00	—	118.8%	38.00	—
Capital expenditure	48,000	3.6%	85.6%	48,000	3.5%
Depreciation	20,800	1.6%	140.4%	21,000	1.5%

- The progress of “Vision 2020” (goals to achieve by FY 2020 set in 2015) is as follows.
Sales : 1 trillion yen (133% achieved), Store count : 500 (140% achieved) and ROE: 15.0% (Q3 ROE was 16.4%)
- Don Quijote SSS forecast : flat for Q4 and +0.8% for full year. (SSS results for the first nine months : 1.0% growth)
- Capex is likely to be 48 billion yen with 26 organic new stores and 10 UNY conversion stores.