

Pan Pacific International Holdings Corporation

1H Results for FY 2019

Earnings Results
July 1, 2018 – December 31, 2018

February 5, 2019

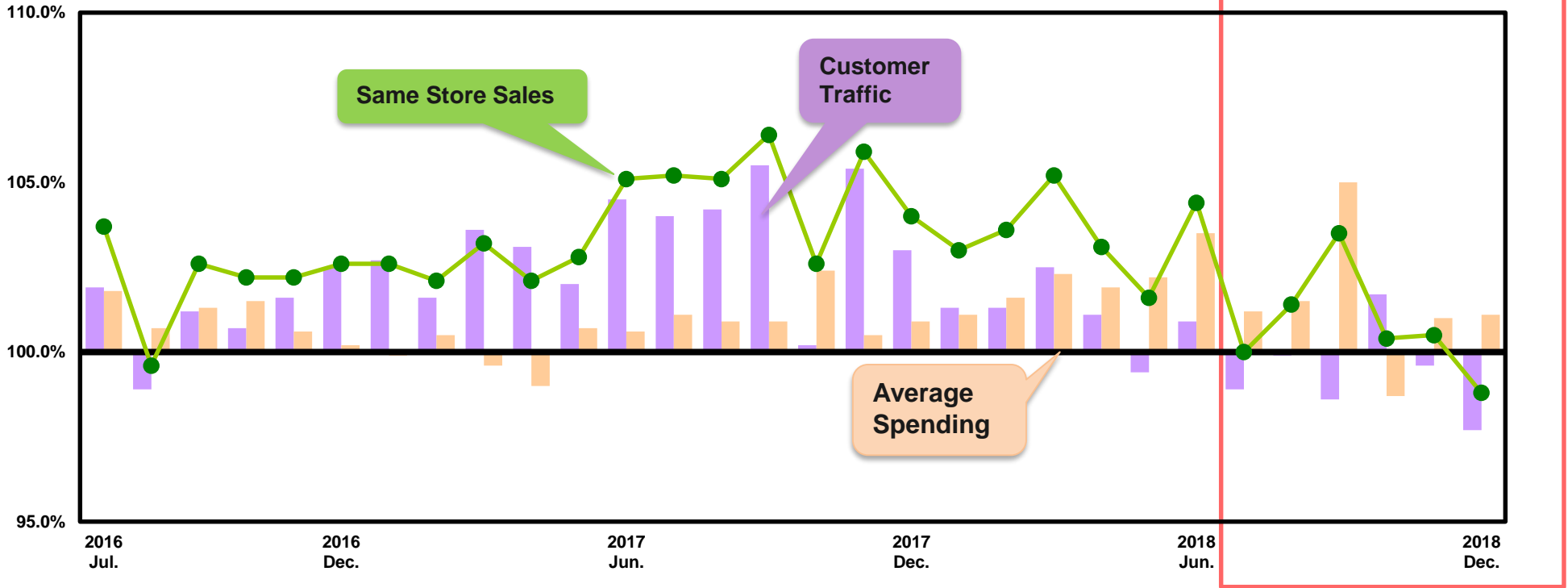


Earnings summary

Consolidated (Millions of yen)	6 months to December 2018			6 months to December 2017	
	Actual	Share	YoY	Actual	Share
Net sales	513,416	100.0%	110.9%	462,830	100.0%
Gross profit	135,611	26.4%	112.8%	120,176	26.0%
SGA	105,594	20.6%	116.1%	90,929	19.6%
Operating profit	30,017	5.8%	102.6%	29,247	6.3%
Recurring profit	35,330	6.9%	113.8%	31,058	6.7%
Profit attributable to owners of parent	23,616	4.6%	126.4%	18,678	4.0%
EPS(Yen)	149.27	—	126.4%	118.08	-

- Consolidated and same store sales went up 10.9% and 0.6% YoY respectively. Natural disasters and unusual temperature gave a negative impact on seasonal items. Daily necessities took the lead for domestic consumption. Tax-free sales went up 27%, maintaining very strong momentum, and beat last year's sales for 51 consecutive months.
- GPM went up 40 basis points. Gross profit and margin increased thanks to our finely-tuned pricing strategy against peers.
- SG&A went up 90 basis points. Upfront investment related to new store openings required more personnel cost, rent, utility and repair expense. One-off cost to deal with natural disasters was added 1H SG&A.
- Operating profit and net profit went up 2.6% and 13.8% respectively, which were more-than-expected figures and hit an all time high for 1H results.

Same-store sales



Existing stores	2017 Oct.	Nov.	Dec.	2018 Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
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
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
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
Existing store count	274	275	277	278	278	278	280	283	283	288	291	283	291	294	299

- DQ SSS went up 0.6% (▲0.8pts from domestic sales and 1.4pts from tax-free sales), traffic ▲0.7% and spending +1.3% for 1H FY June 2019.
- A series of natural disasters and unusual high temperature gave a negative impact on the seasonal items. Sales momentum for tax-free sales were very strong, and daily necessities took the lead for stable domestic consumption.

Sales breakdown by product category

Consolidated (Millions of yen)	6 months to December 2018			6 months to December 2017	
	Actual	Share	YoY	Actual	Share
Home electrical appliances	41,290	8.0%	103.2%	40,010	8.6%
Miscellaneous household goods	114,961	22.4%	106.0%	108,408	23.4%
Foods	167,943	32.7%	109.4%	153,557	33.2%
Watches & fashion merchandise	83,906	16.3%	100.1%	83,838	18.1%
Sporting goods & leisure goods	30,870	6.0%	99.3%	31,079	6.7%
Other products	59,180	11.5%	185.5%	31,899	6.9%
Total retail store business	498,150	97.0%	111.0%	448,791	97.0%
Rent income	11,357	2.2%	106.3%	10,686	2.3%
Other business	3,909	0.8%	116.6%	3,353	0.7%
Total	513,416	100.0%	110.9%	462,830	100.0%

- Home appliances** : Wireless headsets achieved high growth rate. Smartphone items and gaming consoles were strong.
- Household goods** : Daily consumables such as kitchen and bath goods were robust. Cosmetics and drugs grew rapidly.
- Foods** : Processed food and daily delivered food were the two biggest earners. MEGA stores enjoyed deli sales well.
- Watches & Fashion** : E-cigarettes and related items were good. Outerwear was decelerated due to high temperature. Sporting and rain wear went well.
- Sports & Leisure** : Outdoor goods were soft because of bad weather. Car items and toys were contributors.

The number of stores

(Number of stores)	FY2017	FY2018	FY2019-1Q	FY2019-2Q
Don Quijote	198	209	212	215
MEGA	40	43	43	43
New MEGA	72	80	81	83
Others	44	47	49	48
Total stores in Japan	354	379	385	389
Overseas	14	39	39	40
Global Total	368	418	424	429
Domestic opening	32	55	7	7
Domestic closure	5	5	1	2
Net increase	27	50	6	5

- 14 new stores were opened in 1H : 7 Don Quijote, 3 MEGA, 3 New MEGA, 3 small format stores in Japan.
1 overseas stores in California opened under the name of Tokyo Central format.
- 3 stores were closed due to slow performance.

Key components in SG&A

Consolidated (Millions of yen)	6 months to Dec. 2018			6 months to Dec. 2017	
	Actual	Share	YoY	Actual	Share
Net sales	513,416	100.0%	110.9%	462,830	100.0%
Salary allowance	39,605	7.7%	116.4%	34,031	7.4%
Rent	15,142	2.9%	113.0%	13,402	2.9%
Commission paid	12,779	2.5%	114.4%	11,166	2.4%
Depreciation and amortization	7,609	1.5%	111.2%	6,841	1.5%
Others	30,458	5.9%	119.5%	25,489	5.5%
SG&A	105,594	20.6%	116.1%	90,929	19.6%

- SG&A expenses as a percent of sales increased 90 basis points. Upfront cost related to new store openings is the major reason for the increase of SG&A. Personnel cost, rent, utility, repair expense, and amortization of goodwill are main items for increase in cost.
- SG&A increased by 16.1% year-over-year. Extraordinary cost was incurred to deal with natural disasters.

Sales and profit by business

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

(Millions of yen)

Consolidated	Retail store	Rent income	Others	Total	Adjusted amount	Consolidated
Sales to external customers	498,150	11,357	3,909	513,416	-	513,416
Internal sales or transfers between segments	340	11,660	4,584	16,584	(16,584)	-
Total	498,490	23,017	8,493	530,000	(16,584)	513,416
Segment profit	16,959	9,166	3,715	29,840	177	30,017

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

(Millions of yen)

Consolidated	Retail store	Rent income	Others	Total	Adjusted amount	Consolidated
Sales to external customers	448,791	10,686	3,353	462,830	-	462,830
Internal sales or transfers between segments	427	10,637	4,522	15,586	(15,586)	-
Total	449,218	21,323	7,875	478,416	(15,586)	462,830
Segment profit	17,495	8,834	2,858	29,187	60	29,247

- Profit in the retail business was 17.0 billion yen which is our mainstay.
- Profit in the tenant leasing business was 9.2 billion yen.
- Profit in other business was 3.7 billion yen.

Sales, profit and asset by subsidiaries

Sales, profit and asset by subsidiaries from Jul.1, 2018, to Dec.31, 2018

(Millions of yen)

Consolidated	Don Quijote 1)	Doit	Nagasakiya 2)	Overseas 3)	JAM 4)	Consolidated
Net sales	356,470	8,181	95,168	46,171	10,915	513,416
Operating profit	15,447	(108)	3,354	1,342	4,368	30,017
Total asset	303,910	22,911	88,073	79,367	180,948	1,039,902
Net asset	137,946	19,319	52,255	53,254	107,453	326,798

PL/1USD=¥110.7 1SGD=¥81.9

BS/1USD=¥113.7 1SGD=¥83.0

Sales, profit and asset by subsidiaries from Jul.1, 2017, to Dec.31, 2017

(Millions of yen)

Consolidated	Don Quijote 1)	Doit	Nagasakiya 2)	Overseas 3)	JAM 4)	Consolidated
Net sales	339,466	8,524	89,890	18,161	9,483	462,830
Operating profit	16,619	199	3,211	391	3,764	29,247
Total asset	273,296	23,106	88,814	32,202	171,324	782,137
Net asset	125,931	19,518	49,822	20,861	101,501	296,897

1) Don Quijote runs retail business.

2) Nagasakiya shows retail business only.

3) Overseas includes DQ USA , MARUKAI, QSI and PPRM.

4) PL on JAM shows its results from July1,2018 to December 31, 2018. BS is as of December 31,2018.

PL/1USD=¥111.3

BS/1USD=¥112.7

- Strong performance at subsidiaries contributed to overall group results.

Balance Sheet

Consolidated	(Millions of yen)		Consolidated	(Millions of yen)	
	As of Dec 31, 2018	Change from June 30, 2018		As of Dec 31, 2018	Change from June 30, 2018
Total current assets	452,956	216,343	Total current liabilities	202,568	30,682
Cash and deposits	258,494	186,521	Accounts payable	119,600	26,570
Merchandise	153,150	17,369	Short-term liabilities*	31,518	10,114
Total noncurrent assets	586,946	16,781	Total noncurrent liabilities	510,536	188,139
Total property, plan and equipment	365,675	17,762	Long-term bonds	229,566	138,292
Buildings	148,432	15,017	Long-term borrowings	252,506	51,838
Land	194,200	5,334	Long-term payables under fluidity lease receivables	8,369	(3,735)
Total intangible assets	29,180	933	Total liabilities	713,104	218,821
Goodwill	18,065	465	Net assets	326,798	14,303
Total investments and other assets	192,091	(1,914)	Total shareholders' equity	305,381	14,044
Lease and guarantee deposits	48,220	1,726	Non-controlling interests	19,506	(2,281)
Total assets	1,039,902	233,124	Liabilities and net assets	1,039,902	233,124

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

- Cash & deposits : Cash position was heightened due to subordinated loan and debt financing to acquire the remaining UNY stake to fully consolidate.
- Merchandise : We added 17.4 billion yen.
- Payables associated with the liquidation of receivables : 15.6 billion yen.

Cash flows and Capital expenditure

(Millions of yen)

Consolidated Cash Flows	6 months to Dec. 2018	6 months to Dec. 2017	Change
Cash and equivalents at beginning of period	75,883	78,094	(2,211)
Cash flows from operating activities	33,238	31,758	1,480
Cash flows from investing activities	(24,481)	(133,932)	109,451
Cash flows from financing activities	185,067	84,580	100,487
Net increase (decrease) in cash and equivalents	194,692	(17,059)	211,751
Cash and equivalents at end of period	270,575	61,035	209,540

(Millions of yen)

Consolidated Capital Expenditures	6 months to Dec. 2018	6 months to Dec. 2017	Change
Capital expenditures	28,757	19,844	8,913
Cash flows*	27,798	22,420	5,378
Net increase (decrease)	(959)	2,577	(3,536)

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

- Cash flow from operating activities was 33.2 billion yen positive. Positive factors :350 billion yen of income before income taxes, 9.2 billion yen of depreciation and amortization. Negative factors : 17 billion yen increase in inventory and 11.3 billion yen for corporate tax payment.
- Cash flow from financing activities was 185.1 billion yen positive mainly due to 61.3 billion yen of net increase of long-term loans,136.9 billion yen of net increase in bond, 4.3 billion yen of dividend payment.
- Capex was 28.8 billion yen. (DQ: 11.6 bil, Nagasakiya: 1.5 bil, JAM: 8.6bil). Free cash flow was 1 billion yen negative.

Earnings summary for Q2

Consolidated (Millions of yen)	3 months to Dec. 2018			3 months to Dec. 2017	
	Actual	Share	YoY	Actual	Share
Net sales	263,336	100.0%	110.0%	239,397	100.0%
Gross profit	68,879	26.2%	113.1%	60,908	25.4%
SGA	53,365	20.3%	116.1%	45,961	19.2%
Operating profit	15,514	5.9%	103.8%	14,947	6.2%
Recurring profit	17,413	6.6%	103.9%	16,757	7.0%
Profit attributable to owners of parent	11,970	4.5%	117.2%	10,212	4.3%
EPS(Yen)	75.66	-	117.2%	64.56	-

Sales breakdown by product category for Q2

Consolidated (Millions of yen)	3 months to Dec. 2018			3 months to Dec. 2017	
	Actual	Share	YoY	Actual	Share
Home electrical appliances	21,885	8.3%	101.4%	21,592	9.0%
Miscellaneous household goods	57,729	21.9%	104.9%	55,052	23.0%
Foods	86,800	33.0%	108.1%	80,326	33.6%
Watches & fashion merchandise	42,415	16.1%	96.9%	43,787	18.3%
Sporting goods & leisure goods	15,050	5.7%	98.5%	15,276	6.4%
Other products	31,567	12.0%	194.1%	16,260	6.8%
Total retail store business	255,447	97.0%	110.0%	232,293	97.0%
Rent income	5,878	2.2%	107.8%	5,454	2.3%
Other business	2,012	0.8%	121.9%	1,650	0.7%
Total	263,336	100.0%	110.0%	239,397	100.0%

Key components in SG&A for Q2

Consolidated (Millions of yen)	3 months to Dec. 2018			3 months to Dec. 2017	
	Actual	Share	YoY	Actual	Share
Net sales	263,336	100.0%	110.0%	239,397	100.0%
Salary allowance	20,180	7.7%	116.6%	17,313	7.2%
Rent	7,689	2.9%	113.1%	6,800	2.8%
Commission paid	6,746	2.6%	121.0%	5,573	2.3%
Depreciation and amortization	3,940	1.5%	116.5%	3,382	1.4%
Others	14,810	5.6%	115.9%	12,777	5.3%
SG&A	53,365	20.3%	116.1%	45,961	19.2%

Forecast for fiscal June 2019

Consolidated (Millions of yen)	FY2019 Revised Forecast			FY2019 Initial Forecast	
	Plan	Share	YoY	Plan	Share
Net sales	1,370,000	100.0%	145.5%	1,000,000	100.0%
Gross profit	360,000	26.3%	147.5%	260,000	26.0%
SGA	297,000	21.7%	154.3%	207,000	20.7%
Operating profit	63,000	4.6%	122.2%	53,000	5.3%
Recurring profit	65,000	4.7%	113.6%	58,000	5.8%
Net profit	48,000	3.5%	131.9%	37,000	3.7%
EPS (Yen)	303.31	—	131.8%	233.90	—
Capital expenditure	48,000	3.5%	85.6%	40,000	4.0%
Depreciation	21,000	1.5%	141.7%	15,500	1.6%

- Full year forecast : Sales 1 trillion 370 billion yen, OP :63 billion yen, RP : 65 billion yen, NP : 48 billion.
Medium term target "Vision 2020" is likely to be achieved one year ahead of schedule. Full year guidance is up revised and included the consolidation of UNY.
- Don Quijote SSS forecast : DQ SSS forecast :+0.6% in 1H flat in 2H and +0.3% for full year.