Isetan Mitsukoshi Holdings Ltd.

Web financial results explanation meeting for the 2Q of fiscal year ending March 2025

Summary of Q&A

Date: Wednesday, November 13, 2024, 5:00PM-6:30PM

Q: How do you see sales in the department store business in the short term?

A: Regarding duty-free sales, there was a sense that sales slowed down somewhat in August and September due to the earthquake, typhoons, and exchange rates. Meanwhile, duty-free sales recovered to 13 billion yen in October, compared to approximately 10 billion yen in September. However, the monthly duty-free sales until July of about 16 billion yen seemed a little too high.

Suppose our strategy of an app for overseas customers is introduced in the future and they become established as app members. In that case, we believe the sales will remain higher than the trend in the retail industry as a whole.

Sales to domestic customers have stabilized by identification of domestic customers, but we think there is a possibility that sales may be affected by weather and other conditions.

Q: You will aggressively increase sales to identified customers in the next medium-term management plan, but does this include the effects of app for overseas customers? On the other hand, couldn't we expect an increase in sales to customers who purchase more than 3 million yen per year?

A: We expect duty-free sales in the urban community development preparation phase I from 2025 to 2027 to grow at a rate of 7-8%, based on the government's forecast of an increase in the number of foreign visitors to Japan and other forecasts. It also assumes sales to domestic customers to increase about 1%. For customers who purchase more than 3 million yen per year, a reliable level is set as a KPI to which we can commit ourselves.

Q: What is your human capital strategy? As competition for human resources intensifies, what specific measures will be taken to strengthen human resources on two horizontal axes: "human resources responsible for group management" and "human resources supporting management and business infrastructure," and on one vertical axis: "human resources responsible for business growth?" There will be a shift in employee awareness, but do you consider hiring from outside the company?

A: We are thinking in the direction of enhancing human resources both horizontally and vertically.

It makes sense for our strategy to have personnel with a good understanding of the department store business work in the real estate and financial businesses, and currently about 20 people are on secondment to outside companies, mainly in the real estate area. Meanwhile, mid-career hiring

will also be actively considered. Examples include interior works, design, and systems.
Both of these programs will nurture people with a spirit of hospitality.
On the other hand, we do not intend to increase the total number of personnel for the entire group.

Q: I have a question regarding the concept of tax-free sales for this term. The full-year plan for this fiscal year calls for monthly sales of 15.8 billion yen from November through March 2025, but this plan seems bullish. Do you also anticipate the effects of introducing app for overseas customers?

A: We do not expect any effect in this fiscal year, as the app for overseas customers is scheduled to be introduced at the end of this fiscal year. Before COVID-19, duty-free sales were low in August, September, and November and high in October, December, and February.
We have not changed our annual sales plan, based on this trend. If the sales are lower than the planned level, it will be handled by controlling expenses. In the future, we expect the introduction of app for overseas customers and identification through app to be effective, and we would like to bring in customers with high purchasing power in our out-of-store-sales efforts overseas.

Q: Do you see a higher growth in sales to domestic customers in the second half than in the actual first half of this fiscal year on a non-consolidated basis?
Also, is the 1% growth in sales to domestic customers expected in this year's medium-term management plan higher for Isetan Mitsukoshi Ltd. on a non-consolidated basis?

A: October saw a slight slowdown in sales to domestic customers due to factors such as high temperatures and one less Sunday, but the numbers improved in November. The effects of the recently remodeled openings of the Isetan Shinjuku main store and the Mitsukoshi Ginza store for luxury brands are also factored in. Until FY2023, sales to Japanese customers stood considerably higher in the second half than in the first half of the year. Although sales appear somewhat slower in the second half year-on-year, compared to the pre-COVID-19 level, the growth rate in October was the same as in July, maintaining a double-digit or higher growth rate, and we do not consider it to be that weak.
In addition, the current medium-term management plan is formulated on an accumulative basis, so it is not uniform throughout the company. Isetan Mitsukoshi alone expects sales to domestic customers to increase slightly more than 1% over the previous year.

Q: I have a question about capital allocation. How do you plan to balance dividend payments of at least 70% of total return and share buybacks in FY2025 and beyond? Also, will the dividend payout ratio be lowered under the urban community development preparation phase II?

A: We will determine the balance between dividends and share buybacks in consideration of the situation in markets at the time. Dividends are paid progressively, so the actual amount will not go down.

Q: Regarding the financial business, is there much room for growth since it has been difficult to expand in the past?

A: We are considering financial business strategies in two directions. One is to issue special cards for wealthy customers to better connect with individual customers.
The other is to attract casual users. We will strengthen the acquisition of casual users by taking into consideration how to promote MICARD holding and familiarize various services to approximately 5 million identified customers who currently do not have the cards. In addition, for the more than 2 million customers who already have MICARD, the company will provide services in the new financial domain in addition to the existing card domain.

Q: The next medium-term management plan calls for the utilization of group assets in domestic-related businesses. Could you elaborate more on this point?

A: As Studio Alta's retail media business and "Food & Beverage" initiatives are strengthened in the future, IM Food Style and Century Trading Company will be the key to the effective utilization of group assets. In terms of human resource utilization, Isetan Mitsukoshi Human Solutions has the potential for growth in the utilization of Group assets, both within and outside the Isetan Mitsukoshi Group.

Q: What is the concept of appropriate capital adequacy?

A: Although the amount of future capital adequacy itself is not stated in this report, from the perspective of a balance sheet aiming for a stable ROE of 10%, we believe that approximately 600 billion yen in the short term and 700 billion yen in FY2030 are appropriate levels of capital adequacy.

Q: Am I correct in assuming that SG&A expenses will definitely be under control this fiscal year? Looking ahead in the medium term, it appears that SG&A expenses will increase. Could you elaborate more on this point?

A: SG&A expenses for the second half of this fiscal year have been formulated with some leeway. In terms of SG&A expenses as a percentage of total sales, taking into account the application of the revenue recognition standard, they were around 25% before COVID-19, but in light of recent performance, they have been kept in the 20% range. In the medium term, total SG&A expenses will remain at the same level as in the term under review. On the other hand, the company also takes into account measures to be taken, future inflation, and other conditions to ensure that each expense line item within SG&A expenses is well balanced.

Q: The target of 85 billion yen in operating income for FY2027 appears to be low from the perspective of the current fiscal year's record. Could you elaborate more on this point?

A: We believe that operating income will fluctuate greatly depending on how effective the apps for overseas customers is.

The operating income figures announced this time do not reflect the current trend of steady identification of domestic customers, although the KPI is set at a certain firm level while also taking into account the external environment.

We expect the strategy to be successful and operating income to rise.

Q: Operating income in the urban community development preparation phase I under the next medium-term management plan appears to be conservative. Is this because department stores are susceptible to macroeconomic effects?

A: The growth rate of operating income is calculated using domestic growth forecasts announced by the government and forecasts of foreign visitors to Japan. If the effects of our mass-to-individual strategy and new apps for overseas customers were read into the calculations as they are, operating income would be much higher, but the figures are given as KPIs to be committed to in the external disclosure.

Q: Until now, extraordinary income and losses have had a significant impact, but starting with the next medium-term management plan, the tax rate will be leveled out as well. On the other hand, since equity method income also increases, am I correct in understanding that the actual amount of net income/loss is not due to tax effects, etc.? Is it safe to assume that the ROE will be in the double digits in itself?

A: Exactly. The tax rate will be closer to 30% in the future. The company will aim for ROE of 10% or more, excluding special credits.

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