Isetan Mitsukoshi Holdings Ltd.

Business Results Explanation Meeting
2Q of Fiscal Year Ending March 2017

November 8, 2016 (Tuesday)

Management Agenda

Ⅰ. Sales/profit structure dependent on department stores

⇒ Further monetize flagship stores, and realize business structure innovation of branches and regional stores

(To be implemented in 2017/2018)

⇒ Focus on growth business with potential marketability to establish a pillar for our future business

(Contribution to earnings in 2017-20)

Ⅱ. Due to high LCC costs for branches and regional stores, investment in future growth declined

⇒ Identify unprofitable stores based on certain criteria to carry out in-depth structural innovation

(To be implemented in 2017/2018)

Ⅲ. Increase in SG&A including personnel costs in preparation for the expansion of growth business

⇒ Execute reforms including reduction in personnel costs to appropriate levels and redress the direct to indirect ratio

(Contribution to earnings in 2017-20)

Assessment of Strategy Up to 2016 and Future Directions

Ⅰ. Structural Innovation for Department Stores

- **Enhance profitability**
  - → Realize SCM innovation that leads to achievement
    - : further enhance purchasing structure innovation
  - → Drive forward improvement in cost structure to establish ideal earnings structure

  → **Speed up**

- **Restrengthening of stores in Tokyo area which are our strengths**

  → **Speed up**

- **Innovate business structure of branches/regional stores that do not dwell on the format of a department store business**

  → **CHANGE**

Ⅱ. Transformation of corporate business portfolio

- **Establish pillar businesses by undertaking new businesses**
  - → Operation starts in FY2017, performance will be reflected in business results by FY2020

  → **Early stage materialization**

AGENDA

1. Results for the First Half of the Fiscal Year Ending March 2017
2. Full Year Targets
3. Medium- to Long-term Plan

【Consolidated Results/Target Outline】

Operating Income Results for the First Half

First half target (May IR)	14.0bn
Decrease in sales: 94.8% YoY	-12.0bn
▼	
Additional cost – cutting policies	+4.0bn
▼	
	6.1bn

Operating Income Target for the Full Year

Annual target (May IR)	37.0bn
Decrease in sales: 97.1% YoY	-23.0bn
▼	
Additional cost-cutting policies	+10.0bn
▼	
	24.0bn

Difference from Target

Decrease in sales: decrease in sales in domestic department stores -46.6 × Margin 27.10%	-12.6bn
Margin not achieved: Sales ¥492.4bn × Margin for domestic department stores -0.56%	-2.8bn
Decrease in sales-linked expenses/others	+3.3bn

Decrease in sales : decrease in sales in domestic department stores -98.6 × Margin 27.32%	-26.9bn
Margin not achieved: sales ¥1,069.6bn × Margin for domestic department sores -0.31%	-3.3bn
Decrease in sales-linked expenses/others	+7.3bn

1. Results for the First Half of the Fiscal Year Ending March 2017

(1) Consolidated Results

(Billions of yen)	FY2016 First Half	YoY Difference	Point Impact Excluded	Real Diff. Excluding Point Impact	May 2016 Target	Difference from Target
Net Sales	**582.1**	-31.6	**571.4**	-42.3	**635.0**	-52.8
Gross Profit	**171.4**	-1.5	**160.7**	-12.2	**189.0**	-17.5
SG&A	**165.3**	+6.8	**154.6**	-3.9	**175.0**	-9.6
Operating Income	**6.1**	-8.3	**6.1**	-8.3	**14.0**	-7.9
Recurring Income	**7.5**	-9.2	**-**	-	**14.0**	-6.4
Net Income	**8.3**	-2.5	**-**	-	**9.0**	-0.6

（2）Non-Consolidated (Isetan Mitsukoshi) Results

(Billions of yen)	FY2016 First Half	YoY Difference	Point Impact Excluded	Real Diff. Excluding Point Impact	May 2016 Target	Difference from Target
Net Sales	**304.2**	-15.9	**298.9**	-21.2	**337.7**	-33.4
Gross Profit Margin	**28.42%**	+1.03%			**29.11%**	-0.69%
Gross Operating Income	**93.1**	-0.3	**87.8**	-5.6	**105.1**	-12.0
SG&A	**89.0**	+6.9	**83.7**	+1.6	**94.4**	-5.4
Operating Income	**4.0**	-7.3	**4.0**	-7.3	**10.7**	-6.6
Recurring Income	**6.7**	-7.5	**-**	-	**12.0**	-5.2
Net Income	**3.7**	-6.2	**-**	-	**8.0**	-4.3

（3）Sales/Earnings Results by Segment

(Billions of yen)	Net Sales	YoY Change	YoY Difference	Operating Income	YoY Difference
Department Store Business	**532.3**	-5.9%	-33.1	**-0.4**	-9.4
Credit & Finance Business/ Customer Organization Management Business	**18.3**	+3.9%	+0.6	**3.0**	±0
Other Retail & Specialty Store Business	**26.6**	-1.7%	-0.4	**-0.8**	±0
Real Estate & Other Business /Adjustments	**4.8**	-	+1.2	**4.3**	+1.1

（4）Sales/Earnings Results for Department Store Business

(Billions of yen)	Net Sales	YoY Change	YoY Difference	Operating Income	YoY Difference
Isetan Mitsukoshi	**304.2**	-5.0%	-15.9	**4.0**	-7.3
Department Stores in Domestic Regions	**188.1**	-3.2%	-6.3	**-2.2**	-1.7
Overseas Department Stores	**34.5**	-25.1%	-11.6	**-0.1**	-0.1
Other	**5.3**	–	+0.7	**-2.1**	-0.2

（5）Department Store Business: Sales Analysis
① By store/product category

■ By store

(Billions of yen)	Net Sales				
	First Half Results	YoY Change	YoY Difference	Change from Target (%)	Difference from Target
Total in Tokyo Area	304.2	95.0%	-15.9	90.1%	-33.4
Total of 3 flagship stores	205.9	94.6%	-11.8	88.7%	-26.3
Shinjuku Main Store	108.1	94.9%	-5.8	88.0%	-14.6
Nihombashi Main Store	60.1	95.8%	-2.6	91.5%	-5.5
Ginza Store	37.6	91.8%	-3.3	86.2%	-6.0
Branch Total	74.3	92.7%	-5.8	91.0%	-7.3
Regional Company Total	188.1	96.8%	-6.3	93.6%	-12.9

■ By product category
(Isetan Mitsukoshi Total)

	YoY Change in Sales
Apparel	93%
Women's	93%
Men's	93%
Women's Accessories	100%
Fine Jewelry	90%
Formal Wear/ Fine Arts	102%
Food	95%
Living	92%
Others	106%

（5）Department Store Business: Sales Analysis
② By customer category

Domestic Department Stores Total

(Billions of yen)	FY2015 First Half		FY2016 First Half		YoY Difference
	Net Sales	YoY Change	Net Sales	YoY Change	
Net Sales Total	**514.7**	**106.0%**	**492.3**	**95.7%**	**-22.3**
①Cash/BK Credit	**226.4**	**110.2%**	**207.4**	**91.6%**	**-19.0**
Sales from Japanese	196.4	100.4%	184.1	93.7% ↘	-12.3
Sales from Foreigners	30.0	306.2%	23.3	77.8% ↓	-6.7
②MI Card	**275.8**	**103.1%**	**271.8**	**98.6%** ↓	**-4.0**
Upper Customers (10%･Priority Customers)	151.5	105.2%	150.3	99.2%	-1.3
Middle Segment Customers (5～8%)	124.3	100.6%	121.6	97.8%	-2.7
③Sales on Credit to Outside Customers	**12.5**	**99.1%**	**13.1**	**105.5%**	**+0.7**

（5）Department Store Business: Sales Analysis
③ Sales from Shinjuku Store

- Significantly affected by the decrease in middle segment sales due to greater proportion of women's & men's wear sales at Shinjuku Store
- Sales of jewelry & watches struggled due to steep decline of foreign customers

【Breakdown of actual results for the first half】

	Decrease	YoY change
YoY difference in sales	-5.8bn	95%

	Decrease	YoY change	Share		Decrease	YoY change	Share	
Cash/ BK credit card	-4.4bn	91%	76%	Sales from Japanese	-1.7bn	95%	29%	
				Sales from foreigners	-2.7bn	79%	47%	Inbound tourists
MI Card	-1.4bn	98%	24%	5～8%	-1.2bn	96%	21%	Middle segment
				10%	-0.2bn	99%	3%	

※MI Card includes sales from priority customers but excludes those from employees.

【Sales by product category】

(Billions of yen)	Sales		
	Current Yr	YoY	Change
Women's	27.7	95%	-1.5
Jewelry / watches	6.6	82%	-1.4
Men's / sports	20.2	96%	-1.2

Wear mainly bought by the middle segment
Jewelry mainly bought by inbound tourists

(5) Department Store Business: Sales Analysis
④ Sales from branches/regional stores

- **Accelerated decline in sales from middle segment, particularly, led to substantial drop in sales of men's & women's wear**

【Breakdown of actual results of sales in the first half】

	Decrease	YoY change
YoY difference in sales	-12.2bn	96%

		YoY change	Share
Cash/ BK credit card	-9.2bn	92%	76%
+			
MI Card	-3.0bn	98%	24%

		YoY change	Share
Sales from Japanese	-8.0bn	93%	66%
Sales from foreigners	-1.2bn	72%	10%

		YoY change	Share
5～8%	-1.6bn	98%	13%
10%	-0.8bn	99%	7%

Middle segment

※MI Card includes sales from priority customers but excludes those from employees.

【Sales by product category】

(Billions of yen)	Sales		
	Current Yr	YoY	Change
Food / restaurant	75.9	96%	-2.8
Women's / kids	53.6	93%	-4.0
Women's accessory	39.6	98%	-0.9
Men's / sports	20.3	93%	-1.6
Fine jewelry / watch	31.3	95%	-1.7

(5) Department Store Business: Sales Analysis ⑤Margins

	First Half Results		Difference from Target		Target	
	Degree of impact (YoY change)	Amount of impact (YoY change)			Degree of impact (YoY change)	Amount of impact (YoY change)
Domestic department stores total	**+1.10%**	+5.4bn	**-0.56%**	**-3.5bn**	**+1.66%**	+8.9bn
		Contributory earnings				Contributory earnings
Purchasing structure innovation	**+0.45%**	**+2.2bn**	**-0.05%**	**-0.5bn**	+0.50%	+2.7bn
Impact of point system	+1.28%	+6.3bn	**-0.22%**	**-1.8bn**	+1.50%	+8.1bn
Price change	-0.16%	-0.8bn				
MD mix, etc.	-0.47%	-2.3bn	**-0.13%**	**-0.5bn**	-0.34%	-1.8bn

（6）Status of MI Points
【First half（current status and challenges）】

Domestic Department Stores Total

①MI Card sales :
New memberships in 1Q: Sales struggled

・New membership application struggled : -¥0.7bn

・Sales declined due to point impact : -¥1.0bn

	【Sales】				【New Membership】		
	1Q	2Q	First Half Total	Oct.	1Q	2Q	First Half Total
MI Card	98%	99%	99%	100%	70%	91%	80%

②Shift in purchasing behavior due to point impact

・**Substantial drop in “customers in their 20s – 30s” and “fashion-conscious women customers”**
(YoY change 79%: -¥1.0bn in first half)

・Decline in sales from **customers who shop 1 - 2 times per season**

・Drop in **purchase of high-price items of ¥300,000** or more per item

③Point utilization rate:

・**Increase in balance of points granted externally**
(end of March: ¥5.0bn ⇒ end of September: ¥7.4bn)

- **Enhance point alliance with JAL and others.**
- **Promote use of points through mileage exchange and reciprocal use of salons.**

2．Full Year Targets

（1）Consolidated Plan

(Billions of yen)	FY2016 Second Half	YoY Difference	Point Impact Excluded	Real Diff. Excluding Point Impact	FY2016 Full Year	YoY Difference	Difference from Target
Net Sales	**667.8**	-5.5	**654.5**	-18.8	**1,250.0**	-37.2	-110.0
Gross Profit	**198.5**	+9.8	**185.2**	-3.5	**370.0**	+8.2	-35.0
SG&A	**180.6**	+10.5	**167.3**	-2.8	**346.0**	+17.3	-22.0
Operating Income	**17.9**	-0.7	**17.9**	-0.7	**24.0**	-9.1	-13.0
Recurring Income	**17.4**	-2.4	**-**	-	**25.0**	-11.7	-13.0
Net Income	**4.6**	-10.9	**-**	-	**13.0**	-13.5	-13.0

（2）Non-Consolidated (Isetan Mitsukoshi) Plan

(Billions of yen)	FY2016 Second Half	YoY Difference	Point Impact Excluded	Real Diff. Excluding Point Impact	FY2016 Full Year	YoY Difference	Difference from Target
Net Sales	**358.8**	±0	**352.0**	-6.8	**663.0**	-15.9	-66.6
Gross Profit Margin	**29.06%**	+1.71%			**28.77%**	+1.40%	-0.34%
Gross Operating Income	**110.4**	+5.9	**103.6**	-0.9	**203.5**	+5.5	-20.8
SG&A	**98.4**	+6.9	**91.6**	+0.1	**187.5**	+13.8	-11.8
Operating Income	**11.9**	-1.0	**11.9**	-1.0	**16.0**	-8.3	-9.0
Recurring Income	**10.7**	-0.5	**-**	-	**17.5**	-8.1	-7.5
Net Income	**0.7**	-6.2	**-**	-	**4.5**	-12.5	-12.5

（3）Sales/Earnings Targets by Segment

(Billions of yen)	Net Sales	YoY Change	YoY Difference	Operating Income	YoY Difference	Difference from Target
Department Store Business	**1,148.0**	-3.3%	-39.3	**12.0**	-9.5	-13.3
Credit & Finance Business/ Customer Organization Management Business	**37.0**	+2.1%	+0.7	**3.9**	-1.7	-0.6
Other Retail & Specialty Store Business	**57.0**	+2.1%	+1.1	**-0.3**	+0.7	-0.3
Real Estate & Other Business /Adjustments	**8.0**	-	+0.1	**8.4**	+1.4	+1.2

（4）Sales/Earnings Targets for Department Store Business

(Billions of yen)	Net Sales	YoY Change	YoY Difference	Operating Income	YoY Difference	Difference from Target
Isetan Mitsukoshi	**663.0**	-2.4%	-15.9	**16.0**	-8.3	-9.0
Department Stores in Domestic Region	**406.4**	-2.1%	-8.8	**1.0**	-1.8	-4.3
Overseas Department Stores	**68.3**	-17.3%	-14.2	**0.2**	+0.7	+0.2
Others	**10.0**	–	-0. 2	**-5.2**	-0.1	-0.1

(5) Department Store Business Plan for the Second Half

(1) Sales

(YoY change)	Trend in 2016 First Half	Targets for 2016 Second Half	Percentage Required for Policies	Amount Required for Policies (Billions of yen)
Flagship stores	94.5%	100.0%	4.5%	12.2
Branches	92.7	97.0%	3.0%	2.4
Regional stores	96.8	98.8%	1.0%	2.2

¥16.0bn – 17.0bn

(2) Primary Policies

Expanding location	**Optimum use of facilities both inside & outside stores**	・Enhance order-intake & sale events at existing salons (Roppongi, Marunouchi) ・Expand limited sale of luxury brands targeting affluent segment	**¥2.0bn**
	Expansion of EC & new store opening on external sites	・Expand our original medium-category EC (Salon du Chocolat, Isetan Men's, etc.) ・Strengthen new EC (Opening new stores on NORENNOREN, Alibaba, etc.)	
Improving MD accuracy	**Accelerate remodeling/ increase efficiency**	・Accelerated remodeling of new medium-category & luxury brands (from December) ・Implement scrap & build strategy to improve efficiency (Women's, etc.)	**¥11.0bn**
	Review on special events and upgrade	・Contents renewal (JPN/foreign events, items)	
Policies for customers	**Policies for upper customers by taking advantage of our priority customers organizations**	・Promote use of points/MI Card Festa/Anniversary festa ・Enhance guest card policies (Union Pay Card VIP)	**¥4.0bn**

（6）Margins in Department Store Business

Isetan Mitsukoshi Total

Continue and evolve to overcome impact of declined sales and MD mix

	Revised Target for Second Half		First Half Results
YoY change in margin	**+1.71%**		**+1.03%**
Purchasing structure innovation	**+0.78%**	Strengthening of high-margin basic items	+0.37%
Contributory earnings	**2.8bn**		1.1bn
Impact of point system	**+1.36%**	Increase in sales from MI Card customers	+1.23%
General price change	**+0.00%**	*** Previous year's level**	-0.27%
Drop resulting from MD mix, etc.	**-0.43%**	Impact from decline in share of wear	-0.30%

Contributory earnings from purchasing structure innovation: achieved annual target of ¥6.0 billion

3. Medium- to Long-Term Plan

In Preparation for Designing Medium- to Long-term Plan

【Direction toward growth】
We need to re-examine the “strategy to expand growth business” which is based on the idea of “maintaining & building up existing businesses”

Integration—2012	2013—2016	2017−2018	2019−
Organize and integrate businesses, functions and strategies of both companies Implementation of cost structure innovation (emergency response to Lehman collapse and Great Eastern Japan Earthquake)	Rapidly changing market Restrengthening department store business to realize the Group’s growth Fostering new businesses	Restructuring our strategy based on the following pillars; Cost structure innovation Selection & concentration in growth businesses Department store business structure innovation	Drive our company to grow further
Integration/ reorganization phase	Results achieving phase	Structural innovation/ selection & concentration phase	Re-growing phase

Key Points in Designing the Medium- to Long-Term Plan

（1）Cost Structure Innovation

2017-2018

- **Store/business structure innovation:**
  Prompt decision-making and innovation with regard to non-profitable stores/businesses
- **Expand scope of cost reduction and prompt implementation:**
  Undertaking cost cutting including organizational and staff cost reduction on a larger scale and in a speedier manner

（2）Department Store Business Structure Innovation

2017-2018

- **Concentrate investment in flagship stores:**
  Re-develop business structure that generates greater profits
- **Branch and regional store structure innovation:**
  Business structure innovation in order to survive including options to convert business category

（3）Selection & concentration in growth businesses

2017-2020

- **Refining the scope of business :**
  Invest in business fields where we can take advantage of our unique strength
- **Fully optimizing the use of our real estates :**
  Efforts in fully optimizing value of real estate held in prime locations

（1）Purchasing Structure Innovation
① Store/business structure innovation

Early assessment & judgment of stores based on certain criteria to generate cash for improving profitability and for future growth

■Store/business assessment criteria

○Assessment criteria
(1) Three consecutive years of deficit in operating income
(2) Liabilities excess of assets in the previous year
(3) ¥1.0bn or more of decrease in FCF for the next 5 yrs ⇒
3 – 4 stores fall under this criterion

■How to determine unprofitable stores

【Criteria】
- **Future free cash flows**
- **Market potential**
- **Environment for competition**
- **Holding of real estate**
- **Employment of manpower**

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【Directions of judgment】
- **Termination of operation**
- **Conversion of business category (re-sizing)**
- **Replacement**
- **Business alliance, etc.**

【Branch/Regional Store Structure Innovation】

"Expanding Group earnings" and "Generating cash for future growth" through structural innovation

Establishing New Lifestyle Stores
⇒Re-sizing depending on area characteristics (3,000～10,000㎡)

Revenue Model

Sales	100%
Cost of goods	75%
Purchasing Structure Innovation	
Margins	24%
Other operating income	1%
Gross profit	**25%**
SG&A	20%
Cost Structure Innovation	
Operating profit margin	**5%**

X

Content Mix Model

Department Store Original Contents

70%

Merchandizing with high margin

Tenant Contents

30%

X

Work Style Innovation

- **Measures for new staff**
- **Back-office operation CPCC**
- **Re-examining direct to indirect ratio**
- **New service standard**
- **Use of ICT**

To be implemented in 3 – 4 stores (branches / regional stores) from fall FY2017 to FY2018 in accordance with the above plan

（1）Cost Structure Innovation

②Expanding the scope of cost reduction/Accelerating the processes

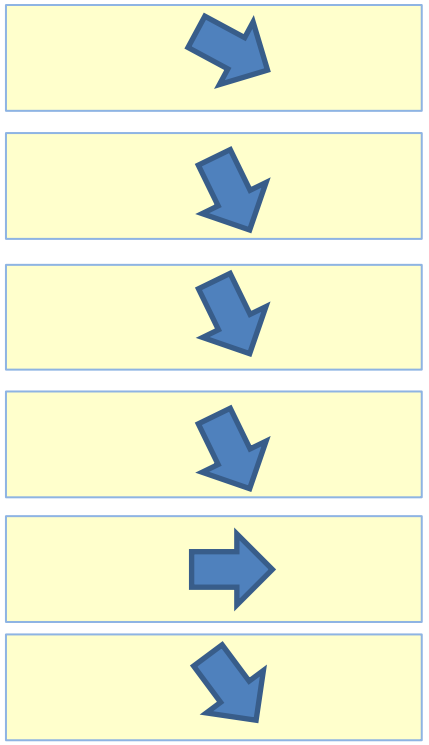
Implement cost-cutting measures together with initiatives for productivity improvement such as work style innovation and use of technology without compromising field capabilities

	Reduction in FY2016 (YoY change)
Labor cost	-2.6bn
Logistics cost	+0.8bn
Repair cost (LCC, etc.)	-1.6bn
Rent	-1.0bn
Advertizing expenses	-0.4bn
Total	-2.8bn (excl. points)

Diff. from target -14.4



Direction for FY2017-2018



Consumption Environment-related Issues to be Addressed by Department Stores

1. Fashion consumption

YoY change : 93%
(-¥27.0 billion)

- **Shift in consumers' purchasing psychology/Diversification**
  Purchase of branded products as a form of self-expression⇒Concept of apparel as part of lifestyle

- **Shift in business model in the fashion industry**
  More likely that customers select products/channels upon taking their own initiatives in acquiring information
  ⇒ Conventional business model is no longer sufficient on its own to meet their needs

⇒ **Middle market is declining as polarization of consumers' consumption behavior is underway**

(※see next page for directions)

2. Middle segment consumption

YoY change : 95%
(-¥30.0 billion)

⇒ **Realizing "price<value" through purchasing structure innovation**

⇒ **Proposing new "large-medium category" that suits customers' consumption**

3. Inbound tourism consumption

YoY change : 78%
(-¥14.0 billion)

⇒ **Building new relationships with foreign customers by identifying them as special customers**

⇒ **Expanding customer contact points in collaboration with overseas stores**

Fashion Consumption

【Future directions】

- **Thoroughly pursuing value and price × Proposing lifestyle that embraces food, wear and housing holistically as part of fashion**

  Ex.) Promote branding in the course of purchasing structure innovation & open external stores

  Create new large-medium categories such as beauty, health, healing, learning, etc.

- **Creating the absolute value behind fashion on a different approach**

  Ex.) Realizing fashion offering endorsed by the world's No.1 mode fashion

  Strengthening luxury entry MD and proposing its value to young adults

  Passing historical, traditional, and cultural values on to future generations

  Creating value by blending fashion with digital

(2) Structure Innovation for Department Store Business
① Strengthening sales capabilities of flagship stores

	Shinjuku Main Store	Nihombashi Main Store	Ginza Store
	Early realization of investment effect as a pillar of group earnings	**Splitting the first phase of Culture Resort into 2 stages** Early monetization	**Further cultivating latest global stores** not dependent on inbound tourism consumption
Directions	**Promoting the creation of a lifestyle centering on food**	**Enhancing art & order MD, making originality No.1 priority**	**Creating new customer base centering on Tokyo Bay Area (revising Food / Wear)**
	Creating new value for women's fashion	**Re-editing environment / space**	**Securing foreign customer base through guest card alliance**
	Enhancing personal sales		
	Enhancing personal salon business targeting upper customers	**Enhancing bridging customer care & store attendance**	**Strengthening customer relationship using guest lounge (Japanese) and international lounge (foreigners) as hubs**
	Investment : ¥10.0 billion	**Investment : ¥7.0 billion**	**Investment : TBA**

（2）Structure Innovation for Department Store Business
② Small- to medium-sized stores
【Current status and future directions】

<Current status>	<Initial plan 2018>	<Revised plan 2018>
100 stores Sales ¥36.0bn	180 stores Sales ¥50.0bn	125 stores Sales ¥40.0bn

			2018
ISETAN MiRROR	• Ongoing rise in sales (All stores YoY change over 120%) • Expand and secure customer base	■ Realize the plan ahead of schedule and multi store roll out at once Establish branding	Strengthen / Expand	22 stores 6.0bn
Select stores	• Establish highly distinctive specialty stores by leveraging editing capability • Shinjuku Store has high consumer share (Roppongi/Marunouchi : over 60%)	■ Promotion linked with Shinjuku Store ■ Share customer info（CRM） Enhance cooperation with flagship stores	Developing as salon function of flagship stores	3 stores 4.0bn
MI PLAZA	• Clearer polarization (flagship store-based○⇔remote location-based×) • Mainly day-to-day items and department store gifts	■ Strengthen linkage with flagship stores ■ Scrap & build unprofitable stores Serve as trend-sensitive salon	Strategic dominance in collaboration with nearby flagship stores	84 stores 26.0bn

(2) Structure Innovation for Department Store Business
③ Overseas business

Issues
- Insufficiency in new value proposal
- Fiercer competition due to rise in no. of commercial complex
- Rising labor cost and heavier rent burden associated with economic development

Current Status
- Improvement in rent through in-depth negotiation
- Enhancement of product value by establishing Merchandising Headquarters
- Testing on “clipped out “ trial contents
- Operating income for the first half : -¥0.15bn (effort in cost cutting: -¥0.8bn)

⇒**Aiming for stabilized profitability by engaging in cost structure innovation**

Creation of new business
- **Comprehensive development by engaging in the real estate business**
- **Expansion of THE JAPAN STORE**
  (Roll out medium-size multi stores having floor space of approx. 10,000 m²)
- **Development of original contents**
  Enhancement of “themed activity” contents (beauty, health, restaurant, etc.)

⇒**Build a new business model and open stores in the form of a commercial complex by 2020 in emerging countries where expansion of middle segment is anticipated**



【ISETAN THE JAPAN STORE in Malaysia】

（2）Structure Innovation for Department Store Business
④ Purchasing structure innovation
【Current status and future plan】

Expanding our initiatives internally & externally to contribute to group earnings

【Shift to date】

Contributory earnings (cumulative)	FY2012	FY2013	FY2014	FY2015	FY2016
	2.6bn	4.8bn	9.9bn	13.3bn	19.3bn

Target value of “¥20.0 billion” since the very start of initiatives has been almost achieved.

Transaction margin	27.03%	27.02%	27.23%	27.39%	28.42%

Downward trend in margins has been prevented from occurring even without point impact.

【Recognizing issues and directions of future initiatives】

Initiatives

Strengthen manufacturing functions	: Establish a new department specializing in manufacturing
Internal wholesale	: Distribution through “mock sales-purchase” with sales associates
Expansion of high-margin basic items	: Expansion of single items that emphasizes profitability (pants, shirts, etc.)
External wholesale	: Wholesale of new high-margin basic items within Japan and overseas (No21, etc.)
SPA (open stores externally)	: Start selling new high-margin basic items in small-size stores (BPQC, etc.)

Expanding scale

Expanding variation

Boost in cumulative amount of contribution earnings since FY2012	Approx. ¥20.0bn	→	Over ¥30.0bn

（2） Structure Innovation for Department Store Business
⑤Developing omni-network : 【Our vision】

¥15.0 billion in FY2016 ⇒ Target ¥35.0 billion in FY2018

Growth in EC

Polishing up current status (improve attractiveness of Isetan Mitsukoshi Online Store)

Online store

this is japan. MITSUKOSHI ONLINE STORE

ISETAN ONLINE STORE

Collaboration with bricks-and-mortar stores

WEB-specific EC

Gift

Inventory collaboration

Brick-and-mortar stores







Enhance in-store ICT (use of tablet, etc.)

Open shops externally

External EC shop open

Cross-border EC

New business infrastructure

"Clip out" selected product line

・NOREN NOREN
・ISETAN MIRROR EC

HUB system (Commission business)

Within Group

External companies

Strengthen Personal Sales

Personal sales

Attend /back order network

Branches Regional stores Small- to medium-sized stores

In-store customer care

Respond to in-store stock out

Customer's home

PC

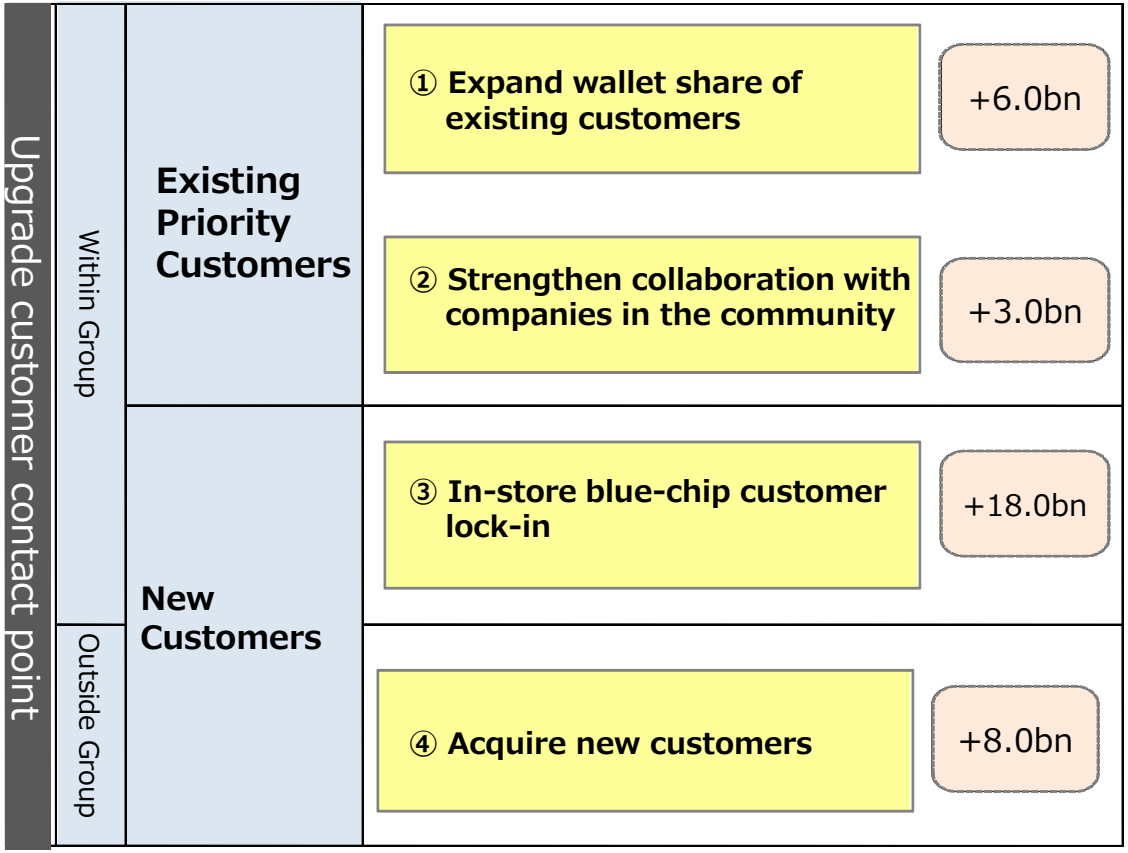
Back order

Customer care via tablet

Lineup ranges beyond roll out restriction

（2） Structure Innovation for Department Store Business
⑥ Developing omni-network:【Strengthening personal sales】

Take further steps in blue-chip customer lock-in and use of network



Use of EC for enhancing our services

Attend/back order network by sales (Customer care via tablet, etc.)

Transaction with priority customers	FY2016		FY2018
	95.0 billion	+35.0 billion	**130.0 billion**

Sales from priority customers exceeded that of the previous year even under challenging environment, thus there exist future potential reserves

（2）Structure Innovation for Department Store Business
⑦ Measures for foreign customers

Blue-chip customer lock-in/Strengthening external collaboration
⇒Attaining sales of ¥100.0 billion at an early stage

【Purchasing activities of foreign customers and details of future measures】

	No. of customers	Sales
Sales from foreigners in FY2015	570,000	¥60.0bn
	Upper customers※	Sales
	40,000 (6%)	¥30.0bn (50%)

※ Over 300,000 per year

【Upper customer lock-in】
Identify them by **"Guest Card" /** expand scope of secured customer base
Start distributing to Union Pay Card VIP among others from the second half of FY2016
Special customer target:40,000 customers ¥12.0bn for FY2016
⇒60,000 customers ¥50.0bn for FY2018

×

【Alliance cooperation】
：Our overseas stores, overseas department stores, travel agencies, airlines, embassies, etc.

【Progressing into global strategy】

Collaboration with Cool Japan
Events collaborated with JAPAN STORE (LOT10, Paris)

Collaboration with overseas stores
Guest Card issued locally

Collaboration in cross-border EC
Providing information to overseas EC customers

Collaboration with Fun Japan
Marketing and info distribution by new company→acquisition of new customers



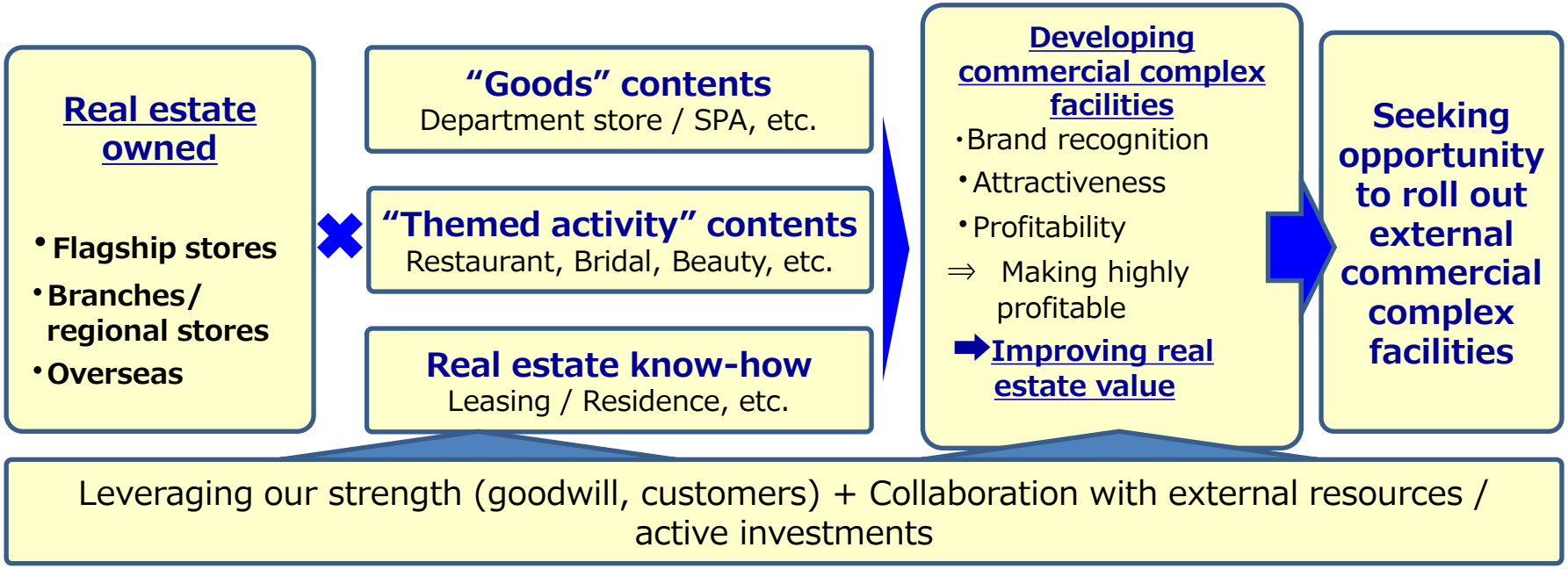
Collaboration within Group
Proposing high-end domestic travelling plan
Publicize at urban duty-free stores

（3）Measures for Growth Business
① Commercial Real Estate Business

■ Making use of real estate owned
- Optimize goodwill value by making use of real estate held by both Shinjuku and Nihonbashi Main Stores
- Undertake new business models in branches/regional stores owned

■ Developing commercial complex facilities by investing in real estate
- Establish new overseas business model by investing in overseas real estate
- In other regions, strive to improve real estate value in a manner not limited to usage as stores, and examine possibility to acquire real estate

Redevelopment / revitalization model using our real estate



（3）Measures for Growth Business
② ”Themed activity” Service Business

Fostering & expanding contents with high market competitiveness as future businesses needed to survive as a retailer

Rise in “themed activity” consumption	Higher profitability	Internally generate earnings	Promoting in-person visit to bricks-and-mortar store

- **Promote in-person visit to stores by providing valued in-store experience**
- **Focus on domains where great synergy is expected with department store MD & customers**
- **Realizing higher profitability from fields that have been operated by other companies**

【Examples of initiative】

- **Restaurant** : Opening stores inside & outside the Group starting in FY2017 to target sales of ¥3.0bn in FY2018
- **Bridal** : Opening from FY2017 to target sales of ¥5.0bn in FY2018
- **Travel** : Designing our original products and expanding product lineup to target transaction volume of ¥10.0bn in FY2018
- **Learning/Leisure** : Rolling out community setting at salons inside & outside stores
- **Beauty/Healthcare** : Conducting M&A, etc. with external resources

（3）Measures for Growth Business
③ SPA Business

Domestic apparel struggles

Potential for expansion into overseas/EC/SC

Need to secure contents

Need to establish highly profitable original brand

Take on the challenge to enter into SPA business as an evolving phase of purchasing structure innovation in order to expand our business based on attractive contents

【Directions for initiatives】

- Shift in the approach from “department store mind” which “starts expanding from shopping floor” to “brand mind” which sets a goal of “multi-store roll out”
- Open stores inside & outside the Group by incorporating functions essential for establishing a chain store system through leveraging know-how natured through purchasing structure innovation

Aim to complete structuralization by FY2017, and launch business during FY2018

（3）Measures Concentrated on Growth Business
④ Card Business

Transform the card business that started out as a function to support a department store to a business than can grow into an independent card company

Expansion of EC ⇒increase in card usage	Extending inter-company collaboration through points	Expanding external alliance

- **Acquisition of new customers by improving convenience**
- **Acquisition of external earnings by strengthening collaboration between external companies**
- **Acquisition of high-end consumption-oriented customers**

【Examples of initiatives】

・Expanding membership base:
Acquiring upper customers by providing millage exchange, etc.
Expand membership base outside department store by issuing affinity cards

・Expanding external use:
Enhance repeated purchase inside/outside Group through use of points
Improve services exclusive for Gold card members

(Plan) MiCARD Co., LTD.
Operating income ¥4.4bn in FY2016 ⇒
Target operating income worth ¥9.0bn – 10.0bn in FY2018

(4) Information Strategy that Supports Our Growth

Place digital at the heart of the management to integrate, organize and expand initiatives for various digitalization processes

New value creation

③Digitalize customer contact points

No. of customers downloading apps

FY2018: 3 million

Enhance relationship with customers

⇒Improving sales per customer

④Acquire new customers

No. of customers whose data is available for analysis

FY2018
5 million

⑤Propose new shopping experience and lifestyle

Aiming to improve both convenience and value of experience

From IoT material sales to IoT business
Generate profits in FY2018

Productivity improvement

①Organize/Optimize Group IT environment

Maintain/Improve quality

System LCC
Expenditure reduction by 5%

②System structure innovation

In-store operation
Improve productivity by 20%
Management decision-making
Speeding-up

(4) Information Strategy that Supports Our Growth

【Digitalization measures to optimize benefits of realistic experience】

Measures to date (including trials)

Advising by artificial intelligence (AI)
Women's/Men's Wear

Virtual shopping trial
Nihombashi Mitsukoshi ⇔ Matsuyama Mitsukoshi

Link with crowed funding
Makuake／Green funding･･･

Proposing IoT materials
Link with company-wide campaign (IRODORISAI／HANAHANASAI)

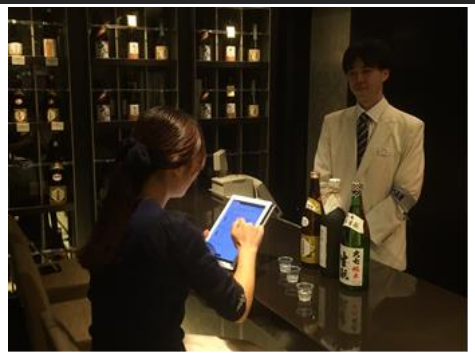
Analysis of customers' shopping tour route
Scientifically examine optimal layout and item placement for customers

Stylist behavioral analysis
Scientifically analyze movements and skills of first-class stylists to make their working pattern explicit

⋮

Measures in progress/to be implemented in future

Personalized advising Analog + Digital customer service



Virtual shopping beyond time/physical space



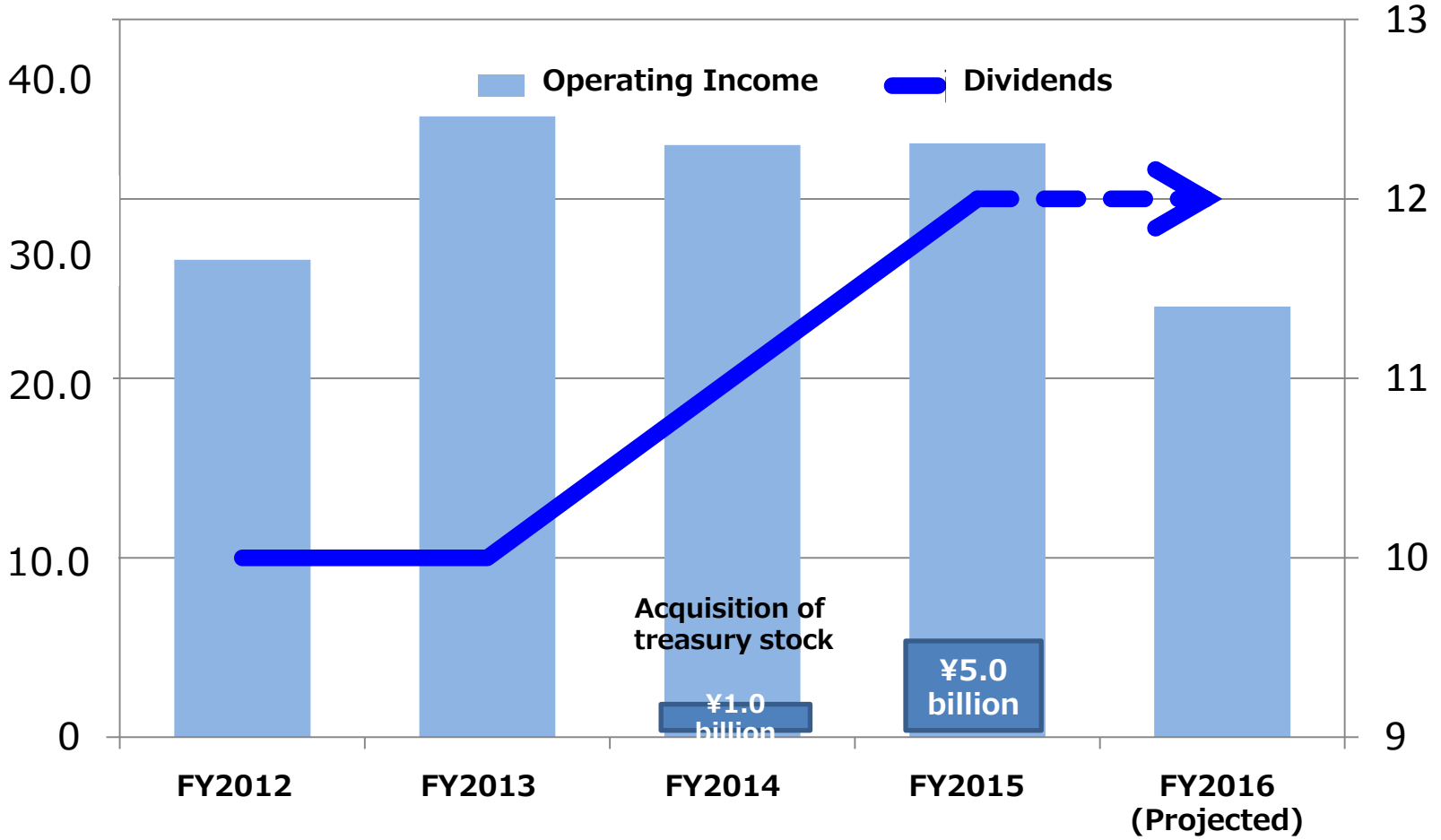
Shopping floors fully supported by data



Our new initiatives in IoT business



(5) Approaches to Capital Policy



Stable ongoing dividend distribution

Payout ratio 20%
Total return ratio 30%

Acquisition of treasury stock

appropriate to the level of earnings

Target ROE of around 6% in FY2020 by business structure innovation

(6) Striving for Ongoing Growth (Strengthening ESG standpoints)

From CSR to CSV※

- Proposing products & services that are socially and environmentally-conscious
- Creating a new lifestyle（Culture Vision Japan）
- Social contribution by taking advantage of our regional store locations
- Establishing work-life balance diversity

Enhancing Corporate Governance

- Assessment of Board of Directors' Effectiveness is implemented starting in FY2016
  Further enhancing supervisory function and prompt decision-making in order to achieve appropriate governance

※CSV: Creating Shared Value

(7) Future Directions

FY2017-2018

- Cost structure innovation
- Department store business structure innovation
- Selection & concentration in growth businesses

Maximize cash flows

Medium- to Long-Term

- Large-scale investment for future growth
- Monetize existing businesses
- Aggressive expansion of new businesses

Maximize corporate value

Enhancing corporate governance/Promoting CSV

Initial plan : FY2018
Operating income ¥50.0 billion

→

New KPI will be disclosed in Spring 2017