Isetan Mitsukoshi Holdings Ltd.

Web financial results explanation meeting for the 2Q of fiscal year ending March 2024

Summary of Q & A

Date: Nov. 10, 2023 5:00PM -6:00PM

Q: Both the Medium-term Plan and the business performance are progressing well, but what is your view on the risk that this strong business performance will stumble somewhere?

A. The only risk I can think of now is how the mindset of domestic customers will change. If inflation continues as it is now, business performance will be on an upward trend. In the past, department stores' performance has fluctuated in tandem with economic fluctuations, but the risk aversion is precisely at the heart of our company's strategy: that is, connecting with customers. On the other side of this risk, assets of the wealthy people are projected to grow further, so we think there is still an opportunity.

Q. When the Isetan Mitsukoshi Group realizes the development of the city, where will department stores be positioned? Is it absolutely necessary in the city? Is it possible that it is not? This is not an image of Shinjuku or Nihombashi, but of overseas or regional areas.

A. Isetan Shinjuku Main Store and Mitsukoshi Nihombashi Main Store will incorporate elements of real estate while maintaining the merits of core stores. In regional areas, however, many of the properties owned by the company are aging. During redevelopment, depending on the needs and competition in the area, the area of department stores may be reduced and different businesses may be expanded.

We would like to promote the redevelopment of each area by talking with those in charge of administration and partners about characteristics of each area.

Q. About page 30 of the financial results briefing materials. I think department stores have been able to manage in each business area and in the cooperation of group companies. But can it be done in the same way even if business characteristics, such as real estate, are different?

A. The personnel will be strengthened by secondment and mid-career recruitment. Our company, on the other hand, has created "visualizations" to connect department stores' strengths to other business, such as how much profit is made in real estate and finance for department store customers. The Isetan Shinjuku Main Store is making its profit contribution visible this year as well. This is not just about sales profits at department stores, but also about how attracting customers can lead to group profits. Therefore, while focusing on each business, we would like to attract customers so that we can see how this will benefit the entire Isetan Mitsukoshi Group.

Q. About page 28 of the financial results briefing materials. Regarding the development of the city, what content will be carried out by the Isetan Mitsukoshi Group and what content will be left to tenants? Are you thinking about running your own restaurants?

A. At present, we have joint ventures for restaurants and other businesses in our company, and we want to do what our own group can do as much as possible. Even if it is not done by our own group, the image of the development of the city is to match the overall taste and grade of the city. On the other hand, the operation of offices, among others, will be left to professionals. In the case of our own properties, while we own the majority of the properties, we let the other party do what they are good at, etc., and we are considering, depending on use and area.

Q. About investments. When you make something like page 28 of the financial results briefing materials, you don't think you can rebuild your own stores that much, but is it an image of investing in the surrounding buildings?

A. In a cascading development process that takes a certain amount of time, the completion of large properties will be planned on a different time scale, and the investment of several hundreds of billions of yen will be recovered without affecting BS over a long period of time. There is still time before redevelopment, so until then, we will do what we need to do as a growth investment.

Q. On return. This time, the dividend is being revised, but even after the revision, the dividend payout ratio is still about 20%. So far for the second quarter, but does Isetan Mitsukoshi Holdings think this level is not enough? Previously, Isetan Mitsukoshi Holdings said it had a total return ratio of 50%, but does that mean it will have a total return ratio of 50% after the realization of the development of the city?

A. The total return ratio of 50% is considered every single year. Even if the dividend is raised this fiscal year, there is still room for more return. After this, we will consider the final level of profit for the current fiscal year and decide on a total return ratio of 50% every single year. This is not for the current fiscal year, but if there is an irregular situation such as a profit that does not receive cash, we will proceed with the explanation.

Q. On return. Could there be any announcements at the 4Q earnings, including real estate developments?

A. We will make a large investment in the long term, but there is a little time allowance.
This time, we cannot say when we will announce the additional return, but we will disclose it at the right time.

Q. The revitalize phase went well, and the preparation phase for the development of the city

started earlier than planned.

When can you announce to the market about details of the specific pipeline in the fruition phase, such as investment amount and duration?

A. We would like to inform the market of each project at an appropriate timing. Since each project involves the owner of each land, the information will be announced as the preparation association and city planning progress.

Q. I think Shinjuku and Nihombashi are big projects in the development of the city, but is it correct to understand that you monetize the unrealized profits of the land?

A. That's basically the idea.

Q. About the performance potential of domestic department stores. The performance of Isetan Mitsukoshi is good, but will it be able to continue to perform well next year onward as well? In regional stores, mid-sized stores are still struggling. How do you see it?

A. It is not easy to improve business performance just by thinking of department stores, but our company is shifting to "individual customer business" in which it makes suggestions to customers it collects. There is also a "base network" in which regional stores can utilize core stores, and the results of the "base network" are equivalent to 4% of the net sales of regional operating companies. Our company will expand its business to 7 million identified customers. The number of identified customers will increase further in the future, and by becoming an MICARD holder, the amount of purchases per customer will increase further. We would like to combine various strategies such as the proposal of MD outside department stores.

Q. Do you mean that not only department stores but also Intra-Group coordination will be considered in the future?

A. That's right. Now, however, the value of department stores has been reevaluated and they are attracting attention from customers. More and more young customers are using digital technology, and they are highly motivated to spend. I think it will look completely different from the traditional department store business model.

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