Web financial results explanation meeting for the Third Quarter
of the Fiscal Year Ending March 31, 2023
Outline of Questions and Answers Summary
Date: Friday, Feb 3, 2023 16:30-17:30

Q. Regarding the forecast of gross sales, does the full-year plan reflect the sales results in January?

A. The outlook for gross sales reflects the situation in the third quarter and the outlook for the fourth quarter. Duty-free sales, however, do not reflect the latest trend. As for SG & A expenses, the effects of the increase in expenses and foreign exchange rates in the fourth quarter are included to some extent.

Q. Can Isetan Mitsukoshi Ltd. and other department store businesses further increase sales?

A. The "shift from mass to individual" strategy is working. By progressing identification of customers, we are creating a good cycle in which we can connect deeply with individual customers, understand the needs of each and every customer, and create an accurate product lineup. The Isetan Shinjuku Main Store leads the way. If the know-how spreads to the department stores of the group, the profitability of the department stores will increase.

Q. Regarding non-consolidated results of Isetan Mitsukoshi Ltd., although the growth of Isetan Shinjuku Main Store and Mitsukoshi Ginza Store is high, the growth of Mitsukoshi Nihombashi Main Store and branches in the Tokyo metropolitan area seems to have slowed down in the second half of the year.

A. In FY 2021, the previous year, the impact of COVID-19 was small only in 3Q and sales were very strong, which affects slowdown in sales. Therefore, the company does not take it as extremely weak.

Q. How much duty-free sales are you expecting in fourth quarter?

A. The forecast for November remains unchanged. If tax-free sales in December and January stay at current levels, that will be an upside factor. Duty-free sales, however, are affected by the external environment and are uncertain, so we are not making strong plans.

Q. With regard to inbound sales, has the most recent major customer base and the content of products sold changed from the past?

A. The number of customers from China has not completely returned to the level before the COVID-19 pandemic, and now the sales of customers from Asia are the main focus. They tend to like high-value-added products and exclusive products, just like Japanese loyal customers. Since they are expensive items, customers from overseas purchase them after receiving proper explanations and suggestions from sales staff. In terms of items, customers are interested in not only jewelry and watches, but also works of art.

Q. Can you continue to sell well to customers coming from overseas by treating them as warmly as you would a good Japanese customer?

A. That's right. Out-store-sales department also has units in charge of foreign customers, and the results are beginning to show. By focusing on each and every person and making various proposals, a system is in place to encourage repeat business.

Q. The plan for regional stores has been revised downward, but what measures will be taken in the future?

A. The system under which products from both main stores can also be purchased at local stores will become more effective as customer awareness increases. The "Scientific analysis of department stores" has been made into a bible, and the shift from mass to individuals will spread to regional stores. By being deeply involved in customer needs, we can offer products other than department stores to local customers. The range of proposals is not limited to the department store business. By promoting proposals for each business in Intra-Group coordination, we can expect to increase profits as a group.

Q. It is said that the sales of local stores are weak. “Customer transfer”- is it really in progress?

A. The selection of products at stores that are not the best in the region is becoming stricter. Also, the location of local stores is close to the customers' living area, so the response to high prices may be more sensitive than that of customers in the Tokyo metropolitan area. Scientific analysis of department stores is not only about cost but also about how to shift from mass to individual. We have not yet shared the know-how to make profits, not just sales, so we will see more of that in the future.

Q. The improvement in Isetan Mitsukoshi's gross profit margin also appears to have fallen from the first half of the year. Is it due to the increase in duty-free sales?

A. The gross margin becomes a minus trend as the share of luxury brands, jewelry and watches increases. However, we have taken measures to improve the situation. In "Scientific analysis of department stores," the emphasis is not only on gross margins among each profit, but also on increasing net income, and sales and business conditions are considered.

Q. Why is the company planning a 50% drop in fourth quarter earnings? Are you forecasting lot of cost increases?

A. As Isetan Mitsukoshi Ltd. expects increase in provision for employee bonuses and a certain rise in utility costs due to its strong business performance, the company plans slightly severe outlook on profit.

Q. Will the sales promotion measures for SG & A expenses be used up?

A. At the moment, the company plans to spend the remaining of approximately 1.5 billion yen, but we will not use up the money that is not profitable.

Q. The income and expenditure structure reform is progressing smoothly, but is there any room for reducing fixed costs the next fiscal year and after?

A. The income and expenditure structure reform will not end in a single fiscal year, and the company expects to cut about 12 billion yen during the current Medium-term Plan. Within the company, the sales department holds study meetings to deepen understanding of the income and expenditure structure reform, and verifies and reviews whether the content of the service is truly profitable.

Q. Are you willing to invest in future growth?

A. We will invest in the areas expected to be profitable. In the Medium-term Plan, a certain amount of investment is expected as investment cash flow. At the execution stage, we will proceed while assessing the effectiveness.

Q. Tell us the progress on customer KPIs, such as identified customer, and EC sales progress.

A. As it is the timing of the third quarter, we will let you know the definite numbers as KPIs in the future, but the KPI indicators have not changed from the trend we reported in November. In terms of app membership, the company's plans for 1.5 million IDs per year have grown to about 1.76 million as of Q3. With more people going out and brick-and-mortar sales growing, e-commerce is suffering a bit more than it was expected at the beginning of the year.

Q. What is the progress of capital allocation discussions over the next 10 years?

A. At present, the project is being developed and discussions are taking in outside knowledge. We would like to inform you real estate schemes and shareholder returns when we announce our financial results in May.