Web financial results explanation meeting
for the First Quarter of the Fiscal Year Ending March 31, 2021
Outline of Questions and Answers
Date and time: 16:00 – 17:00 on Wednesday, July 29, 2020

Q. There will be positive factors and negative factors influencing full-year forecasts, but to what extent will you recover, and to what extent will you be unable to recover? Also, what changes in consumer behavior have you observed during the pandemic and what plans do you have in place to respond to these changes?

A. Consumer behavior has changed significantly. Changes have been sudden, as clothing has slumped, while household items have been positive, and although lipstick, etc. has been down, eye makeup, etc. has also been positive. However, the greatest contributing factor has been the fact that customers have refrained from going out. In particular, the number of customers visiting stores and the number making purchases have been extremely tough for us as elderly customers, who are usually our strength, have refrained from visiting our stores. In spite of this, however, customers have responded well to our digital initiatives. We sold masks via the Internet as a tie-up with brands, and we have sold out of over 7,000 masks. As customers have been particularly focused on the Internet, going forward we hope to further increase this kind of initiative. We have almost no inbound tourism at this point. Sales to Japanese residents have been down by about 15%; however, we do not intend to resign ourselves to this and will work to increase our sales going forward.

Q. How has the first quarter been overseas?

A. The overseas settlement date is different than in Japan, with the period from January to March being our first quarter. The country that experienced the greatest effects from COVID-19 during this period was China, with year-on-year figures being around 50% of the previous year. Year-on-year figures for Southeast Asia as a whole were about 80% of the previous year, experiencing a relatively minor impact from COVID-19. This state of affairs completely changed in April.

Q. Are we correct in our understanding that the current state of affairs is forecast to continue for the rest of the year overseas as it is in Japan?

A. The areas in which we have stores have been severely affected by COVID-19, just as in Japan. Although China briefly showed signs of recovery, we believe that the current situation firmly indicates a slowdown.

Q. With regard to cash flow, the plan is to return to profit with an operating cash flow of 13.5 billion yen in the second half of the fiscal year. Will this be achieved through financial assistance or through natural means? Also, once operating cash flow recovers, what are your thoughts about whether you will be able to return investment cash flow to previous levels next season and beyond?

A. With regard to recovery of cash flow, the main reason will be that the largest proportion of department store net sales will be in the third quarter. There will be no special financial assistance and it will be the result of natural accounting. Although it is difficult to say anything for certain about next fiscal year onwards, if there is operating cash flow of around 50.0 billion yen as there has been previously, we hope to utilize it for investment that has been delayed, as investment has been quite suppressed during this fiscal year. Even if a vaccine or an effective treatment is discovered, however, we believe that harsh conditions will continue until it is widely distributed, which would be next fall at the earliest, so we gave internal instructions to restrict investment to the barest minimum.

Q. What are your thoughts on fixed costs as you promote structural reforms and aim for a sturdier constitution?

A. These forecasts do not account for anything that has not yet been determined. Reduction of fixed costs is still necessary, and we hope to continue working to achieve this. We also believe that the current status of personnel is not yet appropriate, and it was our original plan to make further cuts, while we need to thoroughly examine businesses and companies that are currently suffering, e.g. travel and beauty treatment, although nothing specific has been decided at this stage.

Q. With regard to how your stores operate, until now, you have focused on your three flagship stores. Going forward, will you change the way you position suburban and regional stores, even if it is only to revitalize your flagship stores?

A. Since stores have reopened, our Tachikawa and Urawa stores have performed better than our Shinjuku store. This is because people who have mainly shopped at the Shinjuku store in

the past have opted to shop at branches in order to reduce the amount of time spent away from home. However, we believe that this is only temporary and things will eventually return to normal. Furthermore, we do not believe that regional stores will be able to sustain the current state of affairs, so we will proceed with our ongoing structural reforms. At present, there is a major problem of significant overlap between branches and our flagship stores, making it difficult to differentiate them. It is important for branches and regional stores to consider how they meet the needs of customers, so we hope to continue to promote this. In addition, going forward we must consider how we can market our digital initiatives to regional customers by effectively utilizing branches and regional stores, and we hope to clarify the roles of branches and regional stores with regard to this point.

Q. Obviously, the variable portion of selling, general, and administrative expenses will have been reduced in the first quarter. Regarding fixed expenses, however, are we correct in our understanding that you will further pursue reductions from the second quarter onwards, even more than in the first quarter?

A. That is correct. Due to measures that will start in the second half, we will see fixed expenses that we have been able to reduce from the start of the fiscal year as well as new reductions that have yet to materialize.

Q. With regard to the full-year plan for segments other than the department store segment, how are you calculating operating income? The finance segment had operating income of 1.4 billion yen in the first quarter, but the full-year forecast is for 1.0 billion yen. Furthermore, while real estate showed increased profits in the first quarter, the full-year forecast is for decreased profits. What is the reason for treating the second quarter onwards comparatively conservatively, including for other segments?

A. With regard to the credit and finance business, we anticipate that the trading volume will increase, although, for the aforementioned reasons, we do not expect that it will recover to the extent of being profitable for department stores. With regard to the real estate business, the first quarter showed results that were roughly equivalent to the previous year. However, we must consider the state of affairs to be extremely severe, particularly for commercial real estate operated by the lease business. We will still receive fixed rents, but we expect it to be extremely difficult to receive sales-linked rent as we have in the past. In addition, last fiscal year, we received profit from orders for large projects in the construction business; this fiscal year, however, we do not expect any large projects. In the others business, we recorded a

900-million-yen year-on-year decline in the first quarter. We will not be able to achieve an increase of this scale, there is a possibility that some stores of Socie may close, and we are reorganizing unprofitable stores, etc. so we are treating things conservatively.

Q. Due to the current environment, it would be effective to accelerate the digital strategy and CRM strategy, while there has been the problem of being unable to operate during shutdown periods. At this point, is it reasonable to return operations to normal? We would like you to provide supplementary information on areas that have been effective, as well as the future outlook and the digital strategy.

A. In June, we launched and commenced operation of a new app and web site. Going forward, what we need is back-office infrastructure. In April, we had insufficient back-office infrastructure, and while many listed products were picked up from stores, we were unable to induce store personnel to work, so we had to close some stores. Subsequently, we were able to rapidly secure back-office infrastructure, including logistics, warehousing, and customer service functions. Our progress was altered by the launch of the new site, and in particular, the change in awareness of employees of Isetan Mitsukoshi due to the pandemic. There were all kinds of initiatives launched by each department, including elementary school backpack sales by Zoom and video advertisements. Also, it has been important to repeat trial-and-error, and we will continue to do so. The spirit within the company has increased considerably, which we're sure will produce new results going forward. However, given that we do not expect in-store sales to increase much after the pandemic is over, we believe that it is necessary to stockpile personnel and funds, and to accelerate measures by one more level.

Q. What is your assessment with regard to the outlook for the Employment Adjustment Subsidy?

A. This has been incorporated into the full-year forecast, but at present, we expect extraordinary income of 4.0 billion yen spread throughout the entire group.

Q. When you consider the number of people affected and that business was suspended for two months, don't you think the impact could have been greater?

A. We also expected the sum to be slightly larger at first, but we arrived at this figure through close discussion with the authorities.

Q, Considering the situation with COVID-19, currently the most important class of customer to you is people whose income and employment have not been adversely affected very much, such as those who work for large corporations. The middle class may be suffering, but asset-holders, etc. may actually come out ahead due to the effect of high share prices on their assets. We feel that there is potential there, but what are your thoughts about the consumer sentiment of your major customers?

A. With regard to customers who normally make large purchases, consumer sentiment has not suffered and we are not in a bad position. Therefore, we must continue to approach them. This has been the biggest factor that has limited the decline to below 20%, even though we initially expected about a 30% decline when we reopened. Rather than the middle class being in a uniformly difficult position, their level of consumption has stagnated insofar as they have limited their excursions and commuting. In particular, business attire and clothing worn by women with careers have been stagnant and it is not clear whether that is simply because there is no interest or no demand. This has been incorporated into our forecast to some extent. This is set off by the affluent classes, but the elderly have also refrained from going out and we don't expect this to return to normal until the pandemic is over. However, even though elderly people have not used digital platforms until now, while avoiding going out, there have been more instances in which they have been forced to take delivery through smartphones and PCs, etc., and as a result, they now have greater digital literacy and are able to use digital services, so we still have ways we can cater to them.