Web financial results explanation meeting for the Second Quarter of the Fiscal Year Ending March 31, 2023 Outline of Questions and Answers Summary

: Friday, November 11, 2022 16:30-17:30

Q. When the external environment and the internal environment are separated, what has impacted on this favorable result? For example, in the internal environment, is it possible to create a understandable plan for employee?

In creating the current medium-term plan, we interacted with 40 divisions over a period of 6 months. Approximately 1600 managers and myself interacted with each other through dialogue and other means to implement the plan. I think that their convincing influence the results this time. As this will lead to the future, we believe that we have taken a step in a positive direction.

Q. Although the recovery at department stores has been extremely successful, I would like to hear about Intra-Group coordination for the next 2010 years for urban development.

Characteristics of our group companies include the spirit of hospitality and the unique business model that each company possesses. Types 2 (external B2B sales) are now proceeding. Direct sales have already approached around 300 companies since the establishment of an account sales system, and have approached thousands of mutually beneficial partners. Among them, about 100 new customers have been acquired. For Type 3, as a managed service, there is a case in which Isetan Mitsukoshi Property Design and Isetan Mitsukoshi Human Solutions and Studio Alta are combined to run on the first floor of the Isetan Shinjuku Main Store, as shown in the materials for the results briefing. In this way, while increasing the size of each business, it will eventually become a project involving cards and systems. One example of a business that is already competitive in the market is the system business, in which retailers can create a remote shopping system in a short period of time by owning a system that is difficult for everyone in the retail industry, and Isetan Mitsukoshi Property Design is known for its very unique business model as a construction business. We would like to link these products to the center and propose them in One package.

Q. You said that you will consider the capital policy for the future, but is it a kind of vague image? Or, will you be able to make sure that you get things right, including dividends, in light of redevelopment?

Capital policy is now being planned as a project and the knowledge of external advisors is also being

incorporated. In May of next year, I want to present something for sure. We are characterized by good and bad, but deep group shareholders' equity. Under such circumstances, I would like to offer a solid presentation of the scheme for real estate development, including the debt-equity balance and shareholder returns. Cash is running much better than it was when it was announced last year Some redevelopment schedules are difficult to come up with, but we would like to announce what we can imagine as a financial strategy for the fruiting phase.

Q. Is inbound sales expected to exceed the revised plan if there is no reason to do so?
Also, as for SG&A expenses, as there will continue to be adjustment valves, such as measures to strengthen sales, do you think that the plan is fairly restrained?

We have been discussing several times in preparing the 2H budget, but it is making room for Sale sales due to uncertainty over COVID-19 trends from now on into the winter. As you understand, inbound sales will also grow considerably if the current situation continues. SG&A expenses also depend on the extent to which measures to strengthen sales will be implemented, but the situation is that there is some leeway. While the outlook for 2H may seem to be somewhat weak, we are looking at risks to determine what we need to do for the future and what we need to secure incomes for the current fiscal year.

Q. I would like to hear about the trend of duty-free sales after the deregulation of entry. What kind of purchases are people from what country making while Chinese customers are not coming?
There was also some talk that the outlook will be higher, but if there are uncertain factors? On the other hand, is there no problem with the capacity when the number of visitors to Japan increases?

In the 1H, duty-free sales were 28.9% of the peak (in FY 2018 sales), but increased further in October due to deregulation. In Shinjuku, sales were higher than in FY 2018 in the last 3 weeks. By country, customer sales from Taiwan, Hong Kong, Thailand, and Indonesia are growing. The trend of China in the future is uncertain, but it can be said that there will be some growth because it is undoubtedly the bottom now. In November, We plan to increase the number of duty-free counters and launch a new external sales representative for high net worth foreigners. It is assumed that there will be no disruption as in the past peak period of inbound tourism. Products that sell well are luxury, jewelry, and watches, but special products such as collaborative products with brands and limited items are also sold well at Shinjuku main store.

Q. While sales of Japanese people are strong, are the middle class still not returning, and are wealthy people driving them? In department stores, I think that middle class consumption will become more

severe in the future, but can it be covered by sales of high net worth individuals?

Regarding the perceptions of the wealthy and middle-class customers, we have the following types of data that can be ascertained by us: "out-of-store customer," "10% rewarding customers," "8% rewarding customers," and "5% rewarding customers." However, we use out of store business and 10% rewarding customers as high-net-worth customers, and 5% rewarding customers as middle-class customers. Sales to the wealthy did not fall during the COVID-19 period, but rather grew. As COVID-19 has stabilized recently, sales from customers offering special benefits of 8% have also grown, and recently 5% have returned to around 96% of customers offering special benefits. However, as there are many brands that are considering raising prices again, particularly for brands, it is considered that it is the point to keep a close eye on trends in this middle-tier segment without prejudice.

Q. I think this is a very good result, but from the management's point of view, where is it thought that we can make more improvements, and that we can do what we can do?

Looking at the results of this time, the recovery in the Tokyo metropolitan area is overwhelmingly remarkable, and in particular, the Shinjuku main store is expected to generate sales in excess of ¥300 billion. It exceeds ¥300 billion in 1991, but that means it exceeds the figure in the middle of this bubble. Compared to that, the local store has not yet caught up with it. Regions also incorporate "department store science" and Intra-Group coordination centered on a network of both head offices, and can provide products sold at both main stores in Shinjuku and Nihombashi. As these measures are progressing, we intend to further promote and catch up from now on. There's still some way to go here.

Q. With regard to cost control　for "scientific analysis of department stores," will the total cost not increase from the next fiscal year onward due to the effects of cost structure reforms even if the variable cost of sales increases? How much progress are you making now?

From 2018 fiscal year, it has reduced fixed costs by about ¥30 billion. Over the next 2 years, we expect to reduce it by an additional ¥13 billion. The variable cost portion is linked to sales, and the variable cost ratio may rise slightly because fixed costs are variable, but overall fixed costs are certainly decreasing. Therefore, if sales rise, it will have a structure that makes it easier to generate incomes.

Q. How many new app members and digital ID members do not overlap with current card-based

customers? What attributes are these people different from their existing customers?

We recognize that identity customers are linked to wealthy customers through out-of-store sales, those who use many department stores are linked with cards, those who use the app from time to time are linked with apps, and those who are not time-consuming and are distant from the store are linked as digital ID members. We are able to send information to nationwide 2.3 million followers who are even unidentified customers by 400 accounts of SNS . In this situation, we will escalate and increase the number of customers, from digital ID members to apps, from apps to MICARD, and from MICARD to Out-of-store sales customers. As an example, the app has 80 thousand to 90 thousand DL per month. Of these, about 2500 to 3000 have been joined by MI Card every month, so we would like to strengthen this portion in the future.