Isetan Mitsukoshi Holdings Ltd.

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

Summary of Q&A

Date: May 14, 2024, 5:00PM-6:00PM

Q: I have a question about this announcement of profit forecast and shareholder returns. In the past, the company would have announced the plan cautiously at the beginning of the period, and then revised it upward or added shareholder returns during the period while monitoring progress, but this time, I have the impression that the company is looking closely at the plan from the beginning of the period. Is this a change of mind or an endorsement of confidence?

A: This plan is a sign of confidence, and we believe there is still a lot of potential in this. As a strategy, we have a track record of having many customers who are identified customers visit our stores and make purchases, and our track record is proof of this.

Q: You are talking about 700 billion yen in shareholders' equity in FY2030. Does this mean that during the next six years of the Medium-term Plan, you will not accumulate much retained earnings and return a large amount to shareholders? Is it correct to think that 700 billion yen in equity capital, even after real estate investment over a long-term span begins, means that assets from investment will increase, but that ROE will be increased while maintaining financial leverage with a solid earnings base?

A： The first half of the next Medium-term Plan assumes that there will be no major investments, and more cash will be accumulated, which we would like to put into returns and investments for growth based on how we hold our equity capital. In addition, real estate investment is scheduled to begin in the second half of the next Medium-term Plan. In real estate investment over a long period of time, the company builds a long-term financial strategy by considering the debt-equity balance in a cycle in which financial leverage is used and the next investment is made when income is received for the property that is about to complete construction.

Q: Are there any risk factors regarding the department store sales plan for this fiscal year? Also, is there a slowdown in high value goods consumption or inbound?

A: Based on recent performance, both inbound and domestic customers' high spending have been strong, and we believe there is little risk. While we cannot rule out the possibility that continued inflation will reduce the willingness of some of our customers to spend, we do not believe that the overall situation will be significantly affected. In addition, the ongoing remodel openings at the mainstay stores have just begun, and there are projects scheduled for sequential remodel openings sequentially in the future. In light of the above factors, we do not believe that there is any total risk.

Q: Regarding the regional operating companies, was there a part of the profit plan for this fiscal year that was aiming a little higher? I would like to know the improvement potential of the regional store in the future.

A: This time, total Operating income of the regional operating companies was 8.8 billion yen, an improvement of 2.2 billion yen from the previous year. In the past, the highest profit for a regional operating company was just under 5 billion yen. Although we plan to increase profits mainly in metropolitan areas, this is not the end of the story for regional operating companies, as each company aims to achieve an Operating income of 3% or higher, while also strengthening its base network.

Q: The contents of the next Medium-term Plan will change between the time you reach 80 billion yen in Operating income and the time you build up to 100 billion yen in Operating income beyond that point. What kind of things are you going to do?

A: Considering how to actually build up operating income from the 64 billion yen Operating income target for the fiscal year ending March 31, 2025, in the first half of the next Medium-term Plan, in addition to increased profits at group companies including regional operating companies due to future remodel openings and steady cost structure reforms, we will first aim for Operating income of 80 billion yen through "selection and Conversion" in overseas businesses. In the first half of the next Medium-term Plan, we aim to achieve Operating income of 80 billion yen.

In the second half of the next Medium-term Plan, while the start of construction for urbanization community development may have a negative impact on earnings, specific projects for urbanization community development will become visible, and we will add new growth investments, and we will also consider how we can expand the customer assets collected by the Intra-Group coordination to Group companies in B to B and B to C, from the perspective of backcasting for the future. The company is considering profitable growth from a backcasting perspective aimed at the future.

Q: Looking at the results for the fiscal year ending March 2024, I thought the profits of the regional operating companies and the financial business were stronger than expected. I would like to know the factors behind this.

A: The financial business has been very successful in its Income and expenditure structure reform. The company plans to continue to make steady improvements in the current fiscal year, thanks to progress in MICARD's Income and expenditure structure reform. In addition to reducing Selling, general and administrative expenses, the company is also gradually increasing the number of financial products it offers. On the other hand, for regional operating companies, the base network has been rapidly progressing, and purchasing opportunities are steadily increasing, as seen in some cases where customers of regional operating companies visit Tansei-kai and Ippin-kai. In addition, each of the regional operating companies is beginning to see the effects of changing their operating models as "Scientific analysis of department stores," and for a variety of other reasons that are leading to increased profits for each company.

Q: In your financial strategy, is it correct to say that you will increase the weight of shareholder returns in the next Medium-term Plan to further raise the total return ratio to 50%?

A: We will disclose the specific plan in November, but if the current total return ratio of 50% is maintained, the size of shareholders' equity will not reach the level of the current plan in the first half of the next medium-term plan unless there is a large investment in growth.

Q: What do you think Isetan Mitsukoshi Ltd.'s current operating margin of 5.7% will be when the next Medium-term Plan targets operating income of ¥80 billion or ¥100 billion?

A: The means to increase profits in the department store business in the future will also include profits from real estate development in the medium term. In addition, if the business model is shifted from "store" business to individual customer business, the percentage of commission income will increase more than now, and the way the department store business generates revenue will change. We intend to engage in dialogue with each division within the group regarding the contents of the next Medium-term Plan and work out the details for disclosure in November.

Q: About returns. The first half of the next Medium-term Plan is to actively return profits to shareholders, but the level of net income is high in both FY3/23 and FY3/24 due to tax effects. The tax effect is expected to disappear in the future, but if that is the case, does that mean that the actual amount returned will decrease unless the total return ratio is increased?

A: As you mentioned, tax effects such as the large deferred tax asset will disappear. On the other hand, at the time of Operating income of 80 or 100 billion yen, we do not expect any major extraordinary losses at this time, and we believe that a certain level of Net income growth can be expected. Therefore, we do not anticipate a situation in which shareholder returns will decrease significantly as a result of a significant decrease in Net income.

Q: It is very powerful to hear that this is a sign of confidence toward 2030. In a sense, what is most necessary to achieve this goal is the training and selection of the next generation of management personnel and the success of these people. What is the current response and progress?

A: The level of management personnel has improved considerably in the four years since we became a company with a nominating committee. A system has been established to enable the Nominating

Committee to transparently monitor the next generation of top management candidates. I am also educating all officers to improve their level of performance, and our human resources are well developed.

Q: You have long talked about the potential to increase sales per employee in department stores. In fact, the number of employees has been decreasing every year as sales and profits have increased. How do you think your company should have the right number of personnel in the medium term?

A: The total number of personnel has decreased significantly over the past several years, and we assume that the overall number of personnel will continue to decrease for the time being as we curtail hiring compared to the past in response to the natural decrease in personnel. In the department store business, efficiency will be improved while also involving DX to increase productivity to over 100 million yen per person. In addition, as the company works to transform its business portfolio as a whole, it will allocate personnel to the finance and real estate businesses, as well as to attendants and outside sales in the Department store business. While the total number of personnel will decrease, the amount of compensation per person will be raised.

Q: About a return of 20 billion yen per year on a 500 billion yen investment. I think it is a pretty large amount of investment for you, but is it 500 billion yen as a business investment or is it 500 billion yen to be used at one time in phase 2 of urbanization community development? I would like to know the numerical image.

A: This investment of 500 billion yen is assumed to be made over a considerable period of time. Construction of a portion of the project will begin in the second half of the next Medium-term Plan, and it is tentatively placed as a portion of our investment as we develop the real estate over a period of 10~15 years. Some investment will occur in the second half of the next Medium-term Plan, but it will be a small portion of the total. In real estate development, we do not intend to do everything on our own, but rather to collaborate with business partners on a case-by-case basis. If real estate development increases the area utilized, we will consider the scope of our investment in terms of use and other factors. I would be grateful for your understanding that we are currently tentatively estimating the total amount of investment at 500 billion yen for such long-term projects.