Isetan Mitsukoshi Holdings Ltd.

Web financial results explanation meeting for the 1Q of fiscal year ending March 2025

Summary of Q & A

Date: Friday, August 9, 2024, 3:30PM-4:30PM

Q: The only positive factor in sales at your competitors was inbound sales, but your company's domestic sales also grew. What was the background for the strong domestic sales?

A: Sales at the three core stores in central Tokyo are strong. For example, the remodeling of the Isetan Shinjuku main store and Mitsukoshi Ginza stores is leading the way. The Isetan Shinjuku main store had a strong showing for Louis Vuitton, which opened in the Men's Building in March, and the Mitsukoshi Ginza store had a strong showing for Hermes, which opened in June. Several luxury brands have opened recently, all of which are doing well, including domestic customers. Brands are supplying more and more products to Japan because they appreciate that we are connected with good customers. Taking these factors into account, the Company has upwardly revised its current fiscal year plan.

Q: Why have you left your full-year forecasts for each regional company unchanged?

A: Regional companies posted a record operating income of 6.6-billion-yen last fiscal year and are planning an increase of 2.1 billion yen to 8.7 billion yen this fiscal year. Adding the Q1 results, operating income is up 2.0-billion-yen year-on-year, and there is a high probability that the Company will achieve its annual plan. Regional stores are also making progress with initiatives such as base networks. The plan will continue to be reviewed as needed.

Q: Are there any characteristics in the performance of the companies in the region?

A: Strong sales are seen at Iwataya Mitsukoshi, Sapporo Marui Mitsukoshi, Nagoya Mitsukoshi, etc., with a strong trend in major metropolitan areas.

Q: Among the top customers of the out-of-store sales and MICARD, will the economic environment (such as the plunge in the Nikkei Stock Average) have any impact on wealthy investors such as a decline in purchases?

A: As of the end of July, there has been no significant impact. If there are any major changes in the future, we will discuss them with you on occasions like this.

Q: Financial results for overseas stores have been revised upward, mainly at Mitsukoshi U.S.A. What is the background to this and what is the outlook for the second quarter and beyond? And business in China is in the red, but what happens after the second quarter?

A: The overseas accounting period begins in January, so the current financial results incorporate the

period from January to March. We have positive prospects for the periods afterwards. Among them, Mitsukoshi U.S.A. increased both sales and profit, partly due to the effect of last year's remodeling. In China, the Company closed two stores in Tianjin in April and one store in Shanghai in June. The U.S. and Southeast Asia will be the main focus in the future.

Q: You have revised upward ¥40 billion in gross sales, but I would like to confirm the breakdown.

A: Of the upwardly revised gross sales of ¥40 billion, Isetan Mitsukoshi in the Tokyo metropolitan area accounted for ¥35.5 billion and the remaining ¥4.5 billion was from overseas business. Of the 35.5 billion yen of Isetan Mitsukoshi sales in the Tokyo metropolitan area, 21.9 billion yen is inbound sales, and the remaining 13.6 billion yen is to Japanese customers.

Q: I heard that progress is being made in the scientific analysis of department stores, but I would like to know about the details. Has the effect of scientific analysis of department stores run its course yet?

A: Scientific analysis of department stores is ahead in the Tokyo metropolitan area and Iwataya Mitsukoshi, while other regional companies are benefiting from organizational and personnel reforms starting this fiscal year. Personnel expenses are being squeezed by holding down the number of filling vacancies, while measures are being taken to improve compensation, such as base increases. This trend will continue.

Q: About the credit & finance business / customer organization management business. I understand that the cost control measures have been effective since the second half of FY2023. Please tell us about the progress in the first quarter and the upside for the full year.

A: In the credit & finance business / customer organization management business, we were able to significantly increase profits in the first quarter due to the effects of the income and expenditure structure reforms that began in the second half of FY2023 and an increase in overall credit card transaction volume, while strengthening the finance business and preparing for the future. After this, the Company plans to issue an entry card with no annual fee, as well as new financial services, at the end of the fiscal year. However, since the amount of profit increase in the first quarter does not necessarily quadruple over the course of the year, the Company has not revised its financial results this time.

Future financial business plans will be disclosed in November.

Q: What exactly are the income and expenditure structure reforms in the financial business?

A: We are proceeding with income and expenditure structure reforms by focusing on improving the efficiency of its personnel at MICARD and on the sales promotion portion of card acquisition.

Q: Will there be more expenses for the future of the financial business from the fourth quarter onward?

A: Last fiscal year, the financial business invested in a core system, but there are no plans for such a large increase in expenses this year.

Q：What is the reason behind the conservative inbound sales forecast from the second quarter onward? I would like to know your thoughts on future inbound sales, including the external environment.

A: Inbound sales were stronger than initially expected at 14.5 billion yen in April, 17.0 billion yen in May, 16.7 billion yen in June, and 16.4 billion yen in July. The May and June sales were too good to be true. Although there are uncertainties about weather conditions and earthquakes at present, and foreign exchanges and the global economic slowdown in the future, the Company believes that it has a certain degree of certainty and has planned for 180 billion yen per year. Also, due to the nature of our customers, we do not believe that a slight appreciation of the yen will suddenly weaken their purchasing. While various scenarios are envisioned, inbound sales are planned at 15 billion yen per month.

Q: While selling, general and administrative expenses were negative in the first quarter compared to the same quarter of the previous year, given the amount of increase from the second quarter onward, it appears that they "spend" expenses. Is there anything that you clearly expect an increase in expenditure?

A: We will steadily make the necessary investments as planned, and our overall feeling is that we have a bit of leeway in selling, general and administrative expenses. The annual plan includes a large increase in sales-linked expenses but may be somewhat conservative in terms of credit card fees, distribution costs, and utilities. We are not saying, "Here is where we will spend the money," but we are planning with some leeway, considering the effects of inflation and other factors.

Q: Are there any items (e.g., each of the sales and selling, general and administrative expenses) that had large seasonal numbers in the first quarter?

A: Not particularly seasonal. The difference from the far years ago is that the profit from the department store's mid-year gift has been moved to the second quarter due to the revenue recognition standard, but it is unchanged from the previous year. Any other seasonal credits have already been factored into the plan.

Q: On the scientific analysis of department stores. Isetan Mitsukoshi Ltd. has seen a 14.5% increase in sales, but selling, general and administrative expenses are almost unchanged, which

is an excellent result. I think we have already been through more than going full circle of the scientific analysis of department stores since we started it, but will we still see reductions from its effects?

A: The reason why selling, general and administrative expenses have been kept low is that business consignment expenses have been reduced, along with curtailing personnel replacement. In addition, the group's advertising function has been transferred to Studio Alta, and the efficiency of advertising expenses is beginning to take effect.

Q: Please tell us about the profit of the Other segment. Are there any subsidiaries in the Other segment with decreased profits?

A: IM Food Style is struggling somewhat due to soaring raw material prices and other factors. Isetan Mitsukoshi System Solutions and others are expected to achieve their plans for the year.

Q: What is the impact of the strong yen on inbound sales? Can you achieve inbound sales of more than 15 billion yen per month in August? Many luxury brand companies revised their prices in May and June, but at about 145 yen to the dollar, Japan still seems to have a price advantage. However, I think the price advantage will disappear at about 135 yen to the dollar, but what is the risk in that case?

A: There is a slightly different set of conditions in August from other months, such as the large number of families visiting Japan, and we assume that inbound sales will not be as strong as those recorded until July. I cannot give a clear indication of how much currency sensitivity there is in our company, but I believe that a sharp appreciation of the yen has a certain impact. However, it is positive for us that the brands are actively supplying products to us based on the connection with our customers. We would like to introduce an app for foreigners at the end of this fiscal year and connect with overseas customers individually to make them identified customers.

Q: I know there was a rush in May before China's Labor Day and price increases, but is the base of inbound sales the same now as it was then?

A: The pace of inbound sales has not changed through July. We will check back in August.

Q: The gross profit margin of Isetan Mitsukoshi Ltd. declined 0.1% from the previous year. If sales of luxury brands are strong, gross profit margin is likely to decline due to the MD mix, but it is not so much affected. May I understand this is because of stores with high margins such as the Isetan Shinjuku main store?

A: Exactly. Gross profit figures in the Explanatory Materials for Consolidated Financial Results p.5 are before the application of the revenue recognition standard, but the margin ratio of Isetan

Mitsukoshi Ltd. declined only slightly due to the strong performance of Isetan Shinjuku main store and other flagship stores.

Q: On the consolidated income statement, the gross profit ratio for the first quarter improved 2.6% year-on-year. You said that the gross profit margin will improve by 2.22% year-on-year under the revised plan for the full year as well.

A: There are two factors contributing to the improvement in gross profit margin. The first is because of an increase in the share of digested purchased goods, where only the gross profit portion is recorded as "net sales" under the current revenue recognition standards. The second is business mix, where an increase in the share of MICARD and Mitsukoshi U.S.A., which have high gross profit margins, will increase the overall gross profit margin.

Q: I believe you are planning to announce your new medium-term management plan in November. Concerning this, I would like you to explain about your financing and capital policies to the extent possible. I would also like to know what you are currently focusing on as CFO.

A: In the past, we were somewhat operating-income oriented and paid insufficient attention to net income and the balance sheet. Because of the large number of impairment losses and other extraordinary losses, net income was unstable, and shareholder returns were not always sufficient. As CFO, I am very conscious of net income and balance sheet control. In addition, we would like to clarify future plans with an eye to cash allocation.

The next medium-term management plan is planned for six years, divided into three years for the first half and three years for the second half. In the first half of the plan, we will be preparing for Urban community development, but we will have some cash to spare, so we will balance investment in growth while strengthening shareholder returns. In the second half of the plan, we will continue to provide a certain level of shareholder return while also strengthening investments for the future, such as the transition to Urban community development.

Q: What are the trends in inbound sales? I understand that luxury brands are strong, but I would like to know if there have been any changes in product areas, customer age, or other attributes over the past year.

A: Not much has changed in the past year, but a lot has changed before and after COVID-19. Before COVID-19, the sales centered on many group customers from China who sought low-price cosmetics. Although the number of customers has now returned to only 90% of the pre-COVID-19 level, we are planning sales of 180 billion yen, which is more than double the pre-pandemic record of 80 billion yen. As you know, the products sold are mainly luxury goods, which means that the price-per-customer has increased significantly.

Q: Please tell us about the strong performance of Iwataya Mitsukoshi. I understand that inbound sales are strong, but what is the actual situation?

A: Iwataya Mitsukoshi also has strong inbound sales, especially for Korean and Taiwanese customers. When CEO Hosoya was president of Iwataya Mitsukoshi, he promoted the creation of stores that offer a sense of High sensitivity, fine quality, reformed CRM centered on out-of-store sales, and pioneered structural reforms that became the basis for the current scientific analysis of department stores, thereby establishing a highly profitable corporate foundation. The Company believes that the reason for the strong performance is that the style in which individual employees think for themselves and run their own businesses has been firmly established.