Isetan Mitsukoshi Holdings Business Strategy Briefing

About Isetan Mitsukoshi Property Design Ltd.

Outline of Questions and Answers Summary

Date: Monday, March 6, 2023, 10:30 to 11:40

Q. How do you win orders? What is the ratio of each?

A. At present, the ratio of competitive biddings and private contracts is half and half. Orders for large-scale properties are through competitive bidding, but orders for high-added-value construction projects such as offices are often received through private contracts. In addition, for large-scale redevelopment investment projects, cost-on orders are the most common method accounting for about 80% of orders with construction performed under the safety control of the general contractor while the price is agreed upon with the client. The remaining 20% is under the control of the general contractor and ordered by the general contractor. Although the market has shrunk over the past two years due to COVID-19 and there are more competitive biddings, from now toward the next fiscal year, we will aim to win orders for projects that will lead to high operating margins.

Q. What are the current performance and sales prospects of business for out-of-store sales customers?

A. We have been working with the Out-of-store sales Department since the year before last. The Company also handles the interiors of the department stores' lounges, giving customers a firsthand experience of our technical capabilities when they visit stores, as well as having the Out-of-store sales Department refer customers to us citing our ability to perform such renovations. We expect sales to increase significantly in the future with a renovation order worth over 100 million yen received this fiscal year. The Company will work on high-added-value projects that only we can manage properly, rather than projects that general housing manufacturers can handle.

Q. What are the special features of the "technical capabilities" and "proposal capabilities" that are your strengths, and how are they different from other companies?

A. The Company has its own furniture factory in Higashirokugo, Ota-ku, Tokyo, but none of our competitors have their own factory in Tokyo. Through manufacturing in the factory, we can draw high-precision drawings by ourselves, which allows us to meet the needs of clients who demand high quality. We will make construction proposals to customers based on this advanced level of technical capabilities. Additionally, high-quality service and planning capabilities cultivated through department stores are also the Company's strengths. We would like to harness these strengths to improve our proposal capabilities.

Q. What is the current sales ratio of intra-Group projects to external projects, and what will be the scale of business expansion over the medium to long term? What plans do you have for recruitment and training for business expansion?

A. This fiscal year, sales are expected to be slightly lower than planned due to the soaring cost of raw materials and the deferral of investment by clients. Amid rapidly changing workstyles, lifestyles, and business trends, clients reviewing their business plans and the decrease in large-scale projects meant a decline in sales, however, we expect investment, which was deferred this fiscal year, to make a significant return in 2023. The current

sales ratio is 15% for intra-Group projects and 85% for external projects, but we would like to increase the ratio of intra-Group projects, including urban development, to around 40% in the future. Operating income per capita is currently approximately 2.8 million yen, but we expect this will rise to around 3 million yen due to streamlining efforts through intra-Group projects, and we are promoting recruitment and training to meet this expectation (recruitment in the current fiscal year is 40 to 50 people). In 2030, we would like to achieve net sales of 70 billion yen with an operating income of 5 billion yen, the equivalent of the third highest in the industry.

Q. Specifically, how are you "leveraging the Group's comprehensive capabilities" to increase sales and profits?

A. In order to enhance recognition of our high-added value and our business operations, we are strengthening our sales activities in cooperation with our corporate out-of-store sales staff. Although the future timeline etc., for urban development is not yet clear, we are aiming for an operating income of 5 billion yen in 2030, of which we have an image that about 2 billion yen will be obtained through intra-Group projects including urban development, and about 3 billion yen will be obtained through external projects.

Q. Specifically, which business do you plan to strengthen and increase sales in the immediate future such as in 2023 and 2024?

A. We plan to expand the Construction & Interior business. We will take in upstream works in order to increase profit margins in the Construction & Interior business. To this end, while bringing the Project Management business to the fore, we will increase added value through proposals for the entire project. While focusing on this, we would like to pursue large-scale investment projects nationwide.

Q. Ranked ninth in the industry (based on fiscal 2019 results). Your recent profit margins appear a bit lower than those of other companies. What are the causes of that?

A. The top eight companies tend to have high-level proposal capabilities and relatively high operating margins. We propose how to combine technical capabilities and construction unique to department stores, but the top four companies in particular have advanced design capabilities and very good systems for winning orders for projects through private contracts. We believe we can increase our operating margin by improving our own distinctive proposal capabilities which will lead to a contract for an entire project.

Q. I believe you are developing your business while also making use of Isetan Mitsukoshi Group sites nationwide. Do you have any plans for developing or bolstering operations in the regional areas in the future?

A. Until about 15 years ago, we had offices in all locations where the Company's department stores were located, but now we have offices in the major cities of Fukuoka, Nagoya, Osaka, Sapporo, and Niigata. In the BtoC business, we will approach the Group's identified customers. In addition, we would like to make efforts in cooperation with the corporate out-of-store sales in each region including: Fukuoka and Nagoya, where there has been an increase in redevelopment; Osaka, where there are consistently many investment projects; and Sapporo, where there has been an increase in construction investment including the areas in front of stations.