Web financial results explanation meeting
for the Fiscal Year Ending March 31, 2022
Outline of Questions and Answers
Date and time: 17:00-18:30 on Friday, May 13, 2022

Q. A year has passed since you assumed the presidency. What kind of response and challenges do you feel?

The idea of department stores has been changed by scientific analysis of department stores. We have changed the income and expenditure structure and the contents of the top line. On the other hand, the short-term challenge is that the impact of the COVID-19 continues in China. The long-term challenge is how to realize the urbanization in Shinjuku and Nihombashi, monetize them, and spread them over local areas and overseas. Both are challenges that will lead to large profits in the future.

Q. Full year forecasts for this fiscal year appear conservative, but how do you see them?

While the top line is uncertain, SG&A expenses include ¥5.3 billion as sales strengthening measures, which is considered to be both an offensive and a defensive role. If the top line falls, I would like to revise it, and if it is as planned, I would like to use it firmly for the future.

Q. In the ¥5.3 billion sales strengthening measures, which areas do you intend to focus on in particular?

One is advertising expenses. Rather than using flyers like in the past, the company hopes to win new customers, develop them, and prevent membership withdrawals. Another is a new digital mechanism to connect with customers. We'll spend money to ensure expansion as a customer asset, not for short-term sales.

Q. How do you see recent changes in consumer behavior compared to before COVID-19?

Middle customers segment sales have not yet recovered, but sales by affluent customers segment, mainly from (Individual) Out-of-store sales, are strong. For example, sales at the Isetan Shinjuku Main Store in April 2022 were a record high since 2008, when the company integrated its operations. Department stores also need high-touch services and MD proposals, which is our strength. It is important for us to be chosen when customers want to buy special items on celebrative occasions, not just something that can be bought anywhere. For this reason, we believe that we are able to propose

MD with scarcity and limitations.

Q. Why did you buy back IM Food Style Ltd. this time?

It has the potential to create a network of high-sensitivity, high-quality consumption and expand customer contact. So, we decided to make this buyback because we strongly felt the need to incorporate customers who purchase daily and highly sensitive products into our group.

Q. How do you think the strong performance of affluent consumers will persist? Moreover, will affluent consumer spending grow?

In out-of-store sales, multiple members make proposals to a single customer on a team basis, and the buyer accompanies the proposal. I feel that there are still categories to deal with by making various proposals related to life in a new style. In addition, our group has 170 stores across Japan and a network of 228,000 out-of-store customers. In addition, the Shinjuku store's 120,000-kinds of products can be purchased from rural areas through EC, and special sales events are held twice a year for out-of-store customers. I am confident in raising wallet shires for external customers over the medium to long term. Customers want a variety of items, not just those in stores. Our out-of-store customers have sales of around ¥120 billion in our stores, while they consume dozens of times more than in our stores. If we approach it, we think there is still a possibility.

Q. Are there any room to reduce cost by income and expenditure structure reform in the current fiscal year as well?

The ¥4.7 billion for the current fiscal year is a figure that has already been finalized, including a curtailment of recruitment. Depending on top-line conditions we are thinking another way separately. We intend to proceed with income and expenditure structure reform while maintaining a balance.

Q. In the full-year plan for the current year, the operating income is ¥14 billion, but how do you build up to ¥35 billion in fiscal 2024?

It may look conservative compared to the current situation. But We think inbound sales will grow even further next year and beyond and they have higher profit margins than domestic sales.
And progress in controlling fixed costs and some efforts by the Intra-Group coordination will also start contributing to incomes, so we believe that even if inbound tourist retorn more slowly than we expect, the probability of achieving the ¥35 billion is rising.

Q. You said that this fiscal year will return to operating profit before COVID-19, but why did you keep the plan at ¥14 billion? Also, if operating income is higher, are you thinking of investing in growth and rewarding employees for the future?

We are building up operating income of ¥14 billion through discussions with each division, so I would like you to understand that it is not in line with FY2019. If incomes exceed them, we would like to consider returning profits to stakeholders, such as employee bonuses and future investments and shareholder returns.

Q. What measures do you take to attract middle customers rather than affluent customers?

Although the middle customers are returning recently, it is still severe. As a measure, it developed and disseminated apps during COVID-19 pandemic. Traditionally, communication has involved only mass media, such as newspapers and flyers for non-card customers or DMs for card customers. However, we have currently 3.7 million digital customers, including app members.
Even excluding MI Card customers, the company also connects 2.77 million customers. The company has been able to provide push notifications and e-mail promotions to this customer through the application, and sales are gradually beginning to return. Going forward, we will continue to take an unprecedented approach to middle customers.

Q. What are the reasons behind the opening of new stores in Toyota and Tokushima? Will this small-and medium-sized store network expand in the future?

There are three reasons. First, they are satellite stores of a mother store in the region, and secondly, we can reduce costs by tie-up with a mother store and, finally, there are supports from communities and customers. We verified if they are all together, incomes will be generated. It is not to open stores in blank areas simply. Going forward, we will consider multiple commissions by accumulate customers in anticipation, not only earn incomes from single stores. Actually, commissions income is rising by spread of MI Card in Toyota and Tokushima.

Q. What kind of response do you feel about scientific analysis of department store? And how much is it progressing?

We have been steadily reforming business model of old-fashioned department store since last year, such as target sales per employee, direct-to-indirect ratios, customer PL, and advertising expense ratios.

In addition, we have newly started science analysis of e-commerce and small stores as well.
This fiscal year, we have also created an organization for this purpose and started from where we can.

Q. Sales of luxury brands are expanding, but do you feel worried about the product lineup due to changes in the Japanese strategy of the brand side? What is the outlook for sales from inbound tourists based on the exchange rate situation?

It is said that the brand is not suited to Japan, but we think it is different. Top management has been coming to Japan and we are continuing our business negotiations, and we are able to make scarcity efforts in the form of limited products and upfront sales. I have met top management of luxury brands in person and talked to them thoroughly. In the future, sales from inbound tourists will surpass the record-high sales in 2018. For example, sales from inbound tourists recovered to 25% of their peak last month, but most are the sales of limited products. We sell products that are not handled by other department stores. I think merchandising capabilities are also strong for inbound tourists. Please feel comfortable with our efforts that include sensitivity and scarcity. Recently, many overseas customers want to look at SNS and go to a special purchase. As the yen is depreciating, I'm looking forward to revival of inbound sales.

Q. In the materials, it appears that the share of general identifying customers will increase in the future more than that of out-of-store customers. Are general identifying customers closer to affluent customer than middle customers in your company? or there is room to grow out-of-store customers sales, but do you see it conservatively?

Based on the flow in fiscal 2021, we expect more identified customers. I was talking about the app a while ago, but 0.9 million people became app members in a year, but when I created the plan, I thought it wouldn't increase that much. Thus, the sales of 2.7 million MI Card members, combined with the digital ID membership at EC and membership of the app at stores, would be more than 60 percent of all sales. In addition, since mid-last year, out-of-sales have been offering proposals from teams or buyers to each customer. As a result of 100 sales representatives using AI and customer charts, those annual sales grew by 1.5 times.
We think that if it is implemented on out-of-sales basis as a whole, sales will increase more, so the full-year plan for this fiscal year is conservatively estimated. I would also like to explain the progress of the initiatives firmly.