Isetan Mitsukoshi Holdings Ltd.

Web financial results explanation meeting for the fiscal year ended March 2023

Summary of Q & A

Date: Tuesday, May 9, 2023 17: 00 ~ 18: 00

Q. What is your cash allocation and financial strategy? While you say you will be conscious of a total return ratio of 50%, this time you increased the dividend, but I think the payout ratio is around 20%, so can we expect you to enhance your strategic efficiency by implementing share buybacks over the remaining two years?

A. The plan for the current fiscal year is somewhat conservative, such as not including tax effects in net income, and we are fully aware of that opinion. From this fiscal year onward, we want to balance dividends and our own stock while being aware of a total return ratio of 50% on a yearly basis. We want to show the timing and the amount of money when appropriate.

Q. My understanding is that if you balance dividends and share buybacks and use the operating cash flow allowance to return 50%, there will be no problem. Is it correct?

A. That's right.

Q. The operating income of the credit and finance business segment is said to be 4.1 billion yen as a result of the planned 5 billion yen for the 2022 fiscal year due to the change in the fee structure within the group. With the increase of number of identified customers and department stores breaking through in the "revitalization phase," there should be more opportunities to shops other than Isetan Mitsukoshi stores, but the fiscal 2023 plan is a disappointing one compared to when the original plan was formulated. I believe that the portion of "urban development phase" that will become infrastructure will be dominated by MICARDs, but what will be the drivers of future growth?

A. At the time of developing the plan, the effect of non-retention of PAN could not be foreseen fully, and the effect was larger than expected compared to the previous year. The 2.2 billion decrease in income in the credit & finance business segment was mostly attributable to this decrease. Meanwhile, external transaction volume hit a record high. In the future, the image is of a balanced rise in merchant fees, annual fees, finance, and financial services. Toward that end, there are upfront investments and other factors that make profits look small in fiscal 2023, but the plan is to make substantial gains in fiscal 2024 and beyond.

Q. I understand the fiscal 2024 ROE of 5.7% and the total return ratio of 50%, but how do you see the final ROE target level? I understand that the Company's capital is sufficient,

and I know that it is difficult to make a leap to 10%, but please tell me what kind of discussions you are actually having in management while you are making your recommendations.

A. The discussion is to aim for an ROE that at a minimum exceeds the cost of equity. Although we did not provide specific figures this time, we believe that higher ROE can be expected in the future if the real estate segment in finance and "urban development" is included. Please understand that what we showed this time is the number in the most recent "revitalization phase".

Q. Are you looking at a cost of capital of about 5%?

A. We are looking at just under 6%.

Q. I want to know how the sales figures are set up for this fiscal year. I understand that you control expenses and do not create unnecessary sales. While the company's approach to inbound sales is clearly stated, the action restrictions have been lifted and the environment should have made it possible for the Company to do a variety of things that it could not have been able to do in the past, but it seems that the plan does not seem to be for the company to increase sales so significantly. Please explain this point for me.

A. We think it is a conservative sales budget. However, it is not clear how customers will spend after the lifting of the restrictions. Even now, the number of customers is still 80% of pre-Covid-19 pandemic levels, but the store is making its current sales. This is because we have become more connected to our customers through strategy. In the future, if middle and senior customers, who have been refraining from going out due to the Covid-19 pandemic, begin to flock to department stores as used to be, the sales will naturally be higher. Inbound is also estimated at 60 billion yen a year, sideways the 30 billion yen figure recorded in the second half of last fiscal year, and while some may say it is weak, this estimate is based on the fact that group tours of Chinese customers have not yet begun in earnest. There is a lot of potential for sales growth in the future, but rather than factoring in all of that and blindly setting high targets, we are laying the numbers aside as we explain the assumptions of my calculations to everyone. Even with such conservative estimates, the Group is in a state where it can generate the highest profits.

Q. Isetan Mitsukoshi on its own is doing quite well. Regional operating companies are also improving, but is there any potential to do better as a non-consolidated company?

A. The biggest regional driver is Iwataya Mitsukoshi, which projected a profit of 2.7 billion yen last fiscal year and 3.1 billion yen this year. Even in fiscal 2018, the record high, profits were just under 1.5 billion yen, so it has doubled. This is an example of how the department store has

shown that it has such potential by firmly pursuing the “Scientific analysis of department stores” and connecting with customers. The plan is to spread this to other areas, hoping for a plus alpha.

Q. Does that mean the region is planning for FY24 with some recovery in mind?

A. We hope for more than recovery. Scientific analysis of department stores was preceded in Tokyo metropolitan area, and regional business corporations did not do it at all. At Iwataya Mitsukoshi, operating profit originally at the level of about 0.5 billion yen had continued for decades and now they are doubling it five or six times. We will continue to do this because we are convinced that the region still has a lot of potential.

Q. On page 16 of the handout, "In fiscal 2024, total sales were up 70 billion yen, SG & A expenses were down 2 billion yen, and operating income was up 5 billion yen from the original plan." means + 3 billion yen in gross margin. Even if sales of this amount are higher, is the gross margin lower because luxury is the core of sales and the impact of the composition ratio is severe?

A. The original plan did not foresee the acquisition of IM Food Style Ltd. as a subsidiary. Since this sales amount to about 45 billion yen, the main factor is not profit increase due to simple sales increase, but the effect of composition ratio.

Q. The KPI of the original plan of the mid-term plan was 150 billion yen in interest-bearing debt, 1.4 times net interest-bearing debt/EBITDA ratio and 13 billion yen over 3 years of shareholder return. What's going on with these this time?

A. The 150 billion yen in interest-bearing debt depends on how much cash we put in, but the Company has been able to achieve 1.4 times its EBITDA almost ahead of schedule. Although interest-bearing debt itself is not shown this time, we recognized that we have already achieved the KPIs we initially showed. The shareholder return of 13 billion yen also exceeded that figure this time, along with a target for total return ratio.

Q. With regard to the total return ratio of 50%, it is said that the company will consciously implement the policy in a single fiscal year, but is the policy to achieve this 50% in a year?

A. If there is an unforeseen situation where cash does not go in, or if there is a large growth investment, it may be changed, and if it is executed during the period, it may not be 50% at the end of the period ideally, but we do not intend to put it all together later in the medium term. We keep these figures in mind every single fiscal year.

Q. I think the challenge is to improve the profitability of non-core department stores. Is the case of Iwataya, the best store in the area, applicable to all stores? There was an explanation of the Matsuyama case before, but is it confident or challenging? What's the hardest or most challenging part of improving?

A. Iwataya is the top store in the area, but Matsuyama Mitsukoshi is the fourth. But not only Iwataya but also Mitsukoshi are in the black. Therefore, scientific analysis of department stores calls for the creation of a structure in which even the fourth store can be profitable because it is a department store. Rather than giving up any store, we will first work to achieve profitability.