Isetan Mitsukoshi Holdings Ltd.

Summary of Q&A Session at WEB Briefing for the First Quarter of the Fiscal Year Ending March 31, 2026

Date: Friday, August 8, 2025, 16:00-17:00

Q: How did consolidated net sales and operating profit for the first quarter compare with the internal plan, and were there any notable differences among the metropolitan department store, regional department store, overseas department store, and credit/finance/real-estate segments?

A: Consolidated operating profit for the first quarter finished virtually on par with our internal plan. From a sales perspective, we had assumed overseas customer sales of roughly 80% year on year and domestic customer sales of about 100%. Actual gross sales for the domestic department stores came in slightly below plan, with overseas customer sales falling short by approximately JPY 6 billion while domestic customer sales exceeded plan by roughly JPY 5 billion. Meanwhile, the credit business (MICARD), together with our overseas operations, is tracking ahead of plan on a full-year basis, and both the real-estate business and our major affiliated companies are performing generally in line with expectations.

Q: Domestic sales at regional department stores appear to have slipped below the previous year. What is the real situation, and what drove the JPY 6 billion shortfall in overseas customer sales versus plan?

A: Domestic customer sales at regional department stores were 97% of the prior-year level. Although certain stores—such as our Sapporo store and Iwataya Main Store—experienced lower overseas customer sales, the effectiveness of our base network ensured that customer touchpoints were maintained. The principal reasons for the JPY 6 billion gap in overseas customer sales versus plan were (i) a reactionary decline after last year's global luxury-brand price-hike cycle, during which Japan's relative price advantage spurred extraordinary demand, and (ii) a diminished benefit from the weaker yen this fiscal year.

Q: Overseas out-of-store-sales have been strong. What factors are driving this performance?

A: Overseas out-of-store-sales are roughly split 50:50 between resident customers and visitors to Japan. Growth has been driven primarily by (i) an increase in referrals from resident customers to visiting customers, and (ii) a rise in "toss-ups" from in-store stylists to the overseas out-of-store-sales team. Although we have not conducted a large-scale recruitment drive, we have successfully established reliable channels to connect with highpotential customers, and the results are tangible.

Q: Cost structure reform seems to be progressing well. Which measures have been most effective, and can the same pace be expected for the full year?

A: Cost structure reform produced savings of JPY 1.7 billion in the first quarter. The key drivers were (i) the closure of our operations in China and at ALTA stores, (ii) restraints on staffing replacements, and (iii) utility expenses that came in below projections. For the remainder of the year, we are preparing additional agile initiatives—particularly in advertising expenses and business consignment expenses—that can be deployed depending on sales trends.

Q: Domestic customer sales at department stores rose only 1% year on year in the first quarter. What will support stronger growth in the second half?

A: In the first quarter of last year, domestic customers also pulled forward demand ahead of luxury-brand price hikes, so the year-on-year hurdle eases from the second quarter onward. In addition, the introduction of the MICARD BASIC has expanded the number of identified customers—especially MICARD W members—and our personalized recommendation initiatives are expected to lift spending in the second half.

Q: Why did the standalone gross profit margin at Isetan Mitsukoshi decline year on year?

A: Two factors account for the decline: (i) a higher sales mix for food, which carries a comparatively lower gross margin, and (ii) a change in the sales balance among stores. Because many of these effects are transitory snapshots taken three months into the fiscal year, we will continue to monitor them closely. Over the medium term, we aim to raise the gross margin through the reinforcement of original merchandise and other unique content.

Q: Please discuss domestic customer trends by annual spending band—particularly out-of-store-sales customers and those spending less than JPY 300,000—and outline the challenges and countermeasures.

A: Customers spending over JPY 10 million annually grew to 114% of the prior-year level, those above JPY 3 million to 108%, and those above JPY 1 million to 110%, indicating robust growth among top-tier customers. Out-of-store-sales at both Isetan Shinjuku Main Store and Mitsukoshi Nihombashi Main Store also exceeded 106%. Conversely, growth among unidentified customers and the lower-spending cohort has been relatively subdued, but we anticipate improvement as the MICARD BASIC gains further traction.

Q: What initiatives are planned to stimulate spending among lower-spending customer segments, and is there room for further improvement?

A: We are intensifying personalized digital communications to app members and MICARD W members, while bolstering the uniqueness of daily-use categories such as food and cosmetics to maintain strong relationships. Beyond that, we are working to ensure that even customers with modest annual spending remember us when seeking sophisticated and high-quality experiences once or twice a season.

Q: Overseas out-of-store-sales turned positive year on year in July. What caused the rebound, and what is the outlook for the second half?

A: In the first quarter, overseas out-of-store-sales from resident customers were roughly 90% of the prior-year level, while sales from visitors to Japan were just under 100%. The July upturn stemmed mainly from a surge in in-store "toss-ups" by stylists to the overseas out-of-store-sales team; the broader recovery in inbound tourism further expanded our visitor customer base. Going forward, we will maximize the power of people—namely, the expertise of our stylists and overseas out-of-store-sales representatives—to raise average spend by widening purchasing categories and lifting unit prices. In addition, the global app for overseas customers, scheduled for an upgrade next January, will enable us to identify individual purchase data and apply digital tools to drive higher spending and stronger repeat business in the second half and beyond.

Q: How have membership numbers and acquisition costs evolved since the MICARD BASIC was launched?

A: Because the MICARD BASIC is acquired primarily through the app, acquisition costs have declined. New-card issuance is running at roughly 150% of last fiscal year's pace, with the MICARD BASIC accounting for the majority of growth. The card also helps curb cancellations, so we expect profitability in the card business to improve steadily from the second quarter onward.

Q: What was the tax-free sales mix by country in the first quarter, and how do luxury-brand assortments and price gaps look?

A: The largest share of tax-free sales came from mainland Chinese customers, whose visitor numbers exceeded last year's level, although average spend per customer was about 60% of the prior-year figure. Taiwan ranked second with flat customer numbers and a slight decline in average spend, while both Korea and Hong Kong were soft in terms of traffic and spending. For one leading luxury brand, current price points in Japan are on par with those in Europe and the United States and only marginally lower than in major Asian cities.

Q: What is your view on the potential impact of revising Japan's tax-free shopping scheme, either by shifting to an exit-tax refund system or abolishing the scheme entirely?

A: We believe that a move to exit-tax refunds would have limited impact, provided that refunds are processed smoothly. The abolition of tax-free shopping could have a measurable effect, as seen in the U.K., so we will continue to follow policy developments closely.

Q: Is the JPY 10.6 billion gain on the sale of Shin Kong Mitsukoshi shares reflected in the full-year plan?

A: Although the exact figure was still subject to foreign-exchange fluctuations, we incorporated a reasonable estimate of the gain into the full-year plan that was formulated at the beginning of the fiscal year.

Q: Overseas customer sales began to recover from late July. What drove the rebound, and what will be the key factors going forward?

A: The principal driver has been a rise in customer numbers owing to increased inbound travel. We will use the global app for overseas customers to deliver tailored recommendations that encourage more frequent store visits and cross-category shopping, thereby lifting sales per customer. Although a stronger yen has put downward pressure on average ticket sizes, overseas customers are now engaging not only with luxury brands but also with daily-use items such as food and cosmetics. By leveraging both the app and overseas out-of-store-sales, we aim to broaden spending.

Q: How are you reviewing seasonal merchandising in the face of prolonged extreme heat?

A: While we have traditionally proposed finely segmented seasonal assortments, the extended summer has altered both the timing and the merchandise that sells. Customer traffic has not declined despite the heat, and food as well as summer sundries are performing strongly. We will therefore rethink merchandising without being constrained by past conventions. Interest in enriching time at home is also driving growth in the living category, so we are rebuilding our seasonal calendar and product line-ups to create stronger reasons to visit our stores.

Q: Drugstores reportedly enjoy strong tax-free sales of daily necessities. How will you capture inbound demand for everyday consumer goods?

A: A meaningful share of inbound visitors already shop in our stores. We will expand assortments of “Japanese,” “high-quality” items in food, cosmetics, and home goods while also combining them with experiential offerings such as events and travel products. Our goal is to evolve into a “must-visit destination” for customers when they come to Japan.

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