Web financial results explanation meeting
for the First Quarter of the Fiscal Year Ending March 31, 2022
Outline of Questions and Answers
Date and time: 15:30-16:30 on Thursday, July 29, 2021

Q. You have not announced estimates as it is the first quarter, but could you tell us your impression of how each segment is performing, even on a qualitative basis?

A. All segments performed as generally expected in the first quarter. The credit & finance business also did as well as the department store business.

Q. Regarding the department store segment, how did Isetan Mitsukoshi Ltd, overseas, and regional operations perform in the first quarter? You appeared confident about the current recovery at the briefing, so can we take that at face value? Do you have any data that makes you confident of moving firmly into the black from the second quarter onwards?

A. Our initial plan factored in a ¥29bn reduction in sales due to the state of emergency, which we expected to be confined to the Tokyo metropolitan area. As a result, sales in Tokyo beat our initial forecast as conditions on business operations were expanded there. However, Nagoya Mitsukoshi, Iwataya Mitsukoshi in Fukuoka, and other companies performed slightly worse than expected due to partial closures, as we had not expected a state of emergency to be declared in those areas.

The growing momentum in the spread of the virus has made the outlook unclear, but the recovery at the Shinjuku, Nihombashi, and other stores in the Tokyo Metropolitan area, as well as upbeat out-of-store customer sales suggest the recovery may continue to some extent.

Q. What is your impression of business performance versus two years earlier, excluding inbound demand? Are wealthy customers and out-of-store sales providing more of a drive, and are sales in the volume zone also recovering?

A. The current drivers are top MI card users and out-of-store customers, which are lifting overall sales.

Q. You have said that restructuring is progressing smoothly, but could you provide specifics about the items and factors related to this? Have you been able to cut costs further?

A. Page six of the briefing materials shows details on restructuring, with fixed costs listed below personnel expenses. This shows savings have been made through a decline in lease payments following store closures and due to control of staffing. We also plan to step up the shift of in-house consignment work we initiated last fiscal year in order to cut related expenses, and we are aiming to overshoot our initial target of a ¥12bn boost from structural reforms.

Some of the efforts we made last year have already begun bearing fruit, and we are on track to add to the slightly-above-plan cost savings achieved in the first quarter.

Q. Page 11 of the briefing materials notes that sales at the Shinjuku store are up versus levels two years earlier, excluding inbound demand. Could you explain in more detail how you analyze the differences between stores, especially the background of Shinjuku's strong performance?

A. The Shinjuku store has been performing well even during the state of emergency. As the monthly sales flash report and the graph on page eight of the briefing materials show, top customers are driving overall sales, so shops with a high proportion of top customers, such as the Shinjuku store, tend to perform more briskly. In addition, at the start of July, sales at the Nihombashi store had recovered to nearly 100% of the level two years earlier, excluding inbound demand, and it appears that shops frequented by predominantly senior-aged customers are benefitting from people eager to go out after being vaccinated.

Q. Overseas, although the impact was not severe in the first quarter, business in Malaysia and Singapore and equity-method profit from Taiwan has been worsening due to the pandemic in the second quarter. Could you tell us more about the situation overseas?

A. As you know, COVID-19 case numbers have been increasing in Southeast Asia and Taiwan since April (in our second quarter). This will have an impact going forward, but it will not weigh heavily on overall results.

Q. What were the operating income figures for regional and overseas department stores? Besides the pandemic, were there any factors that helped to improve earnings?

A. The summary of accounts shows our consolidated and non-consolidated results, and we have only disclosed regional sales figures for the first quarter. We apologize if some parts of the disclosure are difficult to understand. In terms of earnings trends, as I mentioned earlier, we had factored in the impact of COVID-19 to some extent for Isetan Mitsukoshi but did not do the same for some regional stores that ended up being impacted by the pandemic, so earnings were slightly weaker than expected.

Q. In terms of a recovery in sales, you talked about a strong recovery at stores with a high proportion of loyal customers. Could you tell us about any other company measures that have been successful?

A. Alliances between out-of-store sales and buyers provide many good examples in this regard, some of which have been written about in newspaper articles, although the ongoing impact of the pandemic means I cannot yet talk about this in terms of a characteristic volume for general customers overall. Out-of-store sales staff are able to understand customer preferences and demands, but buyers have little information in this regard, so have been limited to meeting individual needs when selecting products. The key then is for sales staff to provide buyers with detailed information on such customer needs. Taking a watch as an example, in the past, a buyer would tell out-of-store sales staff "these are the watches we have in stock," and it was not guaranteed that these watches would be ones that the customer liked. However, collaboration between the buyer and sales staff means that the seller is able to inform the buyer about the tastes and backgrounds of customers, thereby ensuring sales staff offer watches that closely match customer needs. This has increased customer satisfaction and made buyers more efficient as they are less likely to make unnecessary purchases. We plan to expand our efforts on such initiatives.

Q. At the results briefing in May, you said that online sales are growing strongly. Please tell us about trends and progress in 1Q.

A. At the results briefing in May, we said we were targeting online sales of ¥41.5bn for the year. Sales have progressed in line with the plan in 1Q. Isetan Mitsukoshi Online and new digital sales are also upbeat, and proceeding as planned, including the remote shopping app and other services that were not available last year.

Until last year, we wanted to target sales of over ¥100bn as soon as possible to quickly create a sense of volume as a business. However, in our current medium-term plan, we position online sales as a means to utilize our strength as a department store, and have shifted our focus to rolling out online operations that will ultimately make a profit, rather than blindly chasing sales. I would like to explain more about this in November, including our outlook that the business could generate tens of billions of yen in the near future if profits are emphasized.

Q. You said that structural reforms are progressing smoothly, but for example, the breakdown shows that personnel expenses seem to be making slow progress toward the full-year plan. Does this mean progress will be concentrated in the second half of the year? Also, you seem to be making progress on consignment expenses, could you tell us more about the background of that?

A. I think our controls on required staff will deliver results as planned for personnel expenses, although these might not appear evenly spread across each of the four quarters of the year.

As for other items, we have reduced electricity costs and built cost savings in other fine-grained areas, which we hope to increase from the second quarter onward. We are targeting at least ¥12bn in restructuring benefits.

Q. You explained that online sales are in line with the plan, so does that mean they rose by about 30% YoY in the first quarter? Also, I believe the company aimed to strategically increase the number of digital ID members and card members, but could you give us a more detailed picture of your targets in this regard and progress in the first quarter? Even fleshing this out with figures would be fine.

A. Yes, online sales have risen by about 130-140% YoY.

We acquired 1.65 million digital ID members last year. We hope to build this number to 3 million this year, and we have currently acquired over 1.8 million. In addition, the number of cardholders has fallen short of our expectations because the impact on business conditions due to the pandemic, especially in the Tokyo metropolitan area, has made it difficult to conduct in-person activities to acquire members.