Isetan Mitsukoshi Holdings Ltd.

Web financial results explanation meeting for the 1Q of fiscal year ending March 2024

Summary of Q & A

Date: Thursday, August 3, 2023 4:30 PM-5:30 PM

Q. Please tell us how the performance of 1Q was against the plan by segment.

A. Department stores in the Tokyo metropolitan area overwhelmingly exceeded the plan, and regional department stores were as planned in total, although there were differences depending on the region. Overseas department stores and affiliated companies are also in line with the plan.

Q. Can you tell us specifically about the results of the scientific analysis of department stores that has spread to regional department stores?

A. A regional department store is originally focused on its competitiveness against local competitors. In addition to Iwataya, companies such as Sapporo and Nagoya, which have a large scale and wide selection of products and are increasing identified customers, have exceeded their profit plans. Other companies also expect annual profits to be in line with their plans, including by adopting cost reduction measures of the Tokyo metropolitan area which takes a lead in cost control. Regional department stores alone are expected to improve operating income by nearly 4 billion yen from the previous year.

Q. Is it correct to understand that the decrease of operating income of the real estate segment is due to the decrease of income from rental properties held by Isetan Mitsukoshi?

A. That's right. The next contract for Shinjuku's BICQLO has not yet been decided. I can't give you the details, but we have a plan for earning annual revenue.

Q. Will the back taxes reported the other day affect this year's results?

A. The amount of back taxes has already been recorded as a sales discount in the 4Q of fiscal 2022.

Q. Inbound sales have already topped 7 billion yen in July, but how are you going to increase them going forward?

A. Inbound customers are now buying high-priced items at the suggestion of a salesperson, instead of going on a shopping spree. Like our domestic customers, we will continue to communicate with them so that they will repeat. In addition, we will deal with our top inbound customers by increasing the number of staff in charge of out-store sales for foreigners.

Q. In the revised plan, the figures from 2Q onwards are left unchanged. Is it correct to say that the current growth in inbound sales is not expected?

A. That's right. After accounting for the increase in Q1, the company expects annual inbound sales

to be 65 billion yen. However, we have published the basis for the estimates and the monthly trends, so I think you can calculate the increase against the plan. We would like to revise the plan at the next 2Q if we can foresee the future to some extent depending on the situation.

Q. Is it correct to understand that the total return ratio of 50%, which was disclosed at the financial results briefing in May, will be implemented properly during the year?

A. That's right. As CFO Makino made a commitment at the financial results briefing in May, we will focus on it every single year.

Q. I'd like to know more about regional department stores. It seems that Iwataya, Sapporo, and Nagoya are doing well but other stores are not. Why and how do you improve this?

A. Compared to Iwataya, Sapporo, and Nagoya, which are performing well, stores that are struggling are small-scaled. These stores also have good customers, but their use has declined in terms of product lineup. To cope with this issue, since last year, we have continued to develop network sales to introduce products from our Shinjuku and Nihombashi stores. As a result, sales have been steadily increasing, so we will further promote this and contribute to the profits of our regional stores. Companies such as Matsuyama Mitsukoshi, which have undergone large-scale reforms, are also making adjustments to meet the needs, and regarding SG&A expenses, regional stores are making good progress in their income and expenditure structure reform. As a result, the annual plan is considered to be in line with the forecast.

Q. Is the cost structure reform on track? Can we expect that reductions will be further accumulated in the future?

A. We're on track, and we think we'll be able to increase the amount of reduction. In addition, we will make a plan appropriately in an effort to control the increase in expenses related to the increase in sales.

Q. Why did Isetan Mitsukoshi's gross profit margin increase 0.07% year on year? Is it because of the large sales share of the Shinjuku store, which has a high gross profit margin as it has been before?

A. As you pointed out, the large increase in sales at the Shinjuku store, which has a high gross margin overall, has an impact, but it is also due to the fact that the expansion of consignment buying sales, which had been continuing with a low gross profit margin, has slowed down a little in 1Q.

Q. Which part of SG&A expenses were you able to control specifically as you explained in the briefing? The water and utilities part?

A. As for water and utilities, we cannot control the unit price of electricity because we are requested by the power company, but we are trying to save electricity. We are also promoting LED lighting

and reviewing contracts with electric power companies. On the other hand, there was no major climate disturbance from April to June, so it was suppressed, but it is uncertain whether it can be suppressed in 2Q because it is extremely hot in July and August.

Q. Please provide information about the number of identified customers and app members.

A. The number of identified customers increased from 5.9 million at the end of last fiscal year to 6.32 million as of 1Q. As for the number of app members, there were 2.02 million at the end of last fiscal year, and 2.22 million as of 1Q, so the number has increased by about 60,000 every month.

Q. As the number of identified customers has increased, I think the connection with customers has increased. What is your impression?

A. The Shinjuku store, for example, has exceeded sales in fiscal 2018 for 16 consecutive months. We understand that this means that we are able to connect with our customers and provide products and services that meet their needs. Although it is different from identified customers, we have been active in transmission by SNS, and many customers come to the event which has been informed by SNS and there are many lively spots in the store.

Q. As I mentioned before, is EC sales stagnating due to strong sales at brick-and-mortar stores?

A. EC sales are not disclosed. Although EC sales have increased compared to the previous year, the situation is somewhat difficult compared with the plan.