Isetan Mitsukoshi Holdings

Web financial results explanation meeting for the 3Q of the fiscal year ending March 2024

Summary of Q & A

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Q. With regard to shareholder return, the dividend increase announced this time and the purchase of 15 billion yen of treasury shares, I think the total return ratio will be about 60 ~ 70%. Why did the total return ratio exceed the 50% stated at the beginning of the term? Is this a result of considering the Balance Sheet?

A. With a total return ratio of 50% in mind, the Company has decided to increase its dividend and acquire its own shares based on market expectations and the Balance Sheet in terms of improving the current stock price level and capital efficiency improvements. A simple calculation of the return to shareholders this time is a total return ratio of about 60 ~ 70%, but the final profit for the current fiscal year is also subject to fluctuations due to tax effects and other factors. We take these into considerations.

Q. The period for repurchase of treasury shares is until March 29, which is not so long, but is it possible to repurchase all 15 billion yen worth? If they cannot be purchased during the implementation period, will it be added to next term?

A. In talking with financial institutions, I think that they can be purchased during the implementation period. It will proceed in balance with daily volume. If they cannot be purchased, we would like to explain it to everyone and follow up with them in the next fiscal year.

Q. In the next Medium-term Plan, what is needed to further increase profit margin and ROE in addition to the total return ratio as a management with Balance Sheet in mind? Will you raise capital efficiency not only by strengthening shareholder returns but also by expanding profits?

A. During the current Medium-term Plan, we will continue to focus on a total return ratio of 50% in a single fiscal year, but in the next Medium-term Plan, we will pay attention not only to ROE but also to ROIC. In the case of the Company, the capital adequacy ratio is high, so we would like to keep a balance while also looking at the DE ratio and others. On the other hand, growth investment is also important for the medium to long term. We will proceed by disclosing our policies, including the control of the Balance Sheet.

Q. If the tax effect accounting effect is applicable, it will be an accounting benefit that is not a cash flow, but is it correct that shareholder return will be implemented without deducting it from the denominator?

A. The effects of tax effect accounting are also in perspective, but it is not yet determined what will happen at the end of the fiscal year. Please consider that this announcement is based on our company's current share price and market expectations.

Q. The Company's performance is getting better, but what do you think has the potential to do better over the next quarter?

A. In particular, there are about three points of view, mainly in the department store business.
One is that the “high sensitivity, fine quality” strategy and "CRM strategy connecting with individual customers " are effective. The number of identified customers has increased, and the business model shifting has gone from mass to individual. Just today, an event called Tansei-kai is being held at Isetan Shinjuku Main Store. The second is about inbound. Inbound growth is expected to continue the next fiscal year. Third, while a certain part of Isetan Shinjuku Main Store and Mitsukoshi Ginza Store are currently closed for remodeling, this figure has been achieved. So I think there is room for further growth when they open gradually. On the other hand, in the related businesses, the effect of Intra-Group coordination will gradually take effect. For overseas, we announced the closure of Isetan Tianjin in the second quarter of the fiscal year ending March 2024, and we recognize that these effects will emerge as we continue to make steady progress in various forms of selection and conversion.

Q. We've heard about increasing revenue for the entire group, but how long should we expect to see results?

A. In the current Medium-term Plan, we are working to revitalize department stores, but in the next three years, the Intra-Group coordination will be in full swing, and we will steadily improve the performance of MICARD and other related companies in the next fiscal year. We hope to show them in our next IR in May.

Q. The Company increased operating income by 2 billion yen this time, but is this the increase for the third quarter? Or are you taking the fourth quarter into account? I would like to know where this 2 billion yen is calculated from in terms of sales, gross margin, and cost reduction.

A. The Company does not disclose its quarterly plan, but 1 billion yen increase in gross profit includes the current strong inbound sales in the Department store business. In addition, the Department store business is expected to reduce Selling, general and administrative expenses by

1 billion yen, a total improvement of 2 billion yen. However, there is a possibility of a little more increase if we look at the January results and the inbound situation disclosed yesterday.

Q. The total payout ratio is as high as 68% through a combination of share buybacks and dividends, but the payout ratio is still 30%. The average payout ratio in the retail industry is 35%, so if the market expects the Company to have a payout ratio of 40%, why not raise the dividend a little more? I think there is an idea of giving back a little more through dividends, but how did you discuss the balance between share buybacks and dividends?

A. As a result of the dividend increase, the dividend payout ratio was 30% out of a total return ratio of 50%. We will continue to examine the balance between dividends and share buybacks while monitoring the situation.

Q. While there is a lot of potential for growth in the future, there are various external factors such as concerns about the appreciation of the yen. What are the risks we assume in terms of sales and what can we expect to see growth on the other hand?

A. I mentioned earlier that the three stores in the Tokyo metropolitan area and the large regional stores are doing very well, but there is room for growth in the medium-sized regional stores. Results of Hiroshima Mitsukoshi and Matsuyama Mitsukoshi which have been struggling will also be improved steadily. Looking at the 3Q alone, Hiroshima Mitsukoshi is almost balanced, and Matsuyama Mitsukoshi has been recovering since a supermarket was opened in the basement, so I think the pace is getting closer. Since the impact of external factors such as the economy and stock prices is not zero, we want to continue our strategy to reduce this volatility by connecting properly with customers.

Q. What is the outlook for duty-free sales from the next fiscal year on the assumption that assuming no increase in group tourists from China?

A. At the time of the last earnings announcement, the Company set its full-year plan for inbound sales at 91.4 billion yen, but this time it added 5 billion yen, coming close to 100 billion yen. Before the COVID-19, the highest monthly tax-free sales was 7.4 billion yen in April 2019, but this was exceeded for the first time in July last year. It has gradually increased since then, landing at 12.4 billion yen in December and nearly 10 billion yen in January. Although there are seasonal fluctuations, the average monthly sales of about 10 billion yen is expected in next fiscal year.

Q. Sales growth excluding duty-free appears to have slowed slightly, but what is the outlook? Some say that domestic high spending will run its course. Also, I would like to know about the progress of initiatives other than large stores, which are doing well in local areas.

A. In the second quarter, the disclosed sales plan for the existing domestic department stores shows that 112% YoY for Isetan Mitsukoshi total, 105% YoY for regional operating companies total and 109% YoY in total. Both Isetan Mitsukoshi total and regional operating companies total are slightly above the plan. Recently, sales for Japanese may seem a little weak, but conversely, there are quite a few closings for remodeling now, so we can expect a return after remodeling and opening. Sales at regional stores are almost as planned, but the base of operating income at regional stores is rising in the third quarter, as the amount of purchases at stores in the Tokyo metropolitan area through the base network has also increased, which has helped business performance. There may be some impact of economic trends in the world as a whole and the climate change such as mild winter, but I don't feel much anxiety.

Q. Strategy of the finance business in the next Medium-term Management Plan to be announced in the future: Has it been somewhat established as a growth strategy for the finance business? I suppose there are many things you can do at this point. How is the progress of the revolving payments and insurance products?

A. MICARD's business performance has been progressing as planned, and the Company has been gradually achieving results through initiatives such as income and expenditure structure reform. In the future, I would like to talk about the finance business initiatives in detail, but some of them are still small, such as the thinking about the new cards that we have already told you about and the product guarantee initiative that we have started. We are trying them little by little.

Q. The performance is very good, but are you planning a giving back to employees this term or next?

A. In terms of balance to each stakeholder, we are naturally thinking about giving back to employees. The Company will respond to requests from labor unions later, including consideration of bonuses to be allocated for this fiscal year's performance, but it is holding positive discussions with a certain level in mind.

Q. The partial remodeling we are currently implementing: It is said that the area closed from November to February is large. Is there an impact on sales and an increase in cost due to the remodeling? And is there an extensive renovation in the future? Will the results of the remodeling be fully realized in the next term?

A. As brands that are closed by remodeling are sometimes deployed at other floors for sales, it is not possible to accurately answer the quantitative impact. This year's remodeling of Isetan Shinjuku Main Store and Ginza Mitsukoshi has been one of the biggest efforts in years. The cost of repairs and loss on disposal are included in the plan. There will be a remodeling next term also, but not

as big as this one. From this point of view, it is expected to have a significant positive effect over the next fiscal year.

Q. How is remodeling conducted?

A. There are many luxury brands renovations in this remodeling at Isetan Shinjuku Main Store. The remodeling includes Tiffany, Cartier, Beauty Apothecary, and the women's clothing editing on the third floor. As announced in the release was made, Louis Vuitton opens a store at the Isetan Shinjuku Main Store for the first time on the second floor of the Men’s Pavilion, which is creating a buzz. As a whole, we are planning to remodeling in a way that firmly addresses customer needs.

Q. Is there a response to the efforts on foreign customers in Japan? Also, will this inbound strength continue even if the yen rises in the future? What is the Company's point of view?

A. As the number of foreign customers identified by individual out-store sales is increasing, there is a sense that they are beginning to connect with individual customers regardless of whether they are Japanese or foreign customers. Looking at the purchase trends of wealthy foreign customers of out-store sales, there is an increase in the number of products related to Japanese culture and traditions, in addition to the luxury products that are being strengthened. Even if the yen appreciates a little, it is not expected to have a significant impact.

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