Web financial results explanation meeting
for the Fiscal Year Ending March 31, 2021
Outline of Questions and Answers
Date and time: 16:30-17:30 on Wednesday, May 12, 2021

Q. Please share your aspirations and thoughts as company president.

A. Firstly, sharing employees' sense of crisis is of the utmost importance. I would like to establish strategies, not only in response to the effects of COVID-19, but also for the creation of new value, by creating management and sales systems that start with the shared belief that conventional department store business models are no longer valid.

Q. Specifically, what does it mean to attract high-quality customers in an even more profitable way?

A. Customers with an annual income of at least 10 million yen have more than doubled over the last 10 years, and as information becomes more readily available, customer values and sensitivity are growing stronger. To be selected in this environment, we must deeply connect with all customers and maintain relationships with them. For example, in out-of-store sales, we have been able to achieve feats that are relatively unprecedented in the world, such as through our digital presence and linking buyers with sales. Based on direct marketing, we will create new services and products in order to solve the problems faced by our customers.

Q. Is it correct to say that Isetan has continued to stock cutting-edge products from the global market and that this is the Company's strength?

A. In some ways, it is the merger of Mitsukoshi and Isetan that enabled this. We have created new value by combining Mitsukoshi's service with Isetan's merchandising capabilities.

Q. The plan for this fiscal year is for net sales to return to previous levels. Explain your thinking with regard to the breakdown of sales that will return naturally and sales that you will need to work to bring back.

A. The figures that were announced will return naturally. They were calculated using various assumptions for Japanese and foreign customers. The new strategy outlined on this occasion will add to this, but it will take some time for this to result in actual sales. The sales figures are a conservative estimate.

**Q. How are you viewing sales levels for Japanese customers and inbound tourists in this fiscal year?**

A. For Japanese customers, we expect around 93% of the 2018 level, which was before the pandemic. We expect online sales to increase by around 10 billion yen, minus the 29 billion yen for the period of closure. For inbound tourists, we expect sales to be around 20% of 2018 levels.

**Q. In the process of drafting the medium-term business plan, did you notice anything such as customer trends that have changed due to the pandemic or trends that will extend into the future?**

A. Loyal customers have come back. Looking at individual product categories, merchandising that requires hands-on service has remained extremely strong, even during the pandemic. Examples include jewelry and watches, cosmetics, and art. We increase sales through genuine and thorough customer service and providing a narrative, and we feel that this has been further emphasized.

**Q. With regard to profit, you indicated a goal of 50 billion yen. What do you think will generate this profit? Does your strategy involve growing the top line or cutting costs?**

A. We are looking at increasing profit by both growing the top line and reducing expenses through structural reform. We hope to create an unprecedented medium- to long-term business plan. Specifically, we will achieve that not just through our own initiatives, but also through partnerships with inclusive mechanisms to produce new value with the involvement of all members. I hope to present specific figures that reflect all of this in the fall.

**Q. You withdrew your plan in November last year and I'm sure that you have spent the following year in discussions about what to do. Tell us about the thinking behind the decision to release the new plan six months later with giving specific numerical targets.**

A. We withdrew the existing three-year plan in November last year, and we have had all sorts of discussions since then. I assumed the role of CEO on April 1, and I developed the medium- to long-term business plan released today with the idea that changing our current business model would not be enough. Until now we have gone about realizing our own plans, however I would like to produce new value through inclusive mechanisms that involve all members. Going forward, I believe that we will produce figures that are flexible and grounded in reality.

**Q. There are companies that create medium-term business plans based on their balance sheets. Tell us the perspectives the plan was based on, such as the inclusion of the financial aspect of capital efficiency, in addition to operating income and investments.**

A. We formulated our plan through inclusive discussions with people on-site at each line using the simple indicator of operating income. Furthermore, on the management side we believe it is essential to look at a range of indicators in addition to cash flow. In the fall, I will once more talk about how we position KPIs, which includes these indicators.

**Q. With regard to the thinking behind this year's guidance, it is unfortunate that the department store business will result in an operating loss. Tell us whether you drafted it in the knowledge that it would realistically end up this way or whether it is a result of caution to avoid downside risk.**

A. With regard to the department store business this year, we took a fairly conservative approach as sales figures from regional stores have not yet sufficiently recovered.

**Q. It is lamentable that the first impression of this business plan is that there are no KPIs other than operating income and the timeline for profit levels is unclear. You have said that the plan was formulated through thorough discussion, but going forward, we'd like you to include KPIs other than operating income and give a clear timeline, etc. at the time of release in the fall.**

A. We will discuss which specific KGIs and KPIs to include going forward, and I would like to include these, along with a timeline of profit levels, at the time of the fall release.

**Q. Is our impression correct that the core of your strategy is not that different from established procedures under the old system? Tell us about any different emphasis, changes, or additions due to a change to a president with a management background, even though the strategy looks like established procedures.**

A. The main philosophy under the old system was to create a platform for the next generation. I believe that this is also necessary, but we have developed a new strategy to once more establish clear customer targets and increase consumption of sensitive high-quality products by leveraging our strengths. In some ways, this is a totally different strategy, but you could say that it incorporates the old system.