Isetan Mitsukoshi Holdings Ltd.

Business Results Explanation Meeting
Fiscal Year Ended March 2017

May 10, 2017

Agenda

I. Overview of FY2016 Results

II. FY2017 Quantitative Targets

III. Review of the Medium-term Plan

IV. Future Directions

(1) FY2016 Consolidated Results

(Billions of yen)	FY2016 Full-year results	YoY change YoY difference		Forecast Nov. 2016	Difference from the forecast	
Net Sales	**1,253.4**	-33.7	-2.6%	**1,250.0**	+3.4	+0.3%
Gross Profit (Margin)	**365.6** (29.16%)	+3.8 (+1.06%)	-	**370.0** (29.60%)	-4.4 (-0.44%)	-
SG&A (including point program-related expenses)	**341.6** (23.0)	+13.0 (+18.7)	+4.0%	**346.0** (24.0)	-4.4 (-1.0)	-1.3%
Operating Income	**23.9**	-9.1	-27.8%	**24.0**	-0.1	-0.4%
Recurring Income	**27.4**	-9.2	-25.3%	**25.0**	+2.4	+9.6%
Net Income	**14.9**	-11.5	-43.8%	**13.0**	+1.9	+14.6%

(2) FY2016 Isetan Mitsukoshi Results (Non-consolidated)

(Billions of yen)	FY2016 Full-year results	YoY change YoY difference		Forecast Nov. 2016	Difference from the forecast	
Net Sales	**660.1**	-18.9	-2.8%	**663.0**	-2.9	-0.4%
Gross Profit (Margin)	**186.4** (28.24%)	+0.5 (+0.87%)	-	**190.7** (28.77%)	-4.3 (-0.53%)	-
SG&A (including point program-related expenses)	**183.4** (11.2)	+9.7 (+11.2)	+5.6%	**187.5** (12.1)	-4.1 (-0.9)	-2.2%
Operating Income	**15.9**	-8.4	-34.6%	**16.0**	-0.1	-0.4%
Recurring Income	**16.7**	-8.8	-34.6%	**17.5**	-0.7	-4.0%
Net Income	**3.2**	-13.8	-81.0%	**4.5**	-1.2	-27.9%

(3) FY2016 Isetan Mitsukoshi SG&A (Non-consolidated)

(Billions of yen)	FY2016 Full-year results	YoY change YoY difference		Forecast Nov. 2016	Difference from the forecast	
Advertising expenses	9.9	-1.0	-9.6%	10.2	-0.3	-3.0%
Point program-related expenses	11.2	+11.2	–	12.1	-0.8	-7.3%
Labor cost	56.3	-2.1	-3.7%	56.5	-0.1	-0.3%
Depreciation and amortization	10.5	-0.4	-4.2%	10.2	+0.3	+3.1%
Rent	12.8	+0.8	+6.8%	12.9	-0.1	-1.0%
Business consignment expenses	20.6	+1.1	+6.2%	21.4	-0.7	-3.5%
Other expenses	61.8	+0.2	+0.3%	64.0	-2.2	-3.4%
Total SG&A (excluding point program-related expenses)	183.4 (172.1)	+9.7 (-1.5)	+5.6%	187.5 (175.3)	-4.1 (-3.2)	-2.2%

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(1) FY2017 Consolidated Quantitative Targets

(Billions of yen)	FY2017 Full year	YoY change YoY difference		YoY change YoY difference (excluding new consolidation)	
Net Sales	1,265.0	+11.5	+0.9%	-16.4	-1.3%
Gross Profit (Margin)	372.0 (29.41%)	+6.3 (+0.24%)	+1.7%	-2.1 (+0.22%)	-0.6%
SG&A	354.0	+12.3	+3.6%	+3.3	+1.0%
Operating Income	18.0	-5.9	-24.8%	-5.4	-22.7%
Recurring Income	20.0	-7.4	-27.1%	—	—
Net Income	10.0	-4.9	-33.2%	—	—

(2) FY2017 Isetan Mitsukoshi (Non-consolidated)
Quantitative Targets

(Billions of yen)	FY2017 Full year	YoY change	YoY difference
Net Sales	633.5	-26.6	-4.0%
Gross Profit (Margin)	180.4 (28.48%)	-5.9 (+0.24%)	-3.2%
SG&A	183.3	±0.0	±0.0%
Operating Income	10.0	-5.9	-37.3%
Recurring Income	10.0	-6.7	-40.5%
Net Income	5.5	+2.2	+69.4%

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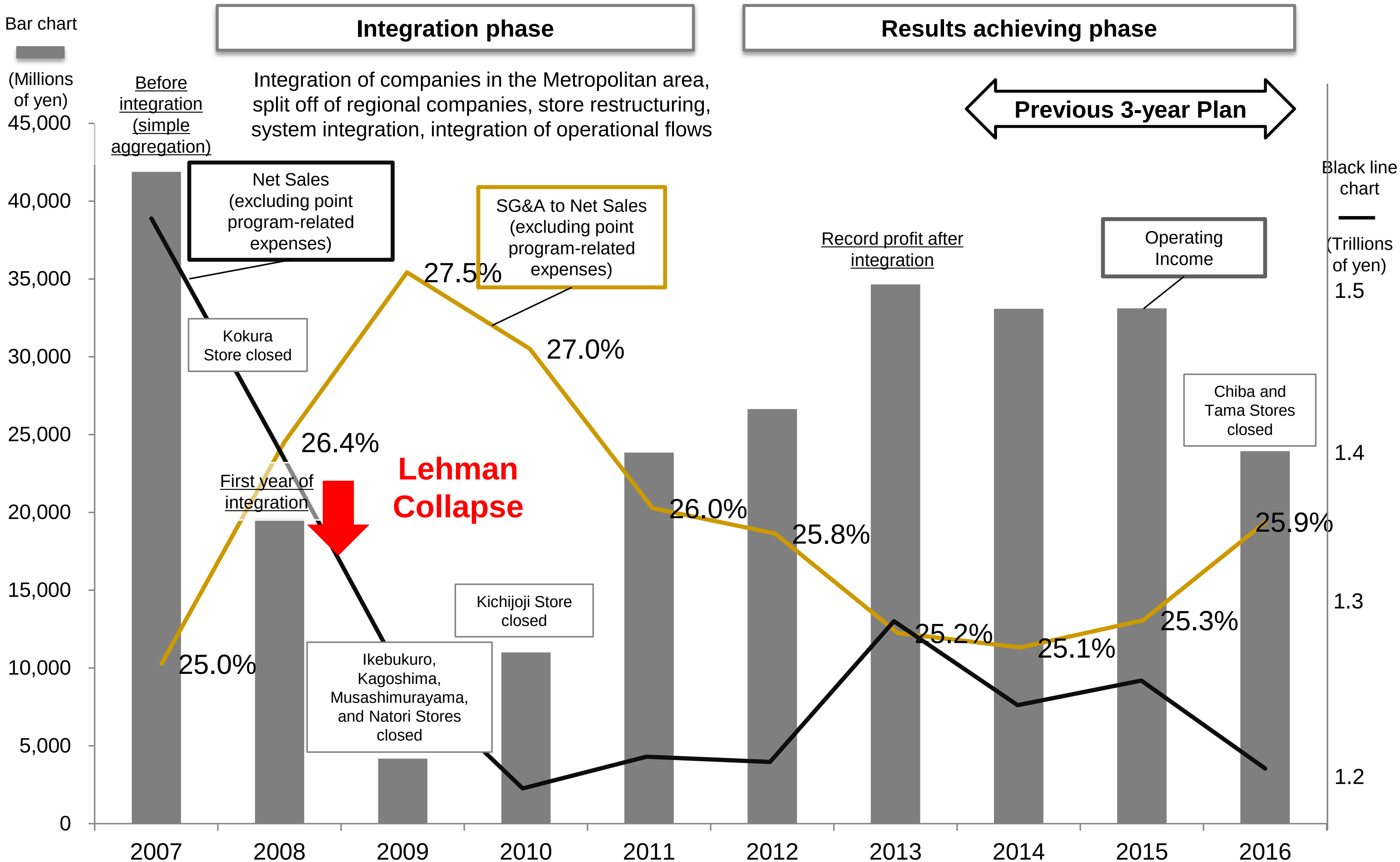
(1) Review of the Medium-term Plan



(2) Review of the Medium-term Plan

	【First year of integration】		【Record profit after integration】			
(Billions of yen, %)	FY2008	% of sales	FY2013	% of sales	FY2016	% of sales
Consolidated net sales	1,426.7	100.0%	1,321.5	100.0%	1,253.4	100.0%
Consolidated gross profit	397.4	27.9%	370.0	28.0%	365.6	29.2%
Consolidated SG&A (excluding point program-related expenses	377.9	26.5% (26.4%)	335.4	↘ 25.4% (25.2%)	341.6	↗ 27.3% (25.9%)
Labor cost	142.7	10.0%	121.5	↘ 9.2%	118.0	↗ 9.4%
Advertising expenses	36.0	2.5%	27.5	↘ 2.1%	21.7	↘ 1.7%
Point program-related expenses	1.6	0.1%	2.5	→ 0.2%	23.0	↗ 1.8%
Taxes and dues	8.8	0.6%	8.5	↘ 0.6%	10.1	↗ 0.8%
Rent	48.5	3.4%	41.8	↘ 3.2%	41.1	↗ 3.3%
Depreciation and amortization	24.3	1.7%	22.2	→ 1.7%	23.6	↗ 1.9%
Consolidated operating Income	19.6	1.4%	34.6	↗ 2.6%	23.9	↘ 1.9%

(3) Review of the Medium-term Plan
<Previous 3-year Plan> <Measures>

Key strategies of the 3-year Plan (FY2014-FY2016), Presentation on May 12, 2014

(Billions of yen)

Measures		Principal KPIs	FY2016 targets (released on May 12, 2014)	FY2016 results	Difference from target	Operating Income compared with FY2013
Domestic store strategy	Flagship stores	Isetan Mitsukoshi operating income	25.5	15.9	**-9.6**	-7.1
	Regional stores	Operating income	5.5	0.5	**-5.0**	-4.0
	Small- to medium-sized stores	Net sales	42.0	34.0	**-8.0**	-0.8
Purchasing structure innovation		Cumulative contribution to profit (Margin of domestic department stores, compared with FY2013)	14.5	18.0 (-0.19%)	**+3.5**	-0.5 to -4.0
Overseas business strategy		Operating income	2.5	0.4	**-2.1**	-0.7
Web strategy		Net sales	25.0	12.9	**-12.1**	-0.5
Core businesses	Food and SM	Operating income	0.8	-1.1	**-1.9**	-1.0
	Card	External transaction volume	400.0	431.5	**+31.5**	±0.0
	Fashion brands	Net sales	5.0	2.0	**-3.0**	-0.1
	Travel	Net sales	6.0	4.8	**-1.2**	-0.2
	Real estate	Operating income	—	6.4	**-**	±0.0
Consolidated operating income		Operating income	42.0	23.9	**-18.1**	-10.7

<Reflection>

・Emphasis on quantitative targets

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・Emphasis on new initiatives advanced and dispersed
・Less emphasis on structural innovation

<Future directions>

Shrink & Grow

- Structural innovation [Business model restructuring]
- Selection & concentration in new growth businesses

Agenda

Medium- to Long-term Directions

Integration phase	Results achieving phase (previous 3 years)	Future directions
Card system integration (FY2010) Integration of operating companies in the Tokyo Metropolitan area (FY2011) Reorganization of regional operating companies (FY2009-FY2011)	Advance investment in growth businesses	Restructuring of department stores Selection and concentration in growth businesses
･Completion of integration of companies and functions ･Proceed to results achieving phase	**Large shortfall of the previous 3-year plan**	**Execute thorough structural innovation in 2017-2018**

Policy on structural innovation: **Growth strategy ⇒ Structural innovation** → **Structural innovation ⇒ Growth strategy**

Restructuring of the department store business

<Flagship stores>

Profit maximization

<Branches, regional stores, overseas stores, small- to medium-sized stores>

Business model restructuring

<Experience and content to complement department stores>

Concentration on restaurants, travel, and beauty care

Selection and concentration in growth businesses

<Real estate business>

<Card business>

<EC business>

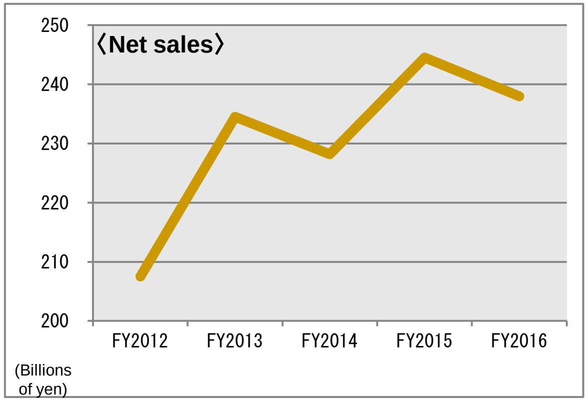
Laying the foundation

<HR system, IT system infrastructure, management system>

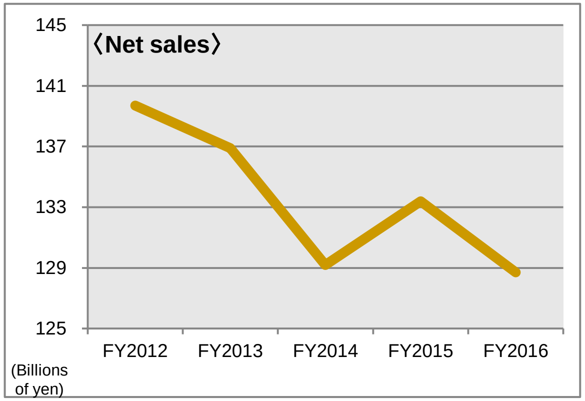
Change of the strategy

- **Thoroughly strengthen earnings power**
- **Clarify directions of each store**

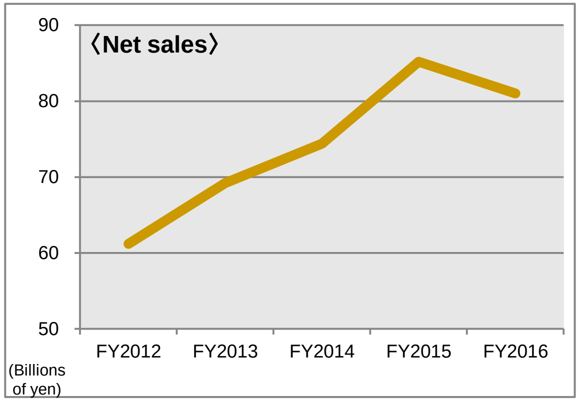
Shinjuku Main Store



Nihombashi Main Store



Ginza Store



Return to Isetan = Fashion

Store development focusing on affluent segment and executives

Make the town a flagship 〈Increase the conversion rate〉

Change of the strategy

- Business model restructuring for each store in light of location, competition, and environment
- Thorough cost reduction

Location	Competition	Environment
• Market area • Population • Household income	• Ratio of No. 1 store in regions • Other department stores • Other retail formats (GMS, SC, CVS, EC)	• Group's property / leased property • LCC • Staff policy

MD (Remodeling) × **Fixed-term rent** (Tenant mix) × **Sublease** (Resizing) × **Smaller stores**

Change of the strategy

- Japan: Change to a highly profitable business model
- Overseas: Establish a business model geared to future expansion

	Present		Future directions
ISETAN MiRROR	• Strong performance • Earnings model established	○	**Continue to open new stores** • Enrich store models • Strengthen supply chain
MI PLAZA	• More stores opened but poor profitability	△	**Scrap & build non-profitable stores** • Freeze new store openings, in principle • Prioritize establishment of a business model

Lowering of the priority

Related business → Structural innovation Consolidation

Proliferated & expanded internal projects → Reorganize and freeze

(1) Restructuring of department stores
(Purchasing structure innovation)

Review

<Comparison between FY2012 and FY2016>

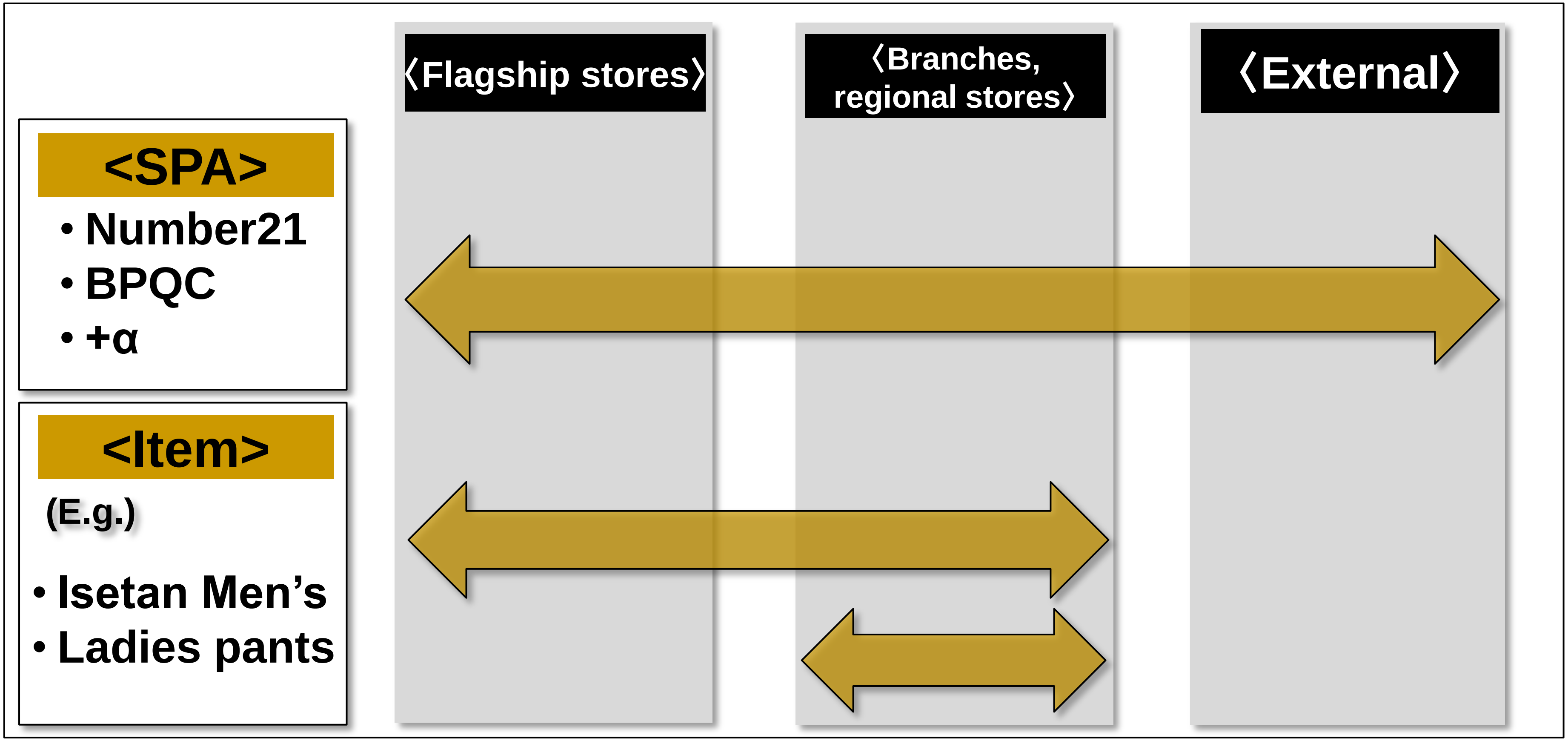
(Billions of yen)	Change due to purchasing structure innovation
Increase in margin	**+16.0**
(of which revision to margin)	+4.4
Cost of MD integration (Labor cost, advertising expenses, research expenses)	-2.6
Sales staff cost	-2.0
Inventory disposal expenses	-7.5
Total	+4.0
(Excluding revision to margin)	-0.5 to -4.0(*)

(*) Including inventory disposal expenses in FY2017

(1) Restructuring of department stores
(Purchasing structure innovation)

Change of the strategy

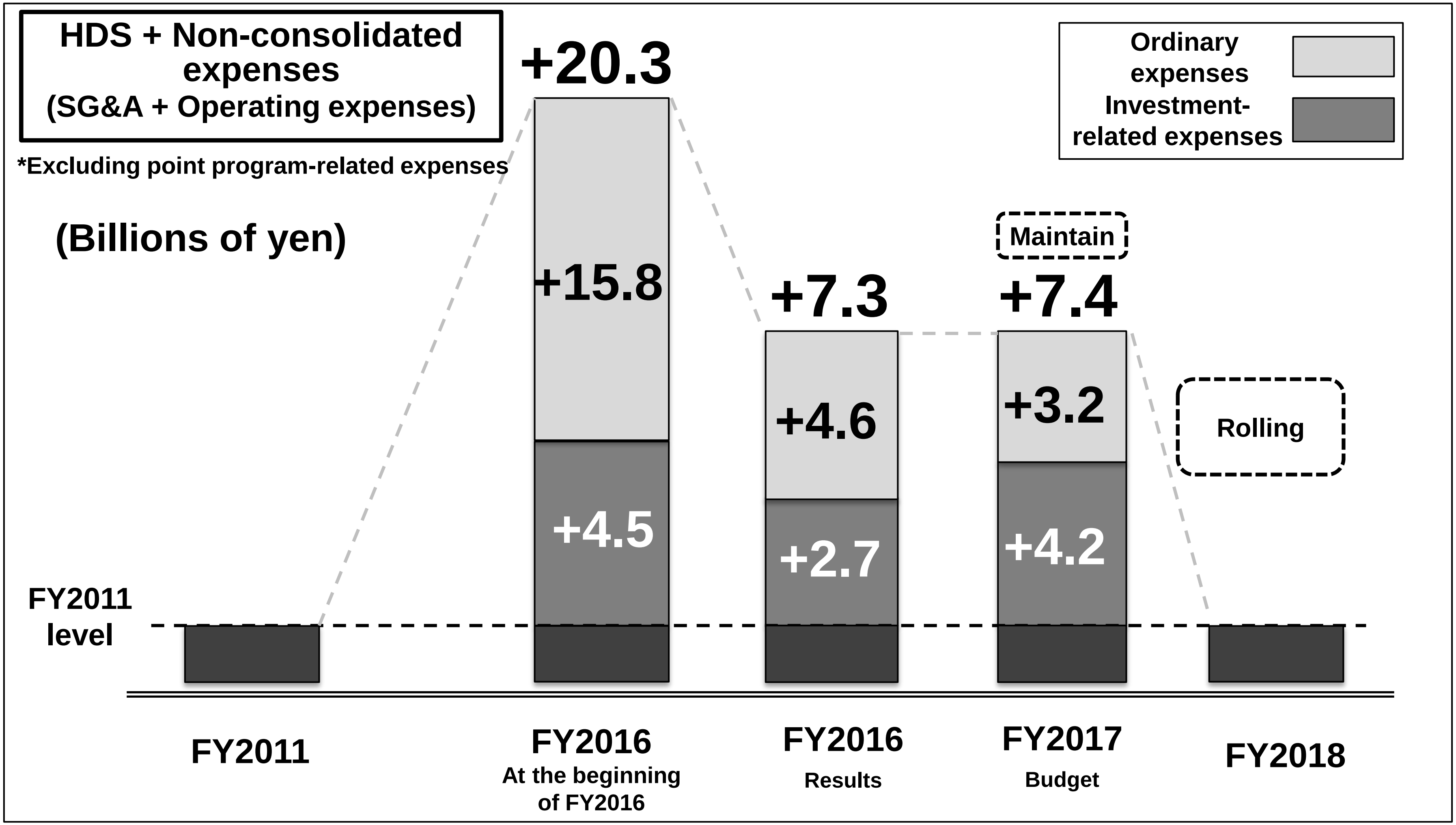
- **Stop volume expansion**
- **Evolve SPA best practices**
- **Continue successful initiatives item by item**



(1) Restructuring of department stores
(Control of expenses)

Change of the strategy

Implement thorough control of expenses, starting with the stores (including HDS) in Tokyo Metropolitan area



Narrow down ➜ **Change the positioning from growth businesses to businesses complementing the department store business**

Travel

- TOB for NIKKO TRAVEL in March 2017, which has strengths in the senior market
- Achieve synergy with ISETAN MITSUKOSHI TRAVEL early

ニッコウトラベル

Beauty care

- SOCIE WORLD became a subsidiary in January 2017
- Achieve synergy with the beauty content of department stores and the network of existing stores

SOCIÉ

Restaurants

- Accelerate opening of cafes and restaurants through JV with TRANSIT

◇SHINJUKU BOX (Shinjuku South Exit, March 2017)

◇Fratelli Paradiso (Omotesando, April 2017)

◇Modern Thai restaurant (Ebisu, scheduled to open in August 2017)

TRANSIT GENERAL OFFICE INC.

Other

- Consider feasibility of the sharing economy that is expected to grow

Continue

Effectively utilize real estate owned by the Group and maximize profit

Japan	Overseas

Effective utilization of the Group's real estate

- Japan: Shinjuku, Nihombashi, Elsewhere
- Overseas: Singapore, Malaysia

Other real estate (Japan)

- Commercial facilities
- Residential property

New (Overseas)

- JV
- Real estate investment

Change of the strategy

From house card to core business

Until 2007	From 2008	◆ From now on
House card	Visa/Amex introduced	Establish as a freestanding business
Incentive program	**Effective utilization of department store resources**	**◆ Strengthen issue of affinity cards**
• Locking-in of department store customers **• Marketing support**	**• Promote utilization of external resources** **• Gain revenue from outside the Group**	**◆ Proprietary card (entry-level card)** **⇒ Increase new memberships**
		◆ Transform the revenue structure **(Increased use of revolving and installment payment)**
		◆ Enrich new services

Change of the strategy

Restructure the EC business

Until now

Flagship stores' MD

Internal resources

Internal fulfillment

There is a limit to the current approach

From now on

Continue existing MD

+

Enrich products
(Expand high-end items)

+

Establish inventory-linked platform

Strengthen

Strengthen PDCA of management

	<Until now>	<From now on>
Change KPIs	• Sales • Margin (margin ratio) • Number of new initiatives	Pursuit of profit Thorough visualization
Promote visualization	• By company, by store	By business, floor, initiative
	Lack of Check & Action	**Strengthen CA→Plan Do cycle**

Revise the mechanism and the system

Steps for Medium- to Long-term Initiatives

FY2017	FY2018	FY2019
Change of the strategy		
Restructuring of non-profitable businesses	Restructuring of non-profitable businesses	
Cost reduction	Cost reduction	
Emergence of risks • Discard negative legacy (Inventories, outstanding LCC, etc.)	Investment for growth	Transition to a new growth phase
***Specific initiatives and quantitative targets to be established by the time of announcement of FY2017 2Q results**		
Profit shrinkage	→	**Profit recovery**

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