Web financial results explanation meeting
for the Second Quarter of the Fiscal Year Ending March 31, 2021
Outline of Questions and Answers
Date and time: 17:30-18:30 on Wednesday, November 13, 2020

**Q. There are probably aspects of the cost-cutting you are carrying out as part of your structural reforms that you cannot discuss in detail, but can you let us know about any areas that you would like to delve into deeper in 2H or areas that you would like to reduce in the next fiscal year?**

A. We certainly do not feel we have done enough to cut selling and administrative expenses. We have many incremental measures that we cannot disclose at present, so we must take steps to enable more reductions than planned. We think that we must cut costs to levels at which we can generate profits even if sales trend at the current level in FY2021 as well. We are making internal preparations, but we have left the figures released in July unchanged. We will be able to speak more fully in May 2021, but we do not think that our current trajectory is satisfactory.

**Q. The Company forecasts ¥31 billion in online sales in this fiscal year, but given its presence, this seems like it would also affect promotion costs and others going forward. Do you have any thoughts on making further cuts to costs by increasing online sales and digital ID customers?**

A. Our current order system cannot handle increases to this extent, so we would have to make investments here, but conversely, we can cut other costs by shifting to e-commerce, so I think that it will balance out. We are currently considering the matter in detail, and I will give a full report in May 2021.

**Q. In terms of the division of roles between stores and online services, what aspects are stores best suited for and for which are online services optimal? I understand that this may change in May, but can you share your current thoughts?**

A. Until COVID-19 subsides or a vaccine or a "silver bullet remedy" are available, some customers will not leave their homes, so we expect conditions to remain harsh for some time. COVID-19 has drastically changed consumer behavior. In terms of the division of roles between stores and online services, we have to think of our flagship stores in major cities and our regional stores separately. Our stores in major cities are always bringing in new products, making them important places for customers to actually touch the products for themselves. This experience needs to be refined even

further going forward. However, in our regional stores, it is impossible to provide all of the merchandise in a small floor area, and the more that we narrow it down, the less we are able to attract customers with the current merchandise. Regional stores do not sell goods so much as they offer customers ways to spend their time with food, restaurants, cafes and experience-based activities. I think the focus will shift here. We will create digital salons at regional stores where we can introduce customers to the products offered at our stores in major cities. In this way, their role will change so that these stores provide steadfast customer service and sell products digitally.

**Q. Unless profitability is restored, management cannot stabilize, but to achieve this, the Company must either raise its sales further or make drastic structural reforms. Which areas do you think would benefit from further reductions to stabilize profits and generate bottom-line income?**

A. I think we must do both. At the very least, assuming that there will be another wave of COVID-19, we must increase sales at our flagship stores, but about 15% of the floor area is barely generating profits at all or is suffering losses, and I think that there is room to boost sales by changing the merchandise in those places so it is better tailored to customer needs. However, we cannot easily do this at branches and regional stores, so there we will have to go further with structural reforms. There are two options so it is difficult to give a blanket answer, but essentially we are working to raise sales where possible, such as at flagship stores and with e-commerce, but we hope to combine this with structural reforms and spare no efforts.

**Q. Until now, operating income has accounted for a large proportion of income, but having operating income in the black is not particularly meaningful if there are heavy extraordinary losses and a bottom-line loss. What are some KPI that show that the Group is not continuing on the same trajectory but has changed? What are your thoughts on this, and what is your vision for the Group in 10 years? Whatever you are authorized to talk about is fine.**

A. We have primarily focused on operating income until now. However, when thinking about our business going forward, we recognize that our heaviest expense has been capital investments in stores. As stores age, we have to make capital investments, and to date, we have continued operating stores even if it didn't make sense, resulting in a negative cycle in which we generated impairment losses instead of profit, so this is what we are focusing on now. Figuring out how to resolve this is a major part of our next 10-year plan, so as you pointed out, simply generating operating income is not enough, and we must devise KPI that firmly incorporate these elements.

**Q. The current situation is difficult for department stores because buildings are all aging and a second round of major capital investment will be needed for many. As a second round of investment would cost more than building from scratch, we will have to think in 10-year timelines to avoid this, which is another reason we are looking at 10-year periods.**

A. We are discussing our 10-year vision internally. With retail alone, the profit margin on sales can be 2-3%, and working particularly hard will increase it only slightly. I think it is important to consider the extent to which we can pursue other types of monetization. In that sense, our corporate expertise is highly acclaimed outside of the company. For example, our discussions have led us to understand that, whether it's real estate or logistics expertise, we can be effective in monetizing in areas other than our current sales operations. I'd like the Company to utilize this expertise. Other companies are seeking this kind of knowledge, so given this, maximizing the assets that we currently hold and generating profits from them will be a pillar of our 10-year vision.
We will explain the details next year, but our biggest strength is our customers, employees and flagship stores, so we will continue to refine these and value them, but I hope that in the next 10 years, we can really think about how we can use this and generate revenue from other areas.

**Q. If the Company expands the e-commerce business and the necessary resources change, employees that are particularly skilled at customer service could be moved to e-commerce, among other HR mismatches. What are your thoughts on this?**

A. There have been various concerns about e-commerce resources, but employees are really adapting well and the level has increased considerably. They have readily adjusted to sales via the chat function as well. We tried using external staff, but we realized that the most efficient approach was for employees who really know sales to learn about e-commerce. We also considered bringing in e-commerce experts, but as they don't know sales it wasn't very helpful. Our e-commerce is not driven solely by a system, so we think that it is better to have employees who know sales learn about e-commerce.
However, there are some areas in which our knowledge is insufficient, such as digital system development. This year, with outside help, we formed a new subsidiary to develop a new e-commerce digital system, and we used external resources and hired outside people to get what we needed. Over the past two years we have learned that it is best to effectively utilize our own employees for the key functions of operating the e-commerce site and talking to customers, so we are shifting in this direction at present.

**Q. COVID-19 cases are increasing, but do you expect to see signs that customers' spending will**

**recover from next year beginning this winter? Or is it more realistic to expect sales to remain low? Demand for the type of amenities that these customers would likely buy at department stores and other discretionary spending is likely down overall, so where are consumers buying? Can you comment on whether department stores are the main channel, or are department stores the channel even for online buying, or are they buying elsewhere?**

A. Essentially, our top customers are extremely active spenders. Sales of jewelry watches and luxury goods are rising significantly. The stock market is strong, and they have the money they can't spend on travel, so demand in these areas has been extremely high. However, when we talk to customers, they tell us that they want to buy clothes, and that they previously had parties and weddings to go to, but now have no place to wear new clothes. Our top customers are interested in spending, but don't have occasions to buy for so their interest doesn't actually lead to spending. They buy jewelry, watches and other goods that have nothing to do with the season or situation, but won't buy clothes and other products that are season-specific. For this reason, sales are not growing. We expect a recovery here once COVID-19 subsides somewhat and demand for weddings and parties returns to prior levels. Our top customers have not suddenly started buying things online because of a specific occasion.