Web financial results explanation meeting
for the Third Quarter of the Fiscal Year Ending March 31, 2021
Outline of Questions and Answers
Date and time: 16:00-17:00 on Thursday, January 28, 2020

Q. How has the declaration of a state of emergency changed the motivation of employees and business partners' employees, as well as customer movement? How has the experience felt for Isetan Mitsukoshi?

A. The management once again steeled themselves to face this together. Once the previous state of emergency was lifted, we went even further than other retailers in fully protecting the safety and security of our customers and employees with temperature checks, hand disinfecting and a rearrangement of the store environment. So we are taking these same measures again while checking them all over again. The employees are taking the same attitude. Also, unlike other companies, we are closing our stores one hour earlier. This also helps to give our employees peace of mind.

Our customers are also more conscious of the steps they can take to protect themselves from infection when shopping; there really is a broad understanding of the correct ways to shop during the coronavirus pandemic. For example, if we compare sales by time period since the state of emergency declaration, we find that sales in the 10 a.m. hour immediately after the stores open have seen double-digit growth, with the buying method, number of visitors and sales generally in line with the previous year throughout the morning. In contrast, these figures slowly decline as evening approaches; there has been a significant change in light of the request that people stay at home from 8 p.m. We also shifted New Year's food, Christmas cakes, and New Year's lucky bags to internet sales. Internet purchases have increased significantly and customers have become skilled at choosing between e-commerce and stores for different purposes. I think that this style is gradually taking hold.

Q. What are the internal discussions about the medium-term business plan to be announced in May, given the changes in the external environment?

A. Our discussions are based on the assumption that the impact of COVID-19 will last longer than expected. Around November 2020, we believed that the recovery would begin from this autumn if there was a broad vaccine rollout. However, even if there is a brief recovery, as we saw from last summer to the present, we have to assume that our recovery will be gradual, with a step back for every step forward. Our discussions are focused on pushing ahead even

more with our reforms of the cost structure and further speeding up digitization.

Q. **In terms of the Company's approach to costs, you expect to keep costs down in the fourth quarter as well, but is this because costs have been kept down temporarily due to the pandemic, or has the cost structure been reinforced to the point that the Company can continue operating while curbing costs?**

A. As you know, Isetan Mitsukoshi has been working on reforms to the cost structure for quite some time now. It is certainly true that our efforts have been accelerated due to the impact of the pandemic, but we feel that, depending on the expense in question, we can continue to keep costs down through good management. However, if we need to use resources in connection with digitization, one of our priority strategies, we will also consider increasing expenditures in that area. We plan to continue having our employees take over the staff positions and sales floor positions that we previously outsourced, while gaining our employees' support.

The key point is knowing when to go on the offensive. We would like to go ahead with the remodeling and sales promotion costs that we are holding back on for now, as well as some of the events that were cancelled, when conditions allow.

Q. **Can you give us more details about whether you can see ways of further extending e-commerce into the future, such as the remote shopping app?**

A. One of the main purposes of this app is to establish a new customer interaction style in the post-coronavirus world. This app is able to provide three functions all in one: the chat function that uses LINE and other conventional technology to talk with customers, video conferencing using Zoom and other technologies, and a function that allows individual products to be registered and products in the store to be registered on the e-commerce site on the spot and put into the cart. Although this is still in the trial stage, we hope to examine various models and give customers new experiences.

Brand new customer experiences are gradually emerging. For example, we had a request from a customer living in Aomori who wanted to buy a tote bag for Christmas for her husband, and the men's section was able to recommend and offer several bags, overcoming the normal constraints of location. In another example, a mother wanted to buy a watch for her daughter's twentieth birthday, and we were able to use the chat function at a time convenient for her to show her possibilities, together with video, and made a sale. There are so many possibilities in the future, and we are trying to figure out how they can be expanded on site. We can add

functions, but in order to respond to customers immediately, we need to do further research into new ways of working so that we can respond in the chat function outside of normal operating hours.

Another point we should note is that the app development was done in-house by IM Digital Lab, an affiliate. In the future, we will look to expand this initiative by offering it externally as infrastructure, in conjunction with the operational flow.

Q. With all the uncertainty in this pandemic environment, Isetan Mitsukoshi lowered its sales forecast and left its income forecast unchanged. Is it the company's aim to create the image that it will stick to the income target already announced, even if the sales target has to be lowered?

A. We think our sales forecast is neither conservative nor optimistic, but simply neutral. Our sales, general and administrative costs are not an attempt to play up our appeal, but simply reflect our own intentions. Management has decided that it will cut costs even if it is difficult.

Q. The measures in your medium-term plan are important, but if net income for fiscal 2021 is a loss, it will represent the third straight year of losses since fiscal 2019. Although it depends on the COVID-19 situation, we'd like to see the Company really commit to posting a profit in the first fiscal year of its new medium-term plan, based on a long-term vision. At this point, does the Company expect to post a profit if it is able to cut costs and also able to use its assets more efficiently once operations are more seamless, even if store operations face restriction?

A. We are currently discussing the outlook for our medium-term plan, and the management is very determined to bring profits back into the black, so we hope to meet the expectations placed on us.

Q. To what extent was the 7.8 billion yen reduction in SG&A expenses in the third quarter alone due to Next Career and store closures?

A. The decline in personnel reflects measures taken last year, but the base is due to attrition. The number of personnel in the Group overall at the end of March 2020 decreased by more than 2,000 compared to the previous year. Of these, the majority was the result of attrition-related hiring cuts and a modest reduction in bonuses in December. These factors were the main reason that the reductions in employee costs accounted for a high share of the reduction in SG&A expenses.

Q. Isetan Mitsukoshi has introduced an app that uses Zoom and the chat function to interact with customers online. Are your important customers able to use these new buying methods without difficulty? Many of Isetan Mitsukoshi's customers are elderly, so is there a possibility of a mismatch?

A. Many of the people using these services at present are our best customers, but at the same time we feel that we must work with customers to educate them in digital literacy. In outlying regions, we are running a trial at Matsuyama Mitsukoshi in which our best customers are invited to a digital salon, accompanied by one of our sales staff, so that even without using the remote shopping app, they can connect to the Nihombashi Mitsukoshi to interact with the staff there. We need to provide experiences that are tailored to the characteristics of our customers. It is important that we expand options so that we can serve both those customers who can easily use chat and Zoom as well as those who cannot.

Q. The fashion industry and others are rapidly shifting online, but what are your thoughts about the possibility that more of the Company's tenants might pull out and that more store area than expected might be empty? How would this space be utilized if this should happen?

A. In the future, stores that cannot supply products from business partners on their own will have no choice but to reduce store area. As we said when we released our financial results for the first half of the fiscal year, we are confident that we can develop products, amenities, services, and content at the same or even higher level than we have thus far through our business partnerships in Shinjuku, Nihombashi, and Ginza. We have built the trusting relationships needed for this.

However, it is more difficult in outlying regions. Pullouts, particularly in the apparel sector, will continue. We need to consider both areas where we will carry on as usual with commodities needed in the market, such as food products and cosmetics, as well as renting out part of the upper floor for a fixed term to offer new content. The difference with what we have offered thus far is that content at the flagship store will go online and the infrastructure making it possible to offer it to customers living in outlying regions will be in place. The question of how we utilize this to support regional customers across time and space must be a central part of our future strategies.

Q. Customer trends are solid for wealthy customers but extremely difficult for the middle-class clientele. Conditions will likely remain harsh for the middle class in the medium to long term, but what is the Company's forecast and what does the Company plan to do for the middle class

in these conditions?

A. At present, purchases by card customers with a high bonus rate are the same as in the previous year or even higher in some months, however purchases have fallen slightly for customers with relatively low purchase amounts. When looking at the medium term, we are constantly discussing the importance of our relationships with the next generation of customers.

We think the potential lies in digital transformation (DX) and digital technology. We can offer products that we have previously been unable to due to our stores' area and other physical constraints. For example, "meeco," the cosmetics site that we operate, can provide a nearly full lineup of luxury cosmetics. This is a resource for existing customers who buy cosmetics at department stores, but we also provide a lineup of more affordable retail brand cosmetics. We can reach customers we have been unable to access up until now by expanding the breadth of our product lineup in this way, creating new ties with customers with our customer interaction methods, and reach customers who were restricted by previous store hours but can use the chat function at night to shop or even shop during their commute. We believe that it is important to change our engagement with customers within this digital transformation.

The Mitsukoshi and Isetan flagship stores are the wellspring of content, services, and images. We plan on using DX to expand our points of interaction with new customers, while at the same time refining these stores.