Isetan Mitsukoshi Holdings Ltd.

Summary of Q&A Session at WEB Briefing for the Third Quarter of the Fiscal Year Ending March 31, 2025

Date: Tuesday, February 4, 2025, from 16:00 to 17:00

Q: I think the progress in Q3 is going well, but could you provide more details, including the variations in each segment compared to the plan?

A: In the department store business, the hurdle for this fiscal year was high due to the strong performance in Q3 of the previous year. However, the performance has been very good, including the top-line results. Comparing the real growth rate to FY2018 rather than the previous year, Isetan Mitsukoshi's non-consolidated growth rate in Q3 was nearly 130%, maintaining almost the same pace as in Q1 and Q2. Subsequently, we reformed our cost structure, enabling us to steadily generate profits.

In the financial segment, the cost structure has been reformed since Q4 of last year, and sales have increased due to the strong performance of department stores. As a result, the profit plan of 8.0 billion yen for FY2027 is within reach.

Q: How have the trends for Japanese and inbound customers changed up until now, including January? In addition, for regional area stores, sales profit growth seems to be slowing down, except for Iwataya Mitsukoshi. Am I correct?

A: The situation is different between the Tokyo metropolitan area and regional stores. In the Tokyo metropolitan area, the results are growing significantly, mainly at the Shinjuku main store. On the other hand, in regional stores, the growth of domestic customers seems weak, except for Iwataya Mitsukoshi, Sapporo Marui Mitsukoshi, and Nagoya Mitsukoshi, which are located in the metropolitan area, when looking at sales alone. However, total regional operating income has steadily increased from approximately 1.0 billion yen two years ago to 6.6 billion yen last year, and to 7.6 billion yen in the cumulative Q3 of this fiscal year, up 2.3 billion yen from the previous year. In regional stores, measures such as cost structure reform, expansion of rental income through the promotion of leasing, and strengthening of out-of-store sales by utilizing the base network are proving to be favorable. In particular, the base network grew at a pace exceeding 120% year on year, and approximately 14.0 billion yen was attributed to purchases by local customers in the Tokyo metropolitan area by Q3. These sales are counted in the Tokyo metropolitan area, but if converted into regional sales, they surprisingly account for about 5%. We are making various efforts, so please pay attention to future reforms.

Q: Is it correct to understand that sales to Japanese and inbound customers in the Tokyo metropolitan area are doing well as the figures indicate?

A: Sales to Japanese customers in the Tokyo metropolitan area have maintained double-digit growth compared to FY2018, so I believe the pace is very good. The number of customers spending 3 million yen or more, a new customer KPI introduced in the upcoming mid-term plan, has increased. Additionally, events such as Tansei-kai held at the end of January showed excellent results.

For inbound sales, the results in Q1 appear to be high when looked at year on year, but their growth rate exceeded 200% in Q1, Q2, and Q3 compared to FY2018. Of course, there are fluctuations from month to month, but we believe it is stable and steady.

Q: How much of the SG & A expenses in Q4 will be allocated to forward-looking measures? Also, could you tell us about the outlook of expenses for next year and beyond?

A: In Q4, the expenses for achieving the next goal are the highest for MICARD. Although it is in line with the plan, we will accelerate our initiatives in the current fiscal year by spending at a higher rate than we have up to now.

Our company has managed to keep its SG & A expenses at just over 20% of gross sales, and in Q3, they dropped further to below 20%, making our company significantly leaner. In the future, necessary expenses for the promotion of the strategy will be phased in, but they all have been factored into the plan.

Q: What can department stores do to increase sales?

A: In the short term, the brand remodeling of the Shinjuku main store and the Ginza store has been highly successful. Sales to Japanese and inbound customers will increase.

Inbound sales also reached a record high of 16.7 billion yen in December, and new single-day records were successively set in February. While the Chinese New Year undoubtedly has an impact, we believe the effect of the remodeling is also substantial.

In the future, we will introduce overseas apps for inbound customers and entry cards for MICARD. Through these initiatives, we will strengthen our connections with both Japanese and foreign customers, thereby advancing the development of our individual customer business.

Under these circumstances, we will expand our business performance while minimizing volatility from external environmental factors.

Q: To what extent has operating income up to Q3 exceeded the plan? What is your outlook for the future?

A: Quarterly plans are not disclosed, but the plan is progressing well. Compared to the previous year, profits have continued to reach record highs.
For the period ahead, as disclosed, sales in January were very strong. However, compared to the previous year, there are favorable factors such as the earlier Chinese New Year and 2024 being a leap year. As for expenses, we will also incur the strategic costs for entry cards and overseas apps as planned, so when looking at SG & A expenses, they may appear slightly different from those up to Q3. However, all of these are in line with the plan, and we are maintaining a pace slightly above the disclosed earnings.

Q: Will reductions in SG & A expenses, apart from strategic expenses, continue or run their course?

A: The biggest expense cuts are the reduction of personnel and the suppression of filling vacancies. The effects of these measures will be seen in Q4 and in the next fiscal year and beyond. At the same time, we will balance these measures with improvements in employee working conditions. Other expenses expected in Q4 include costs related to overseas stores that have closed, which will contribute to cost reductions until the month the stores were closed.

Q: Regarding personnel expenses, is there any change in the trend, even if there are employee returns such as bonuses?

A: First of all, there is no change in our view that, from a medium-term perspective, we will limit to some extent the filling of vacancies due to retirement and natural resignation, while we will hire those who are strategically needed in the future. In particular, over the next few years, as the number of employees reaching retirement age increases and employment formats change, labor costs are expected to decrease accordingly. At the same time, we will strive to improve employee working conditions to strike a balance. As a result, we anticipate that the total amount will either decrease slightly or remain flat.
However, regarding whether this trend will continue in the future, if the number of personnel decreases, the reduction due to retirement or resignation will naturally slow down. Nevertheless, I believe this approach can be maintained until the period of the next mid-term plan.

Q: What is the effects of remodeling core stores? While it may be difficult to quantify, what is the outlook for the future? Will the effects continue to be seen? Will the effects run their course?

A: It is indeed difficult to discuss quantitatively, but looking at the sales of the Isetan Shinjuku main store and the Mitsukoshi Ginza Store, the effects of the remodeling is significant. Regarding floor efficiency, the fourth floor of the Isetan Shinjuku main store is now performing at the highest level. This indicates that our objective of improving MD balance has been successful.

On the other hand, regarding whether the effects will run their course, luxury brands are narrowing down the areas and stores that are sure to generate profits in the changing global environment. In this regard, I believe the trend of prioritizing supply to and investment in stores with strong customer bases, including those with out-of-store-sales, will continue.

A: To elaborate further, for example, the remodeling of the Isetan Shinjuku main store was carried out in phases over a period of more than a year. Last year, the second floor of the men's building was closed for several months, yet despite these closures, sales have been growing steadily. Traditionally, in the department store model, it was widely believed that closing a floor would lead to decreased sales, or that any positive effects would dissipate after a year, returning to previous levels. However, our business model reform, which focuses on expanding our identified customer base and maintaining customer connections through various proposals—regardless of the increase or decrease in floor space—is now yielding positive results. In this regard, since the company has announced plans to further increase both the identified customer base and sales in the next mid-term plan, our view is that the more we identify customers, the less likely we are to experience the effects running their course, as seen in the old department store model.

Q: How is the progress on preparing multilingual apps and entry credit card? Will they have a positive impact on your business next term?

A: So far, preparations are progressing well, and we will announce more details soon. Rather than seeing a sharp increase in profits next year, we believe that the number of new members will gradually grow, and the effects will be seen gradually over time. Regarding our entry credit card initiative, by offering cards with no annual fee as a new option, customers will be able to choose cards based on their buying trends. These entry credit card will serve as a way to connect with light users more effectively than apps, while increasing the number of customers with the cards. The first overseas app will be launched in the near future, but it will take several years for the company to start by providing information and gradually create a CRM environment for overseas customers, which is similar to that for the Japanese. We aim to effectively leverage the current strong performance and gradually make the benefits of the new measures.

Q: With everything going well, are there any challenges? Please tell us about any challenges, including those related to the next mid-term plan.

A: We will gradually expand the functions of the entry credit card and overseas apps. In doing so, we will use AI for recommendations and leverage the advancements of DX. These initiatives represent a venture into uncharted territory, so we aim to proceed while thoroughly verifying their effects. It is also possible that external factors, such as earthquakes, typhoons, and other weather conditions seen in the first half of the year, along with stock price plunges, could lead to a decline in consumer sentiment and a decrease in the number of visitors to Japan. As individual customer business, we aim to change our business model to one that is less susceptible to such volatility.

Q: Could you tell us about your out-of-store sales to corporate clients? They are hard to discern from segment information, but what are the annual sales figures? What is the future potential?

A: Annual sales are about 20.0 billion yen. As a strategy, the corporate out-of-store sales has traditionally delivered mid-year and year-end gifts and general office supplies, producing promotional goods and prizes, and providing uniforms, but in recent years we have expanded into a much wider range of businesses. This includes collaborating with clients on B2B2C initiatives and jointly developing corporate sustainability programs and shareholder benefits. We plan to gradually transform our business model by leveraging intra-group coordination.

Q: I believe the rate of progress against this quarter's plan is high at 80%. Why did you keep the full-year forecast unchanged?

A: Operating profit and ordinary profit are performing well. Looking ahead, we will make strategic expenditures, but this is already accounted for in our plan. At the final profit level, we will face uncertainties such as corporate taxes. Therefore, we have intentionally left the forecast unchanged this time.

Q: What is your view on the next fiscal year and beyond? Will double-digit profit growth like this quarter continue?

A: In the mid-term plan announced last autumn, we expect sales to Japanese customers to grow by approximately 101% by 2030, driven by remodeling initiatives and measures to connect with various customers, as I mentioned earlier. In this regard, the number of customers who spend more than 3 million yen at our department stores—listed as a KPI this time—is

increasing. Considering this, I believe that our Japanese customer base will remain solid. Regarding inbound sales, they were very strong in Q1 of FY2024, which was in the previous fiscal year. Therefore, based on the number of visitors to Japan announced by the government, we expect annual growth of slightly less than 110%, though there may be some monthly variations. Overall, if Isetan Mitsukoshi Ltd. in the Tokyo metropolitan area achieves nearly 105% growth, furthermore, continuing structural reforms and steadily increasing operating income, I believe that would be a positive outcome.

Q: How do you view inbound sales? The relaxation of visa requirements for Chinese travelers was announced. How will this impact your plans?

A: We have not made a detailed estimate of the impact on our business, but if the growth in visitors to Japan exceeds the slightly less than 110% figure I mentioned earlier, I believe it will be very positive.

Q: Could you provide an update on the recent number of identified customers? Can you achieve your forecast for the current term? When will you reach 10 million?

A: We will reach around 7.4 million in Q3. We are on track to meet our annual target of 7.6 million. To reach 10 million, we are looking forward to the impact of overseas apps that will be launched in the future. However, we will discuss the target number of customers and other details next time.

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