J. Front Retailing
Summary of Q&A session at
earnings call for the third quarter (Q3) of the fiscal year ending February 28, 2023
Date and time: 15:30 – 16:05 on Tuesday, December 27, 2022

Q. I would like to ask you to comment on how sales and profits were good or were not good compared to the Q3 plan in each segment. Also, what, if any, special tasks must be undertaken in Q4 for each segment to achieve the full-year plan?

A. In Parco, which operates the Shopping Center Business, there was a slight delay of several hundred million yen in investment costs from Q3 to Q4, but basically, there was almost no negative impact on the so-called internal plan in Q3 for each segment, and the business remained solid.

First of all, in order to secure the fiscal year's performance, the Department Store Business and the Shopping Center Business will be the key, and we will work hard to capture domestic sales, including those of affluent customers, and inbound sales.

We recognize the importance of making aggressive investments in Q3 and Q4 so that we, including the Department Store and Parco, can achieve results in the next fiscal year toward the full recovery we are aiming for.

Q. In the Department Store Business, I think sales in Q3 were quite strong, but I would like to know more about what has changed from Q2 and before. You have already given us the figures for the first half of December, but what is your outlook for the year-end and New Year's holiday season, particularly in terms of Japanese consumption trends?

A. The trend has not changed that much, including this December. The situation in which *gaisho* sales are largely driving sales continues, and in Q3, sales exceeded the FY2019 and FY2018 levels.

In addition, although not shown on the slides, GINZA SIX, which is included in the Department Store segment, continued to perform well in Q3. In terms of domestic sales at GINZA SIX, sales have grown significantly by a factor of about 1.5 compared to the pre-COVID-19 period.

Q. You explained that the speed of recovery is improving, albeit slowly, at the Umeda and Tokyo stores, which are terminal stores, in the Department Store and I would like to ask what efforts are currently being made and whether further recovery is expected in the future.

A. The first factor behind the speed of recovery is the recovery of foot traffic. For these two stores, the recovery of foot traffic, including nationwide travel support, rather than inbound travel, is the key point.

The second is to strengthen our efforts to create stores that attract customers. In the situation we are still struggling to bring in as many customers who visit by rail as we did before COVID-19, we have been promoting strategies for luxury goods and watches at these two stores, as well as investment in remodeling, and these efforts have led to positive results. In addition, the Umeda store opened Nintendo OSAKA in November, which increased the number of customers by about 9 points. We believe that our efforts not to rely solely on the recovery of foot traffic by the railroad to attract customers are gradually yielding positive results.

Q. How has the content of inbound sales changed compared to previous years?

A. The Q3 results for duty-free sales were ¥5.4 billion, and by merchandise category, the three categories of luxury goods, watches, and cosmetics account for approximately 70% of the total, with luxury goods accounting for more than half.

By country, unlike in 2019 before COVID-19, sales to customers from China accounted for about 30% of total sales in November, followed by Hong Kong, Taiwan, and Korea. Outside of Asia, sales to customers from North America are growing mainly in the luxury goods category, backed by the effect of the weak yen and the price difference between Japan and overseas.

Some have pointed out that sales recovery has been sluggish compared to competitors in the same industry. In 2019, mainly in the Shinsaibashi store, sales of cosmetics to customers from mainland China were stronger than those of competitors, but this has not recovered yet. Although the number of international flights at major airports seems to be gradually recovering, most of them are to and from the Tokyo metropolitan area, and we see the current situation as one of high east and low west. So, we recognize that there is still much room for sales recovery in the future.

Q. Regarding Parco's easing of conditions, I believe that you were expecting a little more return in H1, and I would like to know about the current progress. Can I assume that you will be able to proceed with the elimination over the next fiscal year?

A. As you pointed out, the situation is slightly behind the original plan for the fiscal year, although the situation differs from store to store and from supplier to supplier. We see the elimination of the remaining ¥1.1 billion as an issue to be addressed in the following fiscal year. We intend to make solid progress in this area in conjunction with the recovery of tenant transaction volume itself.

Q. I think gross sales of the Department Store slightly exceeded the plan in Q3. Until now, sales have not easily exceeded the plan and have been quite repeatedly underachieved, but I would like to know whether this was achieved because the plan was revised in Q2, or whether there was some improvement in the business performance management process itself.

A. The top line for the Department Store has been revised cautiously from the initial plan. As a result, it has exceeded the plan in Q3, and since the trend is not expected to largely turn negative in December from Q3, we will continue to maintain a solid top line in Q4.

However, while there was some movement in volume zone apparel, etc. in Q3, the basic driving force was luxury goods and watches, and the so-called "profit margin" has been declining. We recognize that the fact that gross profit itself has not been increasing as much as sales has is a result of these factors.

Q. I understand that there will be aggressive investments in the current fiscal year, and also in the next fiscal year and beyond. In the case of your company, I assume that some of the expenses in the Developer Business and the Shopping Center Business will be recorded as cost. How much of the "aggressive" expenses, or what you call "upfront" investments,

have been incurred in Q3 or in the current fiscal year, including those expenses that are recorded as cost?

A. This fiscal year, unlike the previous fiscal years, we intend to make aggressive investments. We announced our investment plan for the current fiscal year in our financial results materials in October, but at this point, we have decided to revise our original investment plan for the Developer Business, including the timing, and we expect the total consolidated investment itself to fall slightly short of the plan. On the other hand, in the other segments, although the main focus will be on the Department Store, we intend to make solid investments in this FY2022, which will lead to the next fiscal year. The information contained in this presentation material is on a so-called capitalized basis, so please understand that there will be separate one-time expenses. On a cost-recognition basis, the cost is not that large.

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