J. Front Retailing
Summary of Q&A session at
earnings call for the first quarter (Q1) of the fiscal year ending February 29, 2024
Date and time: 15:30 – 16:15 on Wednesday, June 28, 2023

Q. I understand that the overall is in line with the plan, but I would like to know if there are any shades in segment revenue or business profit.

A. All segments are basically performing in line with the internal plan for H1 of the fiscal year. In terms of revenue, the Shopping Center Business and the Payment and Finance Business are performing slightly slower than planned. They are performing as planned in Q1, but we will work to improve profits, also in Q2.

Q. In terms of Daimaru Matsuzakaya Department Stores' sales excluding duty-free sales compared to 2019 on page 6 of the document, the Umeda and Tokyo stores are still behind the 2019 level, although their sales have recovered considerably. Parco also has yet to fully return in terms of comparable stores. You have released figures for March, April, May, and the current month June, and I want to confirm whether these numbers will continue to show a trend in which the decrease range will continue to shrink, or they will settle down to a certain extent.

What part of that has not yet been returned? Of course, I think that other stores have covered it, so I am not worried about anything overall, and I think that overall sales will increase even more if inbound sales return, but I would like you to explain where the underlying trend for Japanese people has not caught up yet, and how you expect this to change in the future, including countermeasures.

A. The terminal Umeda and Tokyo stores have improved strongly because their recovery was relatively slow compared to other stores, but they are still a step behind the FY2019 level. We are basically not concerned about the Tokyo store, but as the current and future measures, we will continue to expand the categories we have been strengthening, including luxury, not only at the Tokyo store but also at the Umeda store this fiscal year. We are basically not concerned about the Tokyo store, but as a current and future measure, we will continue to expand the categories we have been strengthening, including luxury, not only at the Tokyo store but also at the Umeda store this fiscal year. We would like to continue to aim to exceed the FY2019 level by further increasing the effectiveness of these strategic investments.

Q. In that sense, will the basic policy for terminal department stores, aside from inbound sales, be to increase overall sales while making solid changes in the content of merchandise, rather than to further recover the number of customers?

A. Our basic idea is as you mentioned.

Q. Regarding sales trends, how do you see sales of high-end products and gaisho sales, which I believe are doing very well, and what are your thoughts on their sustainability?

A. As I mentioned earlier, gross sales were up about 14% in Q1, but gaisho sales were up 12.2% YoY, or up about 5 billion in value, and cash sales from domestic customers were up 8%. Gaisho sales continue to be strong. The basic trend itself has not changed, and we recognize that we are seeing the visible effects of strategic investments in luxury and watches against the backdrop of a strong affluent market, exactly as I mentioned earlier.

As for the future outlook, since we recognize that capturing the affluent market, including gaisho, will be a very significant driver in the medium to long term, we will continue to strengthen our efforts, including the investment of resources, while continuing to make strategic investments.

Q. Regarding inbound tourists, I think that the increase in the amount of money spent by each person is having a large impact, but I would like to know what the current situation looks like and your thoughts on the future.

A. As for the average spend per inbound tourist, on a Q1 actual basis, it is approximately 1.4 times that of FY 2019, or a little over 80,000 yen in actual value. On the other hand, if the number of inbound tourists increases in the future, the average spend per person itself will probably decline a little. However, considering what happened in FY2019, when the average spend per tourist from mainland China was extremely high, it is quite difficult to predict the average spend per person, but I think that an increase in sales due to an increase in the number of customers can be expected in the future.

Q. In the breakdown of SGA for Daimaru Matsuzakaya Department Stores, the increase in "Other" is slightly larger than the sum of the breakdown shown on the right side of the document. I think it is a minor detail, but in what other areas SGA has increased?

(Inagami, Senior General Manager of Corporate Communications Division)

A. Basically, there are no special factors, but it includes costs proportional to sales, which I mentioned earlier, as well as expenses associated with the resumption of business and the strengthening of business, in order to aggressively promote sales in Q1, while last year there were focused anti-infection measures. In addition, taxes and dues due to the recovery of profits are included in "Other," and an increase in these taxes and dues is not stated.

Q. While controlling SGA and other expenses, is it correct to think that you will spend a certain amount of money to strengthen sales and marketing and also raise the top line?

(Inagami)

A. It is a fact that utilities expenses continue to soar this fiscal year, and while it is a basic premise that we will strive to control costs appropriately, basically as you mentioned, we hope to continue to use expenses in order to return to a firm top line position.

Q. Regarding consolidated profit as a whole, the growth of profit is quite small, in single digits, compared to the growth of profit before tax. I think that this is mainly due to the confusion of how to allocate tax expenses for the year in Q1. However, while you explained that profits are progressing steadily, I have the impression that the 7% increase in profit is a bit small. I would like to confirm whether or not this is a taxation issue.

A. In the previous year, Daimaru Matsuzakaya Department Stores decided to sell idle fixed assets, and this has come out in the form of a reaction to the fact that tax expenses that had been set aside until then were largely reduced due to the decision to sell them.

Q. So, in the previous year, what was allowed for so-called accounting purposes but disallowed for tax purposes was covered under expenses for tax purposes because of the sale of the assets?

A. That's right.

Q. The growth of stores with large inbound sales at Parco, especially Shibuya PARCO and Shinsaibashi PARCO, is quite high, and I think this is due to the popularity of luxury and pop culture. I would like to know how much inbound sales are pushing up the sales, if possible.

A. Parco's overall inbound transaction volume was approximately 4.3 billion yen in Q1 of this fiscal year, as shown in the results by store in the supplementary information to financial results. The stores with the highest inbound transaction volume were Shibuya and Shinsaibashi, with more than 2.0 billion yen and 1.0 billion yen, respectively. In terms of sales share of inbound transaction volume, Shibuya PARCO and Shinsaibashi PARCO showed extremely high growth, at 27% and 18%, respectively.

For Q1 of the previous fiscal year, it was 0.5 billion yen, which means it was about 6.0 billion yen for the entire year, but it has been growing significantly since the second half of the previous fiscal year. The upper floors of Shibuya PARCO are so crowded with foreign visitors during the daytime on weekdays that it seems as if the store were not in Japan. Parco's specialty areas, such as anime and culture, have gained popularity.

Q. Then, regarding Parco, do inbound sales of 4.3 billion yen in this Q1 exceed the pre-COVID-19 level?

A. Shibuya PARCO opened in November 2019 and Shinsaibashi PARCO in November 2020. Comparisons are difficult to make, but the annual inbound transaction volume in FY2019 was 6.7 billion yen, so I think they are growing significantly, partly due to the full operation of these two stores.

Q. Based on the figures disclosed in the first half of June, are the asset effects, etc. from the recent rise in stock prices already materialized in sales, or even if they have not, can we expect some effects that were not anticipated at the beginning of the fiscal year if the current stock market conditions continue?

A. It is difficult to recognize the positive impact of high stock prices on consumption in numerical terms, but we recognize that it has a positive impact on or props up consumption. It is difficult to say whether there has been any positive effect on sales in the past month or two, but we would like to carefully monitor the positive impact in the future.

Q. I would like to reconfirm the comparison with the plan in the Department Store and Developer Businesses. The Department Store Business appears to be possibly short, given the seasonality of past Q1 and Q2. At the very least, they do not appear to be above the plan, but in your company's past pattern, SGA was always lower than planned, and profits were often slightly higher. Is SGA for the Department Store Business or the Daimaru Matsuzakaya business almost in line with the plan this time? I would also like to know if the operating profit level is really in line with the plan or if it is a little short of the plan.

Also, in the Developer Business, the H1 business profit plan of 1.3 billion yen has already

been achieved in Q1. Is it correct to view this to be in line with the plan rather than above it?

A. I would like you to understand that the Department Store Business is performing almost in line with the plan in terms of profits. Basically, we would like to continue our aggressive structure, including strategic investments, in the current fiscal year and the next fiscal year and beyond. On the other hand, we hope to continue to reduce or control controllable expenses in Q2 and beyond, so please understand that progress in Q1 was almost as planned.

In the Developer Business, J. Front Design & Construction is a major driver in terms of revenue and business profit, as described. Combined with a reaction to COVID-19, the company has been able to secure orders ahead for large-scale projects such as hotels and for renovation work for luxury brands. In addition, despite the impact of soaring material prices and other factors, the fact that the effects of so-called profit margin control are firmly being produced is the main driving factor in Q1.

In terms of comparison to the plan, the Developer Business has been slightly above the plan, but unlike retail, there will inevitably be pluses or minuses every quarter. Throughout H1 and the fiscal year, we will continue to make efforts to ensure that the Developer segment will exceed the plan.

Q. In the SC Business and the Developer Business, the wording "sale of assets held" has been mentioned, but since you have been strengthening your review considerably since the beginning of this fiscal year, is it correct to assume that something like this will continue to come out, if not every quarter, rather than a one-time event? Or should we assume that it just happens to be in this Q1?

In the Developer Business, I think you said at the full year financial results presentation that gain on sale of assets held was 3.0 billion yen, and that it is not often that you see such a large amount of gain in one place. Is it correct to think that this does not mean that this is a dispersed gain, but rather that 3.0 billion yen, which appears to be factored into H2 in the company's plan, is a story that will come out in Q3 or Q4 of H2 and has absolutely nothing to do with this quarter?

A. As shown on slide 9, the SC Business has approximately 0.8 billion yen in other operating income, of which just over 0.6 billion yen is gain on sale of assets held by the company. It includes the impact of selling a part of Fukuoka PARCO's trust beneficiary rights to J. Front City Development, which was just under 0.4 billion yen. It also includes about 0.2 billion yen from the sale of the store portion of Tsudanuma PARCO, which has already ceased operations. Especially for Fukuoka PARCO, of course, Parco currently owns its land and building, but the transfer was made with the intention of moving forward with the Fukuoka project as a unified group, including the newly established company J. Front City Development. So, I would like to ask you to regard the transfer as a one-time event.

Regarding the Developer Business, as I mentioned in the explanation on page 11 of the document, we sold the owner's interest in a special purpose company involved in the development of the Shinsaibashi project, which is a joint investment. Therefore, please consider this separate from the annual plan of recording a sale of 3.0 billion yen in H2.

In terms of a medium- to long-term strategy, in the Developer Business, in addition to holding assets and earning rental income from them, we are planning to diversify revenue by replacing and selling assets and other means. We would like to clearly indicate in our plans for FY2024 and beyond whether there will be a gain on sale of 3.0 billion yen each year.

Q. Regarding Parco, there is a comparison with FY2019 on page 10 of the slide, and I would like you to highlight the stores, which have already been renovated or are in the process of being renovated. If the renovation has been completed, the numbers should go up, and I would like you to explain a little bit about whether it is producing results, or whether the large negative figures are due to the construction work if the renovation is currently underway.

A. In this Q1, renovations are underway in Ikebukuro and Nagoya. On the other hand, we have been proceeding with renovations since the previous fiscal years, so I don't think the renovations will have a negative impact. I think the biggest challenge is how the effects of investments in Nagoya and Ikebukuro in the previous fiscal years and this fiscal year will lead to the recovery and improvement of operating revenue in the future.

We are working on store renovations throughout the fiscal year at each store, but this fiscal year we focus on Ikebukuro and Nagoya, although we also renovate Shibuya and Shinsaibashi, so we hope to see the effects of our investments also from Q2 onwards. H1 will be a major term for renovations, and we would like to make sure that it leads to a solid improvement in revenue from H2 onwards.

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