

J. Front Retailing

Financial results for the first six months of the fiscal year ending February 28, 2019

Q & A summary at results presentation

Date and time: 16:30 – 17:40 on Tuesday, October 9, 2018

【Department Store Business】

Q. I want to know about your department store sales projections for 2H. While you are cautious due to natural disasters in September, your sales target for 2H is a little higher than the beginning of the year. China strengthened customs checks during the recent Anniversary of Founding and I am afraid they will further tighten regulations. Could you tell me about your 2H projections including sales to inbound tourists?

A. Some stores were forced to temporarily close or change their business hours due to Typhoons Nos. 21 and 24 and the Hokkaido Eastern Iburi Earthquake in September. However, Kansai Airport, which was most severely affected and about whose future there were concerns, recovered early and currently our sales have recovered to almost the same level as the previous year. During the Anniversary of Founding, total sales and tax-free sales remained almost at the same level as the previous year. We expect tax-free sales in the Kansai area in 2H to recover to 10% higher than the previous year as originally planned. Though we downward revised 2H forecast for the Sapporo store, which is in the aftermath of the earthquake, flagship stores including the Shinsaibashi, Tokyo and Nagoya stores, which strengthen their efforts toward 2H, are expected to grow sales more than originally planned. In spite of the impact of natural disasters in September, we recognize that we will be able to achieve the target by steadily responding to the markets for the affluent as well as inbound tourists.

【Urban Dominant Strategy (redevelopment project)】

Q. You explained that “profits” of the new main building of the Shinsaibashi store and Shibuya Parco “in fiscal year 2019,” which is their first year, will be “limited.” Could you tell me about your plan that will contribute to revenue after that, if any?

A. The project team is discussing the revenue plan for the new main building of the Shinsaibashi store. In the new main building, while showing the future direction of department store in its product mix, brand lineup, services and environment, we would like to realize a new ideal form of department store model by working on structural changes to pull out of traditional department stores. The contents of revenue including contracts are under close scrutiny and please allow us to explain again after finalizing the details.

As for the Shibuya Parco project, its progress is the same as the new main building of the Shinsaibashi store and the timing of its opening has yet to be determined. The number of seats of the “Parco Theater,” which will be the core of the Entertainment Business, will be increased by half and

we are sure that its full operation throughout a year will produce revenue. The details of product sales have been almost fixed. We would like to announce them later from the perspective of creating Parco-like pleasant environment and shops. We thank you for your patience.

[ICT strategy]

Q. Specifically, what services will you provide in the Department Store and Parco by integrating the customer data of the Department Store and Parco and using AI? Do you intend to evolve the recommendations according to the buying history of each customer you have done until now?

A. We can capture customer attributes such as age and gender and buying history by collecting customer data through our existing cards but we cannot capture other information. Using applications, we will be able to capture the buying behavior of customers in a more accurate manner. For example, by linking the applications of the Department Store and Parco each other, we will be able to capture more detailed customer information. Furthermore, import of chats with customers into the database will improve the accuracy of information. They will improve the accuracy of CRM and enable us to accurately provide information necessary for each customer. In addition, we would like to consider how we will use thus collected information for marketing. The Group's strength is having good customers and we aim to not simply seek the volume of customer data but compile a high quality database of customer information. Using high quality data, we will improve the accuracy of approach to affluent customers and pursue the possibility of providing unprecedented services as new businesses.

[Credit and Finance Business Strategy]

Q. Could you tell me specifically about what and how you will change to operate in-house in the Finance Business?

A. Currently credit management is performed in-house but admission screening, credit monitoring and billing are outsourced. It was considered more efficient to outsource these operations when the card company was established. Now that information systems have been developed, however, we think there is room to consider the possibility of operating in-house in a safe manner and at low cost. We have not yet determined the advisability of self-operation, and specifically, what areas will be operated in-house and we will study and examine this matter.

Q. You explained that you will expand the business after active upfront expenditure and investment. Will actual additional expenditure and investment occur and what timeline have you set to recover them?

A. The Credit and Finance Business has five strategic actions. The first is the "improvement of operations." We will review outsourced operations to reduce cost. The second is the "review of card products." We are striving to enhance the appeal of our card products and preparing to issue new cards jointly with the Department Store. The third is the "review of commission rates imposed on

merchants in the Group.” We are preparing to acquire merchants in-house. The fourth is the “review of systems.” We are studying whether we can operate in-house. And the fifth is to invite external human resources to examine and implement these actions.

These five actions/directions have been determined and converted into specific tasks. Therefore, the costs to be incurred in the near future include the employment of professional people, consulting fee to implement these operations in the future, customer questionnaire to issue new cards and the establishment of Tokyo office. We would like to make a calm decision on system investment including investment return.

[IFRS 16]

Q. New lease accounting standards will be introduced under IFRS 16 next fiscal year. Could tell me what changes will occur in your assets and liabilities from next fiscal year?

A. At this point, we are in the process of estimating the effect of recognizing lease assets and not at the stage for giving you specific figures yet. Figures calculated according to the utilization periods and discount rates of lease assets will vary greatly. We recognize that IFRS 16 will have a great impact on the companies that adopt IFRS. The Group has established a project including Parco and the project team is making such an estimate. Toward the adoption beginning in fiscal year 2019, we would like to get accurate figures within the current year.

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