

J. Front Retailing

Q & A summary

Results presentation for the first six months of the fiscal year ending February 28, 2021

Date and time: 16:30 – 17: 30 on Tuesday, October 13, 2020

Q. Thank you for detailed explanation. There was strong wording “full recovery” in your presentation. What does “full recovery” mean? Does it mean the profit level or the “business structure reform” you mentioned today? I would like to know your thought in using the phrase “full recovery.”

A. I mentioned “full recovery” strongly conscious of “an early recovery to the FY2019 profit level.” That is, I think a recovery to the previous fiscal year’s profit level is one of our targets. The time when we will achieve it may change depending on changes in an external environment. However, I have strong aspirations to recover as soon as possible under the next Medium-term Business Plan for FY2021 to 2023. At present, we are not in a situation where we can reach this profit level. However, we would like to become a company that can reach this profit level as soon as possible by getting the three priority polices, which I mentioned earlier, done.

Q. I understood what you said including the management’s thoughts. Concerning the “merger with digital” and the “merger with Parco” you explained today, I think the only keyword you did not explain is the “card finance business.” For example, as a matter of course, unless Parco card and JFR card are merged though they are separate cards, I do not think you will truly be able to pursue the Group’s digital strategy and customer strategy. I would like to know what discussions are being had by the management.

A. Concerning earnings forecast for the current fiscal year, I recognize the Credit and Finance Business greatly differs from the current Medium-term Business Plan. We expect its performance to be sluggish this fiscal year due to various factors including card renewal. It is expected to post a loss of ¥0.4 billion in the second half but the management has had enough discussion regarding what the card business should be in the future. I would like to clarify the materials to be grown in the Group businesses such as Parco and Hakata Daimaru as well as organic growth about which we have been thinking from the beginning when we release the next Medium-term Business Plan in April next year. We would like to continue to discuss the business with a sense of crisis, including whether we will keep its position as the Group’s growth driver.

Q. I think it will become a big profit driver if the merger will succeed and I expect so.

Q. Seeing only the Department Store Business, I think it is excellent that it posted profit in spite of sales decrease of 20%-plus in the second quarter. You said earlier that you would

promote a fixed-term lease model to “lower the break-even point.” On the other hand, I understand cost reduction by increasing fixed-term lease, which is planned for the current period, was already included in the plan made at the beginning of the period. Therefore, I see that cost reduction is progressing further ahead of the original plan. Is my understanding correct that their major causes include the decrease of events, the reduction of variable costs and the postponements of investments? Or if the break-even point was lowered due to the reduction of fixed costs, how did you change in the first half? You talked about the reforms of work styles and organization and I would like to know the qualitative progress and results of your initiatives in this six-month period.

A. I will talk about the whole picture. Business profit improved by ¥8.2 billion from the forecast released in June. Of the amount, ¥4.1 billion was due to the improvement of gross profit and the remaining ¥4.1 billion was due to the reduction of SGA. You asked about the reduction of SGA. I think we made a solid forecast and we strived to streamline all costs without exceptions. An Outside Director said, “We see a cash outflow of ¥0.1 billion every day. What do you think of this situation?” In this situation, I think we addressed the emergency.

In detail, mainly Daimaru Matsuzakaya reduced by ¥3 billion, of which personnel expenses decreased by ¥1 billion, advertising expenses by ¥0.4 billion, commission charges by ¥0.8 billion, and investments by ¥0.5 billion. As we cannot reduce costs to this level only by decreasing variable costs, we also reduced many of the costs ordinarily considered as fixed costs in the short term. As for sales activities, we cancelled those that may threaten the safety and security of customers, the promotions that may lead to a loss, etc. in the second quarter. In that sense, I think we could achieve this because we reduced even the costs considered as a matter of course previously in the short term.

In the meantime, I do not think of simply continuing such cost reduction. In the first half, we cancelled most of *gaisho* events in hotels, and also Hokkaido fairs. Now they are coming back. We need to go forward based on the main premise of the safety and security of customers. In a way, we were forced to be patient in the first half, but I would like to consider what we will use in the long term and what we will do to spend money more efficiently based on these experiences.

I said earlier that we would like to reduce costs by more than ¥10 billion, which is the target of our structural reform. I think there is no doubt that such cost reduction achieved in these few months will become its cornerstone.

Q. I understand costs are somewhat variable in the second half. You posted a business profit of ¥4.1 billion on a consolidated basis only in the second quarter but expect it to be ¥0.95 billion in the second half. I understand your second half plan is based on the forecast released in June due to uncertainty about the future. On the other hand, I would like to know the causes of cost increase compared to the first half that you see at present.

A. In the second half, costs associated with the opening of Shinsaibashi PARCO will arise. We will

also incur the costs of the Credit and Finance Business. We will actively implement sales activities in the second half. However, we revised down sales forecast for the Department Store and Parco Businesses because they have a risk while planning to reduce SGA by slightly more than ¥2 billion. I recognize we cannot be so much optimistic about this planned value.

The key is to what direction customers' purchasing activities will change. Based on the basic recognition that it is difficult to expect the contribution of inbound sales in the current second half, we would like to make particular efforts so that regular customers and *gaisho* customers, in particular, will shop as before. At present I see our cost plan is not easy.

Q. I would like to know the impact of certainly visible opening costs of Shinsaibashi PARCO, the costs of the Credit and Finance Business, etc. I think you explained the costs of the Credit and Finance Business will be ¥0.4 billion but I would like to confirm with you.

A. The costs of the Credit and Finance Business and the Parco Business will be approximately ¥0.4 billion and ¥1.8 billion, respectively.

Q. You said, "The current COVID-19 gives us an good opportunity to change our mindset. We will take this opportunity to change various things." In this respect, how has the mindset of people in each layer, particularly sales people, for whom "selling in stores every day is no longer a matter of course," and the middle management people changed? Will they be able to unite as one to move forward toward reforms? Or are there some differences among layers?

A. Concerning mindset, I would like to tell what I felt at the front line of department stores until recently. At first, I felt it would be difficult to unify as far as people working close to customers in stores. Currently, however, I think a sense of crisis spreads as far as the front line people. Mr. Sawada will provide a supplementary explanation regarding the current state of initiatives using digital technology, for example, apps, *connaissigne* for *gaisho* customers, and live stream, which are implemented mainly by *gaisho* staff and people in stores.

A. Concerning sales people in stores, customer traffic decreases to around 60% of the previous year's level and we created a "blog shopping" system to communicate with distant customers and encourage them to see and buy products. Specifically, sales people in stores introduce a product to customers and if they like it, they can buy it on our e-commerce website. The amount of information posted on these blogs has increased dramatically in the first and second quarters when COVID-19 spread.

As for *gaisho* sales, customers did not want us to visit them and we could not do anything at first. Then we made various trials to approach customers using Zoom and webinars. They worked well and sales are increasing. Some initiatives have already started. For example, *gaisho* managers stream live in collaboration with luxury shops to show new products. We recognize it will become

more convenient for customers if we create an easy payment system. We will hold large *gaisho* events next week and the week after but it will be difficult for customers to visit the venue as before. Therefore, we will provide a webinar or stream live in the venue at the same time. For customers who do not have iPad, we will lend one free of charge. We are making various trials from the standpoint of “overcoming the restrictions of time and place.”

For sales promotion, we provide information digitally. In the past, we sent postcards to customers, but currently, some stores do not use paper almost at all and switch to digital promotion. Thereby costs have decreased significantly. People in the head office work from home normally, and accordingly, the management style has been changing.

Q. You said recovery to the FY2019 performance level will be one of your targets in the next Medium-term Business Plan. In FY2019, however, it had been less than a half year since Shibuya PARCO and the main building of the Daimaru Shinsaibashi opened. In the current period, Shinsaibashi PARCO will open and if Shibuya PARCO, Shinsaibashi PARCO and the main building of the Daimaru Shinsaibashi store operate all year, I think they will have a certain impact. How much increase in profit do you expect compared to FY2019?

A. As you said, the main building of the Daimaru Shinsaibashi store operated for a half year and Shibuya PARCO for around three months. Taking the Daimaru Shinsaibashi store as an example, about 40% of sales were from inbound tourists. We created a store that has an extremely low break-even point. However, inbound sales were lost and stores in the entire Shinsaibashi area were forced to close due to COVID-19. The situation was really difficult until August. We cannot decide the degree of sales recovery in the future all by ourselves but I don't think the FY 2019 level is low for the Daimaru Shinsaibashi store in this changing environment.

While Shibuya PARCO had a positive effect due to full operation, there was a special factor such as an increase in profit due to compensation for business in FY2019. Stores in the Shibuya area were also requested to close and its share of inbound sales was larger than other PARCO stores. We aim to recover to the FY 2019 level but the environment is greatly changing and is not the same as before. Therefore, we need to increase profit through initiatives for regular customers and the use of digital technology even if recovery of inbound sales is delayed. And we should try to build a new business model for the Department Store and Parco Businesses.

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