

**J. Front Retailing**  
**Q & A summary**  
**Earnings call for the third quarter (Q3) of the fiscal year ending February 28, 2022**  
**Date and time: 15:30 – 16:15 on Tuesday, December 28, 2021**

**Q. You told your Q3 performance was almost as planned internally and I would like to know differences in business profit between segments, if any.**

A. Each segment performed almost as planned. However, the performance of Daimaru Kogyo, which is included in the Other segment, was below plan partly affected by the production adjustments of its suppliers and customers due to a lack of semiconductors in its core automotive and electronic device businesses.

**Q. On page 4 of your presentation material, you state that sales of luxury and high-priced items were strong but that the recovery of spending on volume zone items was slow. However, the sales trend as a whole seems to be improving quarter by quarter. I would like to know changes in, for example, categories other than luxury and high-priced items, if any. And during the year end and New Year holidays when customer traffic is increasing, what measures will you take, particularly for the first sale in the New Year?**

A. Sales of terminal stores, which had been relatively delayed in recovering, and the Sapporo store, which had been affected by the increasing number of infected people in the same period last year, greatly improved in November though they did not recover rapidly in October. As for the latest Christmas sale, both customer traffic and sales significantly increased. From the year end and New Year holidays and January to February, we would like to take solid measures for “earning Q4” including, for example, events to attract customers, which we could not hold last year.

**Q. I would like to ask you about the gross margin ratio of Daimaru Matsuzakaya Department Stores. According to page 6 of your supplementary information to financial results, it decreased again with a rate difference of -0.43 points from last year. I guess the gross margin ratio decreased because gross sales were around one percentage point below plan. And is it because of cost reduction that business profit was almost as planned?**

A. Profit margin in product sales decreased from the previous year even in Q3 alone. It was in around mid-22% range before the COVID-19 pandemic, and in the low-21% range in Q3 alone. Sales are on an improvement trend but profit margin has not improved. For the future, how we will increase profitability including business model transformation and the conversion into fixed-term lease is our essential challenge. In the short term, however, we will aim to ensure profit through cost control.

**Q. Sales of Shibuya PARCO increased greatly compared to other stores. What factors affected that? Do you have room to apply these success factors horizontally to other stores of Parco and the Department Store?**

A. Two stores including Shinsaibashi PARCO and Shibuya PARCO perform steadily. Shibuya PARCO operates luxury brand boutiques with a view of the world different from that of the Department Store and thereby it enjoys strong sales. On the other hand, I do not think we can apply the same to other stores without change. It is one of key issues in the Medium-term Business Plan but I recognize that we need to rearrange floors mainly in urban stores to meet the needs of each area and market instead of just replacing brands.

**Q. Do you mean that Daimaru Matsuzakaya Department Stores ensured profit as planned through cost reduction?**

A. That's right.

**Q. With respect to Daimaru Matsuzakaya Department Stores' cost reduction, what were more effective areas than others, if any? I would also like to know your future outlook and what you**

**think about costs.**

A. Of the areas of cost reduction in Q3, the streamlining of real personnel expenses was more effective than originally planned. Our immediate outlook is to thoroughly control costs in Q4 and beyond. Meanwhile, in terms of structure, we aim to “reduce fixed costs by ¥10.0 billion” in the current Medium-term Business Plan and the Department Store is working to reform its organizational and human resource structure as well as to change its business model. In Q4, we are proceeding with measures that will lead to the reduction of fixed costs in the next fiscal year and beyond. I think the specific amounts of money will be announced at our earnings announcement in April. And we would like to step up streamlining efforts and strive to improve our bottom line according to plan.

**Q. Concerning SGA of Daimaru Matsuzakaya Department Stores, you said you had controlled personnel expenses. However, actual personnel expenses rather increased QoQ and the expenses in Other seem to be well controlled. I would like to know details.**

A. Outsourcing expenses are included in Other. The sum of personnel expenses and outsourcing expenses are managed as “real personnel expenses” associated with store operation. The reduction of fixed costs have a great effect on the reduction of direct personnel expenses while outsourcing expenses are controlled by streamlining temporary staff during period and bringing outsourced operations in-house.

**Q. Business profit of Parco in Q3 was almost the same as Q1 but that of the Department Store exceeded Q1’s level. I know the Department Store has more seasonal factors but I think business profit of Parco should have a little more improved. I would like to know the reasons why the recovery of gross sales of the SC Business was weak.**

A. Shibuya and Shinsaibashi perform steadily but suburban stores continue to relatively struggle. Some stores decreased gross sales by double digits. The recovery of flagship stores including Ikebukuro and Nagoya remained slow. The Department Store has a *gaisho* customer base but Parco does not. So its recovery is slow at present.

**Q. What do you think will change this situation?**

A. The point will be the recovery of Ikebukuro and Nagoya, which are large-scale urban stores. We are planning large-scale renovations in the next fiscal year and beyond. In some stores, pop-up shops operate in spaces from which their tenants withdrew. However, we take a rather political approach. Instead of simply replacing brands, we will renovate to make the stores more attractive, and by doing so, we will aim to gain more support from customers and improve revenue.

**Q. Do you mean that the tenant vacancy rate is increasing?**

A. Some tenants withdrew but pop-up shops and others occupy their spaces. So there is no vacancy.

**Q. I would like you to ask about some figures. The profit figures of the Department Store for Q3 alone are different from the figures obtained by subtracting those for cumulative Q2, which were announced last time, from those for cumulative Q3. Your presentation materials have retroactive adjustments of Daimaru Matsuzakaya Department Stores on its last page. Are there any changes from Q2 in calculation?**

A. I do not recognize such changes. On page 10, we disclosed the retroactive adjustments of Daimaru Matsuzakaya Department Stores for H1 results due to the merger of Daimaru Matsuzakaya Sales Associates (“DMSA”). Their impact is shown there. If you have any questions, please ask later.

<Supplemental information>

H1 results in the summary of the financial results for the first six months of the current fiscal year are before retroactive adjustments due to the merger of DMSA into Daimaru Matsuzakaya Department Stores (in September). However, H1 results in the summary of the financial results for the first nine months of the same fiscal year (cumulative Q3, March to November) are after such retroactive

adjustments. Therefore, they differ from the sum of the results for cumulative Q2 (March to August) and those for Q3 alone (September to November).

Retroactive adjustments to information on Department Store and Other segments due to the merger of DMSA

(Millions of yen)

	FY2021					
	Q1		Q2		H1	
	Department Store	Other	Department Store	Other	Department Store	Other
Gross sales	114,793	17,987	132,957	18,726	247,750	36,714
Revenue	39,700	15,806	46,783	15,651	86,484	31,457
SGA	25,479	5,370	28,589	5,545	54,069	10,916
Business profit(loss)	(929)	224	(578)	268	(1,507)	492
Operating profit(loss)	(3,979)	193	(586)	246	(4,566)	439

**Q. According to page 4 of your presentation materials, a decrease in domestic sales compared to FY2018 shrank (improved) in these three months. How much did SGA decrease compared to FY2018?**

A. Compared to FY2019, Q3 SGA decreased by ¥4.2 billion in real terms. As I do not have at hand data on comparison to FY2018, I would like to answer later.

<Supplemental information>

In Q3 (September to November) of FY2018, SGA of Daimaru Matsuzakaya Department Stores (excluding the Real Estate Business) was ¥29.9 billion. In Q3 (September to November) of FY2021, SGA decreased by ¥4.6 billion compared to FY2018.

**Q. You severely expect that sales will not recover to the level before COVID-19 even if COVID-19 ends. Unless sales recover, you should continue cost reduction next year and beyond. It is good to recover sales through reopening. But what cost level compared to FY2018 will you aim for in the next fiscal year and beyond?**

A. As you mentioned, we do not assume that sales will completely recover to the level before COVID-19. We strive to “reduce fixed costs by ¥10.0 billion compared to FY2019” in the current Medium-term Business Plan as well as to constantly save costs. We expect to reduce fixed costs by ¥3.7 billion in the current fiscal year against the plan of ¥3.0 billion reduction. For the next fiscal year, we plan to reduce by ¥4.0 billion. We will work hard to improve our bottom line as well as to recover sales.

**Q. When classifying your department store users by age, are there any differences between such groups? For example, compared to before COVID-19, do you see a sluggish recovery in a certain age group or see a change among young people?**

A. In GINZA SIX, the share of customers in their 20s to 30s is increasing to almost 50% currently from 40% in FY2019. Also in the Department Store’s *gaisho*, the share of young customers in their 20s to 40s is increasing though I think it is partly because older people avoid going out.

**Q. What will be found if Parco’s customers are also analyzed by age? Parco seems to have a relatively larger share of young customers compared to the Department Store. While young customers are increasing in the Department Store, sales recovery is delayed in Parco whose main customers are young people. How should I understand that?**

A. For Parco, we have not conducted a detailed analysis, but as I said before, there are great differences between stores in sales improvement. Shibuya PARCO and Shinsaibashi PARCO perform steadily, and in the Department Store, the share of customers in their 20s to 40s is relatively increasing in GINZA SIX and *gaisho*. Expanding our customer base is imperative. And we will share good practices, if any, between the Department Store, Parco and their suppliers and we will continue to make efforts to expand and deepen our customer base.

<Supplemental information>

On page 43 of the presentation of FY2021 Q2, we disclosed the retroactive adjustments of FY2020 results by segment including the retroactive adjustments due to the merger of Daimaru Matsuzakaya Sales Associates("DMSA") by Daimaru Matsuzakaya Department Stores(in September). However, after the close scrutiny of the contents, we revised the results in FY2020, as follows (revised figures are underlined);

<Reference>

## FY2020 Results by Segment

(Retroactive adjustment associated with adoption of new segments)



J. FRONT RETAILING

	(Millions of yen)						
	Q1	Q2	H1	Q3	Q4	H2	FY2020
<b>Gross sales</b>	<b>113,990</b>	<b>206,644</b>	<b>320,635</b>	<b>213,972</b>	<b>234,845</b>	<b>448,818</b>	<b>769,453</b>
Department Store	63,649	130,411	194,060	132,571	150,396	282,967	477,028
SC	25,989	51,996	77,985	56,867	61,025	117,893	195,878
Developer	14,819	12,553	27,373	12,732	10,681	23,414	50,787
Payment and Finance	2,345	2,867	5,212	3,060	3,223	6,284	11,496
Other	16,575	18,906	35,481	20,097	20,029	40,127	75,608
Consolidation adjustments	(9,387)	(10,090)	(19,478)	(11,357)	(10,511)	(21,868)	(41,346)
<b>Revenue</b>	<b>63,459</b>	<b>84,011</b>	<b>147,471</b>	<b>83,228</b>	<b>88,379</b>	<b>171,607</b>	<b>319,079</b>
Department Store	25,784	48,612	74,397	44,856	54,577	99,433	173,831
SC	8,658	14,508	23,166	<u>15,553</u>	<u>16,729</u>	<u>32,282</u>	<u>55,449</u>
Developer	21,637	11,253	32,890	13,484	7,450	20,935	53,825
Payment and Finance	2,095	2,498	4,593	2,337	2,104	4,442	9,035
Other	13,677	15,629	29,307	16,618	16,633	33,251	62,559
Consolidation adjustments	(8,394)	(8,490)	(16,884)	<u>(9,622)</u>	<u>(9,115)</u>	<u>(18,737)</u>	<u>(35,622)</u>
<b>Business profit (loss)</b>	<b>(3,879)</b>	<b>4,130</b>	<b>250</b>	<b>1,640</b>	<b>476</b>	<b>2,116</b>	<b>2,366</b>
Department Store	(4,353)	1,428	(2,924)	(137)	125	(11)	(2,936)
SC	109	841	950	<u>573</u>	(515)	<u>58</u>	<u>1,008</u>
Developer	1,026	704	1,731	921	188	1,109	2,840
Payment and Finance	132	313	446	(17)	(31)	(49)	396
Other	(102)	589	486	544	623	1,167	1,654
Consolidation adjustments	(692)	252	(439)	<u>(244)</u>	86	<u>(157)</u>	<u>(597)</u>
<b>Operating profit (loss)</b>	<b>(27,103)</b>	<b>6,466</b>	<b>(20,637)</b>	<b>2,153</b>	<b>(5,781)</b>	<b>(3,628)</b>	<b>(24,265)</b>
Department Store	(23,233)	2,840	(20,392)	192	(586)	(393)	(20,785)
SC	(4,242)	1,171	(3,071)	<u>1,016</u>	(4,913)	<u>(3,896)</u>	<u>(6,968)</u>
Developer	784	913	1,698	712	(429)	283	1,981
Payment and Finance	72	381	453	<u>(0)</u>	(32)	(32)	421
Other	(418)	904	485	676	562	1,238	1,724
Consolidation adjustments	(66)	255	188	<u>(444)</u>	(382)	<u>(827)</u>	<u>(638)</u>

\*The previous year's actual figures have been retroactively adjusted in accordance with the standards for the new reportable segments adopted in FY2021.

\*As Daimaru Matsuzakaya Department Stores Co. Ltd. absorbed Daimaru Matsuzakaya Sales Associates Co. Ltd. on September 1, 2021, the previous year's figures have been retroactively adjusted.

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FY2020 results of Daimaru Matsuzakaya Department Stores after retroactive adjustments are as follows;

Daimaru Matsuzakaya Department Stores data  
retroactively adjusted to reflect the merger of DMSA

	(Millions of yen)						
	FY2020						
	Q1	Q2	H1	Q3	Cumulative Q3	Q4	Cumulative Q4
Gross sales	58,381	118,461	176,842	120,320	297,163	137,060	434,223
Revenue	23,927	44,478	68,405	41,015	109,421	50,134	159,555
SGA	16,336	24,272	40,609	25,548	66,157	27,174	93,331
Business profit (loss)	(4,039)	1,857	(2,181)	183	(1,997)	306	(1,691)
Operating profit (loss)	(21,758)	3,246	(18,512)	387	(18,124)	(412)	(18,537)

\*The Real Estate Business was transferred to Parco in September 2020. In the disclosed information for FY2020, however, the non-consolidated figures of Daimaru Matsuzakaya Department Stores for H1 of the same year have not been retroactively adjusted to reflect the impact of the transfer of the Real Estate Business (Segment information has already been retroactively adjusted). In the FY2020 data above, the figures for H1 have also been retroactively adjusted to reflect the impact of the transfer of the Real Estate Business.

End