J. Front Retailing
Q & A summary
Earnings call for the first quarter (Q1) of the fiscal year ending February 28, 2023
Date and time: 15:30 – 16:10 on Thursday, June 30, 2022

Q. I would like to know the progress of revenue and business profit of each segment compared to your plan.
A. On a consolidated basis, they grew steadily in Q1. By segment, concerning the SC Business, as I told about tenant transaction volume earlier, the recovery of operating profit including the effect of renovation is still to come. In Q1, Parco's SC Business was slightly below our plan. Other segments were above it in Q1.

Q. I understand sales as a whole were a little short of your plan. I would like to know whether the reason why profits were above the plan to the extent permissible. I would like to know that on a consolidated basis and for Daimaru Matsuzakaya because I think they may be different from each other.
A. On a consolidated basis, concerning the top line, in terms of gross sales as disclosed monthly, Department Store and SC were slightly below the plan in Q1.
On the other hand, concerning cost reduction including Q1, we strived to reduce costs, which mean SGA of Department Store and operating costs of Parco, to offset the impact of rising prices of utilities, etc.
As the top line of Department Store was lower below the plan in Q1, it ensured business profit through cost control, as mentioned just now.

Q. You said sales of Daimaru Matsuzakaya Department Stores a little vary depending on store location though they were on a gradual recovery trend in Q1. Seeing the movement of affluent people and volume zone or each merchandise category as well as differences in location, do not just high-priced items but also, for example, fashion show a sign of recovery? Or do high-priced items still drive sales?
I would like to know what drove improvement over these three months, in terms of merchandise or location.
A. As mentioned earlier on pages 8 and 9, what drove sales was so-called affluent market, mainly individual *gaisho* customers.
However, domestic sales of cosmetics excluding duty-free sales are also recovering from May. Travel goods and golf and other sporting equipment are also moving.
Mainly high-priced items including luxury items drive sales, but I understand that currently sales are steadily improving also in the categories mentioned just now.

Q. You plan to increase business profit ¥7.8 billion in H1 and you achieved an increase of ¥5.7 billion in Q1. I think MTD sales in June were also good. Your plan will be achieved with the remaining increase of ¥2.1 billion. If you don't mind, could you tell me how much, in value terms, was it above your H1 budget in Q1?
A. On a consolidated basis, as mentioned earlier, the top line did not reach it and business profit grew steadily through cost control. However, from Q2 onwards, particularly including H2, my basic understanding is that it is on a recovery trend but costs, particularly utilities, have been affected by rising prices in Q1 as well. First, in Q2, we would like to continue to strive to ensure performance to achieve our original plan or something extra.

Q. I think the profits of the Payment and Finance Business in the previous fiscal year was far above its plan. Only in Q1, operating profit significantly increased to ¥0.9 billion. Why are its profits increasing? I think there are some reasons including use outside the Group, commission income, and annual fee income. If this trend continues, I think you can expect annual profits of around ¥4.0 billion. Could you tell me a little more about the upward trend in the profits of the Payment and Finance Business as well?
A. First, transaction volume in the Group such as Department Store increased approximately 30% YoY in Q1, which is almost the same growth of Department Store sales. The transaction volume of merchants outside the Group increased 5.7% YoY.
On the other hand, the balance of receivables such as revolving credit and cashing was around

¥22.0 billion in Q1 partly due to the impact of COVID-19. Unlike sales, it will not recover soon. However, I think it will increase gradually.

Concerning special factors, in the previous fiscal year, the negative impact of a change in accounting method for annual fee income on revenue was recorded at about ¥1.4 billion, which includes ¥0.9 billion in H1 and ¥0.6 billion in Q1. It has a positive impact in the current fiscal year. Therefore, the same figures are not expected for next year.

That is to say, as there are no such special factors from the current fiscal year, business profit for full year is expected to be ¥2.8 billion. I think we need to strive hard in Q2 and H2 with the aim of achieving this plan or exceeding it.

Q. In that sense, concerning the Payment and Finance Business, did business profit significantly increase because of an increase of ¥0.6 billion in annual fee income and an increase of ¥0.3 billion in others rather than an increase in commissions from outside the Group and revolving installment fee?

A. That's correct.

Q. You said you could reduce SGA. In your presentation in April, however, you said you would spend where necessary in the current period. Could you reduce SGA while spending enough where necessary as planned? Or as sales were slightly below your plan, did you review costs a little or is it possible that you will carry over some expenses to H2?

A. As you told, partly because the top line in Q1 was slightly below our original plan, we continued to strive to streamline personnel expenses, outsourcing expenses, and advertising expenses as well as to decrease costs proportional to sales during the period.

Meanwhile, concerning carry-over, it is true that costs associated with floor renovation and system investment in Department Store will be carried over to Q2 or H2 depending on the situation. Therefore, please understand that the top line is below our original plan for both reasons.

Q. Do you mean do you spend enough where you said you would spend aggressively in the current period?

A. That's right.

Q. Concerning the SC Business, you said Parco received entertainment subsidies in the current period. I would like to know what type and how much they were, whether they were provided only in Q1 or will be provided also in the future, and whether they were included in your original plan.

And I heard at the beginning of the current period that Parco would no longer provide rent concessions in the current period. I would also like to know whether there are really no rent concessions.

A. The subsidies (*Note) were ¥0.45 billion and included in other operating income. They are one-time grants in Q1. Please understand that they are subsidies for not closure but entry restrictions. Therefore, I understand that such income will not arise from Q2 onwards unless the same thing happens. This amount of ¥0.45 billion was not factored in the plan.

Parco does not include rent concessions because its stores were not closed. Concerning relaxing of conditions, as I told in our results presentation in April, we would like to reduce about 50% from the annual results of approximately ¥3.0 billion in FY2021, which is our original plan for FY2022. And in Q1, it decreased only approximately ¥0.1 billion or ¥0.2 billion.

Therefore, from Q2 onwards, we would like to continue to strive to reduce relaxing of conditions, including the impact of cost increase and negotiations with tenants based on the recovery of operating revenue.

Q. Do you mean that you want annual relaxing of conditions to be around ¥1.5 billion but that you could not reduce that much in Q1?

A. I think it was slightly more than ¥0.6 billion in Q1 last year and ¥0.5 billion in Q1 this fiscal year. For full year, we would like it to recover to around a half of the amount last year. So, for a quarter, we would like it to recover to ¥0.4 billion to slightly more than ¥0.4 billion. However, relaxing of conditions decreased only just over ¥0.1 billion. We would like to strive to recover it in the future.

Q. Were the subsidies of ¥0.45 billion you mentioned earlier included in your plan?

A. They were not included in the plan.

Q. You did not factor in this amount of ¥0.45 billion in your plan, but in the first place, you did not expect to close stores. So it is not a cause for an increase in profits above your plan. Is it correct?

A. I would like you to understand that it made operating profit exceed our original plan because it was not factored in.

Q. The amount of ¥0.45 billion had a positive impact on comparison with your plan. Therefore, was Parco's business profit except that below your plan?

A. Business profit was slightly below our plan. I would like you to understand that the subsidies mentioned earlier were added to operating profit as other operating income of ¥0.45 billion under business profit.

Q. Concerning Parco's transaction volume, seeing the graph in your material, it does not seem to improve so much in April and May. What will recover this transaction volume a step higher? Like Daimaru Matsuzakaya Department Stores, does it vary between store locations or merchandise categories? I would like to know its trends, if any.

A. I understand that Parco also varies widely depending on area and store. Performance in Shibuya, Shinsaibashi, Chofu, Urawa, Kinshicho, and Ueno is recovering relatively smoothly though it does not reach FY2019 level. On the other hand, performance in the Hiroshima and Shizuoka areas is recovering poorly.

Concerning the future, the flagship stores including Ikebukuro and Nagoya are currently under renovation. In Q1, some floors were closed due to such renovation works. I expect that the effect of renovation or contribution to revenue by strategic investment will appear in H2 or next fiscal year. I think that the keys will be the appearance of renovation effect in the flagship stores including Ikebukuro and Nagoya as well as the full operation of Shibuya and Shinsaibashi.

*Note:

J-LOD (content global demand creation promotion and infrastructure development project subsidy provided by the Ministry of Economy, Trade and Industry) and subsidy for the promotion of culture and arts (Agency for Cultural Affairs)

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