**J. Front Retailing**
**Summary of Q&A Session at**
**Earnings Call for the First Quarter (Q1) of the Fiscal Year Ending February 28, 2025**
**Date and Time: 16:30-17:10 on Friday, June 28, 2024**

**Q. This time, the increase in Q1 in particular is being directly reflected in the revisions to the results for H1 and the full year, but is this due to the Department Store Business, or are other segments also seeing increases?**

A. The 4 billion yen increase in both business profit and operating profit on a consolidated basis was largely due to the impact of the Department Store Business and Parco, the Shopping Center Business, when viewed by segment. Its main driver is inbound tourists. The Developer Business is almost as planned, while the Payment and Finance Business is a little behind schedule. Please understand that of the 4 billion yen upward revision, more than half is for the Department Store Business and about 1 billion yen is for the Shopping Center Business.

**Q. As for the Department Store, you have already given us the sales progress figures for the first half of June, but how should we look at these figures since the previous year's hurdle itself will change from this point. In other words, looking only at year-on-year growth rates, inbound sales in particular appear to have slowed down very much from May to June. In the first half of June, are there any changes in trends in domestic sales and inbound sales in the Department Store Business from Q1?**

A. As for the situation in the first half of June, there was no significant change in the underlying trend from Q1. Inbound sales were still relatively low in June compared to May, partly because of the consecutive holidays in China, but the underlying trend remains strong relative to the plan.

Therefore, only the increase in Q1 has been factored into the earnings revision this time, but because the full year forecast for inbound sales has not changed from the initial plan, we will strive to steadily add to the top line in this area, including in June.

Domestic sales can also be regarded basically stable. Although it is different from the past when the volume of sales and gifts was large, sales in June and July are still at a reasonable level, so we would like to make a good profit, including taking advantage of the return on our investment.

**Q. In that sense, if business profit and operating profit increased by 4 billion yen in Q1, of course the increase in H1 may not be double that amount, but if this trend continues in July and August, can I understand that the overall trend for H1 can be better than the plan?**

A. Basically, your understanding is correct.

**Q. Inbound sales have been steady, but how do you see it now as to whether this will continue? For example, are there any particular concerns regarding product availability? I would like to know even if it is just a feeling.**

A. Inbound sales have grown more than initially expected. Luxury goods are a big seller, but there has been no particular impact on product procurement at this time.

In the medium to long term, overseas customers, including inbound tourists, will be a very large market for us, but on the other hand, issues such as overtourism are also emerging. I think that in the future it will become necessary to pay more attention to in-store service and customer service so that both domestic and oversees customers can enjoy shopping comfortably.

In that sense, for example, for gaisho customers, in addition to customer service at stores, we are diversifying touch points by connecting with customers online or visiting them at their premises. In this and other ways, we would like to fully capture domestic and overseas demand.

**Q. You explained that Parco, the Shopping Center Business, also performed well compared to the plan, but I would like you to break down the factors that contributed to the strong performance, such as whether this was due to a higher rental income due to good revenue, or whether there were any differences in costs and expenses from what was expected.**

A. The most significant factor is gross sales, the so-called tenant transaction volume, but the main reason for the upswing is the increase in rental income due to the increase in tenant transaction volume, including purchases by inbound tourists.

In addition, Parco is strengthening sales promotions at all stores, which is one of its strengths, and this, including the reversal of advertising expenses, has led to a reduction in cost of sales. These factors also contributed to the increase in business profit in Q1. These are the two main factors.

**Q. The presentation materials also include a comment about cost and expense control, but is there anything special being done in this regard?**

A. At the same time as taking the top line as a matter of course, we are striving to spend expenses and costs effectively, so I would like you to understand that this is the result of our daily efforts.

**Q. Regarding SGA at Daimaru Matsuzakaya Department Stores, Q1 results show a year-on-year increase of 300 million yen. The initial plan called for an increase of 2.5 billion yen in H1 over the previous year, but are the costs associated with the renovation of the Nagoya store actually going to be as initially planned, or are they going to be less, or are they not going to be incurred in Q1 but will be incurred in Q2 or later? I would like to know how the difference from the plan is likely to appear due to the cost related to the renovation work. Is it correct to say that the plan is a bit unstable to begin with?**

A. The renovation of the Nagoya store naturally began in March, but the basic plan is for expenses associated with the renovation to increase in H2 rather than in H1, or gradually each quarter. In this sense, expenses will be heaviest in Q4.

At present, investments are progressing as planned, so we do not expect investments and expenses related to the renovation of the Nagoya store to exceed or fall short of the initial plan.

**Q. The so-called extraordinary losses (other operating expenses), which fall between business profit and operating profit, are expected to appear in Q2 rather than Q1, and in Q3 rather than Q2. I don't think there is much in Q1, but is it correct to understand that there is no sign of a difference from the plan in this regard?**

A. The loss on retirement of fixed assets due to the renovation of the Nagoya store is expected to be basically as planned. On the other hand, while a certain amount of restructuring expenses were included in other operating expenses on a consolidated basis at the beginning of the fiscal year, they were not incurred in Q1, and adjustments will be made as necessary from Q2 onward.

**Q. There may not be a quarterly forecast for restructuring expenses, but does this mean that there is no particular deviation from the initial plan?**

A. Basically, you are correct. Although a certain amount was factored in for H1, there are no major changes at this point.

**Q. In the Shopping Center Business, the business profit for H1 was originally planned to be 5.5 billion yen, but it has already reached 4 billion yen in Q1. Does this mean that there are many facilities that can receive variable rents due to pure growth in transaction volume, which has led to solid profits? Is it correct to understand that if such tenants are doing as well as they are now, there is a possibility that profits will continue to rise steadily in Q2 and beyond?**

A. The reason for the strong performance in Q1 is that the top line has risen steadily, and this has been reflected in rents. If the trend does not fundamentally change in Q2, I think we can expect a certain level of further increase in profits compared to the initial plan.

**Q. I understand that only the upward revision for Q1 has been made this time, but I think it is easy to imagine that if this were applied to the full year, the upward revision would be quite large. It may be a little premature to ask, but I would like to know, to the extent possible, how the excess profits will be used, including bonuses, but are there any other additional investments that will be made, or will the profits be used in advance, or can we expect the excess profits to be used as a source of returns?**

A. At present, we do not have any specific plans in place. However, as I mentioned at the end of my opening remarks, our current business performance is solid, so we will continue to make solid profits from Q2 onward. At the same time, we would like to consider plans for H2, including whether we can bring forward some of the strategies and measures set out for 2030 or in the current Medium-term Business Plan in order to realize the benefits of our strategies at an earlier stage.

At the same time, we have revised the dividend payout ratio to 40% in the current medium-term plan, and we hope to continue to earn well in Q2, and then consider the possibility of returning profits in H2 or the fiscal year.

**Q. As for Parco, at the beginning of the fiscal year, you said that business profit would remain flat due to the impact of upfront costs for new businesses and system development, but will these costs appear in Q2 and beyond? Also, since Parco has a large fixed rent portion to begin with, I had thought that profits would not rise that much even if sales rose, but I would like to know if the rise was the result of a strong performance by tenants that are likely to pay variable rents.**

A. Since we intend to steadily advance the strategies and measures set forth in the Medium-term Business Plan, our basic approach for the current fiscal year is to make necessary investments, including those to strengthen new businesses and content. Such investments will increase from Q2 onward.

Regarding variable rent, the content of the contracts differs from one another, so structurally, it is not necessarily the case that an increase in transaction volume will directly translate into revenue. However, when transaction volume increases to this extent, it does have a significant effect on the percentage rent.

**Q. Regarding the real estate rental income of Daimaru Matsuzakaya Department Stores, the April forecast was for an increase of 850 million yen in H1 compared to the previous year, but it has already increased by 1.2 billion yen in Q1. Is it correct to say that this is due to strong sales at GINZA SIX? Also, if sales at GINZA SIX continue to be strong, can we expect a significant increase in this area for the full year as well?**

A. Since GINZA SIX and the Shinsaibashi store account for a large portion of the real estate rent of Daimaru Matsuzakaya Department Stores, the increase in the percentage rent portion of these stores is undoubtedly a contributing factor. GINZA SIX is currently performing very well, so we would like to steadily increase our top line so that we can achieve additional growth from Q2 onward.

**Q. Is it correct to say that the increase in real estate rental income had a reasonable impact as a factor behind the increase in Q1 operating profit in the Department Store Business?**

A. You can understand it that way.

**Q. Does this mean that the transaction volume of fixed-term lease tenants, which is not included in gross sales disclosed monthly, is doing quite well, resulting in increased rental income and boosting business profit?**

A. Structurally, you are right.

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