J. Front Retailing
Summary of Q&A Session at
Earnings Call for the Third Quarter (Q3) of the Fiscal Year Ending February 28, 2025
Date and Time: 16:00-16:40 on Wednesday, December 25, 2024

(Q&A Session)

Q. I understood that overall, the results were in line with the plan, but looking at the year-on-year comparison, my impression is that the Department Store Business should have had a little more growth in profit while sales were steady. On the other hand, the Shopping Center (SC) Business appears to be performing extremely well. I would like you to explain in more detail the breakdown of business profit by segment.

A. In terms of business profit, the consolidated total was about 600 million yen higher than the internal plan. By business segment, the Department Store Business was in line with the plan, while Parco in the SC Business and J. Front Design & Construction in the Developer Business both increased business profit.

On the other hand, JFR Card in the Payment and Finance Business decreased business profit in the upfront cost phase, and in Other, mainly Daimaru Kogyo is making negative progress.

Q. You said that duty-free sales at Daimaru Matsuzakaya Department Stores are improving further in December, but I think that from January onwards, the previous year's hurdles will gradually return to normal, so rather than the growth rate compared to the previous year, I think that how to maintain and improve the absolute level of sales will be important for duty-free and domestic sales as well. In that regard, what measures do you think are currently effective?

In particular, before COVID-19, a "store-wide clearance sale" was a big event at the start of the new year, but I think that era is over now. With the sales season in January and February also being very important, how do you intend to secure domestic sales and duty-free sales?

A. First, regarding domestic sales, new sales areas have been opening one after another as part of the large-scale renovation currently being carried out at the Matsuzakaya Nagoya store from November to December, and I think one of the key factors is the effectiveness of these renovations. At other stores, we are strengthening our merchandising on luxury and other floors, although the scale of renovations varies. In addition, coupled with the asset effect, we have been able to steadily increase sales to the wealthy and to gaisho customers in Japan as planned, so we would like to focus on these areas and achieve good results including in January and February.

On the other hand, duty-free sales were up 30% on a daily basis in the second half of December compared to the first half of the month. We have already implemented sales promotion measures to encourage customers to use our companies and our stores while investing in advertising expenses, including in December, and we intend to take advantage of these measures in the short term. From a medium- to long-term perspective, we would like to promote CRM for overseas customers. The number of overseas users of the Daimaru Matsuzakaya Department Stores app was just over 60,000 as of Q2, but has now exceeded 70,000 over the past three months. We would like to continue to work hard to connect with customers not only in Japan, but also overseas.

Q. In that sense, the current situation is favorable, but can I understand that the various measures that you are currently working on will bear fruit in the future, and that you are poised to achieve

even stronger sales both domestically and overseas in 2025 than at present?
A. That's basically how we understand it.

Q. When you revised your earnings forecast in September, you also added upfront investment costs, but how much impact did those upfront costs have on business profit in Q3? I would like to know about this, including the renovation of the Nagoya store and other areas.
A. For Daimaru Matsuzakaya Department Stores, the increase in repair expenses is expected not only in Q3 but also in Q4, although it is more of a renovation cost than an upfront cost. Although it is proceeding basically as planned, in the Q4 alone, repair expenses associated with the renovation of the Nagoya store and other stores will increase by approximately 700 million yen year on year.

On the other hand, we are planning for upfront costs, or front-loaded expenses, to be approximately 1.5 billion yen in the second half on a consolidated basis including the Department Store Business, with progress toward 300 million yen in Q3 and just over one billion yen in Q4.

Apart from upfront investments and repair expenses, this is the same as before, but while we will spend where we need to, we will also continue to firmly control costs. For example, there is nothing in particular that has been postponed from Q3 to Q4.

Q. The SC Business and the Developer Business appear to be performing better than expected. First, regarding the SC Business, you mentioned in your explanation that there were some special factors, but I would like to confirm whether there were any temporary or special factors in the first place in Q3. In addition, I think that costs will increase at Parco as renovations at Shibuya PARCO and other facilities proceed, but it looks like the outlook for Q4 is actually going to be quite higher. Could you please provide any additional explanation on this point?
A. You can think of the SC Business as essentially Parco, and what I just explained was the portion of cost of sales, and what was originally planned to be recorded in Q3 has been delayed by approximately 200 to 300 million yen from Q3 to Q4.

As explained by Mr. Kawase, President of Parco, in the Q2 presentation, we are proceeding with investments in renovation, including at flagship stores, in the current medium-term plan. As for Nagoya PARCO, this includes not only this fiscal year but also next. For example, from this February, Shibuya PARCO will be celebrating its fifth anniversary since its opening, so we will be working on strategic renovations on a reasonable scale through next fiscal year. Please understand that while we are reaping the benefits of our strategic investments, we will also continue to make investments in flagship stores with an eye to the future.

In addition to the 200 to 300 million yen in deferred expenses in Q4, we will make an unplanned investment in safety and security in Q4, and we currently expect this to have an impact of around 200 to 300 million yen.

Regarding the SC Business and Developer Business, we currently expect business profit to exceed expectations in the second half of the year.

Q. In the Developer Business, you mentioned that J. Front Design & Construction is doing well, but is it correct to understand that the strong performance in this Q3 was not due to the fact that profits were booked ahead of schedule?
A. Basically, there has been no major change in the balance of profit recognition between Q3 and Q4. Originally, the numerical plan placed emphasis on Q3, so please understand that in terms of volume, Q3

had an overwhelmingly higher share.

Q. In the Developer Business, you are expecting a 700 million yen gain on asset sales in Q4 of this year. Although the decline in profits will be due to the backlash from the 3.5 billion yen gain on condominium sales recorded in Q4 of last year, can the rest of the business be expected to be favorable?

A. I think that the upward swing to J. Front Design & Construction's performance will shape the outlook for the Developer Business as a whole for the second half of the year.

Q. Parco seems to be making progress while keeping SGA relatively under control, but I would like to know if there are any areas where you have been able to be more efficient on the cost side. Also, you mentioned earlier that entertainment is also contributing, but on the sales side, I would like to ask for additional information on the factors behind the favorable sales, such as higher profits from rent and entertainment, etc.

A. Parco's sales revenue for the September-November period was up 1.6 billion, or just under 1.7 billion yen from the previous year. Gross sales are generally equivalent to tenant transaction volume, and due to the impact of the rise in this top line, rent and common service fee income increased by approximately 800 to 900 million yen. Entertainment had long been affected by the COVID-19 disaster, but the September-November period saw a year-on-year increase of approximately 600 million yen, which is the main reason for the increase.

On the other hand, in terms of cost of sales and SGA, Parco's ratio of cost of sales is high, but as is the case with the Department Store Business, cost controls and a more balanced use of resources are being implemented. SGA is mainly headquarter expenses, and we are also promoting efficiency in this area.

I mentioned earlier that the deferred expenses would be 200 to 300 million yen, but other than that, there were no other special factors in Q3.

Q. Regarding J. Front Design & Construction, is the business environment better than you had previously thought? I think the Nagoya store renovation is an internal matter, but do you think the business environment outside the Group is also improving from your perspective?

A. I think the biggest reason is that demand is expanding not only for construction work related to the Group, but also for external transactions such as hotels. In particular, J. Front Design & Construction's strength is the know-how it has cultivated in the Department Stores, and in addition to hotel interiors, it also receives orders for interiors for luxury brand boutiques.

In this situation, inflation and rising raw material costs are becoming issues not only for J. Front Design & Construction, but for all other companies as well, so we have decided to take another step to control profit margins. We believe that the increase in top line and the strict management of profit margins and cost of sales have led to a significant increase in profits.

Q. Regarding SGA of Daimaru Matsuzakaya Department Stores, I had heard that it would increase relatively year on year in the second half of this fiscal year, but if we look only at Q3, it appears to be at a milder pace than that. Is this due to the plan to increase even more in Q4 than in the previous year, including repair expenses related to the renovation of the Nagoya store?

A. As for business profit, I mentioned that the Department Store Business was generally in line with the plan as of Q3, but this includes the top line, so expenses were also generally in line with the plan.

On the other hand, for Q4, in addition to an increase in repair expenses, we are trying to raise the top line one more level, so we recognize that expenses will be higher year on year in Q4 than in Q3 due to sales-proportional expenses, an increase in advertising expenses and personnel expenses, as well as price increases for outsourcing expenses, etc.

Q. At Parco, Nagoya PARCO is the first to reopen after renovation, and I think that renovations will also begin at Shibuya PARCO and Shinsaibashi PARCO at the same time. Some PARCO stores will be undergoing renovations, but renovations at other stores will be completed soon, so can I assume that profits will continue to accumulate from now on? Even after the renovation of Nagoya PARCO is completed, there will be some profit reductions due to renovation work elsewhere, so should I assume that profits will not change significantly for a while? I would like to know when the profits will start to fully accumulate.

A. I think Parco has two sides to it. One thing that makes it slightly different from the Department Stores is that it will be continuing to renovate on a certain scale, primarily at its flagship stores, so I think there will be a fair amount of investment required over the three-year period.

On the other hand, increasing rental income through an increase in transaction volume is still an important factor. As rent revisions are coming up at Shibuya and Shinsaibashi, the plan is to improve rents by increasing the top line, including through renovations. Although a dramatic increase in profits is not expected from the previous year to this year, the basic approach is to steadily accumulate profits while making investments.

Q. I would like to confirm again about the one-time profits this fiscal year at the business profit level. If the Developer Business' gain on sale is only the 700 million yen expected to be realized in Q4, the hurdle for next year may not be so high, but I would like to confirm whether the business profit for next fiscal year will be realized properly.

A. In terms of one-off asset sales this fiscal year, we are planning 700 million yen in Q4. In addition, we recorded approximately 1.7 billion yen in sales of non-core assets in Q2 of this year, but this amount will not be available next year, so we recognize that these will be the main factors behind the change.

Q. As a measure to offset this, will there still be real estate to sell on a regular basis next fiscal year, or will you bring forward what you can to avoid a decline in business profit next fiscal year? Since you are talking about accelerating long-term growth, do you think you will be able to offset the 2.4 billion yen decrease in profits by accelerating expenditures for the issuance of new PARCO Card during this fiscal year, etc.?

A. In the Development Business, there are limits to asset sales and the timing is also important, but basically, we do have certain plans in place for fiscal years 2025 and 2026, so it is not a question of either zero or 100, and we will consider asset sales, etc., while also looking at the timing.

We are currently forecasting 52 billion yen in business profit for the current fiscal year, the first year of our medium-term plan, and our basic approach remains the same, which is to accumulate solid profits in fiscal years 2025 and 2026. We will present our forecast for fiscal years 2025 and 2026, including investments, at the announcement of financial results next spring.

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