J. Front Retailing
Summary of Q&A Session at
Results Presentation for the Fiscal Year Ended February 28, 2025
Date and time: 17:00 – 18:10 on Monday, April 14, 2025

<Q&A Session>

Q. On page 12 of your presentation material, your business environment awareness for fiscal 2025 is presented. I would like you to provide more details about your outlook for inbound and domestic sales for fiscal 2025.

I would also like you to provide additional information on the growth rate of domestic sales. The impact of Trump tariffs has caused some confusion, but to what extent has this been factored into your plan for fiscal 2025? I think the figures are a little weaker than initially thought, so I would like to know how you see the situation now.

A. Regarding department store sales by customer in fiscal 2025, the increase from fiscal 2024 is expected to be 4.2% in gross sales, 6.4% in gaisho sales, and 5.1% in domestic cash sales. Duty-free sales are expected to decline by 2.6%.

Domestic cash sales are expected to grow significantly, by 5.1% in fiscal 2025, compared to a 0.5% year-on-year increase in fiscal 2024. The reason for this is, first of all, that we are undertaking a major renovation of the Nagoya store, which will be opened in stages in fiscal 2025, so the top line will go up. In addition, we are operating an official store at the Expo 2025, Osaka, Kansai, so we see this as a positive factor. We have four stores in the Kansai region, so we expect ripple effects from the Expo 2025, Osaka, Kansai.

Q. Overall, how do you factor in the impact of Trump tariffs?

A. To give an overview, the conclusion is that we don't know. We really cannot predict what tomorrow will bring, so I do not think there is much point in getting too excited or upset. I believe that we should not be influenced by the current situation, but rather do what we have to do. We would like to build the strength of a ship that can sail through rough seas by strengthening the Group's management base, and we would like to build a motor that can move steadily forward under any circumstances through our growth strategy, namely, the deepening of retail and the evolution of synergies.

On the contrary, I would like to know how you view this situation, so we are keeping a closer eye on the external environment and considering appropriate measures, but first of all, we will do what we need to do.

Q. It was explained that originally, fiscal 2024 was a little too good, or rather, it was recognized as a year with many favorable conditions, but this budget was formulated much earlier, so I think the plan was initially decided without taking President Trump's actions into consideration at all. After that, various developments occurred in April, but the figures were not revised based on that. Rather, inbound sales were expected to decrease slightly, based on the understanding that the environment was always going to change in various ways. Is that correct?

A. Inbound sales at our department stores were still too good last fiscal year. Last fiscal year, the yen was extremely weak and there was a rush buying before the price revisions for luxury brands, so we think that the backlash from this was huge. However, duty-free sales are currently running at just under 0.3 billion yen per day when the yen is in the mid-140s against the dollar or even stronger than that.

Simply converting this to a yearly figure would amount to just over 100.0 billion yen, but we can also expect the effects of the Chinese New Year, the Chinese National Day, summer vacation, and other Asian holidays, as well as the Expo 2025 Osaka, Kansai, so we think that 127.0 billion yen is not such a difficult target. Since we have a target of 130.0 billion yen by 2026, our current understanding is that we must make sure that inbound CRM is firmly in place.

Q. The target for business profit in fiscal 2026 has been raised to 56.0 billion yen, but your presentation material includes a supplementary note stating that the "downward impact of advancement of large-scale renovation of Daimaru Umeda store of approximately 4.0 billion yen." If we were to simply reverse this figure, I think it would be at the 60.0 billion yen level. Is that the correct way of thinking?

Is this figure of 56.0 billion yen a bit conservative, a bare minimum target? Or is it a bit challenging? I would like to know your thoughts on that as well.

A. This was not included in the original medium-term plan, so if you do the simple math, you can understand that we are aiming for a level of 60.0 billion yen.

In the current environment, it is difficult to answer whether the current response or target is high or low, so we would like to wait a little longer to judge the situation and then consider additional measures if necessary.

Q. Regarding The Landmark Nagoya Sakae, an increase in depreciation expenses has been factored in due to the amortization of the right-of-use assets, but I would like to know as much as possible about the projected expenses for the current fiscal year. Will this project begin to contribute to earnings in fiscal 2025?

A. We plan to announce the exact opening date of The Landmark Nagoya Sakae and the names of the tenants in the second half of this fiscal year.

At the moment, we are proceeding with preparations, aiming to open around the summer of fiscal 2026. Although the opening itself will be in fiscal 2026, we have adopted IFRS and will start incurring expenses in fiscal 2025.

The opening of The Landmark Nagoya Sakae is expected to contribute approximately 1.5 billion yen in business profit when it becomes fully operational in fiscal 2027. The slide shows that the profit growth for the entire Nagoya area will be 5.0 billion yen plus in business profit. As I mentioned in the second quarter, the renovation of the Matsuzakaya Nagoya store will increase profit by approximately 3.0 billion yen, and the opening of this facility will add 1.5 billion yen to this. In addition, Nagoya PARCO is currently performing very well, so we would like to work hard to create synergies with these additional benefits.

Q. As a follow-up to the previous question, from what month in 2025 will expenses related to The Landmark Nagoya Sakae be recorded?

A. As shown in the Daimaru Matsuzakaya SGA analysis for fiscal 2025 on slide No. 17, expenses will be incurred gradually from the first half of the year. 1.5 billion yen of profit increase is based on full operation.

Q. Regarding the fourth quarter results, Daimaru Matsuzakaya Department Stores' full-year business profit fell short of the revised plan. I think you probably could have achieved it if you had wanted to, but you said you wanted to frontload costs in the previous fiscal year, so I think you probably spent a lot of money. So, with the new fiscal year outlook being so difficult, I would like to know if there are any areas where you have spent money in advance.

A. With the fourth quarter profit declining, how did we spend our expenses? We have used some one-off expenses in advance as investments for the future and investments to produce early results. Specifically, we are using them in digital and safety and security investments, as well as in facilities-related investments such as renovating employee facilities and switching to LED lighting in the backyard. Additionally, because this was the year in which we achieved our highest profit ever, we decided to increase bonuses for employees, using the money to reward them for their hard work.

One large one-time investment that was already included in the plan was 0.7 billion yen for the Nagoya store, but other than that, the money was used as upfront investment.

Q. The same will be true for Parco. Although I understand that fixed asset taxes will be incurred in the fourth quarter, I have the impression that the decline in profit was even greater in the fourth quarter. The renovation of Shibuya PARCO seems to have begun in March, so I thought that no particular costs were incurred in the previous fiscal year. I would like to know the reason for the decline in profit in the fourth quarter.

A. In terms of revenues in the fourth quarter, the renovation of Shibuya PARCO has begun, so I think that had a small impact. In terms of expenditures, we are carrying out a financial sophistication project and updating our in-store payment-related systems, so those expenses are increasing as temporary expenses.

In addition, in terms of personnel expenses, Parco also spent on living support and other compensation for employees in the fourth quarter, so these expenses were also recorded in the fourth quarter.

Q. I think the Payment and Finance Business was not profitable in the fourth quarter, either. Though I understand that acquisition costs and points for new cards for PARCO and GINZA SIX are now being paid out, but in the presentation just now, you said that you were able to acquire new cardholders in bulk, so does that mean that you a little bit strengthened your acquisition activities in the fourth quarter?

However, since I think you are still giving out more points, should I assume that there will be some costs in the first quarter as well? Or, if you have been somewhat forced into the fourth quarter, perhaps not so much in the first quarter, but I would like you to explain the movements in this fourth quarter, dividing them into temporary and non-temporary.

A. Regarding JFR Card, which operates the Payment and Finance Business, the new PARCO CARD was originally scheduled to be issued in March 2025. However, by bringing this forward to February 2025, promotion costs and point costs have been incurred, but on top of that, system-related development costs have had to be recorded within fiscal 2024. This is a one-time cost of around 0.8 billion yen.

Q. The Daimaru Umeda store is expected to push down business profit by 4.0 billion yen, but on the other hand, you explained earlier that it would boost business profit by 1.5 to 2.0 billion yen in the fiscal year ending February 28, 2031. This is a pretty drastic move, but what will happen during the renovation period, or will there be a large drop only in the new fiscal year, and will business profit increase after that? Since the impact is so large, I would like to know the timeline, if any.

A. Regarding the change in business profit for the Daimaru Umeda store by fiscal year, first of all, the details are as follows. In fiscal 2025, demolition of the upper floors will begin in the third quarter, and full-scale demolition is scheduled to begin in the fourth quarter, so business profit will be down 1.1 billion yen compared to fiscal 2024. The largest decrease will be in fiscal 2026, when the upper floors will be completely returned in the first quarter, and full-scale construction will begin in stages on each floor, so we expect business profit to decrease by 3.8 billion yen during this period.

This is the largest decline, and from there on business profit will decrease slightly. There will be a large improvement from fiscal 2027 to fiscal 2028, and then as some floors are gradually opened, there will be an increase again in fiscal 2029.

Q. Basically, the upper floors will be returned, but the sales spaces will not be completely removed and will be moved, so is it correct to understand that there will be a significant decrease in profit due to the return, demolition, and associated decrease in sales? Also, will there be any other costs, such as for restoring the floors to their original state?

Ａ. The 10th floor and above will be completely returned, so we will renovate or repair some areas, but not all the floors. On the other hand, as the middle floors will be renovated one by one, some of the floors will be temporarily closed to build new spaces or relocated, and the largest amount of such costs will be incurred from fiscal 2025 to 2026. This means that there is a possibility that the impact of both decreased sales and increased costs will appear in fiscal 2026.

Q. You explained that you intend to increase gaisho sales in the Department Store, but how can you do so? I would like to know more about your strategy for gaisho sales, including whether there are any risks involved.

A. The expansion of gaisho sales is being approached in two steps: in the short term and the medium term.

This fiscal year, we have launched a gaisho project for the medium term, and are currently formulating a strategy focusing on four aspects: areas, human resources, content, and digital transformation. In terms of increasing the numbers in front of us, we are focusing on inactive accounts this year. In 2024, we conducted a test trial for gaisho customers in the Tokyo metropolitan area to activate inactive accounts, and the results were better than expected, so we would like to introduce this system to all other stores and increase the utilization rate of inactive accounts by about 2.2 points. We are working on this, expecting that it will have an effect of approximately 5.0 billion yen in sales.

Regarding risks, it is difficult to judge the impact of Trump tariffs at this point, but one risk in the existing gaisho business is that the number of active accounts will decrease as existing customers age, so we believe that we will need to make efforts to develop new accounts. In this environment, we are actively developing digital accounts, and will use our advantage in this area to increase our hit rate. In addition, since we have core stores from Hokkaido to Kyushu, we would like to steadily develop new accounts in the surrounding areas, as well as with alliance companies.

Q. Parco, which operates the SC Business, does not seem to see much profit growth this fiscal year, but in the explanation earlier I heard that Parco is gaining strength, so I think it would have been possible to create a plan to steadily increase profit even in these circumstances. What is the actual intention behind the plans for this fiscal year, especially for Parco? Is there actually a little more potential, or should I actually be looking at it this way?

A. We appreciate the expectation that it will still grow, and we agree. In fiscal 2025, we believe that we will be able to increase earnings appropriately, but we expect to incur substantial one-time expenses, such as safety and security investments related to store assets and other CAPEX expenses. As a result, we expect a slight increase in profit in fiscal 2025 compared to the previous fiscal year, but we hope to secure that level of profit.

Q. Are those expenses, in monetary terms, reasonable? Can you give me a specific figure?
A. Recurring increases in personnel expenses, for example, as a structure, must be absorbed, not only in fiscal 2025, but over the years to come. On the other hand, there will be temporary expenditures related to facilities. There will be some costs, but I would like to refrain from disclosing the figures today, lest I mislead you.

Q. Do you mean that your outlook remains unchanged, anticipating the benefits of the renovations and reaping solid profits?
A. The investment I am talking about now, CAPEX, is the part that relates to the safety and security of facilities, and some of it will be recorded on the profit and loss statement. As for what we call renovations and floor layout reforms, of course we will invest in shared corridors and the like, but most of the investment will be made by the tenants, and as we have completed the appropriate work at Nagoya PARCO and Sendai PARCO in fiscal 2024, we will see increased revenue from this in fiscal 2025. This will be offset by capital investment, or CAPEX expenditures.

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