

**J. Front Retailing  
Q & A summary**

**Earnings call for the first quarter of the fiscal year ending February 28, 2022**

**Date and time: 17:00 – 17:45 on Tuesday, June 29, 2021**

- Q. About the balance of earnings forecast for H1 and H2 on slide No. 9. You explained business profit and items below it in detail by segment but I would like to ask you about gross sales and revenue. Compared to April forecasts, while gross sales are forecast to decrease by ¥55.0 billion in H1 and by ¥15.0 billion in H2, revenue is expected to decrease by ¥15.0 billion in H1 and by ¥14.0 billion in H2. I am confused about relations between them. I would like to know the components of a decrease of ¥55.0 billion in gross sales and a decrease of ¥15.0 billion in revenue in H1. In terms of revenue, a decrease from April forecast in H1 seems almost the same as that in H2. I would like to know details about them.**
- A. The main reasons are as follows. (1) Gross sales of Department Store and Parco SC are expected to decrease substantially mainly in Q1 from the released forecasts. The difference from revenue is caused by Parco SC whose tenant transaction volume is recorded as gross sales as well as Department Store. The impact of these two businesses will make a great difference in H1. (2) The impact of the transfer of Neuve A, which was already released. It was not factored into the forecasts released in April but the transfer was made at the end of June. Its full impact will occur in H2. For these reasons, relations between gross sales and revenue greatly differ between H1 and H2.
- Q. Though a decrease in gross sales forecast for H2 is much smaller than that for H1, a decrease of ¥3.5 billion from the forecast in business profit in H2 seems large even if considering reclassification to other operating expenses. Are there any special reasons?**
- A. There are no special reasons. As mentioned above, while gross sales of the Department Store and Parco SC Businesses for H1 are expected to be far below the forecast, a decrease in revenue of the SC Business is not so large as a difference of gross sales between H1 and H2 due to rental income. On the other hand, business profit is slightly below the forecast released in April mainly due to a decrease in revenue, not for a special reason.
- Q. About an increase of ¥2.0 billion in gross profit on slide No. 8. I think it will be difficult to increase gross sales by ¥10.0 billion in this environment. There is some explanation on the slide but I would like to know a little more.**
- A. We would like to steadily grow *gaisho* sales, which is one of our strategies stated in the Medium-term Business Plan. Shinsaibashi PARCO opened last fall and there are some department store luxury brands on its lower floors. The store attracts a wide range of people. It does not go full circle yet, but last November when it opened, it was amid the COVID-19 pandemic. So we can expect it to make profits. We also expect we will be able to take aggressive measures such as sales activities and events outside stores in other areas. At the same time, we will strengthen sales though we have reduced economic promotions and events amid voluntary restraint of sales activities. While controlling costs, we will take the offensive where we should do so to strengthen sales and boost sales.
- Q. In that sense, is it correct to understand that an increase of ¥10.0 billion in gross sales will be achieved mainly by the Department Store Business?**
- A. In the sense of an impact on business performance, the Department Store Business will be a main player.
- Q. My question overlaps with the previous one, but concerning the balance between the forecasts of gross sales and revenue for H2 on page 9, why will revenue be ¥14.0 billion below the forecast released in April in spite of a decrease of ¥15.0 billion in gross sales from the same forecast? It is inconsistent unless there are some reasons such as rent reduction and exemption.**

**Also concerning the forecasts of Daimaru Matsuzakaya Department Stores for H2 on page 13, revenue and gross profit will respectively be ¥2.2 billion above and ¥4.3 billion below the forecasts released in April in spite of a decrease of ¥6.3 billion in gross sales compared to the same forecast. This cannot be explained unless there are some reasons such as the reclassification of cost and SGA. I remember that there was no large gap between gross sales and revenue in the past. It is difficult to understand from outside. I would like you to explain their reasons.**

A. Please allow me to check and answer another day.

\*Supplementary explanation (July 1)

- We provide a supplementary explanation on the forecasts of gross sales and revenue for H2 below. There are two main reasons.

(1) Impact of the transfer of Neuve A

The transfer (the end of June) was not factored into the forecasts released in April but it was factored into the revised forecasts. Their impact on the forecasts for H2 released in April is expected to be a decrease of approximately ¥3.0 billion in gross sales and a decrease of around ¥7.0 billion in revenue. The company mainly recorded sales of purchased goods as gross sales and revenue, but from now on, sales and rent in Parco stores will be recorded as gross sales and revenue, respectively, in the SC Business.

(2) Changes in department store sales composition

We expect sales to recover gradually throughout H2. However, compared to the forecasts released in April, both domestic and duty-free sales are expected to decrease from originally expected levels based on the assumptions for the current forecast revision. While sales share of products with high margins will decrease relatively for these reasons, we will take measures to strengthen sales of the categories to be strengthened (luxury brands, big-ticket items, etc.) in stores and using digital technologies. Accordingly, profit margin is expected to decline compared to the forecast released in April.

\*Corrected on July 1 as follows.

Errors in “revenue forecasts for H2” in 《Reference》Daimaru Matsuzakaya Department Stores FY2021 Full Year Forecast (IFRS) of the reference data (page 13) have been corrected below. Consolidated revenue forecasts do not need correction.

Before correction: Revenue forecast

H1	¥111.6 billion (¥2.2 billion above April forecast)
Full year	¥195.5 billion (¥11.6 billion below April forecast)

After correction: Revenue forecast

H1	¥106.0 billion (¥3.4 billion below April forecast)
Full year	¥189.9 billion (¥17.2 billion below April forecast)

**Q. You revised up the full year profit forecasts of the Developer Business from the forecasts released in April. What is the reason for that? As you changed your segments in the period under review, the accuracy of the April forecasts may be different from in the past. But I would like to know the reason why they were revised up to such an extent.**

A. The new Developer Business segment mainly includes Parco real estate, J. Front Design & Construction and Parco Space Systems (PSS). There is no special reason for upward revision of profit forecasts. Upward revision resulted from detailed examination of the earnings forecasts for the fiscal year in light of the progress in Q1.

**Q. Do you mean you made solid profit forecasts originally?**

A. They were not revised for a special reason.

**Q. I would like to confirm with you concerning SGA. I would like you to explain about a difference between a reduction of ¥6.0 billion as profit improvement measures on page 8 of the material and a reduction of ¥10.6 billion before the reclassification of fixed**

**costs on page 11. You developed a scenario based on the progress of vaccination, and if sales improve thanks to the good progress of vaccination, will your thought about SGA remain unchanged?**

- A. The reduction of ¥10.6 billion represents the total of a reduction in full year SGA (excluding the reclassification of fixed costs) from the forecast released in April and the reduction includes a reduction in costs proportional to sales. On the other hand, the reduction of ¥6.0 billion is the effect of the measures added to the original plan considering the current results and forecast and it is included in the reduction of ¥10.6 billion. We do not expect an additional cost increase in case sales recover above the original plan. The figures shown today are baselines.

**Q. Concerning the portion of costs you reduced this time, do you intend to operate your business in the future while reducing some of it, if not all?**

- A. Basically, we intend to do so.

**Q. Concerning Parco, what assumptions do you have for the period from Q2 to H2? I would like you to explain about that including rent. Qualitative matters are OK.**

- A. Basically, we expect tenant transaction volume to recover gradually from Q2 onward. On the other hand, we will not reduce or exempt rent uniformly unless there are some special factors such as closure. Therefore, the revised forecasts do not factor in rent reduction and exemption. Like Department Store, it is expected to recover on a full scale toward the end of the fiscal year.

**Q. The Department Store Business estimated percentage changes from FY2019 in gross sales in H2 are shown on slide No. 7. I would like to know the figure for Q2.**

- A. Domestic sales for Q2 are expected to decrease by 11% to 12% compared to FY2019. Inbound sales were expected to recover late in the fiscal year, at ¥8.0 billion in H2, when we released the forecast in April. However, we revised down the forecast including that.

**Q. According to the interim report in June, domestic sales of Department Store decreased by around 23% compared to FY2019. They may be expected to decrease at almost the same level in Q2 and by 10% to 20% in Q3. Meanwhile, I think your sales in June are weaker compared to your competitors. I remember your sales decreases in February and early March compared to FY2019 were smaller. If there are some reasons why only your domestic sales are becoming weaker, I would like to know.**

- A. In terms of a difference from our competitors, sales of the Umeda and Tokyo stores located near terminal stations are recovering more slowly than other stores. It is also one of the reasons for the revision of gross sales forecast for H2. For Q3 and Q4 sales, we assume a decrease of around 6%, which recovers from a decrease of 11%, in domestic sales. And based on this assumption, we planned the measures.

**Q. I would like to confirm with you. Domestic sales of Department Store for Q2 are expected to decrease by 11% to 12% from FY2019. According to the slide, the growth will slow in Q3, but actually, like in Q2, the sales are expected to decrease by 11% to 12%. The change for 4Q shown on the slide is ±0%, but actually, do you expect a decrease of 6%?**

- A. The forecasts are stated on a quarterly basis on the slide but the sales are expected to decrease by approximately 11% in the September to October period and around 6% to 7% in the November to December period. The baseline for the January to February period is to recover to almost FY2019 levels, including the fact that they were already affected by COVID-19 at the end of FY2019.

**Q. Do you expect almost the same level of decrease for Q2 and the September to October period?**

- A. That's right.

End