

Our Capital Policy

CFO Message

Continuing a Capital Policy Leading to Increased Corporate Value

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Review of FY2019

The task I believe is the most important has remained unchanged since I became the CFO in April 2019. We must bring the three elements of the profitability of business, capital efficiency and the content of balance sheets closer to the optimal state in response to the continuously changing business environment. In the first year of the three-year plan that started that same year, while we were shifting from the previous strategy's focus on structural reforms to the innovation of the business model for the department store business and further cost structure reforms, we

began working to maintain a sound financial base under the basic policy of using the funds from operating cash flows for business activities and business investments.

Regarding shareholder returns, we undertook a 10.0 billion yen share buyback in the second half of FY2019 in comprehensive consideration of our financial condition and share prices, under the policy of improving the payout ratio and increasing the total return ratio over the medium to long term. We have also continued to secure funds for new growth investments by transforming our non-core businesses and assets into funds.

Changes in consolidated cash flows and net interest-bearing debt

	FY2018 results	FY2019 results	FY2020 forecasts
Cash flows from operating activities	283	163	▲210
Cash flows from investing activities	▲225	▲100	▲120
Cash flows from financing activities	▲91	203*	0
Net increase (decrease) in cash and cash equivalents	▲38	265	▲327
Balance of net interest-bearing debt (as of the end of the fiscal year)	866	989	1,370

(100 million yen)

*Including expenditures for the share buyback (10.0 billion yen)
*The forecast values are as of November 2020.

Measures taken in FY2020 to address the COVID-19 pandemic

Since the fourth quarter (January to March) of FY2019, COVID-19 has continued to have repercussions for the Isetan Mitsukoshi Group, and the future has remained uncertain. We enacted two measures in response to the emergency, the securing of liquidity on hand and the significant holding down of costs and investment cash outflows.

To secure liquidity on hand, it was our goal to secure a relatively large amount of operating funds based on a risk scenario that was created assuming that our business performance will remain affected by COVID-19 until the end of FY2020. For this purpose, we additionally issued commercial paper worth 30.0 billion yen at the end of March 2020. We also set an additional commitment line in the first quarter of FY2020.

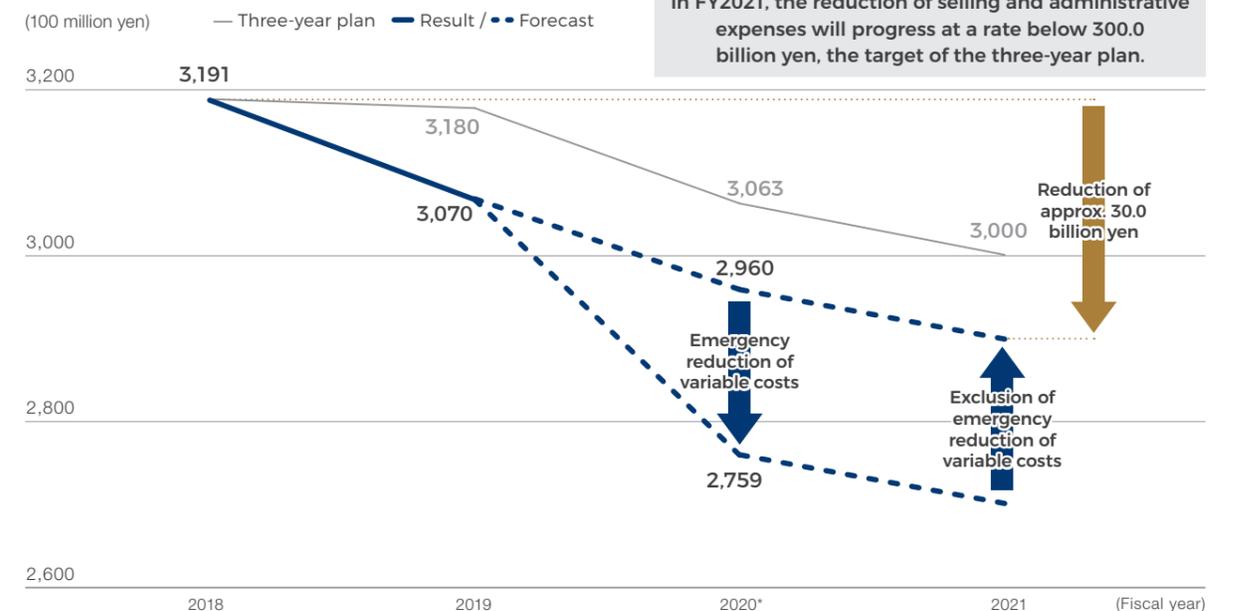
To hold down cash outflows, we appropriately increased expenditures for the safety and security of customers and employees in the pandemic. Also, we took the fiscal year plan for other costs and investments back to the drawing board and are uncompromising in reducing them by cancelling, downsizing, and postponing projects as much as possible, among other initiatives.

Future capital policy

As we suspended the three-year plan in November 2020, we are planning to announce a new three-year medium-term plan in May 2021. We are also planning to again announce the specific content of our key financial KPIs at the same time as the above announcement.

While COVID-19 numbers continue to fluctuate, the pandemic is gradually entrenching a new normal lifestyle among customers. We are taking thorough measures to control the spread of infection, and a certain number of customers are coming to our stores, and the number of users of our online services has been increasing. The impact of COVID-19 remains uncertain, but basically, I would like to continue the fundamental policy that I have maintained since assuming office, maintaining a balance between aggressive and defensive measures to achieve our medium- to long-term vision, and speedily advance bold reforms of our business structure, with the goal of improving our corporate value over the medium- and long-term.

Changes in selling and administrative expenses



*The FY2020 forecast value was calculated including the fixed costs for the period of shutdown, which were transferred to extraordinary losses.