
To Achieve Management Conscious of Cost of Capital and Stock Price

December 27, 2023



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*This disclosure is only an indication of the actions taken at this stage, and we plan to revise it to be linked to the next Medium-term Business Plan after the plan is announced.

Changes in Business Management

- ▶ Until FY2013, PL-centric = sales and profit-centric business management
- ▶ In FY2014, shifted to business management conscious of return on equity (Disclosed ROE target of 8%)
- ▶ Adopted ROIC in FY2021 to strengthen profitability management of non-retail businesses such as real estate
Set cost of shareholders' equity and WACC by business to strengthen business management conscious of stock price

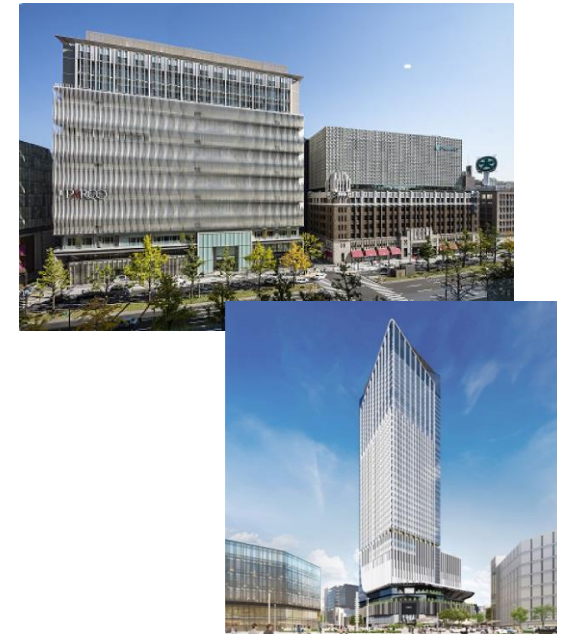
Department Store-centric (- FY2013)



Department Store + Parco (FY2014 - FY2020)



Retail + Non-retail (FY2021 and beyond)



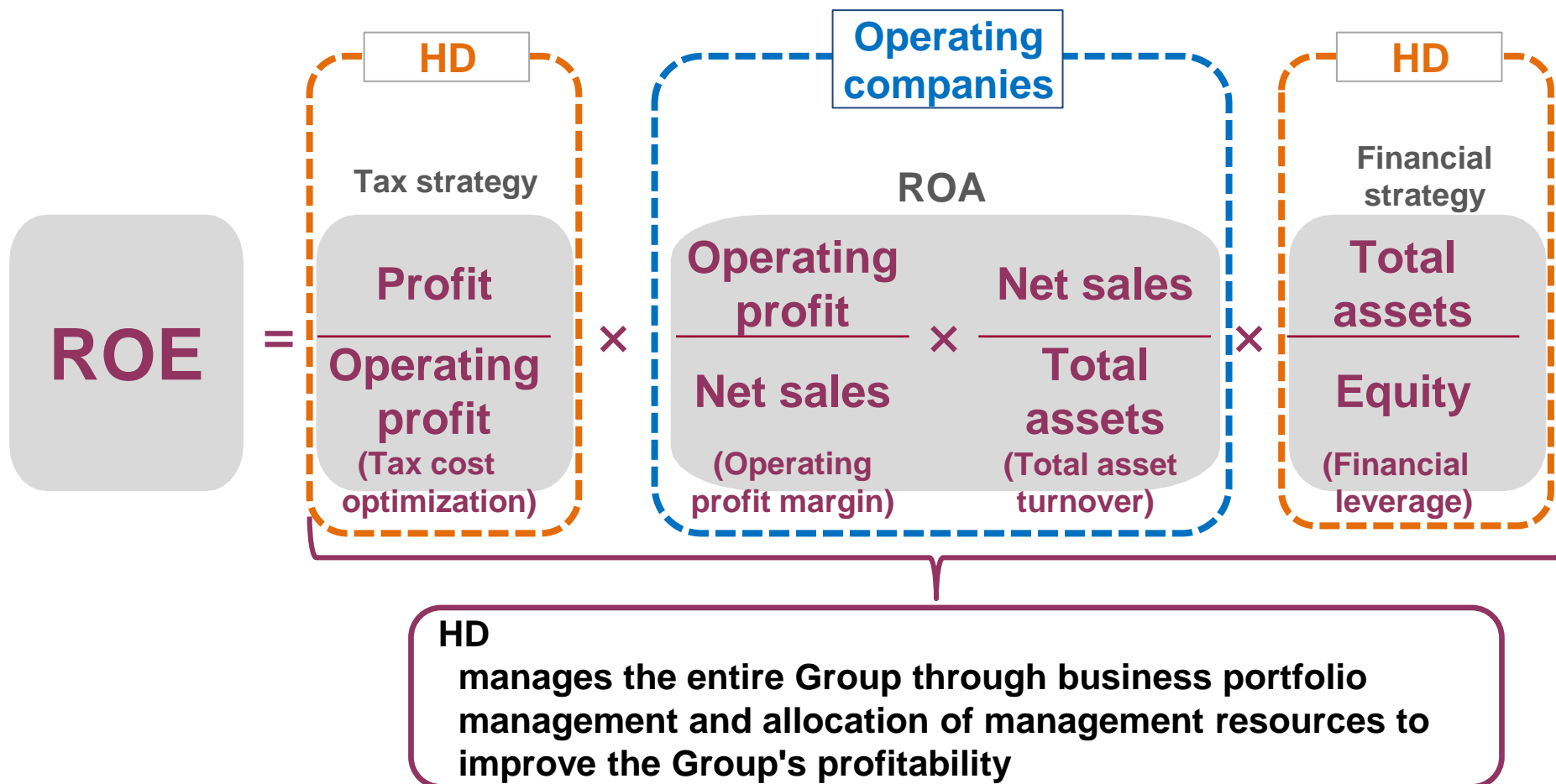
ROE Management

Clarified roles of operating companies and holding company (HD)



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- Clarified the role of operating companies to maximize “ROA” and that of HD to promote “financial strategy” (FY2014)
 - : Disclosed management goal of achieving ROE level of 8% above cost of shareholders’ equity



*Equity = Equity attributable to owners of parent

ROE Management

Relationship between ROE and stock price index



- ▶ Recognize that an ROE in excess of 8% will lead to higher PBR and PER levels
- ▶ Both ROE and PBR rose in line with the recovery in earnings and stock price from the COVID-19, and PBR hovers around 1x in FY2023 (At the end of November, stock price weak, PBR below 1x)

$$\frac{\text{Market cap}}{\text{Equity}} = \frac{\text{Profit}}{\text{Equity}} \times \frac{\text{Market cap}}{\text{Profit}}$$

PBR

ROE

PER

Stock price

End of FY2021	0.72x	1.2%	58.3x	¥962
End of FY2022	0.92x	4.0%	23.2x	¥1,264
End of Nov 2023	0.95x	7.4%	13.2x	¥1,354

*Stock price: End of FY2021: Closing price at the end of February 2022; End of FY2022: Closing price at the end of February 2023;

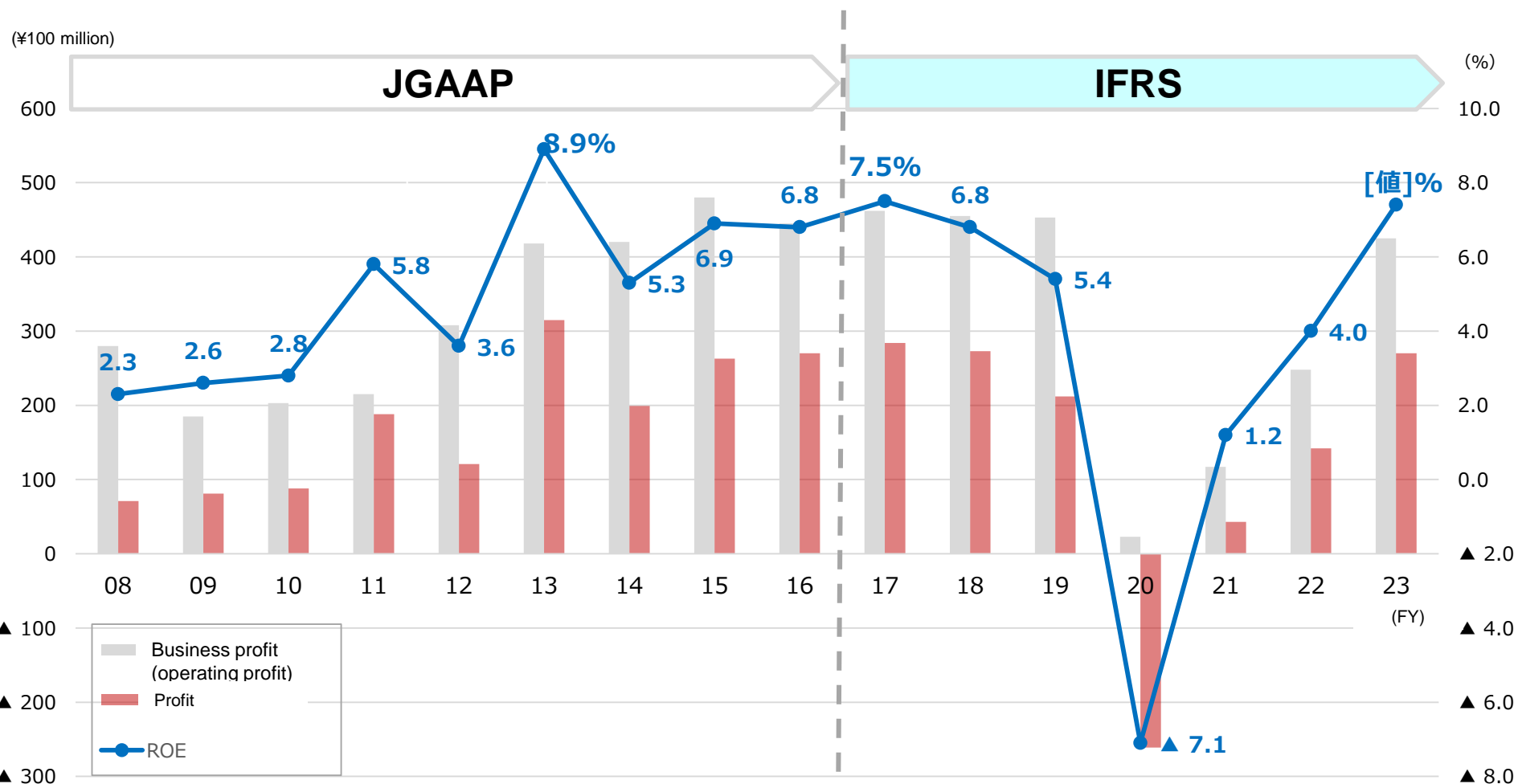
End of Nov 2023: Closing price on November 30

Equity and profit are the figures announced on October 10, 2023.

Equity = Equity attributable to owners of parent

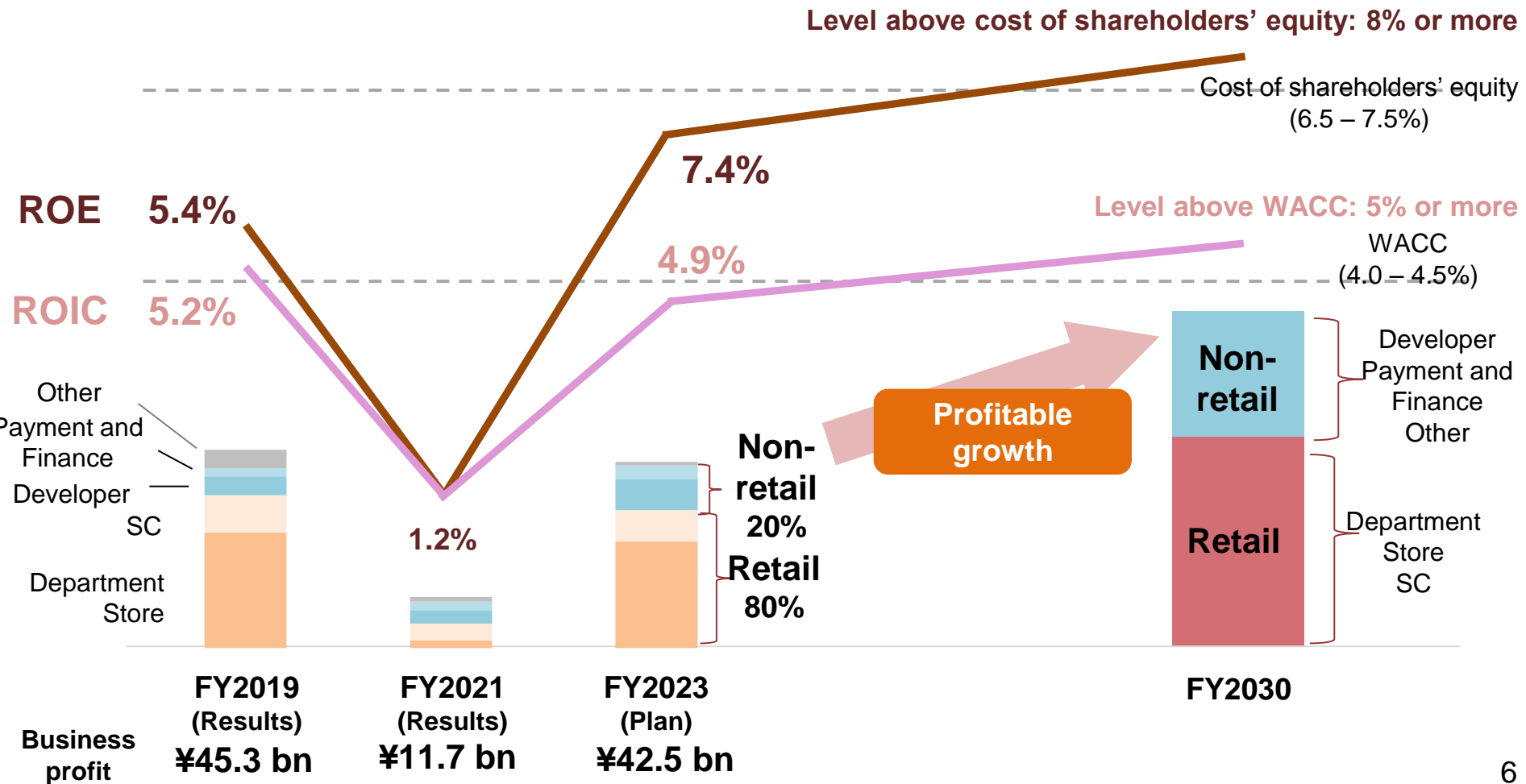
Changes in ROE

- ▶ Achieved 8.9% in FY2013, but after adopting IFRS, 7.5% in FY2017 is the highest level
- ▶ In FY2023, based on the recovery from COVID-19, ROE is planned to be 7.4%, almost the same level as the medium- to long-term cost of shareholders' equity



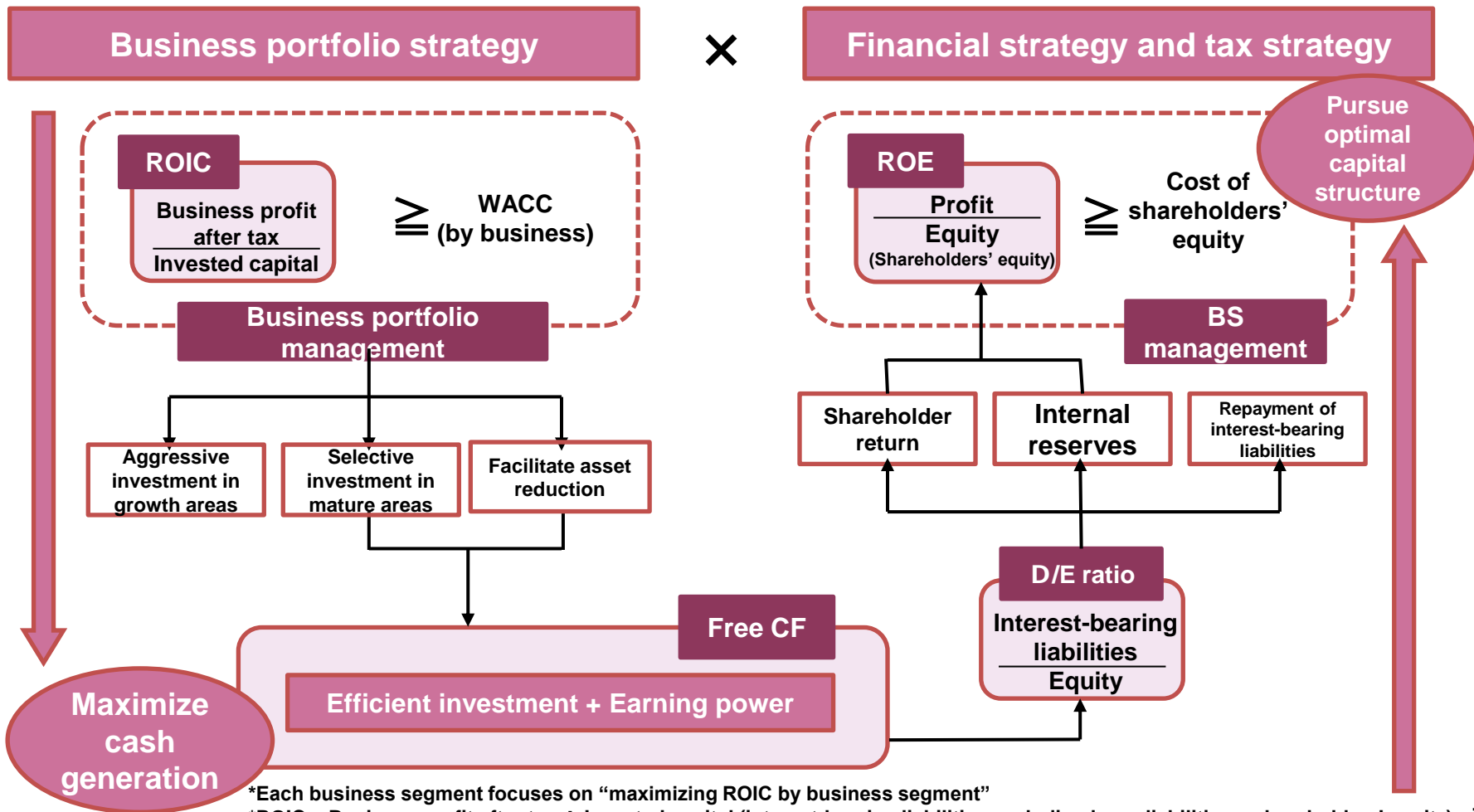
Adoption of ROIC for Business Portfolio Transformation J. FRONT RETAILING

- ▶ Adopted ROIC in FY2021 in the process of promoting business portfolio transformation since FY2017
- ▶ Toward FY2030, work to achieve profitable growth and ensure ROE and ROIC levels that exceed cost of shareholders' equity and WACC, respectively, on an ongoing basis



Relationship between ROIC and ROE

- ▶ Add ROIC as a performance management indicator in response to the investment of management resources into non-retail businesses that make significant use of interest-bearing liabilities
- ▶ Maximize free CF and improve ROE through improved ROIC



*Each business segment focuses on "maximizing ROIC by business segment"

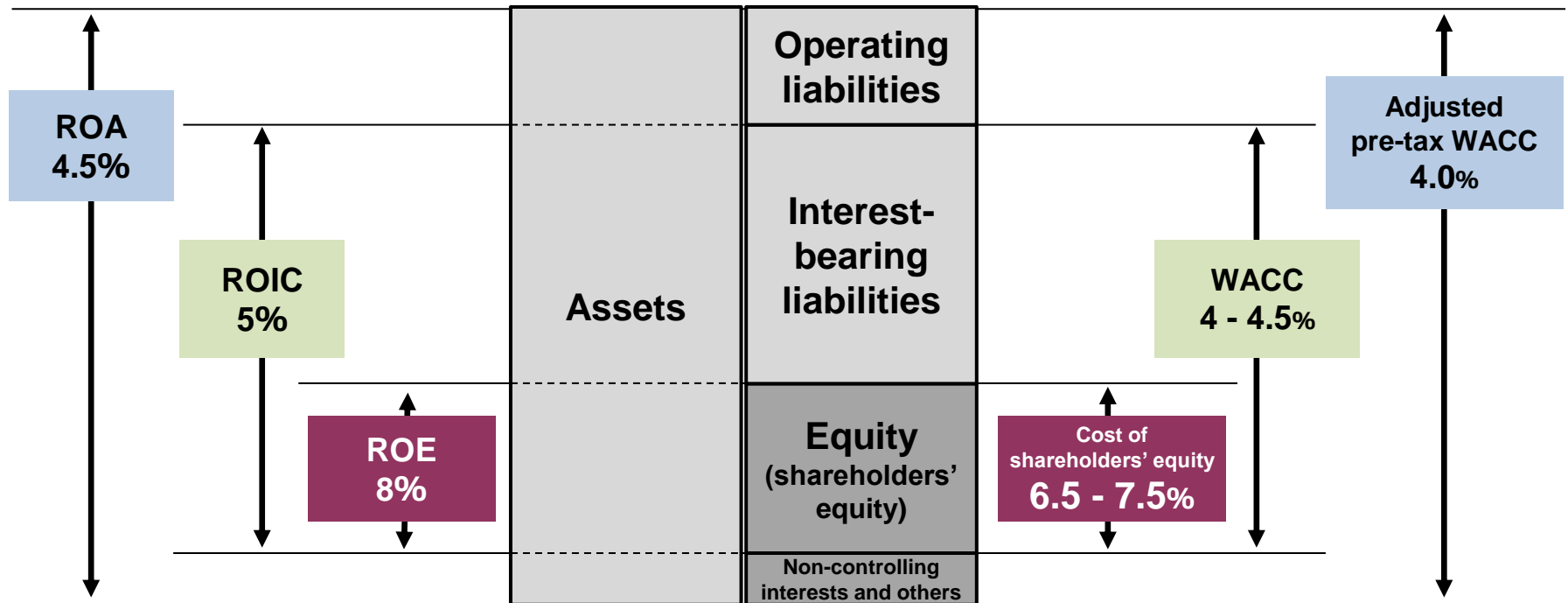
*ROIC = Business profit after tax ÷ Invested capital (interest-bearing liabilities excluding lease liabilities + shareholders' equity)

- ▶ Recognize that return on investment in excess of hurdle rates is required to achieve management indicators
- ▶ Medium- to long-term WACC is recognized as 4.0 - 4.5%, and consolidated ROIC target is set at 5% or more
Cost of shareholders' equity is recognized as 6.5 - 7.5%, and consolidated ROE target is set at 8%

Management indicator

≥

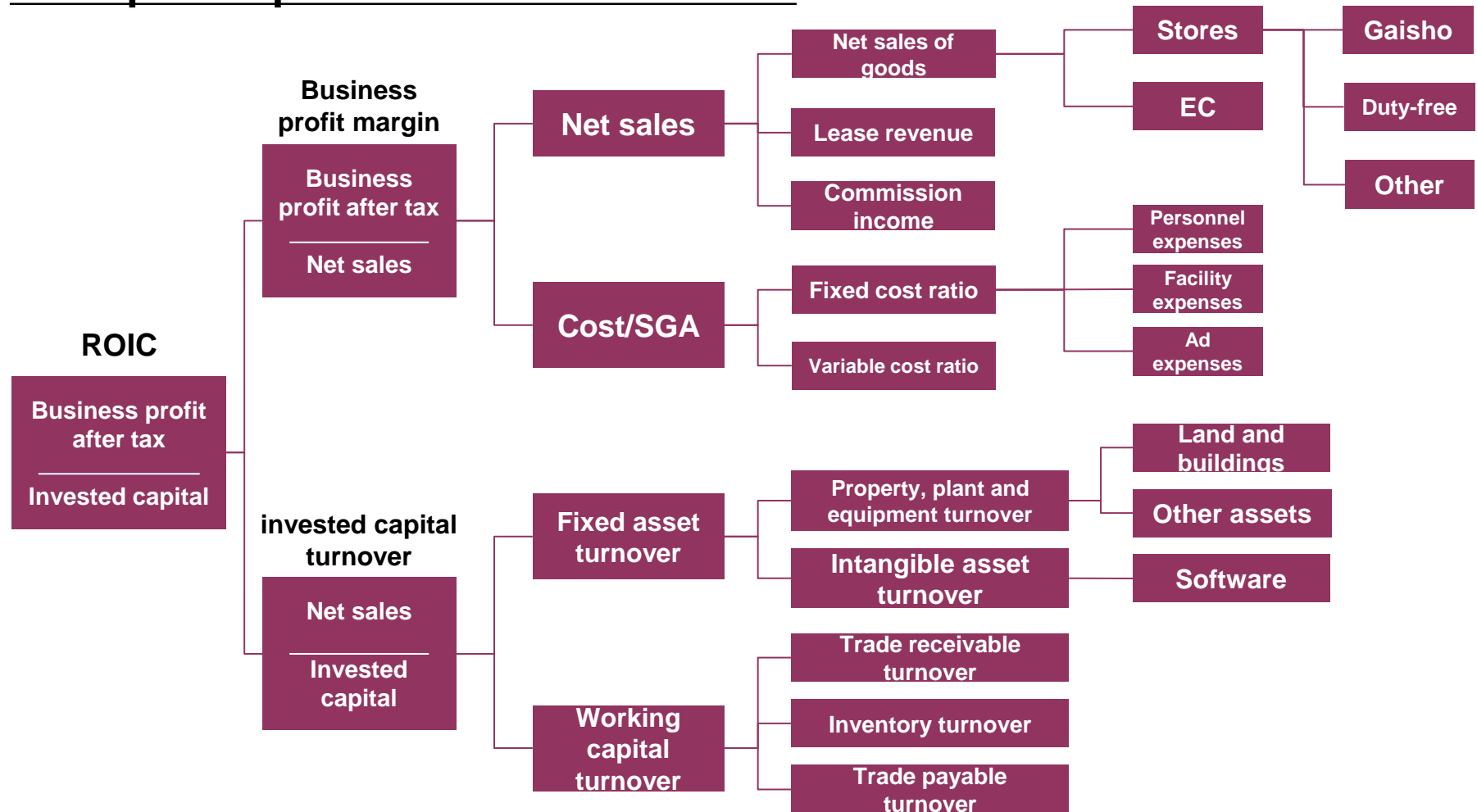
Hurdle rate



ROIC Tree by Business Segment

- ▶ ROIC tree based on the characteristics of the retail business
 - : Set KPIs with the aim of linking them to awareness and actions in the field

Example: Department Store ROIC tree



ROIC Targets by Business Segment

- ▶ Calculate WACC by business by benchmarking industry peers from the perspective of business characteristics
- ▶ Medium- to long-term targets for ROIC by business are set at a level that exceeds WACC by business

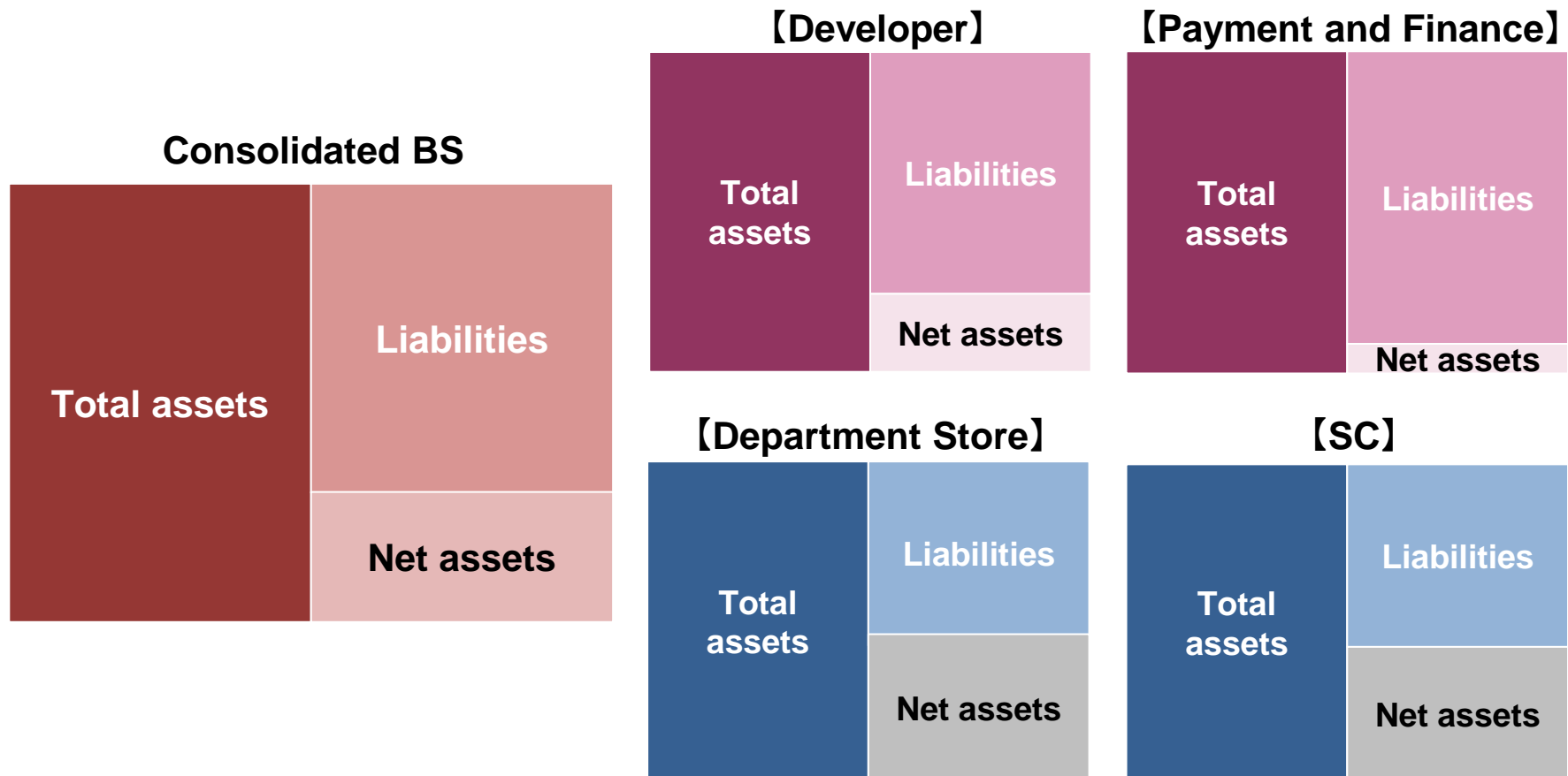
	Medium- to long-term ROIC target	WACC	FY2023 ROIC target
Department Store	6 - 7%	5%	6%
SC	5 - 6%	4.5%	5%
Developer	4 - 5%	4%	4%
Payment and Finance	3 - 5%	3%	3%
New business	10%	WACC of new business (around 8 - 10%)	10%
Consolidated	5% or more	4 - 4.5%	5%

* Some modifications were made to the business strategy presentation materials prepared in July 2022. Figures will be updated after the announcement of the next Medium-term Business Plan.

Future BS by Business Segment

► Calculate future BS by business based on business characteristics

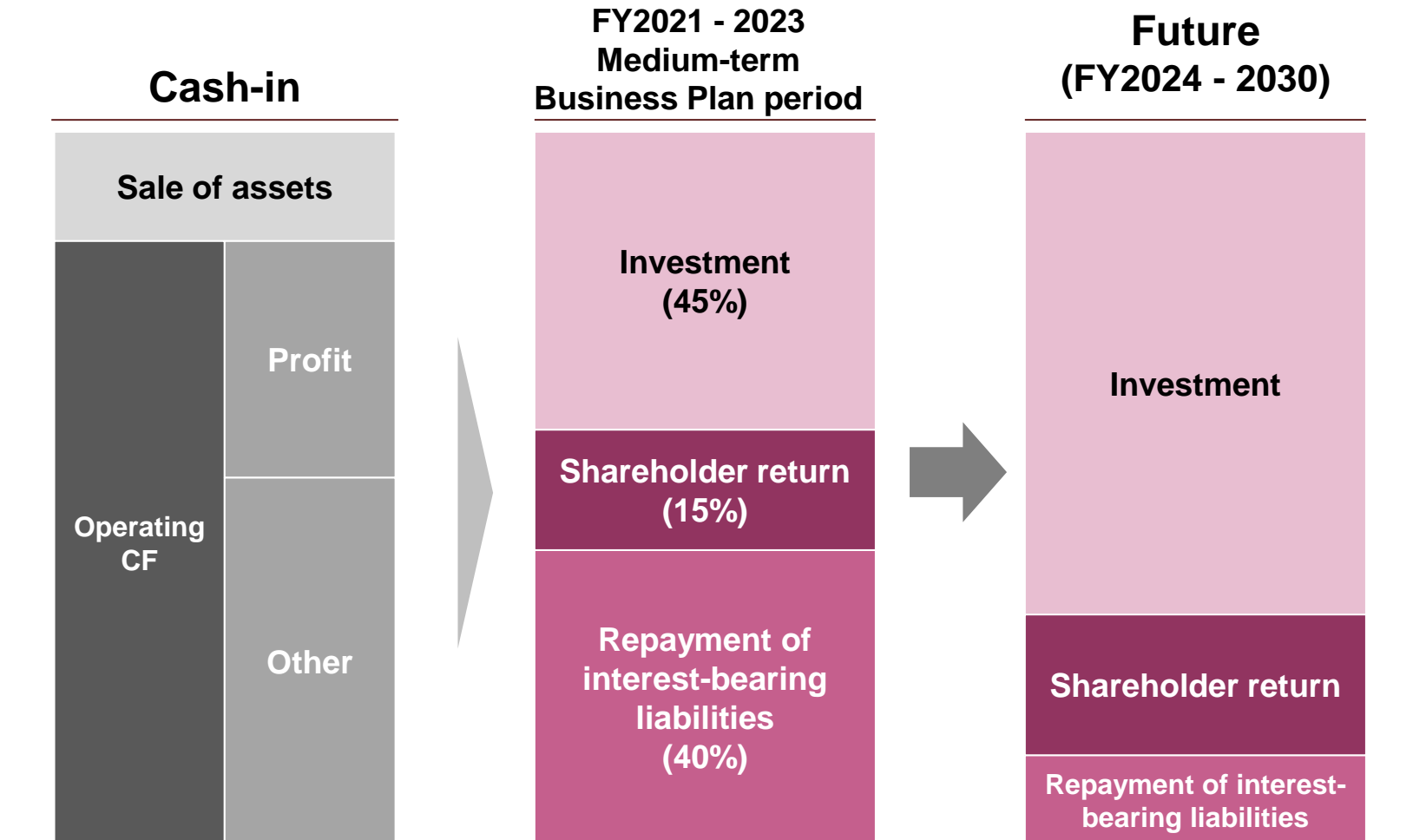
Department Store, SC : Effective use of capital (equity) accumulated from the past
 Developer, Payment and Finance: Significant use of interest-bearing liabilities



*Net assets = Total capital

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 Figures will be updated after the announcement of the next Medium-term Business Plan.

- ▶ Formulate medium-term cash allocation to achieve profitable growth and business portfolio transformation

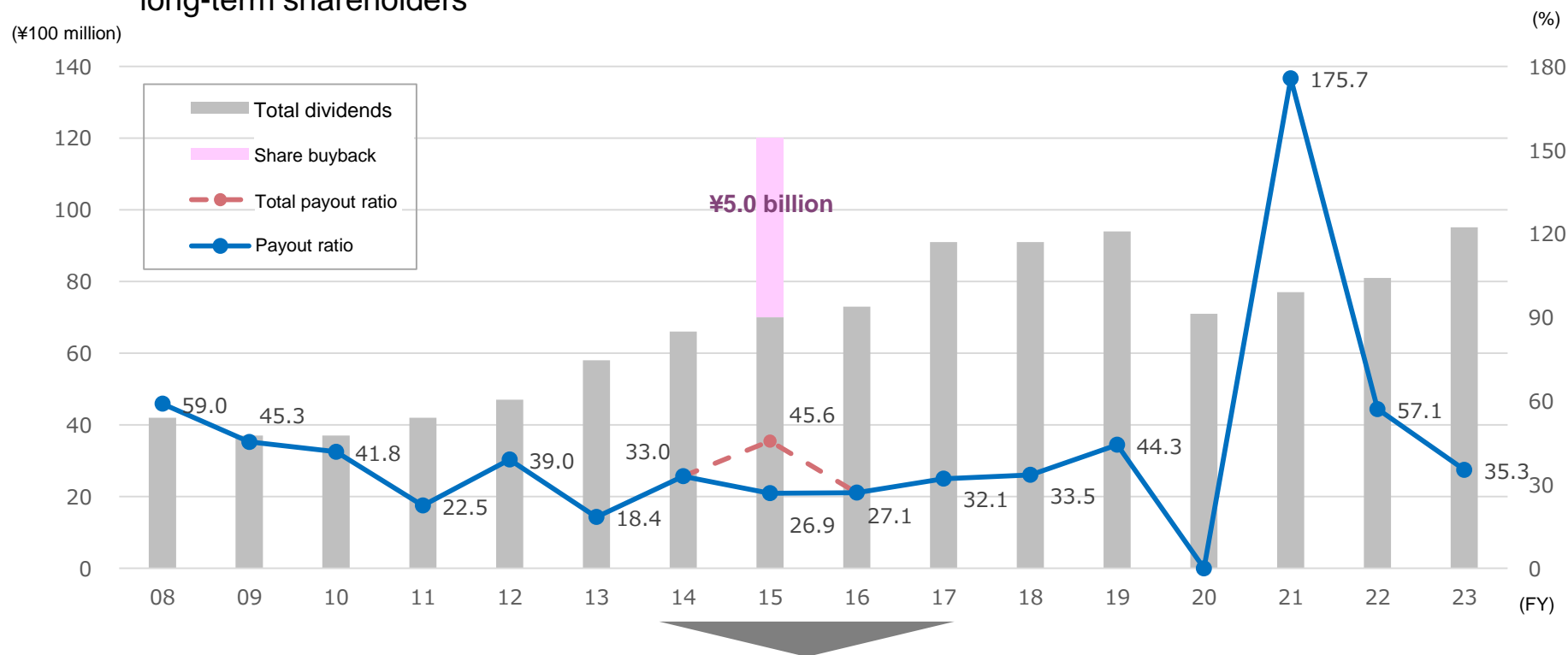


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Shareholder Return

- ▶ Basic policy: Consolidated dividend payout ratio of 30% or more and appropriate return through stable dividend increases
 - Dividend reduced due to declining performance during COVID-19 (FY2020), but recovered to an increasing trend in the following year

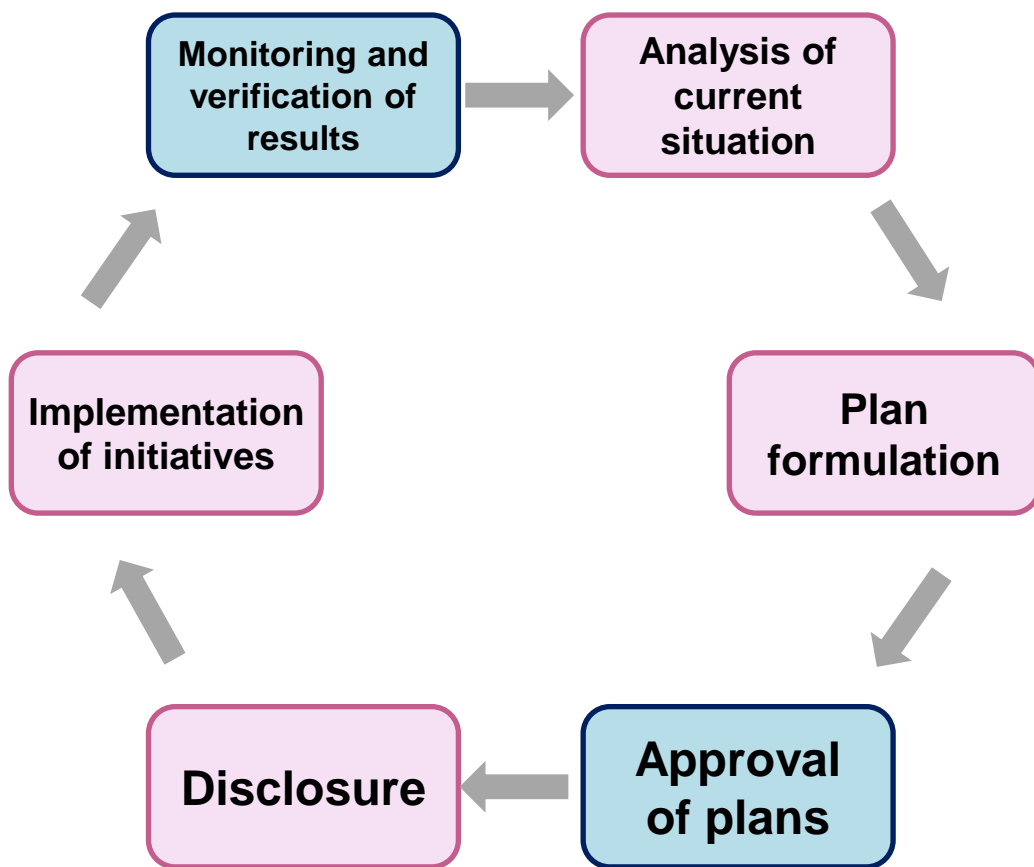
- ▶ Acquired ¥5.0 billion of treasury shares in FY2015, but focus on dividends to cater to medium- to long-term shareholders



Shareholder return for FY2024 and beyond will be formulated along with the next Medium-term Business Plan and medium-term cash allocation.

Execution and Monitoring System

- ▶ The executive team formulates and discloses plans based on analysis of current situation, and implements initiatives conscious of cost of capital and stock price through dialogue with investors, etc.
- ▶ The Board of Directors approves the execution plans, monitors the status of initiatives, and verifies the results



	Executive team	Board of Directors
Analysis of current situation	○	—
Plan formulation	○	—
Approval of plans	—	○
Disclosure	○	—
Implementation of initiatives	○	—
Monitoring and verification of results	—	○

○ indicates a body that takes the initiative.