Turning Point in Department Store Business Model

Japanese department store sales decreased from ¥9,713 billion in 1991 to ¥5,953 billion in 2017, almost 60% level. Amid environmental changes such as intensifying competition beyond industry boundaries and rapidly growing e-commerce, we think the biggest problem of department stores is that the department store business model including sales floor composition overly dependent on women's clothing in spite of the downward trend of spending on clothing and the product range and tenant composition based on *shoka shiire* (purchase recorded at the time of sale), which developed from the high-growth period to the stable-growth period, no longer adapt to changes in the times and in customers' sense of values.

Therefore, from the standpoint of values department stores should create, we intend to change our business model in four main directions. Through these initiatives, we will strive to attract more customers and increase profitability by enhancing store appeal.

1940s 2000s 2010s Increasing wealth and military power Stable-growth period (War) Economic recovery High economic growth period Low-growth period 1868 Three essential Income-doubling 3C DC brand Foreign luxury brands Foreign fast fashion brands Heiji Restration status symbols were popular accelerated entry into Japan 1956 Economic White Paper 1962 Hayashi Shuji 1985 Hakuhodo 1999 NTT DoCoMo "Emergence of segmented masses" "I-mode" was born Rapid growth of inbound tourism 1985 Hakuhodo "It is no longer postwar" Expansion of sharing econom Flourishing of small/family-run stores and department stores | Flourishing of general merchandse stores (mass consumption society) | Diversification of business categories (post-mass consumption society) 91 Department store sales peaked 00 Sogo filed for civil rehabilitation procedure 03 Renamed Adillogo-1904 Kabushiki Kaisha Mitsukoshi Gofukuten Department store Daimaru achieved 03 Renamed Millennium Retailing (Department Store Declaration) 1907 Kabushiki Goshi Kaisha Daimaru Gofukuten 1910 Kabushiki Kaisha Ito Gofukuten top sales in Japan 1982 - 83 Seibu Department Store ad copy "Oishii Seikatsu (delicious life)" New initiatives including: 69 Tamagawa Takashimaya SC opened 85 Tsukashin opened Western-style architecture. display of goods; Uniforms; 57 Daiei opened 1st store 72 Daiei achieved top sales in Japan 01 Mycal went under 58 Yokado was established 56 Seibu Store was established 69 Jusco was established 80 "Mujirushi Ryohin" was born Entry with shoes on: and Female elevator attendants 87 "Loft" was born 69 Ikebukuro Parco opened 74 7-Eleven opened 1st store 97 "Rakuten Ichiba" was launched 75 Lawson opened 1st store 73 FamilyMart opened 1st test store 04 "Zozotown" was launched 16 FamilyMart and Uny merged 76 Tokyu Hands opened 1st store 90 United Arrows opened 1st store 93 Outlet Mall Rhythm (Japan's 1st outlet mall in Saitama) Other 16 Mitsubishi Corporation **84** Uniqlo opened 1st store 76 Shinjuku Lumine opened 18 Mercali became listed 2000 Large-Scale Retail Stores Location Law Large-Scale Retail Store Law (covering large supermarkets) 1998 Productive-age (15-64 year old) 2004 Population peaked 127.87 million **1985** 121 million population decreased

History of Retail Industry

Department Store Value Chain and Competitive Advantage

In order to entice customers to visit our stores, we need to offer the products they want and the experiences that can be given only in the store space or environment or through sales staff there, namely, new values. By changing our business model, we will strive to enhance store value by adding a perspective of values for customers and values for stakeholders.



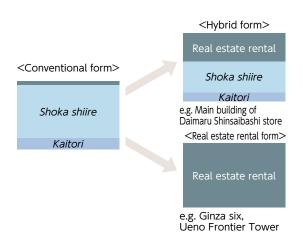
Direction of Changing Business Model

Point 1

Active introduction of real estate rental format

More than 80% of current typical department stores offer products and have tenants based on shoka shiire. In other words, such business practice limits the diversification of store planning.

Therefore, we will realize an optimal mix, for example, by expanding real estate leasing area to increase store appeal and transform the business model into a stable and highly profitable one.



Point 2

Drastic reduction of allocation to women's clothing

While reducing women's clothing area, which remains bloated since the middle of 1980s, by 30% under the current Medium-term Business Plan, we will create new sales areas and newly zone the sales floors in response to changes in customers to increase store appeal. We will renovate our stores in a way that meets the market in each area, for example, by expanding beauty products, food products and daily sundries, which are growth categories.

Women's clothing area

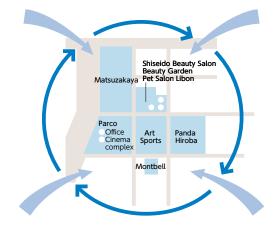
(Total FY 2017 to 2021 vs. FY2016)

Point 3

Area dominant formation that attracts customers with "areas"

Not as "points" of department stores but as "areas," the Group will dominantly operate Parco and brand shops around department stores and also conduct activities in concert with local communities so that we can attract more customers. This is our own strategy that aims to grow with local communities by attracting new crowd.

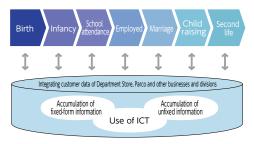
Example of Urban Dominant Strategy in the Ueno Okachimachi area



Point 4

Strengthening of customer engagement using ICT

The "era of 100-year life expectancy" - "Lifetime Service Hub" is a challenge to establish a new customer information system in order to build stronger lifetime customer engagement. Using not only customer touch points through the Group's cards but also the app that will be released this fall, we will accumulate fixed-form information and unfixedform information in a multi-layered way through cross-group initiatives. We will provide new products and services to relieve customers' "concerns" and "frustrations" by having more touch points with customers and building a long and deep relationship with them on various occasions and milestones for their entire life beginning with birth.



Integrated customer database