

Accelerate Portfolio Transformation by Introducing ROIC by Business

Keep track of the cost of capital by business

We promote management with an awareness of the cost of capital (WACC). The cost of capital is the level of return that financial institutions, investors, and shareholders, as providers of funds, expect from the companies in which they invest. From the standpoint of fund management, it is the return on investment, and from the standpoint of the company receiving the funds, it should be recognized as a financing cost.

The cost of capital is affected by market interest rate trends and the company's total amount of interest-bearing liabilities and market capitalization, and we recognize that our medium-term level is around 4% to 4.5%. We believe that increasing

the ROIC spread to a positive level while keeping track of the cost of capital by business will lead to sustainable corporate value creation. Therefore, it is imperative to first aim for a 5% level of ROIC above the cost of capital.

We recognize that the medium- to long-term cost of shareholders' equity (shareholders' expected return) is around 6% to 7%. And our target ROE is set at a level that exceeds the cost of shareholders' equity in order to meet shareholders' expectations. Specifically, we have set an ROE of 10% as a numerical target for fiscal 2030, and plan to achieve 7% in fiscal 2023 as its milestone.

- ROIC targets
- Introduce ROIC by business as a KPI to achieve profitable growth
 - Set WACC for each business as a hurdle rate to achieve ROIC targets

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

*ROIC = Business profit after tax ÷ Invested capital: Interest-bearing liabilities excluding lease liabilities + Shareholders' equity

Sophisticated management of return on invested capital

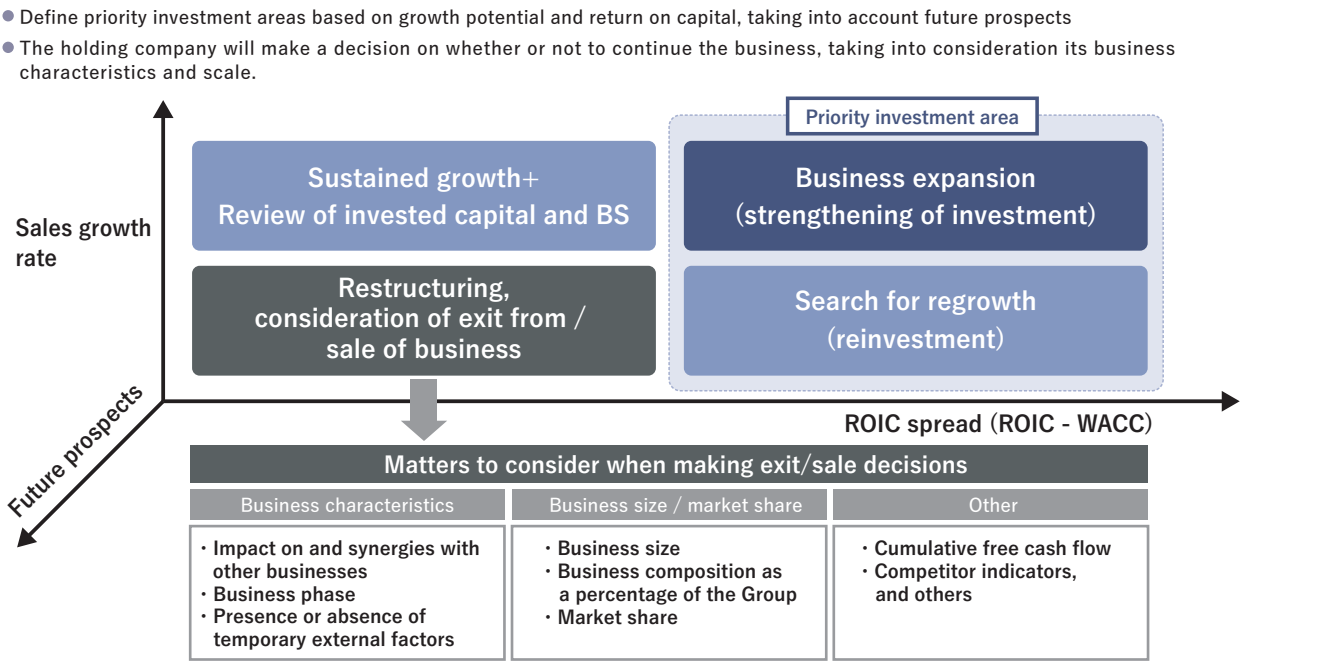
In addition to the shareholders' equity entrusted to us by our shareholders, the funds invested in our business include funds raised from financial institutions and other sources, and it is important to manage our business from the perspective of how to make the most efficient use of these funds. In the business portfolio transformation that we are undertaking, the shift to the Developer Business and the Payment and Finance Business is a theme, and the utilization of interest-bearing liabilities is a key point. Therefore, in addition to business growth and profitability, we introduced ROIC by business for the purpose of implementing management focused on profitability relative to "invested capital," which is the sum of shareholders' equity and interest-bearing liabilities.

Operating companies have focused on ROA, which is how

efficiently they utilize their assets, but improving ROIC by business, which pursues return on invested capital, is the way to evolve business management. Another key point is that it is an easy-to-understand indicator of the link between the improvement of business profitability and the efforts of employees. The holding company will promote concentrated investment of management resources in core businesses, exit from or sale of non-core businesses, and incorporation of new businesses.

We believe that instilling the importance of capital profitability throughout the Group will ultimately lead to the transformation of our business portfolio and the improvement of ROE.

Business portfolio management



Penetration into the front line is the key

We aim to fully implement ROIC by business in fiscal 2024, but in order to achieve this, it is extremely important to ensure that ROIC is disseminated to the front line. In fiscal 2022, training and study sessions were held mainly for the management of the holding company and operating companies, finance managers and general managers of major operating companies, and the employees of the holding company to promote understanding and penetration. In fiscal 2023, in addition to creating ROIC

trees and tying them to single-year budgets, we will conduct training and study sessions for employees closer to the front-line level, such as those in charge of performance management at operating companies.

The ROIC tree consists of KPIs linked to financial figures up to a certain level, but at a level closer to the front line, we will set KPIs that can be put into practice in daily activities other than financial figures.

Schedule for introduction and establishment of ROIC by business

