

**J. Front Retailing**  
**Q & A summary at IR business strategy presentation**  
**Date and time: 15:00 – 16:30 on Tuesday, July 23, 2019**

**[Growth strategy of settlement and finance business]**

**Q: I would like to know why Mr. Ninobe joined J. Front Retailing and what he wants to change the most at JFR Card.**

A: I joined the company because, in one sentence, “there was an opportunity.” I thought it was expected to grow using the assets held by JFR Group and that it had growth potential because it had some areas left intact compared to peers. Now the company is making an upfront investment, and first, we would like to aim to achieve an operating profit of ¥5 billion.

**Q: Concerning achievement of the “operating profit target of ¥5 billion,” it can be said to be a jump compared to the present. Operating profit of the card companies of other department store chains whose sales volumes are almost the same as ours already exceeds ¥5 billion. At present JFR Card outsources part of settlement business from the perspective of reducing risk and it looks pale in terms of revenue. However, you said you acquired the licenses of settlement brands. So do you intend to reduce outsourcing in the future?**

A: Though we expect to achieve the operating profit target of ¥5 billion during the period of the next midterm plan or later, we would like to accelerate it as much as possible. Basically, we would like to achieve it by growing the top line of existing businesses. In terms of investment and cost, we will strategically invest to realize growth while reducing investment and cost when appropriate. Based on the five pillars of strategy actions, bottom line was already improved by ¥1 billion during the period from FY 2019 to 2021 but it is expected to decrease profit in the current period due to upfront investment to realize growth. However, we will aim to achieve early return and the operating profit target of ¥5 billion.

As shown in the presentation material, we indicated “organic” and “non-organic” growth as our future business trend. It will take some time only with our efforts to produce results and we would like to consider collaboration and alliances with other companies, and if an opportunity offers, M&As, etc.

I think differences in profit levels from the card companies of other department store groups are differences in current operations and profit levels though our past approach is different slightly from them. I feel there is a gap in human resources as well as infrastructure and we are striving to enhance human resources.

**Q: You do not collaborate with Parco in the card business. But you will aim to operate business using the customer base of J. Front Retailing and how will you incorporate the potential of Parco Card?**

A: Parco issues co-branded card with a different card company from the Group. Though we would like to work with Parco, I cannot comment at present because it is associated with the policy of the entire Group. Parco Card is not included in our initiative to achieve the operating profit of ¥5 billion.

**Q: Explanation about your initiative to make your card more attractive in order to attract more customers in the presentation material is harder to understand compared to other companies' cards and general cards. I think the key is giving points. What is different from existing cards? For example, is the percentage of points to be given different?**

A: One of the highlights of our initiative to make our cards more attractive as products is introduction of "original points." As a matter of course, we will continue to give existing points of Daimaru and Matsuzakaya. We would like to appeal to customers by advertising that they will be able to earn new points in addition to these existing points. I recognize the strength of the Group that other distribution groups do not have is that it has various commercial facilities including department stores, Parco, Ginza Six, and shops developed by the Real Estate Business around our department stores. In conjunction with the Urban Dominant Strategy, we would like to publicize to customers that they will be able to save when shopping in the area.

**Q: You said you will increase young customers to strengthen revolving credit in the finance business. Looking at the entire Group, however, the channel for young people is not so strong. In this situation, how will you attract young people? I would like to know specific strategy and measures.**

A: Young people as our target are not in their teens and 20s but in their late 20s and 30s. Actually customers in this age group visit Daimaru and Matsuzakaya department stores and buy cosmetics, etc. However, I question whether current Daimaru Matsuzakaya Card appeals to these customers enough. I recognize we can acquire customers we have not reached so far by communicating in a way suited to the times while strengthening card products.

**Q: I think the main initiative concerning revolving credit in the finance business is to spread it among young people. But I never would have thought there is a certain level of needs among affluent people. I would like to know its background.**

A: I think there was an assumption that there are no needs from high-spending users and affluent people because many of them clear their payments monthly. Actually, however, data reveal that 5.6% of cardholders who spend ¥1 million or more in a year use revolving credit. You may think 5.6% is a small number. But customers who spend ¥1 million or more in a year are thought to spend several million yen with credit cards including other companies' cards and we know there is a certain level of needs from these customers. Some customers increased their credit limits by switching their general cards to gold cards and increased the use of revolving credit. By thus targeting certain customers and meeting their needs, for example, by carefully guiding customers, I think we can grow the business so that it will become profitable enough.

**Q: You said JFR Group will obtain various data by integrating customer database and work to change existing businesses and create new businesses using these data. Concerning these initiatives, I would like you to explain about your plans for the future in the settlement/finance business and the department store business, if any.**

A: As for use of data, in the card business, we will conduct sales promotion using customer data and continue to connect merchants including Daimaru Matsuzakaya Department Stores with customers. In the settlement business, we can collect customer information and we will use it as well as other data obtained by department stores to accurately incorporate customer data and needs group-wide. We will make full use of such information for our initiative to grow the finance

business and each business in the Group will use it. We have already started this initiative.

A: Currently the entire Group is promoting an initiative to maximize customers' lifetime value based on integrated customer database. In the department store business, we have conducted CRM using only information obtained from our private label cards so far. However, I recognize we are at a major turning point. In this situation, Daimaru Matsuzakaya Department Stores released an app at the end of May this year to acquire customers widely. For *gaisho* customers, we started to build not only conventional face-to-face relations but new relations with customers making full use of both open and closed media. I recognize our big challenge is to conduct CRM including various information obtained from sources other than our own plastic cards, which we put first. The entire Group including department stores and JFR Card will cooperate in promoting these initiatives. As an initiative to build integrated database, Daimaru Matsuzakaya Department Stores provided an app at the end of May this year and we will incorporate information from it to the integrated database in the current fiscal year. We will steadily push ahead with this initiative following the RPDCA cycle in the next fiscal year and beyond.

**Q: You said you will renovate card systems. Will you have some changes when you can collect data you could not obtain before? For example, analysis that was impossible before will become possible.**

A: Currently we have approximately 1.6 million active accounts but many operations are outsourced. I recognize it is a problem because it requires time to obtain and analyze data as well as cost. The purpose of creating our own platform is to organize low-cost and flexible systems for future use of data.

At the same time, we need to obtain not only settlement data but various information in anticipation of increasing linkage with apps and new services such as smartphone payment and biometrics. We cannot realize them with current infrastructure. So we would like to study building a far-sighted new system platform.

#### **[Major turning point of department store model]**

**Q: I would like to confirm with you about profit impact of the Shinsaibashi store. You said it is expected to increase profit by ¥2 to 2.5 billion in the next period and ¥2 billion in the period after next. The main building will be completed and the north wing will be closed in these periods and I think they will have an impact. Are these figures pure profit impact including them? What are positive and negative factors, respectively?**

A: We expect to reduce cost by approximately ¥1 billion-plus (compared to FY2018) by reducing posts by 250. Meanwhile, we expect to increase operation cost by approximately ¥1 billion (compared to FY2018). In addition, real estate cost is expected to increase by approximately ¥2 billion (compared to FY2018). By factoring in these cost increase and decrease and an increase in operating income, the department store business and real estate business of Daimaru Matsuzakaya Department Stores are expected to increase profit as I said earlier.

**Q: You said you will spread the hybrid model to the Nagoya store after opening the new main building of the Shinsaibashi store. Why will you apply it to the Nagoya store? I think it will be a large-scale investment if you rebuild the store like the Shinsaibashi store. I would like**

**to know your current thoughts on the timeline until the project is launched and estimated project size.**

A: We will adopt the model at the Nagoya store only because it will have a big impact. Its sales volume and floor area are both large. However, customer composition varies by store and the ways adopted at Ginza Six and the Daimaru Shinsaibashi store do not apply as they are. We started to study it and we would like to clarify the directions of the main building, the north wing and the south wing so that they will lead to a big impact. We are not thinking of rebuilding the store at present.

**Q: You told about the transformation of business model taking the Shinsaibashi store as an example. In the changing business environment, how will this building respond to changes? I would also like to know whether you will develop systems that enable you to apply the model to stores other than the Shinsaibashi store at a faster pace than ever.**

A: Approximately 65% of total sales floor area of the Shinsaibashi store will be operated under a fixed-term lease, which is basically a contract for a fixed term. Such leases at Ginza Six will come up for renewal for the first time. I recognize this contract renewal will be both a risk and an opportunity. The range of time is unclear at a traditional department store once the store was completed and it might have missed an opportunity for next renovation. In the main building of the Shinsaibashi store excluding some floors, however, we can regularly review after a lapse of a fixed period. On the other hand, we expect the *kaitori* and *shoka shiire* part to boost sales and increase profitability three or five years later. Therefore, I think we may not only examine the fixed-term lease part and the *kaitori* and *shoka shiire* part separately but also change their composition. Though we have implemented scrap-and-build measures and change zoning so far, this change of business model made the point clear concerning the RPDCA cycle of the building and the entire store including timing. Going forward, we would like to make changes seeing changes in the business environment.

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