

J. Front Retailing
Q & A summary at the 3rd ESG presentation
Date and time: 15:00 – 16:30 on Wednesday, November 25, 2020

Q: I would like to ask Mr. Uchida. What is the difference in views between Outside Directors and Inside Directors?

A: The issue with execution pointed out by Outside Directors is a lack of speed. There were ups and downs in the business conditions of the department store industry but they have never experienced a drastic slump before. On the other hand, many of Outside Directors are from manufacturers, which may experience a sudden loss of demand, and with such a sense of crisis, they have taken prompt actions. Many customers visit department stores and shop there every day, which hardly causes a sense of crisis that the business may decline suddenly. Even if the top management has a sense of crisis, it does not reach the end of the organization and actual structural reforms and so on lack speed.

That is to say, it became clear amid the COVID-19 pandemic what we should have done earlier. (Uchida)

Q: I would like to ask Mr. Hirano. With regard to a low-carbon society, the government also changes direction. However, I think it is difficult to address Scope 3 GHG emissions because it depends on suppliers and it will take more time than Scope 1 and 2. If the world changes, will Scope 3 actions also go smoothly? And I would like to know the reasons why you joined RE100 this year, if any.

A: I understand Scope 3 actions require effort. We will proceed with a plan to reduce emissions and we need to implement it in a focused manner. First, we will work on the reduction of energy consumption and costs that are possible within the Company, and at the same time, we will work with operating companies to develop a plan to take phased actions with suppliers and customers.

With respect to RE100, as we have umbrella agreements with power companies in the Group's key areas including the Tokyo, Kansai and Nagoya areas, we are considering switching to renewable energy when renewing these agreements. Beyond 2030, renewable energy prices are expected to be reduced and we would like to continue to implement these actions. (Hirano)

Q: Did you think of joining RE100 this year? Or did you consider joining it because of case studies such as the Shinsaibashi store and Shibuya PARCO?

A: Power consumption in stores accounts for 80% of the total in our business. In this situation, the rebuilding of the main building of the Daimaru Shinsaibashi store and Shibuya PARCO as ESG model stores partly led us to switch to renewable energy. We are also planning to switch to renewable energy in other stores and we thought it was the right time to join. (Hirano)

A: I would like to supplement a little. A sense of speed and a sense of crisis have been pointed out by the Board of Directors since before COVID-19. Retailers did not worry about cash because they earn cash income every day. It was COVID-19 that reversed the situation for the first time. Both Daimaru Matsuzakaya and Parco closed their stores for two months. I strongly feel that this made us share a "sense of crisis" and an "expected sense of speed." I, as a person responsible for management, think COVID-19 provides an opportunity to greatly change our mindset. We would like to consider with people in Daimaru Matsuzakaya and Parco.

As for Scope 3, I know we are swimming upstream. However, I believe we had good discussions at the briefing sessions for suppliers last year. Going forward, we will have dialogue with tier 1 suppliers through assessment and I think it is important to connect the chain of responsibilities further upstream.

We have a long way to go but would like to go ahead further. (Yoshimoto)

Q: I would like to ask Mr. Hirano. Concerning Scope 3, you said you would start specific actions with suppliers next year. And specifically, what feedback did you receive from suppliers at the briefing sessions? What will suppliers do specifically? In what way will you ask them to reduce CO₂ emissions? Did you share a common understanding?

A: Many people attended the briefing sessions for suppliers held last year and gained their understanding about the Principles of Action for Suppliers. Their feedback includes: “We who will lead the next generation should think seriously;” “I expect the Group to take leadership in expanding ESG initiatives across the department store industry;” and “Synergy is likely to be generated on sales floors and in events in combination with next generation education.” Meanwhile, our thoughts about cost increase associated with investment in and resources for ESG actions and about business hours and the number of business days were asked. The briefing sessions were held for tier 1 suppliers but I think it is important to connect the chain of responsibilities to tier 2 suppliers beyond tier 1 suppliers by sharing our thoughts. Going forward, we would like to move forward together with suppliers through assessment and dialogue. (Hirano)

Q: I would like to ask Mr. Uchida. One and a half years have passed since you were appointed as Outside Director. I would like to know what is great about JFR and what you experience there but do not experience as an outside director of other companies.

A: I think the Urban Dominant strategy is very valuable. The idea of improving the value of the entire area in collaboration with local community is to realize “contribution to local communities,” which is one of materiality issues, and close to the concept of CSV. And holding physical stores as assets and artistically excellent buildings in Kobe and Shinsaibashi is the Group’s strength. Though physical stores have a negative factor due to COVID-19, we need to take advantage of the strength of physical stores in the future by combining with digital strategy.

Another good point is to make good use of Outside Directors. The Company takes more time to have discussions between Outside Directors and officers who execute business. (Uchida)

Q: I would like to ask Mr. Yoshimoto. In terms of governance, apart from COVID-19 spreading from last year to this year, what do you need to strengthen in the new management structure? What will you do specifically to increase speed?

A: I assumed the current position in May and became President amid the COVID-19 pandemic. What we need to do is what we considered doing 10 years later. We are expected to do that right now. In this situation, making Parco a wholly owned subsidiary this year provided an opportunity for us to stop and think about the holding company and operating companies, what the holding company should be and what operating companies should be in terms of governance. As Parco and Daimaru Matsuzakaya as operating companies are a former listed company and an integrated company, respectively, we have to consider the relations between the holding company and operating companies comparing these two companies. Given a sense of speed and a sense of crisis as mentioned before, delegation of authority to the execution side and thereby increasing speed are important in the current era. I strongly feel the role expected of us is to think about these relations. There is no goal of corporate governance but we would like to think in our own way.

In addition, “structural reform,” “digital transformation” and “full-scale synergy generation with Parco” are what we should do essentially with a sense of speed. We would like to work hard on them in collaboration with operating companies upon specific consent under the next Medium-term Business Plan. (Yoshimoto)

Q: I would like to know, in particular, the degree of penetration among actually working people such as employees and workers from suppliers and changes in them, if any, made while you implement ESG initiatives.

A: We have given importance to internal penetration in our ESG initiatives. 6,000 to 7,000 proposals were submitted in our Challenge Card program using internal network. There are many ESG-related proposals among them. In addition, we have an ESG website and issue leaflets for employees. The agenda of the monthly manager meetings of department stores always includes ESG issues. By doing so, we are considering efforts to spread ESG initiatives using every occasion. (Yoshimoto)

Q: I, as an investor analyst, would like to know about economic return from these ESG initiatives; through what channels economic value will increase, for example, by strengthening governance and through ESG initiatives.

A: Last week Shinsaibashi PARCO opened. It serves as a touchstone for revitalizing the local community under the Urban Dominant Strategy. The Daimaru Shinsaibashi store opened last year. It was well received and performed well. Regrettably, however, it is in a tough situation due to COVID-19. But by operating PARCO in the north wing, synergy with the Daimaru Shinsaibashi store is dramatically improved. It is just a few days after opening but PARCO itself performs very well. Many customers of the department store also visited PARCO and one thousand and some hundreds of *gaisho* customers visited for three days.

Another good thing is the Daimaru Shinsaibashi store also enjoys very good sales. Currently the Osaka area and the Sapporo area are in a fairly severe condition affected by COVID-19. In such a situation, I realize that the strengths of PARCO and Daimaru are combined and that a great synergy has emerged in the area. This synergy is no doubt great return for us. I think the concept of ESG will be incorporated in it. The head of the Shinsaibashisuji Shopping Arcade said, "We really appreciate the efforts of Daimaru and PARCO to attract crowd again in the Shinsaibashisuji Shopping Arcade and the Midosuji street that have fewer foreign tourists." We also received an opinion that we would be able to collaborate more closely with local shopping streets in this situation. It will provide a great opportunity to revitalize the area.

One more is the customer participation recycling campaign ECOFF, as we have always said. It combines all actions including recycling, reuse and reducing. This year it was a little downsized to avoid the three Cs amid the COVID-19 pandemic. But this campaign encourages recycling and leads to spending. Therefore, I think it has a possibility to contribute to companies. We would truly like to implement more initiatives like this. We are expected to develop products and services that benefit the environment with suppliers and would like to do that in the future. (Yoshimoto)

End