

J. Front Retailing

Q&A summary at business strategy presentation

Date and time: 15:00 – 16:40 on Thursday, July 21, 2022

Q. You told about the streamlining of *gaisho* at the end of your explanation about *gaisho*. How is its profitability managed, or how profitable is it compared with other store businesses?

And I think you told much about product sales today. As a matter of course, however, affluent people have needs for not only tangible goods but also various other things including intangible goods and finance. I would like to know what you think of that.

(Sawada)

A. Concerning the profitability of *gaisho*, we have adopted a new method to count performance since the previous medium-term plan. When *gaisho* sells independently without using store facilities, it records the amount as their sales. When *gaisho* customers buy in physical stores, the relevant department of the store pays a small percentage of sales amount to *gaisho* as a commission.

We have adopted such method to evaluate *gaisho*'s performance since the previous medium-term plan as a *gaisho* reform. When calculating using this method, *gaisho* makes profits even after deducting personnel expenses and facility expenses.

For the future, we need to study whether it will be all right to use the current evaluation method and how to count if it will be able to sell something other than tangible goods.

As already announced at a press conference, for example, in partnership with Tokyu Land Corporation, we provide *gaisho* services to the residents of a high-rise apartment building in Honmachi, Osaka. We also help sell some apartments of the building and receive commissions.

In response to the recent camping boom, our *gaisho* sells high-priced camper vans to customers in cooperation with a camper van dealer in Shikoku.

Our business is expanding to such merchandise not available normally in department stores. Our *gaisho* can sell its sales capabilities based on good customers to suppliers that do not have enough sales capabilities but make good products or provide good services.

That is to say, we can make expectations on the business of "sales & service" and we see it burgeoning in Kobe and Osaka in the Kansai area and also in Nagoya. Currently

we are studying the best way to produce revenue as *gaisho* that aims to go to the next step when such business becomes viable. When it is clarified, I will explain.

Q. You said Shibuya PARCO performs very well. If it has some issues, or if it has to do something to keep its position, what are they?

From your explanation today, I do not think its content can be imitated by other companies so easily and I could well understand it is very difficult for other companies to imitate the connection you have. I would like to know what you are thinking of doing in the future to enhance the value of Shibuya, if any.

(Imaeda)

A. In order to differentiate Parco from other companies, we find and incubate many tenants and many companies open their first shops in Parco. We have many such rare tenants.

As these tenants are small in business size and lack flexibility in operation, we have to protect them as our partners amid the COVID-19 pandemic.

Q. To the contrary, if you can do that, you will be able to become more differentiated and your position as truly only one rather than number one will further rise. Can I think so?

(Imaeda)

A. Exactly, I think so. While increasingly enhancing Shibuya PARCO's value by reaching the highest position as a flagship store, that is, the highest uniqueness, we will spread it to other stores.

Some can be spread as they are and others will be spread in different forms. I think it is important to create something new with creators and business operators in each store's local area across Japan to pursue uniqueness.

Q. You said you have already worked hard on product portfolio management (PPM) since April. Even if you can make an investment decision through ROIC management, I do not think everything including subsequent progress management will go as planned. For example, when the project in which you invested falls below your plan, how do you manage judgment or check its progress?

(Wakabayashi)

A. It is true that we could not monitor enough after investing. I think it is important to regularly check more than ever before whether the project goes as intended and report it to the management team and discuss carefully whether we will remedy it to the path originally intended while sharing information with the operating company as an investee.

If it does not go as intended after doing so, maybe due to environmental changes or changes in the business, we will judge on a case-by-case basis. Depending on the situation, we may decrease the investment amount from that originally planned, and at worst, we as a holding company need to strongly tell that we should cancel it in the middle.

Q. Can I understand the system you told now, including the Business Portfolio Transformation Promotion Division, is in place?

(Wakabayashi)

A. Exactly. The Business Portfolio Transformation Division is responsible for it but the finance division supports it. I would like to establish a system in which the holding company unites efforts.

Q. Concerning the profitability of *gaisho*, I would also like to know what you think about cost. In strengthening *gaisho*, you told about its staff. You strengthen your website and systems. As a result, can you strengthen without so much increasing cost?

In addition, I think Daimaru Matsuzakaya Department Stores and GINZA SIX respectively have good customers and can you share these customers? If you can, I would like to know in what form you share them. For example, I think relatively young customers visit pop-up shops in Shibuya PARCO as explained earlier and that there may be some potential *gaisho* customers among them. The same applies to GINZA SIX and can you well attract them to Daimaru Matsuzakaya's *gaisho*? If you can do that, I think your customer base will become stronger. I would like to know about this.

(Sawada)

A. *Giasho*'s greatest weapon is human power. But I do not think all *gaisho* staff members should be versatile and superstars. I think it is good to have various types of people.

Meanwhile, young affluent people I mentioned earlier have a lot of knowledge about the categories they like. We need to enjoy supporting their shopping using expertise in

order for them to enjoy shopping. To this end, it is important to have such knowledgeable staff in sales divisions, on sales floors, or among suppliers.

Concerning the size of *gaisho* in the future, as it is important to network experts around customers, I do not think to increase the absolute number of staff members necessarily leads to the growth of *gaisho*.

Particularly, as young affluent people do not necessarily want to be visited, I think labor or man-hour will rather decrease by using digital touch points.

I think *gaisho* staff who well networks a group of experts I told earlier will be able to work extremely efficiently. As online touch points will evolve in the future, *gaisho* operations are expected to be further streamlined.

Currently, we are considering how we will shape *gaisho* for 2023, and further ahead, 2030, including human resource plan.

Concerning sharing customers in the Group, as the customer management system of GINZA SIX is different from that of the Department Store, we cannot well share customers. The app of GINZA SIX is also different from the Department Store's app. If we will be able to make JFR Card a key in the future, we will be able to centralize customers. I think we have a good chance of integrating customers by changing GINZA SIX Card.

Concerning Parco, the customers of Parco, the Department Store, and JFR Card are finally being integrated in our integrated customer database Lifetime Service HUB. We can say that the environment that allows us to collate accounts, find promising customers, and know how customers shop around multiple stores in the database is in place.

Q. Will Parco change its cards like GINZA SIX while integrating its database?

(Wakabayashi)

A. I understand what you pointed out is the Group's great business challenge. However, the Department Store and Parco have operated independently. As it is true that each of them has its good points, we have to discuss with operating companies what shape is optimal as the Group. I think there may not be one answer.

We are trying to study various patterns while simulating them so that we can communicate the results without delay.

Q. Your peers also say that they strengthen *gaisho* and its sales are increasing. Why do young affluent people or new customers select your company? Or do they use

not only your *gaisho* account but also others? To the contrary, if you can attract more customers by changing something, I would like to know that.

I appreciate your ROIC management. If you grow businesses other than retail, the Developer has a great potential in the use of real estate holdings. On the other hand, however, I think its ROIC will become a little lower compared with the Department Store and Parco because its business model is different.

I think it is case by case. For example, you will receive some degree of development achievements according to the ratio of your equity like GINZA SIX, or you will try to receive a greater return through additional investment.

I understand you will participate in big complex developments in Nishiki 3-chome, Nagoya and Shinsaibashi, Osaka as business operators in 2026. In these situations, I would like to know what you think of the balance between efficiency and profit expansion.

(Sawada)

A. Though I do not know how *gaisho* customers, particularly young ones, shop around our peers, the greatest key is content. What we can provide to these young customers is the greatest point.

Speaking of our company, for example, I talked a lot with the president of Aramasa, a premium sake brewery in Akita, and have a great sympathy for their manufacturing. And they want good customers to drink their limited amount of sake.

If we sell it in stores, a line will be formed and it will cause confusion. Therefore, we sell it as a special item by lottery on our *gaisho* customer website “connaissigne.”

Though it is just one example, I think such content very much attracts them. Or we created and sold a popular animation character figure at more than ¥3 million in collaboration with another company. As for contemporary art as well, we provide information on very rare art works or the works created by buzz artists through galleries as early as possible and also sell them by lottery. That is to say, the point is how we can continue to provide good items not available from other companies. Particularly, there is a market for people obsessed with something. So I think it is the most important to stimulate it.

Online connectivity provides many benefits and I think we have much evolved. We can identify customers’ potential needs and interests more clearly than ever before and we will provide new content to customers based on them. I think such good cycle will be further created in the future.

Q. Regardless of whether a customer has only your company's account or multiple accounts including other companies', if you can duly provide good goods and use *connaisslign*e, you can attract him/her as your customer and further increase sales. Is it correct?

(Sawada)

A. I think so.

(Wakabayashi)

A. Concerning your second question, ROIC target by business is shown on page 5. The Developer's target for 2030 is shown at 4 to 5% on the extreme right. Providing ranges is the point. That is to say, there could be various patterns. Specifically, I think the ROIC target levels should be different between the case of revitalizing our existing asset holdings and the case of acquiring new lands and developing them. In addition, we need to consider what to do when partnering with other companies.

In conclusion, the ROIC levels shown here will be pursued by the entire business segment, and for each project, we will judge one by one seeing appropriate values.

Q. I hear you developed Ginza and Ueno considering NOI yield, etc. and I think you did the same for Shibuya PARCO. Can I understand you use invested capital measured at not book value but fair value to calculate the ROIC levels for real estate holdings? If measured at book value, ROIC will be significantly higher. Therefore, I would like to confirm with you that it is measured at fair value.

(Wakabayashi)

A. I would like to think so.

Q. Is it difficult to comment about ROIC values for planned development projects in Sakae and Shinsaibashi at this point?

(Wakabayashi)

A. I understand they attract strong interest but allow me to refrain from answering at this point.

Q. You told the key categories of *gaisho* are luxury, watches, and art and I understand you will increase them also in non-*gaisho*. Do you see the markets of these key

categories expanding and room for you to acquire them expanding? Or can you grab market share from competitors, etc.? I would like to know what you think of the market environment and your positioning for the future.

(Sawada)

A. Nationally and internationally alike, I see their markets will expand. Particularly for the world of art, as the market size in Japan is too small, it will extremely expand. I think the high-end watch market will also expand. However, as it is for limited items and not a mass market, retailers will scramble to capture market share.

Concerning luxury brands, as you can see by looking at maisons in Europe, I see Japan as a growth market in Asia in our global strategy. I do not think only affluent people buy these three categories.

I think it is also true that department stores, unlike other retailers, have an advantage in these categories in their long history.

Q. In that sense, can I understand there are some fields that can be further expanded by means including the strengthening of sales floors you explained earlier particularly in these categories?

(Sawada)

A. That's right.

End