

**J. Front Retailing**  
**Summary of Q&A session at the ESG presentation**  
**Date and time: 15:00 – 16:25 on Wednesday, November 30, 2022**

**Q. I understand that you have changed your personnel system to be human resource capabilities-based since fiscal 2019, but I think you had a proper system to develop employees before that, including Mr. Shimogaki who spoke today. Specifically, what exactly has changed since fiscal 2019, in short, in human resource development, what is the most changed part? Please explain a little more.**

**In addition, I think you mentioned on the last slide that KPIs should be set in synchronization with the Group's future vision, but I would like to know what exactly you mean by these KPIs, if you don't mind me asking.**

(Umebayashi)

A. Until then, the personnel system had been job-based, with the idea of measuring the value of a predetermined job, assigning a price to that post, and then assigning the most suitable human resources to that post, based on the so-called present value.

On the other hand, at that time, we set the Group Vision "Create and Bring to Life 'New Happiness.'" In the VUCA era, we significantly changed our management policy not only to increase management efficiency, but also to take on the challenges of the unknown.

This means that we now must challenge ourselves to do work that we have never done before. In order to have excellent human resources take on the challenges of the unknown in this context, it is necessary to place them in positions where their value cannot be measured. Therefore, the Company will carefully consider the potential and future value of the person, and then assign the most suitable human resources to the position. In other words, the Company has decided to reverse the order in which it allocates people and the way it thinks.

Therefore, in terms of compensation itself, we will not pay compensation because of the position, but rather, we will give them a challenging job, and if they are able to do that job as a result, we will reward them well for their achievements. We are changing to a so-called "role-first, promotion-follows-promotion" system, which should be viewed as a change in the overall policy so that, for example, young human resources can try out more difficult jobs.

Of course, it is possible to set KPIs for the future, KPIs that are external in nature, including the so-called personnel structure, but as you know, about half of the entire Group is composed of women. For example, with regard to women's empowerment, it is not only the share of women in management positions, but also the wage gap between men and women, which will become mandatory to disclose from the next fiscal year onward. In other words, if more and more women are assigned and posted to higher level and more valuable jobs and demonstrate results, we will naturally pay wages commensurate with their performance.

If momentum is generated to narrow the wage gap between men and women, it will naturally be important to track this as a KPI. This will increase actual productivity and raise our corporate value. We hope to create such a virtuous cycle.

Since the plan is still in the draft stage, we will synchronize it with the next Medium-term Business Plan starting in fiscal 2024, as Ms. Koide mentioned earlier in her presentation, we would like to formulate KPIs that will be linked to our business performance and corporate value.

**Q. I would like to ask the same question to Ms. Koide and Mr. Yoshimoto. I think that today's**

**presentation is exactly about resolving the various issues that Ms. Koide pointed out while firmly developing human resources and firmly connecting them to the next medium-term plan.**

**In this context, I do not think the answer to the question of what to do with the next medium-term plan has been given yet, but I would like to hear from each of you what you think about the fundamental values that J. Front Retailing possesses, which must be firmly protected and which must not be changed in the medium-term plan, and what new strategies will be implemented based on these values because these values are extremely strong. I would like to hear your thoughts on how we should carry out new strategies based on these values, or any other ideas that you may have.**

(Yoshimoto)

- A. The next mid-term plan will start in fiscal 2024, which means that we have about another year and a half to go, but we still want to share as much as possible about what the figure for fiscal 2030 will look like in the framework of a bold growth strategy, and backcast from there. At this time of year, I don't think we have ever worked in earnest on the next medium-term plan before, but we are now quite engaged in this discussion.

In this context, when thinking about 2030, it is important to focus on our current strengths and the core competencies that will emerge from these strengths.

The Board of Directors has had several occasions to discuss the proposals discussed by the executive team and get opinions, but as Ms. Koide mentioned earlier in her role as an Outside Director, "Are you sure that's the right thing to do?" "Couldn't we be losing our department stores?" We have received such questions every time. I believe it is very important at this point in time, a year and a half before, for the executive team to catch these questions head-on.

In this sense, the current Board of Directors does not include the presidents of the operating companies, but rather it can be said that it is becoming extremely important to exchange opinions between the holding company and the operating companies.

I believe that there is a considerable amount of discussion going on within the executive team right now about what we need to keep in mind as a preliminary step to the formulation of the medium-term plan, and what we need to look like in 2030. In this process, a number of our strengths and core competencies have been mentioned, but most of them are only things that the Department Store and Parco have accumulated in the past. How can we combine these strengths into a new core competence that only we can offer and that other companies cannot follow and imitate? We would like to work out these issues before we start a full-fledged study of the medium-term plan.

(Koide)

- A. As Mr. Yoshimoto just mentioned, backcasting from 2030 is very important. Of course, we do not know how much we can predict and it is not possible to predict everything, but we are in an era in which consumers' lifestyles and values are changing rapidly, and I think it is very important to consider not the immediate next three years, but a certain medium-term period and backcast from there.

And in that context, we're talking about what are our core competencies. Of course, having a location, a "box," or a pavilion in the real estate sense is one of our strengths, but we also have a soft connection with our customers and a customer base, which is also a strength.

However, the current composition is such that customers come to the "box" and connect with us there, but I think we need to break it down and think about how we can create a connection with these customers in some other way.

Looking at the world, the retail business is evolving in various ways, and it is not simply a matter of having a store here and people visiting it. In a sense, it has become commonplace for people to buy things over the Internet. The business formats that are completely different from these types of businesses are emerging rapidly. Even though not all of them will grow, there will be some interesting clues in there. While keeping my eye on these areas, I would like to generate more inspiration and ideas on how we can connect two or three dots that seem disparate at the moment and I keep saying so.

**Q. I would like to ask Mr. Nomura and Mr. Shimogaki, who are close to the frontline. Today's discussion helped me understand that employees must work on this issue as if it were their own, not someone else's. I had the impression that there was a difference in enthusiasm between Mr. Yoshimoto and the frontline.**

**I guess it hasn't been long since concrete implementation, but I was wondering if the awareness of the frontline has changed considerably, if you have reached a point where people can be nurtured with a sense of speed, or if your employees will not move unless the fire is ignited a little more. I would appreciate comments from both of your positions.**  
(Nomura)

A. In my explanation earlier, I mentioned that I had held workshops with about 250 people in the past two months.

The first thing that honestly surprised me was that when we went online after hours, starting around 6:30 p.m., about 100 people showed up right away, including those who were doing their housework. In the questionnaire survey that followed, we found that many employees wanted to acquire digital knowledge in this way, which was an honest surprise to me. I also got the impression that there had not been many opportunities for interaction across organizational boundaries until now.

However, I sensed a tremendous amount of enthusiasm for taking advantage of these opportunities to create something new, while successfully combining our strengths. There have been strong requests for when the next workshop will be held, and this reputation has led to requests from stores that have not yet held workshops.

First of all, it is important to develop core talent, but on the other hand, there is also the effect of creating an environment through communication of the kind of soil that accepts such people. As for the soil, they wonder if that is enough although they have been doing their best to perform their duties up to now, and there is a tremendous desire to seek even the slightest solution to this behavior.

**Q. While sales have recovered from the COVID-19 pandemic, I think many people are busy doing the work given to them in the job-based system and that is all they do on a daily basis. When they think that is not good enough, and thinking about five years from now, ten years from now, they want to do new things, is it significant that the Company has been able to successfully create a structure that allows them to do so?**

(Nomura)

A. I feel that way. At one store, we had such a large turnout that I wondered if the store would be able to handle it. But I feel that they are so determined to make the best use of the opportunity while managing the business properly.

(Shimogaki)

A. First, we launched a CVC and I think the movement to create innovations is accelerating.

However, this does not mean that it is just getting started, but there has been a Challenge Card system in the past, and I believe that the groundwork has already been laid to tackle challenges. With nearly 7,000 Challenge Cards submitted each year, the mindset of each and every employee to take on some kind of challenge is accumulating.

In this context, we were in a state of wondering what we could do now, but by launching this CVC, we will look outward, and the grain of new initiatives to be generated through collaboration with outside parties can be considered as an effect of the establishment of the CVC, which will become a large part of our efforts.

Second, in terms of decision-making, for example, when we decided to collaborate with an outside start-up company to develop a new business, we did not have a CVC function in the past, so we had to invest in the company from the main body to take the first step. In order to invest in a start-up company, there was a process of many strategy meetings and management meetings followed by a final decision by the Board of Directors, but with the establishment of CVC, a decision on investment can be made in two or three months. In this sense, I believe that the speed at which new projects are created will be accelerated.

**Q. In the first place, what was the main reason why Ms. Koide accepted the request to become an Outside Director of J. Front Retailing? Since you have accepted the position, you will probably remain with the Company for a certain period of time, so I would like to know what you would like to change in the Company, and conversely, if there are any areas that you think would really improve the Company if they are changed.**

(Koide)

A. One reason is that I have long been involved in general consumer goods such as cosmetics, and have experience in retail business. So, I thought I could make use of that and contribute to the Company. I also thought that now might be an interesting time for the Company. Once a company is established and stable, it might be good for people who are interested in stability, but the most difficult but interesting is when it is changing.

While there are signs of change, such as the conversion of Parco into a wholly owned subsidiary and the gradual success of new business formats such as GINZA SIX, the department store business is facing major challenges, and I felt that the Company has great potential for change in the future. I honestly felt that I would like to be able to help in some small way.

**Q. I think you are an excellent company among the companies I am in charge of, but I would like you to take a broader perspective, not just the narrow viewpoint of being in charge of your own business, and I would like you to get out of your comfort zones, and I hope that you will continue to encourage your people to do so while discussing how to make your policy more robust, with an eye to the future.**

(Koide)

A. I think you are right. I will do my best.

**Q. Ms. Koide concluded by saying what I think was the most stimulating thing in this presentation. In your expected roles, you mentioned the discussion from the perspective of stakeholders such as shareholders, investors, customers, and consumers, but from the stock market's point of view, to put it more bluntly, I think it comes down to why domestic and foreign investors should choose J. Front Retailing among many other stocks.**

**In the stock market, there is often a discrepancy between the way the issuing company looks at the market and the way investors look at your company, and I think it is natural that there is a discrepancy. To put it in a slightly more difficult way, from your viewpoint, do you feel that there is a discrepancy between the market's viewpoint and what is actually being discussed within J. Front Retailing? If not, that's fine. If you can give us any simple examples of areas where you feel that improvements could increase corporate value, please let me know.**

**In my personal opinion, the business format of department store will have a tough time remaining in its old form. I am looking forward to seeing what kind of response you will give to this, including some innovation.**

(Koide)

A. I think this is a very big question. I am aware that what is happening now is that we are not able to tell our shareholders exactly what the future of this company is and what our dreams are. Of course, it does not mean that nothing is being done about it, and it is true that inside the Company, various initiatives such as those introduced today are really underway and various discussions are taking place.

I think the main reason for this is that we have not yet been able to present them all together in a large format. What everyone wants to hear is not so much the details of the measures themselves, but rather how the Company will change when all of them are put together. Right now, I think it looks like just a bunch of disparate things, such as having department stores, Parco-type stores, and a developer business.

In the future, they may merge side by side, or department stores may no longer be called "department stores." We are still behind in digitization, so I wonder what kind of services and value we can ultimately provide to consumers when we add such things to our product lineup. I think we should reflect on the fact that we have not been able to explain our business clearly from this point of view.

Therefore, the announcement of the next medium-term plan is a great opportunity, and I think it is the most important time to show how much things will change.

It will be about a year before we announce the outline of the next medium-term plan, and until then, we will continue to hold a series of really heated discussions. As I mentioned earlier, Outside Directors come from a wide range of backgrounds, and none of them is the type of person who would just get by without saying anything, so we are a group of people who are expressing quite harsh opinions one after another.

I hope that in a year's time, we will be able to present the next medium-term plan and the vision we are aiming for in 2030, so that we will be able to say that this level of enthusiasm has brought us this far. Thank you very much for your comments.

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