

J. Front Retailing

Summary of Q&A session at business strategy presentation

Date and time: 15:00 – 16:20 on Tuesday, July 25, 2023

Q. Since you became the President of PARCO, I think that your view has probably changed a bit. I would like to know your thoughts on PARCO's strengths and the challenges that you have faced since becoming President, especially if you think that changes in these areas could make PARCO more successful in implementing early the measures you have explained today.

A. (Kawase)

I think the strength is the network and creativity of our people. I think they have high antennae that allow them to consult with content holders and set things up, rather than just buying things after they become popular in the world. It is not necessary to bring up the difficult term of human capital management. I believe that our strength lies in the passion of our employees who find their work interesting, and in the relationships we have with people outside the company and creators who gather there.

On the other hand, the challenge lies in the same place. PARCO's employees have a very strong belief that our revenue comes from attracting people to our stores through such efforts and receiving rental income from tenants. In other words, we would like to utilize our creativity and network in areas other than rental income, such as the media business and the sales-on-order system. We would like to diversify our collaboration with creators as another revenue stream. This is a strength and a challenge, which are two sides of the same coin.

It can be said that the company has a very strong stance of eliminating various risks, with a division of roles in which we ask the tenants to take care of the interior assets and inventory, and we ourselves make the operation and promotion of the building excellent. However, in order to make the most of our own creativity and the network of creators, we would like to take the risks we need to take.

Q. Regarding collaboration between PARCO and the Department Store, you mentioned cards, but I think there are a number of things that could be considered in the merchandising area, such as more collaboration with, for example, Daimaru Matsuzakaya Department Stores, or more use of PARCO's incubation capabilities. I would like to know your thoughts on that.

Perhaps there are some who say that the hurdles are high and that they are not very effective, but from the outside, it seems that it would be good to collaborate more.

A. (Kawase)

As for collaboration with the Department Store, we would like to promote it more. In Shinsaibashi, for example, Daimaru Shinsaibashi and Shinsaibashi PARCO are adjacent to each other and operate as if they were one store. There, people are actively interacting with each other, and not only those responsible for each store, but also younger staff members, are working together on various tasks and meetings. Each business has a slightly different form, but there are cases where

information and policies are jointly shared and roles are divided in the development of merchandising and the attraction of tenants.

In order to promote such cases nationwide, we are promoting personnel exchanges, such as sending dozens of people from PARCO to the entire Group, and accepting more than 10 people on secondment from the Department Store. We will do our best to produce these results as soon as possible.

Q. I think GINZA SIX was doing well even from before COVID-19, but from an outside perspective, I feel that it was difficult to share this success with Daimaru Matsuzakaya Department Stores in terms of merchandising and operations. I would like you to look back on why this was the case. At the same time, conversely, I would like you to tell us what kind of changes will be made so that GINZA SIX's success stories will be shared in the future.

A. (Nishisaka)

The Daimaru Shinsaibashi store, which opened in 2019, has already incorporated the ideas of GINZA SIX. While this is still not enough, it is based on benchmarking and learning from the ideas behind the creation of new commercial facilities, rather than short-term efforts such as bringing in content as it is. We believe that we are developing this concept horizontally.

On the other hand, what has made us more aware of GINZA SIX is the change in consumer values and customers after the COVID-19 pandemic, as well as the need to focus more on content in order to achieve further growth as a department store in the future. In this sense, we would like to apply our efforts by further benchmarking.

However, I honestly think that there are elements that we have been able to achieve because GINZA SIX originally had a bit of the DNA of a department store. Neither of them is the primary subject of the other, and I believe it is important to create a store that fits the needs of the customers of each market by well merging the good points of each.

Q. Are there any business opportunities, for example, to develop something like GINZA SIX on a smaller scale in some other domestic city or overseas, outside of Ginza?

A. (Nishisaka)

At this point, we do not envision a second or third GINZA SIX being built here and there. However, we believe that it is possible to apply the success factors and ideas of GINZA SIX to new commercial facilities to be developed by the Group in the future.

Q. I think it is generally seen from the outside that Daimaru Matsuzakaya Department Stores should incorporate more of these changes in GINZA SIX and PARCO, so I would like the people at the Department Store to incorporate more changes from the outside. Not only as an analyst, but also as a consumer using the Tokyo store, I think so and would appreciate it if you could consider.

A. (Nishisaka)

We will definitely take your comments into consideration and make our stores enjoyable for all kinds of people.

Q. PARCO originally had content that was strong in the inbound market, and even before COVID-19, there was a certain amount of inbound demand, but I don't think it contributed to sales on the scale it does now. PARCO then and PARCO now, especially in Shibuya and Shinsaibashi, how much and in what ways did their ability to communicate change, so that they have been so well accepted?

A. (Kawase)

The difference between the Shibuya PARCO of that time and the Shibuya and Shinsaibashi stores of today is that we are using social media to provide information in a borderless way, and I think this is working well with highly sensitive customers.

In addition, the Shibuya area itself has significantly changed from before COVID-19. PARCO is particularly interesting as a unique combination of luxury, fashion, museum, and gallery.

Currently, many people from Taiwan, Korea, China, and the U.S. visit us, and in anticipation of an increase in the number of visitors from China in the future, we are continuing the same activities in the Chinese media. We believe that such information dissemination, synergy with the area, and the special characteristics of merchandising have been well received.

Q. Earlier it was mentioned that the renovation of Nagoya PARCO will continue until next year, but the store is large in size, divided into several buildings, and I think the largest assets are invested in the store. Unless Nagoya really improves, I think it will be a bit difficult to return to the pre-COVID level in terms of profits, but what is the reason why the renovation is taking so long? In the next mid-term plan, Nagoya will play a major role while PARCO does its best, so I would like to ask if we can expect a turnaround in Nagoya.

A. (Kawase)

Your question about the renovation and turnaround of Nagoya PARCO is exactly right, and we have Nagoya as our most important base. As for the delay in the remodeling and the fact that it will continue for a little while longer, we are considering the introduction of core items that will be the centerpiece, and we would like to create a form for the entire building in conjunction with this period.

I mentioned earlier that not only our company but also the entire area is under development, and we would like to synchronize our efforts to maximize the effect. It is taking some time, but I believe that the turnaround there is really important for PARCO, and we will invest our management resources to the maximum extent possible to make it happen.

Q. In that sense, I think that PARCO will be involved in the production of the Nishiki 3-chome project in anticipation of changes in the area, as well as deciding on core tenants and content rather than replacing with popular tenants symptomatically. Is it correct to say that you are taking a slightly longer time frame in order to fundamentally rebuild Nagoya?

A. (Kawase)

We would like to revive Nagoya PARCO while considering the entire Sakae area as an economic zone for J. Front Retailing.

Q. I would like to know how the strengthening of collaboration with gaisho at GINZA SIX will generate synergies with the Department Store. With the Department Store, PARCO, and GINZA SIX, we believe that you have moved in the direction of aiming for optimization as a kind of gaisho policy for J. Front Retailing as a whole. Is that correct?

A. (Nishisaka)

One of the reasons behind the future synergy generated by collaboration between GINZA SIX and the Department Store is that the number of wealthy people is increasing significantly. Traditionally, affluent customers in the Department Store have been relatively older, but GINZA SIX, since its opening, has had a relatively young, highly sensitive, and forward-looking customers. From the perspective of matching content with customers, we believe that there was room to consider whether immediate synergies could be expected.

The recent change in consumers, especially the affluent class, is remarkable, and the number of young people in their 20s to 40s, including those in the Department Store, with new occupations and new income, is increasing considerably. In a sense, the way they buy is becoming more similar, and the number of people with similar values is also increasing. In that sense, we are beginning to see commonalities among customers.

In terms of content, the use of GINZA SIX by our gaisho customers has resulted in an increase in sales and transaction volume for its tenants, and in an increase in the percentage rent for GINZA SIX. We expect that their use of GINZA SIX will increase gaisho demand and business in the Tokyo metropolitan area, which is particularly weak. Of course, touchpoints and the store environment are important to attract wealthy people and make them use the store, but we believe that content is the key.

This is not merely a collaboration between Daimaru Matsuzakaya Department Stores and GINZA SIX, but also one specific measure to generate synergies with the Group's operating companies, including content, payment, and finance.

In that sense, by making JFR Card the card issuer of GINZA SIX, we are able to provide new services and create a card system and incentives that can be applied to both the fixed-term lease contract business and the e-commerce business of the Department Store.

Q. A graph of GINZA SIX transaction volume and inbound share were shown, but is it difficult to disclose absolute figures of transaction volume, etc.?

A. (Nishisaka)

I would like to ask for such understanding.

Q. On slide 21, which is related to GINZA SIX, there is data on transaction volume by customer attribute. What is the source of this data? Normally, I don't think that card data alone can cover the entire transaction volume, but if this kind of customer demographic data is already available, I think it is a very strong point.

A. (Nishisaka)

This is obtained from the app. We believe that we have captured a significant number of transactions, although not the entire transaction volume.

Q. The young wealthy class in Tokyo is also mentioned in competing stores, but what is the difference from competing stores? Do you mean that they are used selectively?

A. (Nishisaka)

I feel that power couples visiting GINZA SIX are highly sensitive. I think that each store has a different customer base of young affluent people.

Q. The Daimaru Tokyo and Umeda stores are relatively weak in post-COVID sales recovery. What kind of essence of GINZA SIX can be put into them? These two stores do not have much gaisho sales, so is it difficult with the essence of GINZA SIX?

A. (Nishisaka)

We believe that contemporary fashion is an area that has plenty of potential in the future. However, Tokyo Station also needs to find ways to take advantage of its location, so it is necessary not only to be ahead in fashion, but also to gather content that can be disseminated nationwide and to the world precisely because it is located at Tokyo Station.

Q. The issuance of new PARCO Card will stop on August 31, and I would like to know what PARCO's card strategy will be after that. In particular, what is the timeline for integrating existing cardholders into the Group, and how do you see the benefits of this? In addition, what is the schedule for the issuance of the GINZA SIX card?

A. (Kawase)

Regarding the PARCO Card, as you pointed out, we will stop issuing new cards at the end of August. We have been working with the company that had issued the card for 35 years since 1989, but the number of new cards issued each year has been decreasing for the past several years, partly due to COVID-19.

Although the timing for stopping new card issuance is not the same as the timing for launching the next card, we see this as an opportunity to reassemble a new customer policy, not only for credit cards, and we are currently formulating this as well as the next mid-term plan.

In terms of timeline, we would like to work on this as soon as possible, but it will be a long-lasting system, Daimaru and PARCO have stores adjacent to each other, and some customer characteristics are different. So, based on these considerations, we are currently designing the card with JFR Card and we would like to start repeating various experiments in the second half of this fiscal year. I believe we can explain the timeline in the next mid-term plan.

A. (Nishisaka)

Integration of the credit card of GINZA SIX into the Group is planned for the next fiscal year.

Q. Customers' shopping venues are diversifying, and I think it is important to share customer data among Daimaru Matsuzakaya Department Stores, PARCO, and GINZA SIX. Specifically, how far have you gone with this, what challenges do you face, and how do you plan to promote the sharing of customer data in the future, including whether it is necessary to do so in the first place?

A. (Kawase)

In terms of sharing customer data, J. Front Retailing, a holding company, is taking the lead in creating a greater number of customers within the Group.

For example, in Shinsaibashi, Daimaru and PARCO are adjacent to each other, making it easy for them to work together. Under the expression “the Group’s common customers,” shopping analysis of what customers buy at PARCO and what they buy at the Department Store, and measures to provide benefits to these customers, including gaisho customers, are in progress.

However, even when it comes to customer collaboration, it is very important to have a Department Store and a PARCO store in the area where the customer actually lives, but for example, in Sendai, there is only a PARCO store. We are making various efforts, including consideration of the behavior and preferences of customers in each area, as well as the characteristics of PARCO and the Department Store, and accumulating inventive ideas to make our customers loyal to the J. Front Retailing Group.

Q. Regarding the development of community, I think of Shibuya PARCO and GINZA SIX in the same way that I look at Daimaru Kobe store, and I recognize that they will be the axis for making the community more attractive over the next 50 to 100 years.

In this respect, I would like to know your vision on whether you intend to be more actively involved in the community development of the area, with PARCO and GINZA SIX playing a central role.

A. (Kawase)

Thank you very much for your compliments on Shibuya PARCO and GINZA SIX. Regarding Shibuya PARCO, we have been working together with the local government and shopping association on the development and revitalization of the community, as we have done in the past, and we are making further progress with the new facility.

The PARCO store also has an office that provides administrative services and a team that thinks about the future of the community of Shibuya, and also holds events that offer hands-on experience in art and culture for the generations who will lead the future of Shibuya-ku.

I do not think that community development is something that can be short-circuited with real estate development, but if the opportunity arises, we would like to consider it positively, including the development of the area between the station and the commercial facility, which is the furthest, 800 meters, away from the station. There is nothing planned at this time.

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