

J. Front Retailing Co., Ltd.

13th Annual Shareholders Meeting Record of Questions and Answers

Date and time: May 28, 2020 (Thursday) 10:00 – 11:30

Venue: Event Hall B2F Bellesalle Nihonbashi

Q. It's wonderful that stores have restarted operations; but I would like to ask about the medium- to long-term outlook. Risks are emerging as globalization proceeds. Isn't it likely that the continuous high growth seen in emerging countries will not continue? In that sense, it seems risky to rely excessively on inbound tourism from China followed by Southeast Asia. In the newly formulated medium- to long-term plan, how have you balanced inbound tourism and the domestic market? And what is the ratio of sales between the inbound and domestic markets as they stand currently?

A. (President Yamamoto)

Sales at Daimaru Matsuzakaya Department Stores for the previous fiscal year were ¥60.1 billion, and the share over overall sales has increased to around 10% over the past few years. Currently, inbound sales continue to face adverse conditions amid the novel coronavirus (COVID-19) crisis.

Regarding the outlook, currently, although the trend toward globalization has been subdued at present by the impact of COVID-19, we do not believe it can be stopped over the medium to long term.

According to the United Nations World Tourism Organization, the number of overseas tourists is projected to increase to 1.8 billion by 2030. This indicates growth in both income levels and in the number of overseas travelers. Compared with 2017, the number of overseas travelers is estimated to increase by 0.5 billion. In addition, the share of overseas tourists travelling to Asia and the Pacific, including Japan, is projected to increase by around 10 percentage points to 30% of the total. Which means that the number of overseas travelers in the Asia-Pacific region will increase by around 50%. These projections were made prior to the COVID-19 pandemic, but we recognize this as the broad trend. Therefore, it will be important for the Company to communicate information overseas, to acquire overseas customers and build a firm customer base.

We believe we should consider this not simply as an increase in foreign visitors to Japan, but rather as an “expansion of our commercial zone.” So while we will naturally focus on customers in Japan, we want to keep expanding our commercial zone out to areas such as Shanghai, Beijing, Hong Kong, and Singapore, just as we expanded it from Tokyo out to Kanto and all of Japan. I want this mindset to underpin our business development amid globalization in the medium to long term.

Q. In the proposal for election of directors, you have only one woman among the 13 candidates. Among the outside directors, there is only one woman among six candidates. This feels like too few women. It seems that it will be really necessary to have a female perspective on management going forward; and I am wondering if you have a plan regarding the ratio of female directors to be appointed. Also, how do you view the current state of appointment of female directors?

A. (President Yamamoto)

We are strongly aware of the need for diversity. We have the same awareness with regard to the election of directors, and so we gathered information and listed up the candidates for selection. I want us to consciously consider the appointment of female directors. Regarding our targets for appointment of female managers, I will ask Executive Officer Arisawa to answer, as he is in charge of this matter.

A. (Executive Officer Arisawa)

Today we are asking for the election of one female director of the Company and one female executive officer. In our operating companies, Daimaru Matsuzakaya Department Stores has one female director and three female executive officers. PARCO has one female Audit & Supervisory Board member and one female executive officer.

Our basic position is that while we have targets for the number of female managers, it doesn't mean that we have a quota. In appointing personnel, we focus on comprehensive assessment data such as personal capability, performance results, suitability, motivation, and so forth, regardless of attributes such as gender or school career. The ratio of female managers who are candidates for corporate officers (section manager or above) is currently around 20% for the overall group, and 25% at Daimaru Matsuzakaya Department Stores. As a medium-term target, we aim to bring this ratio to 30% by 2025, and we have formulated and implemented an action plan for this purpose. We plan to enhance systems for training and returning to the workplace based on the changes in life stage for women, and through these increase the ratio of women in management with a view to appointing women as directors.

Q. With regard to the current Medium-term Business Plan, you said that some results have not been as planned. Was this caused by the external environment, or were there some internal issues?

A. (President Yamamoto)

The current Medium-term Business Plan is a five year plan that started in fiscal 2017. The intention was to set this as a period for getting all large-scale redevelopment projects started and contributing to earnings. All of the projects are proceeding as planned; however, the reason for some results not being as planned is that the external environment has changed much more than we anticipated when the current Medium-term Business Plan was formulated. In particular, we did not imagine the COVID-19 pandemic. My actual feeling is the future 10 years away has arrived today. For example, I thought that working from home would be normal in 10 years' time, and now even at the Company, the Head Office divisions have largely switched to working from home. Another example is ordering food over the internet for delivery at home, which is now become an ordinary thing. Amid these huge environmental changes, even if we were to continue with the current Medium-term Business Plan, we believe there would be a considerable disjunct due to the changes in society and consumption.

Another point is that we made PARCO a wholly owned subsidiary in March, and established a platform for the Group to make a new start. Now that we have integrated PARCO with its expertise in development and operation of urban commercial facilities, we judged that creating a new growth strategy would be the best way to increase corporate value over the medium to long term, and the Board of Directors has decided on that.

Q. With the occurrence of the completely unanticipated COVID-19 issue, even more than the Medium-term Business Plan, there are concerns first and foremost over whether JFR itself is OK in the short term. Even the best companies and the best business leaders will receive a considerable impact from two months of people refraining from going out. In your presentation you said you are taking steps to "create a solid foundation for the company's survival" and that you would "work on the assumption that people's sense of normal would be different after COVID-19." Could you give shareholders some confidence by explaining again how you will respond in the short term as well as the medium to long term going forward?

A. (President Yamamoto)

I'm mindful that it is difficult at this stage to judge how the post-COVID-19 society and economy will change. However, we recognize that to accurately grasp the changes going forward we must have a firm understanding of the facts. In this regard, the first is globalization, as we can clearly see from the spread of COVID-19. The second is innovation. Companies that have succeeded in innovating are succeeding in business right now, even in the COVID-19 crisis. The third is the internet. We need to have a post-digital mindset, where real stores are incorporated within online shopping, rather than a dichotomy between real stores or online shopping. The fourth is AI. It is already a given that we can grasp people's behavior using smartphones. The fifth is workstyle reform, where we can see that working from home has become normalized, where we had thought it would spread gradually. Based on these facts and changes, the Board of Directors will thoroughly discuss a new Medium-term Business Plan over the coming year.

Q. Could you give a specific schedule for reopening the department store business? And what are the conditions be like since reopening?

A. (Director Yoshimoto)

We started with a phased reopening of food sales floors. On May 19, we fully opened our stores, except for stores in the Tokyo metropolitan area and Sapporo, followed by the stores in Tokyo metropolitan area on the 26th and the store in Sapporo on the 27th. As of today, all of our stores are fully reopened. Our basic stance on reopening was to take thorough measures for security and safety. We are working with a readiness to take every measures necessary for our customers, employees, including business partners. This has made some inconvenience to customers unavoidable, but we will continue to take a rigorous approach.

The conditions after reopening are different for each store. For example, at some stores in Nagoya and Kobe, the flow of customers visiting the stores is almost unchanged, while at our stores on major terminal sites, such as the Tokyo Store and the Umeda Store, the flow of customer traffic is still at about one third of previous levels. We believe this is due to the low numbers of customers using Tokyo Station and Osaka Station. We will continue to monitor the recovery and changes of each area and store. However, we recognize that this won't be a simple recovery, and that we need to respond while monitoring the new changes in consumption.

Q. With regard to the main building of the Daimaru Shinsaibashi store that was rebuilt last year in September, what aspects are you focusing your efforts on and what are the customer appeal points?

A. (Director Yoshimoto)

The concept of the Daimaru Shinsaibashi store is "Delight the World: Shinsaibashi, Adored by the World," and it has a strong global focus. One of the store's strengths is that around 40% of store sales are from inbound customers, and its special characteristic is that it targets customers not only from Japan, but from abroad. Also, the store has a hybrid profit structure. Whereas GINZA SIX that opened in 2017 operates on a 100% fixed-term lease agreement business model, the Daimaru Shinsaibashi store has created a new business model that mixes fix-term leasing with procurement sales by utilizing its expertise.

In terms of the store make-up, traditional department stores have the floors composed by product category, such as food, ladies' fashion, men's fashion, living, and so forth; but except for food and cosmetics, the Daimaru Shinsaibashi store presents a mixture, for example mixing women's and men's fashions rather than separating the categories. This store composition places an emphasis on the customers' sensibilities.

Furthermore, the Daimaru Shinsaibashi store is a model store for ESG, which is a pillar of management. The store uses 100% renewable energy, has a vehicle fleet comprised entirely of EVs, and uses LEDs for all store

lighting.

Looking at earnings, from the time of the store opening in September through to January the transaction volume increased around 15%, visitor numbers were up 11%, and there was a steady rise in store visitors particularly among young customers. However, the store is currently facing adverse conditions due to COVID-19. Now that the operations have restarted, we will focus on refining the Daimaru Shinsaibashi store's strengths and characteristics.

Q. This is a question for President Makiyama of PARCO, which became a wholly owned subsidiary in March 2020. How do you plan to operate going forward as a wholly owned subsidiary? Also, what is your stance on reopening?

A. (Director Makiyama)

As of today, PARCO stores in the Kanto and Sapporo areas are closed, except for certain food stores and so forth. However, we have decided to fully reopen these stores as well from June 1. We will prepare properly for reopening with the cooperation of all the tenants. Furthermore, at the stores that are already open, we have seen tenants and customers smiling at each other with joy at the reopening. We will retain the joy of reopening and a sense of gratitude as we refer to the status of the stores that have opened in advance and utilize that experience to reopen all of the stores.

During the more than 50 days when we have been unable to reopen, we considered how to strengthen PARCO's branding going forward. In particular, we thought very hard about how to support tenants in our store business and artists in our entertainment business, among other things. While there is an emphasis on sustainability, within that we also want to create amazing retail business through PARCO after reopening, and we consider this an excellent opportunity to think hard about how our tenants, artists, and others can cooperate together in business with PARCO.

Right away after reopening in July we are planning a new event at the PARCO Theater. However, we face restrictions on the number of seats from a perspective of ensuring safety and security, so we are thinking about simultaneously live streaming the event. We have started with the idea of encouraging wider use of digital technology throughout the world. We have had multiple offers from live mixing studios in Shibuya who would like to broadcast to the world, and in each place there is an expanding group of people who have something they would like to achieve after reopening.

Becoming a wholly owned subsidiary of JFR has widened the stage for PARCO's activities, which is important for us. All of our officers and employees are aiming to achieve further growth to meet high expectations.

Q. What do you mean by New Business Division?

A. (Executive Officer Sawada)

The "New Business Division" is a division with about ten members in total. Half of these are recruited from external human resources. The average age is early 30s, so it's a young team. Around half of the team are women. The division works on a concept of "inventing happiness," and explores two vectors: "eliminating dissatisfaction" and "enjoying life." Basically, this division works to deepen communication with start-ups and others, and considers what kind of new value we can provide to customers by using new technologies.

At this stage, I cannot give many details, but next spring we are thinking to begin a new subscription business using an idea from this division.

Q. In the convocation notice you have presented property, plant and equipment of over ¥470.0 billion. With revenue at about ¥480.0 billion, the management efficiency does not appear to be very good. This may be the result of aggressive capital investment, but as borrowings increased because of this the company might be a little weak in terms of safety. Just before, the President talked about the growth strategy including real estate, but from a financial perspective, I'd like to see the Company enhance its defensive measures for the time being.

A. (Director Wakabayashi)

Property, plant and equipment is quite a large amount at ¥470.0 billion, but this is made up of department stores, which we have operated for a long time as our core business, and we recognize that holding store assets is a special characteristic of our business.

With regard to cash on hand, about which you are concerned, given the recent COVID-19 crisis, we are taking measures by reducing our capital investment amount by about 50% from the initial plan. As you are aware, COVID-19 has had a significant impact on the retail industry. How we establish an operating structure and recover our earnings going forward is a major point of consideration, but on the other hand, we are aware that the most important priority for the Company is to secure and maintain financial stability. Specifically, under our current plan, we have already made allowances to ensure we can secure 1.5 years' worth of operating capital at the end of the first half (August 31), and we would like to reassure you with regard to our financial safety. We will utilize these funds as we reopen our stores and recover our earnings going forward.

Q. In your overseas strategy, I believe you have a local subsidiary in Paris. Given the impact of COVID-19, what are you thinking to do now? For example, will you withdraw or shift to other regions?

A. (President Yamamoto)

In the past, we had opened department stores overseas in places such as Paris, Hong Kong, Singapore, Thailand, and Australia. However, increasing competition and rents, and other factors, eroded earnings and we withdrew all of the overseas stores.

Currently, we have the New World Daimaru Department Store in Shanghai, but the business model for this store is not investment by the Company; rather, the Company receives consulting fees for providing management guidance. Opening a store with a large asset like a department store is high risk, and we recognize that a business model that utilizes the Company's expertise in store creation, sales promotion methods, and other aspects is effective.

Outside of the department store business, we have the trading company, Daimaru Kogyo, which conducts procurement of parts and raw materials overseas, while PARCO has restaurants and so forth. We will engage aggressively and thoughtfully with our overseas strategy going forward.

Q. The impact of COVID-19 has led to a long suspension of operations. How will you approach the opening of the food floors, including the in-store kitchens?

A. (Director Yoshimoto)

In response to the emergency declaration on April 7, we suspended operations at all stores from the following day. However, the food sales floors are categorized as dealing in essential living supplies, so we have reopened them in phases. On the other hand, we have opened under a system that puts first priority on ensuring the security and safety of customers and employees, and we are taking steps to prevent infection

from spreading, such as restricting operating hours. We have thoroughly cleaned the in-store kitchen equipment for reopening, and we are striving to ensure health and safety for the whole facility. The food sales areas are closely involved with customers' daily lives, and we have been taking full measures for health and safety while reopening.

Q. The COVID-19 downturn has caused an increasing number of closures among other companies in the department store sector, and at Daimaru Matsuzakaya, the Toyota Store is to be closed next year. Are there any further store closures planned for the future?

A. (Director Yoshimoto)

The Matsuzakaya Toyota Store is scheduled to close at the end of September 2021; however, the reason is not COVID-19. The ultimate decision to wind-up the operation was based on the status of competition in the area.

Within the Company, Daimaru Shimonoseki Store, Kochi Daimaru, Daimaru Suma Store, Daimaru Ashiya Store, and Matsuzakaya Takatsuki Store are positioned as regional suburban department stores. Among these, Shimonoseki Store had a renewal opening under a new business model in March 2020. We also renewed the Suma and Ashiya Stores under a new concept. Our basic idea is to change to a business model where we clearly grasp the characteristics of the local areas where each store is situated, then progressively renovate the stores, pursuing those characteristics. At the Takatsuki Store we have started with the cafe, and we have begun working towards renovations next year. Although COVID-19 has had a significant impact, we will work to create a new business model while examining the results. At this point, we do not plan to close any stores.

A. (President Yamamoto)

Just to add to that, since the management integration of Daimaru and Matsuzakaya in 2007, we have operated under a policy of prioritizing countermeasures for unprofitable or loss-making stores. We decided to close nine stores and so forth at an early stage. On top of that, as mentioned before, we will change the business model of several regional suburban department stores, and we are taking steps to ensure we can secure proper earnings. Please understand that the ratio of urban department stores is increasing overall.