

Face Uncertainty (Risk)

“Positive Side of Risk” and “Negative Side of Risk”

The Group defines risk as “uncertainty,” which affects the organization’s profit or loss amid environmental changes and recognizes that it has both a positive side (opportunity) and a negative side (threat). As an advisory body to the President and Executive Officer with regard to the operation of risk management, we have formed the Risk Management Committee, which is chaired by the President and Executive Officer and comprises Executive Officers and others. The Committee periodically discusses, clarifies and evaluates risks (uncertainty) based on analysis of external and internal environments and monitors the measures to address them.

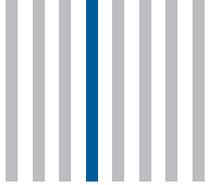
In fiscal year 2019, we recognized 137 risk items as uncertainty around the Group from four categories including “strategy,” “finance,” “operation” and “hazard.” Thus recognized risks were analyzed and evaluated individually. As for the risks that we think have a great impact on the performance and financial condition of the Group, we reflect them in our strategy and address them on a priority basis. Among these 137 items, we determined seven risks to be particularly emphasized as shown to the right.

If we can aggressively take risks assessing market changes while appropriately hedging the negative side of risk, we think it will lead to sustainable corporate growth in the future.

7 important risks (uncertainty) and measures to address them

Narrowed down to risks to be particularly emphasized	Frequency of occurrence / Degree of impact
Risk associated with the progress of sharing economy	<ul style="list-style-type: none"> ● Frequency of occurrence Already became visible, expanding over the medium term ● Degree of impact Very material impact. The entire Group will decline.
Risk associated with advanced technologies	<ul style="list-style-type: none"> ● Frequency of occurrence Already became visible, rapidly expanding over the short term ● Degree of impact Very material impact on retail business with real stores at its core
Risk associated with growing importance of ESG	<ul style="list-style-type: none"> ● Frequency of occurrence Already became visible, definitely expanding over the long term ● Degree of impact Very material impact. The entire Group will decline.
Risk associated with disasters, etc.	<ul style="list-style-type: none"> ● Frequency of occurrence Already became visible, continuing and expanding over the medium term ● Degree of impact Very material impact on the performance and financial condition of the Group
Risk associated with consumption tax hike and post-Olympic recession	<ul style="list-style-type: none"> ● Frequency of occurrence Becoming visible shortly after the events occur and continuing for several years ● Degree of impact Material impact on retail business with real stores at its core
Risk associated with changes in customers, low birthrate and longevity	<ul style="list-style-type: none"> ● Frequency of occurrence Already became visible, worsening several years after baby boomers reach the age of 75 ● Degree of impact Material impact on the performance and financial condition of the Group
Risk associated with polarized income	<ul style="list-style-type: none"> ● Frequency of occurrence Already became visible, slowly expanding over the long term ● Degree of impact Very material impact on the performance and financial condition of the Group

137 items were recognized
7 risks to be particularly emphasized



Negative side of risk (threat)	Positive side of risk (opportunity)	Direction for considering how to address them
<ul style="list-style-type: none"> ● Expansion of C2C ● Decline of real stores due to decreased product sales 	<ul style="list-style-type: none"> ● Development of new business from the perspective of sharing 	<ul style="list-style-type: none"> ● Considering new sharing service business of products, places, skills, etc. ● Developing services that lead to new entertainment and regional development by cloud funding
<ul style="list-style-type: none"> ● Attack by digital disruptors ● Progress of D2C 	<ul style="list-style-type: none"> ● Sophistication of services and streamlining of operations using technologies 	<ul style="list-style-type: none"> ● Maximizing lifetime value by building integrated customer database ● Providing new customer experiences using VR and AR ● Improving convenience by introducing new payment methods
<ul style="list-style-type: none"> ● Loss of consumers, deteriorating relations with local communities and divestment due to poor reputation caused by delayed response 	<ul style="list-style-type: none"> ● Reputation enhanced by appropriate response ● Enhancement of competitiveness using diverse human resources ● Reinforcement of business base with high transparency 	<ul style="list-style-type: none"> ● Launching specific initiatives by identifying 5 materiality issues ● Promoting highly transparent management in the Company with Three Committees (Nomination, Audit and Remuneration Committees) ● Actively disclosing information and improving quality of dialogue
<ul style="list-style-type: none"> ● Opportunity loss due to closing or suspension of business ● Increase in cost for restoring damaged facilities and core systems 	<ul style="list-style-type: none"> ● Increase of existence value as infrastructure at the time of disaster 	<ul style="list-style-type: none"> ● Promoting redevelopment of BCP plan, establishment of HQ, strengthening of drills, investment in aging infrastructure and stocking of disaster supplies ● Creating backup center for important data
<ul style="list-style-type: none"> ● Combined slump in consumer spending 	<ul style="list-style-type: none"> ● Increase in foreign tourists who are not influenced by consumption tax hike ● Reduction of economic burden on child-rearing households due to free-of-charge education ● Various government-led economic stimulus after tax hike 	<ul style="list-style-type: none"> ● Attracting more foreign customers from across Southeast Asia ● Promoting initiatives to retain foreign customers ● Promoting stimulus programs before and after consumption tax hike
<ul style="list-style-type: none"> ● Loss of senior market due to delayed response 	<ul style="list-style-type: none"> ● Emergence of new markets in the era of multiple stages ● Expansion of active senior market due to increased healthy life expectancy 	<ul style="list-style-type: none"> ● Developing new products/services using integrated customer database ● Newly launching high quality early childhood education business ● Considering service business for the elderly
<ul style="list-style-type: none"> ● Further shrinkage of middle class market 	<ul style="list-style-type: none"> ● Expansion of our strong affluent market 	<ul style="list-style-type: none"> ● Developing products/services with new asset value that meets diversified interests of the affluent ● Strengthening touch points with the affluent combining online magazines, our websites and real stores ● Recreating sales spaces for the middle class that meet new consumer needs