Accelerate Business Portfolio Transformation

Cannot lose any time in business portfolio transformation

In recognition that it is difficult to grow greatly if we cling to the core department store field of the Group and a greater retail field, we work to transform our business portfolio to grow as a “Multi Service Retailer” beyond the framework of retail for “discontinuous growth,” which is not an extension of past growth. The current COVID-19 crisis strengthened our conviction that the Group would grow over the medium term only by adhering to this direction. While seeing it imperative to innovate businesses using the store assets of the department store and Parco, which have brand power, we will strive to expand into new fields including the real estate business, the finance business and life solutions to enhance corporate value through business portfolio transformation.

We think a big key to realize it is the full-scale creation of synergy with Parco, which became a wholly owned subsidiary in March 2020.

Multi Service Retailer

Expanded needs to relieve concerns/frustrations in daily life
- Rise of sharing economy
- Consumption shift from products to services/ experiences
- Increased urbanization
- Advent of IoT era
- Expanded demand for HR services
- Diversified payment methods/Advanced financial services

Multiple retail business brands
(Multi Retailer)

- Strong customer assets of 6 million people
- Store assets in urban area

Shift gears by converting Parco into a wholly owned subsidiary

The Company acquired 27,400,000 common shares of Parco Co., Ltd. and made it an associate accounted for using equity method in March 2012. Subsequently, in July in the same year, the Company entered into a capital and business alliance agreement with Parco, and at the same time, implemented a tender offer for the shares of Parco. As a result, in August in the same year, the Company owned 65,920,000 common shares of Parco (ownership ratio: approximately 65%).

After the Company became the parent company of Parco, the Company and Parco strived to enhance the corporate value and brand value of the Group in a wide range of areas over about seven years.

Specifically, the two companies have achieved business synergies in many areas including the joint development of stores in “Ueno Frontier Tower,” which opened in November 2017, and the “north wing of the Daimaru Shinaiashi store,” a project which is still ongoing, as well as joint promotions using both companies’ customer bases in the Nagoya area, etc. We think the two companies also realized alliances in a wide range of areas including the deepening of mutual understanding through human resource exchange and sharing of suppliers and contributed to the growth of the Group.

On the other hand, the environment surrounding our business is becoming increasingly severe and changing remarkably and at an unprecedented speed. In such changing environment, we have decided that it is vital to flexibly respond to consumer needs, which are changing from day to day, through deeper alliance than ever between the two companies to further enhance their corporate values and brand values.

In such situation, though we could pursue results to a certain degree through alliances including the joint store development and joint promotion as in the past, it was also true that it took

Scheme for the conversion of Parco into a wholly owned subsidiary
time for the Group to make decisions under the capital relationship between the two companies, which restricted implementation of strategies, because Parco was listed and had a certain degree of independence in management.

We thought that in order to move ahead with a thorough and flexible transformation of the Group’s business portfolio speedily backed by rapid decision-making, it would be necessary to further deepen the ties between the two companies and to concentrate management resources, and for this reason, we decided to make Parco into a wholly owned subsidiary.

The Company commenced a tender offer on December 27, 2019, and as a result, Parco became its wholly owned subsidiary. The Group will take this opportunity to accelerate its structural reform in earnest by innovating its business model, moving ahead with the Urban Dominant strategy and expanding into new business fields to realize the Group Vision “Create and Bring to Life ‘New Happiness’.”

1. Four synergies aimed for
   1. Strengthening the business base as a retail/real estate business group
      - Further promoting the joint development of stores including large-scale complexes that would be difficult to handle alone
      - Strengthening real estate development capabilities through effective utilization of land and building holdings
      - Transferring the Real Estate Business to Parco after making Parco a wholly owned subsidiary. Consolidation of the Group’s resources and centralization of management and development functions
      - Improving sales capabilities through mutual utilization of customer data
   2. Strengthening associated businesses aimed at growth as a Multi Service Retailer
      - Promoting cooperation not only for store development but also in similar associated businesses such as design and construction contracting
      - Expanding the service area and business fields by utilizing on a group-wide basis to the fullest extent Parco’s superior business know-how in areas like the entertainment business

2. Improving management efficiency
   - In response to the increasing diversification of lifestyles, working as a group to develop new businesses to improve management efficiency
   - Improving management efficiency by integrating indirect departments and operations such as investor-related operations, financing operations and those related to general shareholders meetings
   - Substantially improving efficiency by implementing system investment as a group

3. Enhancing competitiveness by sharing expertise through human resource exchange
   - Promoting an even greater degree of cross-operating company human resource exchange
   - Providing a broad range of services to meet increasingly diverse customer needs by sharing expertise respectively built by both companies

4. Change in a relationship between real and digital
   - Past: Digital complementing real
   - Future: Real based on digital

Into the second stage of department store innovation

After peaking at ¥9.7 trillion in 1991, national department store sales have decreased to ¥5,700 billion in 2019, below ¥6 trillion for three consecutive years, in spite of a recent boost from inbound tourism, losing the market of as much as approximately ¥4 trillion over these 18 years. We have not just faced crises such as the collapse of the bubble economy, the collapse of Lehman Brothers and the current COVID-19 pandemic but also competition beyond industry boundaries, which has become fiercer than ever with the rise of new digital-native players and disruptors.

On top of them, we think our essential problems are delays in responding to rapid changes and the obsolescence of the business model of the core Department Store Business.

With the medium-term plan, which started in fiscal year 2017, we tried to innovate the department store business model in two directions. The one is a luxury mall Ginza Six, which was created in the two blocks including the former site of the Matsuzakaya Ginza store using the real estate rental model with the option “not to operate a department store” (2017). And the other is the main building of the Daimaru Shinsaibashi store, which is a “hybrid” model combining the merits of department stores and real estate rental (2019). These efforts about real stores produced results as expected. However, the environment is changing more rapidly than expected and at an accelerated pace and further innovation is required. We think we can no longer achieve success in real stores without digital. The current COVID-19 crisis brought to light such issue and it is an important theme of the new Medium-term Business Plan, which is being formulated and will start in fiscal year 2021.