

# Risk Is the Starting Point of Strategy

The Group defines risk as “uncertainties that have both positive and negative sides that could have an impact on the achievement of business management goals.” And we position risk management as an “activity that increases corporate value by managing risks by reasonable and optimal methods from a company-wide perspective” to achieve sustainable corporate growth by addressing the positive side and the negative side of risk properly.

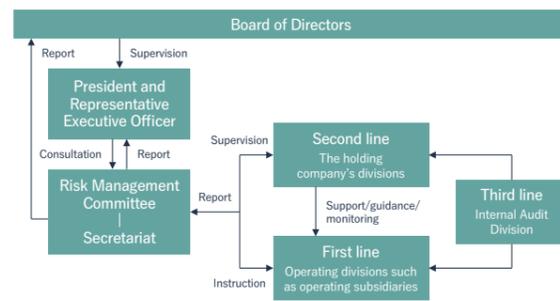
The Risk Management Committee discusses important matters, including risk extraction and evaluation and determination of risks to be reflected in strategies, and utilizes risk management for management decision-making. The committee reports details of its deliberations to the Board of Directors in a timely manner.

The committee has established a secretariat headed by an officer in charge of risk management. The secretariat shares important decisions of the committee with operating subsidiaries

and promotes enterprise risk management (ERM). Moreover, we position risk as the starting point of strategy and link risk to strategy so that risk management will enhance corporate value.

In order to effectively perform risk management, we have established three lines as indicated in the diagram below.

Risk management workflow diagram



Top priority risks that have an extremely severe impact

- 1 Advanced sustainability management
- 2 Decline of existing business models
- 3 Response to increasingly accelerated digitization
- 4 Changes in consumer behavior after COVID-19

■ Strategy risk  
■ Hazard risk  
■ Finance risk

“Corporate risks” other than those on the left

	Response to external environment	Response to internal environment (Matters that must be addressed as a company)
Creation of new value, gaining competitive advantage	<b>I. Risk associated with development of new market</b> 5 Urban decentralization (Rebalancing between urban and rural areas) 6 Accelerated income polarization 7 Changes in customers, particularly low birthrate/longevity 8 Uncertainty about non-Japanese market	<b>II. Risk associated with provision of new customer experience (construction of new business models)</b> 9 Accelerated reorganization and M&A beyond industry boundaries
	10 Frequent natural disasters / epidemics 11 Increasing importance of information security	12 Increasing importance of financing management 13 Need for cost structure that can respond to environmental changes 14 Work styles in the new normal era, progress of HR/organizational reforms
	<b>III. Risk associated with improvement of resilience amid major crisis becoming common</b>	
	<b>IV. Risk associated with improvement of resilience via drastic reorganization/restructuring</b>	

List of the Group “corporate risks”

Category	No.	Item	Impact	Outlook*	Negative side	Positive side	Measures	
Strategy risk	1	Advanced sustainability management	Very severe	↑	Defection of stakeholders, decline in ratings / brand power	Sustainable growth, increase in the Group's presence	Clarifying value creation story that creates both social value and economic value at the same time Realizing Well-Being Life of stakeholders	
	2	Decline of existing business models	Very severe	↑	Decreased vitality of the entire Group due to weak performance of large-scale store retail business	Regrowth by radical change of business model of large-scale store retail business	Digitizing customer touch points ~Delivering added value like stores and increasing accuracy of marketing Reviewing role of store ~Providing experience, encounter, place for connection with people	
	3	Response to increasingly accelerated digitization	Very severe	↑	Sluggish growth of the entire Group Declining competitiveness due to delay in using technologies	Changing business models using digital technologies Streamlining of operations, going paperless	Changing business models by maximizing customer experience value, etc. Building business models in new markets such as metaverse Standardizing and streamlining operation systems	
	4	Changes in consumer behavior after COVID-19	Very severe	↑	Customer defection due to failure to meet customer needs	New market creation	Analyzing changes in consumer behavior Creating new markets such as sustainable products/services	
	5	Urban decentralization (Rebalancing between urban and rural areas)	Severe	↗	Decline in conventional urban commercial facilities' ability to attract customers	Business in response to urban decentralization	Planning strategy concerning real estate development and real estate holdings of the entire Group Coexisting with local areas, promoting attractive urban development through proposal of diverse urban lifestyles and complex redevelopment	
	6	Accelerated income polarization	Severe	↗	Sales decrease due to shrinkage of mass market	Stimulating new middle-class demand Developing new affluent markets	Rightsizing and segmentalizing mass market products/services Deeply cultivating affluent markets both physically and digitally	
	7	Changes in customers, particularly low birthrate / longevity	Severe	↗	Shrinkage of domestic markets	Expansion of senior markets	Focusing on high quality children's wear and education business Increasing shopping convenience for senior customers and strengthening categories that are of strong interest to them such as wellness	
	8	Uncertainty about non-Japanese market	Severe	→	Prolonged stagnation in inbound sales	Gradual recovery of inbound market recovery Acquisition of foreign demand through EC and live commerce	Preparing promotion measures in anticipation of inbound market recovery Strengthening EC and live commerce	
	9	Accelerated reorganization and M&A beyond industry boundaries	Severe	↗	Hostile takeover of the Group	Business portfolio transformation Corporate growth using M&A	Screening existing businesses, optimizing management resource allocation Studying and exploring new businesses and promoting development of and growing business of operating subsidiaries that implement these new businesses	
	14	Work styles in new normal era, progress of HR/organizational reforms	Severe	↗	Talent drain, losing the war for talent Decrease in employee motivation	Increasing employee engagement and organization's power Promoting business strategy, creating innovation	Strengthening human capital based on "human resource capabilities" Implementing measures that increase flexibility of work style Reorganization that respects diversity Developing young human resources through various opportunities	
	Hazard risk	10	Frequent natural disasters / epidemics	Very severe	↘	Damage to the lives of customers and employees Business continuity crisis	Stable operation of business	Strengthening preparation for new infections by analyzing response to COVID-19 Formulating multiple scenarios and analyzing impact on business Continuously conducting practical BCP training Reviewing business plans properly and timely
		11	Increasing importance of information security	Severe	↘	Personal information breach, legal actions / claim for damages, loss of social credibility Delay/stagnation of operations	Stable running of operations and systems Streamlining of operations, promotion of remote working	Implementing new security measures that improve prevention/detection of incidents Reviewing the Group security guidelines and improving employee literacy through training, etc.
	Finance risk	12	Increasing importance of financing management	Severe	→	Funding cost remaining high	Reduction of funding cost Support for promoting growth strategy	Rightsizing cash on hand and interest-bearing liabilities Diversifying financing methods such as sustainability bond
		13	Need for cost structure that can respond to environmental changes	Very severe	↘	Decline in profitability Reduction of investment	Business portfolio transformation Strengthening business base	Cost reduction by business model reform, office reorganization, review of workforce composition, etc. Promoting optimization of business portfolio

\*Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.  
 ■: Top priority risks that have an extremely severe impact