Management Strategy

Review of the previous Medium-term Business Plan and the current Medium-term Business Plan

From “Full Recovery” to “Regrowth”

Medium-term Business Plan (FY2021-FY2023)

Review of the previous Medium-term Business Plan (FY2017-FY2021)

The previous Medium-term Business Plan, which started in fiscal 2017, was positioned as the phase of change to history and we made steady progress in expanding business domain, converting the business models of existing businesses, and furthermore, strengthening ESG initiatives.

However, our business environment has changed drastically due to COVID-19, which started to spread in early 2020.

Therefore, we decided to suspend the Medium-term Business Plan a year earlier (fiscal 2020) though it was only half done.

Major achievements

- Convened the consolidated subsidiary Pasonona as a wholly owned subsidiary through TBI (March 2020)
- Strengthened systems to further enhance corporate value of the Group by seeking synergy

Growth of Real Estate Business

- Expanded the Real Estate Business by opening GIS's eX (April 2017) and Union Portion Tower (November 2017)
- Opened the Domina Shimbashi store with a new business model that combines the transaction by housing and food in a single area (September 2020)

Innovation of Department Store / Parco

- Formulated the Group's IT governance. Strengthened security by introducing cloud systems and created an environment that enables remote working.
- Reinforced the Group's IT governance. Formulated the Group's IT governance. Strengthened security by introducing cloud systems and created an environment that enables remote working.

Strengthening of finance

- Formulated the Group's IT governance. Strengthened security by introducing cloud systems and created an environment that enables remote working.

Strengthening of governance system

- Transferred foreign companies with an Audit & Supervisory Board to a Company with Three Committees (Nomination, Audit, and Remuneration Committees) (May 2017)
- Implemented the return of the Board of Directors by expediting oversight from execution, increasing the number of Outside Directors, etc.

Major challenges left

- Obsolescence of business model
  - The performance of the Department Store and Parco declined rapidly due to the COVID-19 pandemic. Obsolescence of its business model that overly depended on physical stores was accelerated. There is an urgent need to respond to aggressive digitization.

- Lack of medium-term business portfolio
  - This vulnerability of earnings structure with more than 60% of earnings coming from the Department Stores and SC got revealed all at once due to rapid environmental changes.
  - Need to make necessary allocation to correct overdependence on the Department Store Business.

- Weak promotion framework, lack of professional/budget
  - Cannot deny the weakness of organizational promotion framework and the lack of professional talent.
  - Urgently need to strengthen professional talent in digital real estate (Developer) areas.

- Revolution of sustainability issues
  - Ultimately need to address climate change and natural disasters in the supply chain.

Major strategies in the previous Medium-term Business Plan

(1) Multi Service Retailer Strategy
   - (1) Growth of 3 key businesses
     - JPR Co., Ltd
     - Parco Design & Construction
     - Dimples

(2) Urban Developer Strategy
   - Large-scale development (Hiroshima / Kobe / Osaka / Tokyo / Shibuya / Shibuya Renovation) (2021-2023)
   - Extension of real estate rental business(Government with rent)

(3) ICT Strategy in response to the IoT era
   - Strengthening of EC
   - Development of 5G Hub
   - Creation of opportunities to use ICT

(4) Innovation of existing businesses
   - Department Store Business Innovation
     - Making stores attractive, reform of rural and suburban stores
   - Parco Innovation
     - Stores portfolio transformation

Major strategies in the current Medium-term Business Plan

(1) Developer Strategy
   - Develop development projects and alliances partners of a certain size or larger
   - Operating companies
   - Develop new businesses in the areas around existing businesses

(2) Real Digital Strategy
   - Strengthening of development in Developer Strategy
   - Large-scale development (Hiroshima / Kobe / Osaka / Tokyo / Shibuya / Shibuya Renovation) (2021-2023)
   - Expansion of real estate rental business (government with rent)

Key performance indicators targets

<table>
<thead>
<tr>
<th>FY2023</th>
<th>ROE 7%</th>
<th>ROIC 5%</th>
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</thead>
<tbody>
<tr>
<td>Business growth</td>
<td>Operating profit ¥40.3 bn</td>
<td>Business profit ¥40.4 bn</td>
</tr>
<tr>
<td>Potential health</td>
<td>Interest-bearing liabilities*1 ¥260.0 bn</td>
<td>Net D/E 0.6 times</td>
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<tr>
<td>Sustainability</td>
<td>GHG emissions*2 ~40%</td>
<td>Share of centres in management positions 26%</td>
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Overview of FY2021-FY2023 Medium-term Business Plan

We position this Medium-term Business Plan as the period for achieving "full recovery" from the COVID-19 pandemic by returning our financial figures to fiscal 2019 levels in its final fiscal year 2023 and for getting back on track for "regrowth" from fiscal 2024 onward.

The spread of infection still greatly affects society and economic activities, and also during the term of the current Medium-term Business Plan, it is expected to continue to have a direct impact on each business for the time being.

In this situation, in order to achieve early earnings recovery, we will address the renovation of flagship stores and digital investment in one of the key strategies, the Real×Digital Strategy, and we will focus on the strengthening of customer base based on department store galeries in the Prime Life Strategy. And in the Developer Strategy, we will increase investment allocation up front during the term of the current plan as a medium- to long-term growth driver.

At the same time, we will implement "management restructuring" as important measures for full recovery and reduce fixed costs and interest-bearing liabilities.

We will continue to live with COVID-19 for the time being and earnings including inbound sales will not return to the 2019 level until FY2023 or later.

Important changes in the external environment

- Steady urban commercial areas
- Merger of digital and real
- Polarization of income/consumption

Long-term mega trends

- Environmental/food problems
- Natural disasters/environment becoming common
- Realization of sustainable society
- Technology progress (AI, RS, IoT, etc.)
- Increasing urbanization
- Increasing globalization
- Widening income gap (income polarization)
- Increasing importance of human connection
- Accelerated depopulation/aging
- Lack of labor force population
- Rebuilding of social security system
- Renewal of urban infrastructure/transition to a smart city
- Elastic consumption

Short-term outlook for changes (mainly impact of COVID-19)

- Concern about prolongation of economic stagnation
- Increasing demand for focus on sustainability
- Accelerated technology evolution
- Changes in urbanization (mobility of decentralization)
- Paradigm shift in work style
- Increasing awareness of sustainability
- Shift to open areas with scarce population, retreat to rural areas and nature
- Expansion of virtual communication
- Increasing importance of human connection

Steady urban commercial areas

- Merger of digital and real
- Polarization of income/consumption

We will continue to live with COVID-19 for the time being and earnings including inbound sales will not return to the 2019 level until FY2023 or later.
**Management Strategy**

**Overall composition of the current Medium-term Business Plan**

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<tbody>
<tr>
<td><strong>Promotion of strategies across the Group by committees for regrowth</strong></td>
<td><strong>Digital Strategy Committee</strong></td>
<td><strong>Prime Life Strategy Committee</strong></td>
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<tr>
<td><strong>1. Real × Digital Strategy</strong></td>
<td><strong>Digital Strategy Committee</strong></td>
<td><strong>Prime Life Strategy Committee</strong></td>
</tr>
<tr>
<td>Creation/development of new content from a CSV perspective</td>
<td>Cost reduction through business model reform</td>
<td>Narrowing down of a business base</td>
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<tr>
<td>Evolution of online services that realize high quality customer experience</td>
<td>Tax policy</td>
<td>Human resource management for regrowth</td>
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<tr>
<td>Evolution of online sales communication</td>
<td>Realization of diversity and work-life balance</td>
<td>It strategy (reference IT)</td>
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<td>Evolution of online store communication</td>
<td>Strengthening of the Group IT talent system</td>
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**Three strategies**

The Group’s strengths are “commercial production capability,” “good customer base,” “partners including suppliers and creators” and “real estate assets in major cities.” Considering these strengths and medium- to long-term environmental changes, we have decided to focus our initiatives for growth on “three key strategies” in the current Medium-term Business Plan.

1. **Real × Digital Strategy**
   - We will convert physical stores into spaces not only for making purchases, but also for encountering attractive products and services, and enjoying high quality customer experiences.
   - With use of digital technologies based on stores, we will transform the business model into one that provides new experience value beyond time and space.
   - We will sophisticate customer data analysis and the use of digital tools for individual sales staff, staff, and buyers to deepen the relationships with customers.
   - In addition to sales revenue, we will diversify revenue streams, such as real estate-related revenue and commission revenue through the use of digital technologies.

2. **Prime Life Strategy**
   - We will further strengthen our proposals for consumers who value culture and art and enjoy fulfilling, sustainable lifestyles.
   - We will enhance our content by utilizing the Group’s entertainment and art, as well as developing new products and services that provide premium experiences through alliances with other companies.
   - We will promote the acquisition of customers beyond department store, such as the new rich in Japan and affluent people in Asia, for example, through alliances with other companies.
   - Using digital technologies to sophisticate our customer management, we will maximize the lifetime value of good customers by capturing insight into our diversifying customers to strengthen our proposal capabilities.
   - We will expand our pool of loyal customers by offering new payment methods and developing high added value financial services through customer life planning.

3. **Developer Strategy**
   - We will maximize the value of the Group’s real estate assets. In complex redevelopment and so forth, we willights the Department Store and PARCO and make use of relaxed building volume restrictions. We will increase the share of non-commercial applications to increase profitability.
   - In the development of large-scale complexes in key areas, we will contribute to attracting crowds to the areas by making them attractive in a way that respects local individuality in terms of history and the environment to increase consumer mindshare.
   - We will diversify revenue streams by acquiring and developing new real estate, organizing private placement funds, and engaging in asset management. In addition, we will expand our development area to include semi-urban areas.

**Management restructuring**

- We will reduce fixed costs by ¥10.0 billion compared with fiscal 2019 and lower our breakeven point through organization/workforce restructuring and cost restructuring.
- We will increase efficiency by narrowing down the Group businesses based on the future and growth potential of each business and identifying idle and low-yield assets.

**The Group human resource strategy**

- To secure human resources that will carry out the key strategies, we will strengthen employee skills development and the recruitment of professional talent from outside the Group, while working to establish frameworks and systems that enable their maximum utilization throughout the Group.

**Policy on alliances, M&As, and wing expansion**

- We will aggressively engage in alliances with other companies and business acquirers to create new businesses and expand our capabilities, which will contribute to expanding the scale and accelerating the speed of our three key strategies.

**Cash flow allocation**

- Capital investment
  - *FY2021-FY2023 total 3-year investment: ¥90.0 bn*
  - *Investing CF: ¥190.0 bn*
  - *Operating CF: ¥90.0 bn*
  - *FCF: ¥100.0 bn*
  - *Improvement of balance sheet* || *Increasing shareholders’ value* || *Reducing interest-bearing liabilities* || *Return to shareholders* || *Targeting dividend payout rate of at least 30%* || *Considering share buyback as appropriate* ||

**Portfolio reform**

The share of retail business including the Department Store and Parco is expected to remain 80% or more when we achieve full recovery in fiscal 2023. However, we will reduce the share to around 60% in fiscal 2030. On the other hand, we would like to increase the share of other businesses including the Developer, the Payment, and Finance, and new businesses to around 40%. Through these initiatives, we will change our businesses to around 40%.

*Depreciation related to right-of-use assets is included.

*CF numbers are total for the three-year period from FY2021 to FY2023.*

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