

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 changing the structure to change our business portfolio 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

Conversion of Parco into a wholly owned subsidiary	Converted a consolidated subsidiary Parco into a wholly owned subsidiary through TOB (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 GINZA SIX (April 2017) and Ueno Frontier Tower (November 2017). Built a new business base to change business portfolio.
Innovation of Department Store / Parco	Opened the Daimaru Shinsaibashi store with a hybrid business model that combines the transaction by buying and fixed-term lease (September 2019). Opened Shibuya PARCO as a symbol of next generation commercial facilities (November 2019).
Strengthening of defensive IT	Formulated the Group IT governance. Strengthened security by introducing cloud systems and created an environment that enables remote working.
Strengthening of governance system	Transitioned from a Company with an Audit & Supervisory Board to a Company with Three Committees (Nomination, Audit, and Remuneration Committees) (May 2017). Implemented the reform of the Board of Directors by separating 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 their business models that overly depended on physical stores was accelerated. There is an urgent need to respond to aggressive digitization.
Lack of resilience in business portfolio	The vulnerability of earnings structure with more than 80% of earnings coming from the Department Store and SC got revealed all at once due to rapid environmental changes. Need to revise resource allocation to correct overdependence on the Department Store and SC.
Weak promotion framework, lack of professional talent	Cannot deny the weakness of organizational promotion framework and the lack of professional talent. Urgently need to strengthen professional talent in digital and real estate (Developer) areas.
Resolution of sustainability issues	Inevitably need to address climate change and human rights issues at the supply chain level. COVID-19 further increased the importance of safety and security. Essential to strengthen initiatives from a CSV perspective.

Linkage between the previous Medium-term Business Plan and the current Medium-term Business Plan

Major strategies in the previous Medium-term Business Plan	Positioning in the current Medium-term Business Plan
<p>(1) Multi Service Retailer Strategy</p> <p>[Development of new businesses] Development of new businesses in the service areas that relieve the frustration and concern of consumers</p> <p>[Growth of 3 key businesses] • JFR Card • J. Front Design & Construction • Dimples</p>	<p>(1) Developer Strategy [HD] Develop investment projects and alliance partners of a certain size or larger [Operating companies] Develop new businesses in the areas around existing businesses</p> <p>Review the positioning of 3 key businesses • JFR Card: Strive to contribute to each strategy and achieve independent growth • J. Front Design & Construction: Positioned as Developer segment and strive to grow in conjunction with PSS • Dimples: Liquidated the business with the Department Store Business → Partially transferred shares of Dimples (February 2022)</p>
<p>(2) Urban Dominant Strategy</p> <p>[Large-scale development PJ] Development of GINZA SIX/Ueno FT/ Shibuya/Shinsaibashi [Real estate development] Expansion of real estate rental business [Coexistence with area]</p>	<p>(1) Strengthening of development as Developer Strategy</p> <p>[Large-scale development PJ/real estate development] Promote large-scale complex redevelopment. Develop the Group's unique zones in Shinsaibashi/Nagoya/Fukuoka in each of which a department store and Parco adjoin each other [linked to three strategies (1) to (3)] [Coexistence with area] Inherit the concept. Deliver value to consumers, improve environmental performance</p>
<p>(3) ICT Strategy in response to the IoT era</p> <p>1. Strengthening of EC 2. Development of LTS-Hub 3. Creation of organization to use ICT</p>	<p>(2) Real×Digital Strategy Digital shift</p> <p>[Operating companies] • Strengthen OMO of customer touch points [HD] • Realize full use of LTS-Hub → Update the platform as JCDP • Continue to strengthen IT governance</p>
<p>(4) Innovation of existing businesses</p> <p>[Department Store Business innovation] Making stores attractive, reform of rural and suburban stores [Parco Business innovation] Store portfolio transformation</p>	<p>(2) Real×Digital Strategy Making content attractive</p> <p>[Operating companies] • Continue efforts to make stores attractive. Invest in flagship stores, promote renovation, find and co-create content</p>

Overview of FY2021-FY2023 Medium-term Business Plan

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.

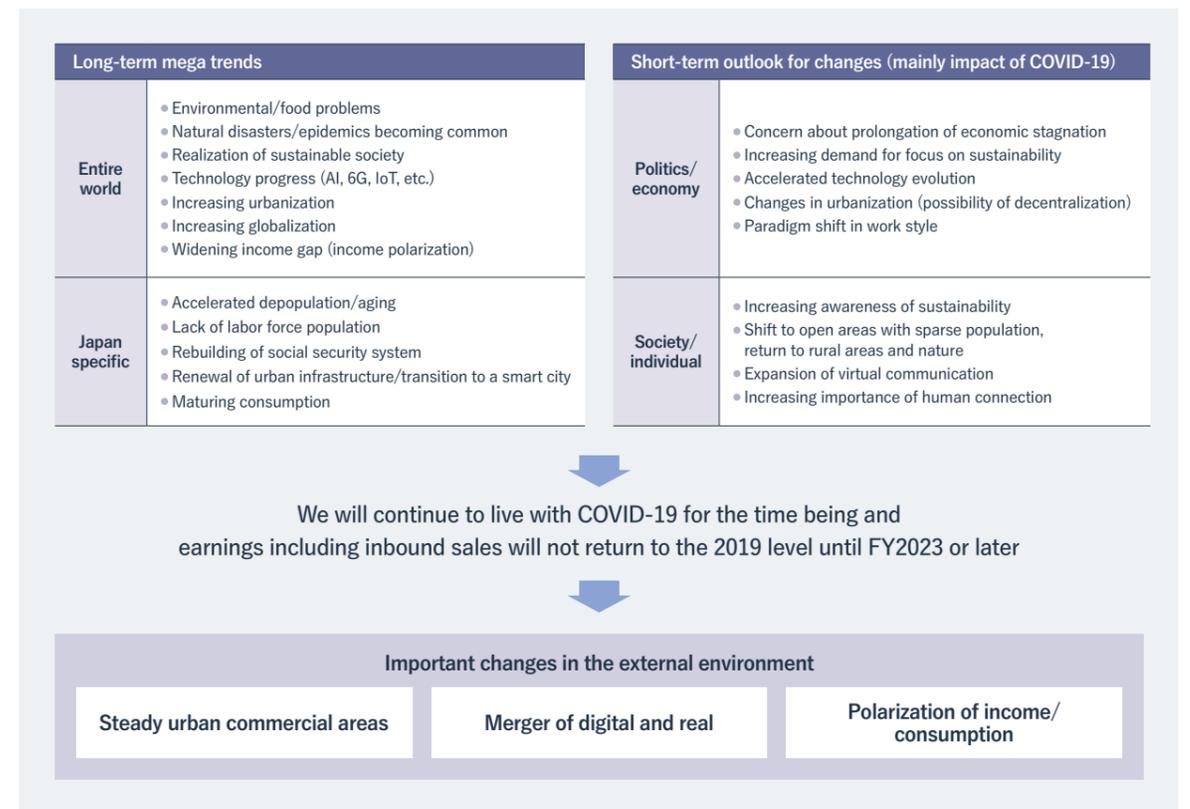
In this situation, in order to achieve early earnings recovery, we will address the renovation of flagship stores and digital investment in one of the key strategies, the Real×Digital Strategy, and we will focus on the strengthening of customer base based on department store *gaisho* in the Prime Life 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.

Key performance indicator targets

	FY2023	
Capital profitability	ROE 7%	ROIC 5%
Business growth	Operating profit ¥40.3 bn	Business profit ¥44.0 bn
Financial health	Interest-bearing liabilities*1 ¥260.0 bn	Net D/E 0.6 times
Sustainability	GHG emissions*2 -40%	Share of women in management positions 26%

*1 Lease liabilities are excluded.
*2 Scope 1 and 2 emissions compared to FY2017



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Overall composition of the current Medium-term Business Plan

3 strategies for earnings recovery and regrowth	1. Real×Digital Strategy	2. Prime Life Strategy	3. Developer Strategy	
	<ul style="list-style-type: none"> Department Store: Making stores attractive and transition to media commerce with a focus on genuineness/essence Parco: Rebuilding store brand value and seeking digital SC platform Creation/development of new content from a CSV perspective 	<ul style="list-style-type: none"> Development of new solution services that realize high quality customer experience Evolution of online <i>gaisho</i> communication Evolution of CRM strategy at the Group level 	<ul style="list-style-type: none"> Mixed use not limited to commercial use Launching a circular investment scheme Entry into semi-urban areas 	
Promotion of strategies across the Group by committees for regrowth				
<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; border-radius: 15px; padding: 5px; background-color: #4a7ebb; color: white; text-align: center;">Digital Strategy Committee</div> <div style="border: 1px solid black; border-radius: 15px; padding: 5px; background-color: #4a7ebb; color: white; text-align: center;">Prime Life Strategy Committee</div> <div style="border: 1px solid black; border-radius: 15px; padding: 5px; background-color: #4a7ebb; color: white; text-align: center;">Developer Strategy Committee</div> </div>				
Important measures for full recovery	Management restructuring	Cost reduction through business model reform	Narrowing down of a business base	
Management base function strategy	Finance strategy	Capital policy	Tax policy	Renewal of business management
	Human resource strategy	Completion of the Group workforce restructuring	Realization of diversity and work-life balance	Human resource management for regrowth
	IT strategy (defensive IT)	Rebuilding of core systems	Strengthening of the Group IT talent system	

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, *gaisho* 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 *gaisho*, 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 will rightsize 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

<Human resource management for regrowth>

- 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.

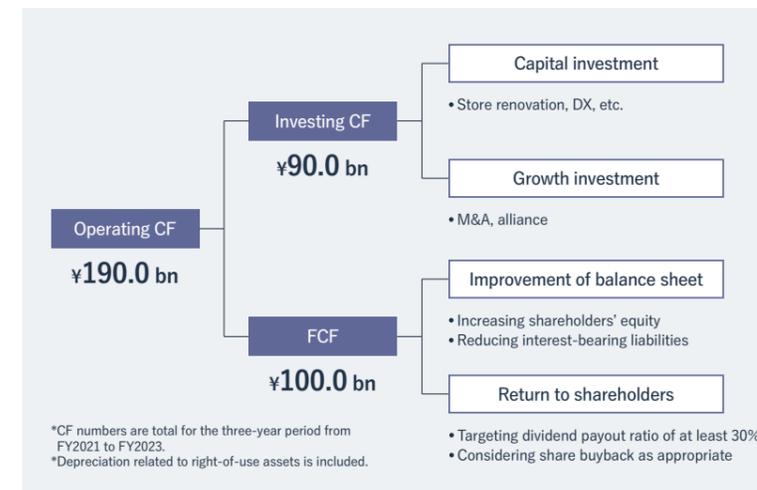
<Promotion of diversity & inclusion, realization of work-life integration>

- We will conduct various measures based on materialities, such as assignment and development aimed at women's empowerment, work style reforms, employment of people with disabilities, and LGBT-related initiatives, to enable individual employees to demonstrate their individuality and abilities to the fullest.

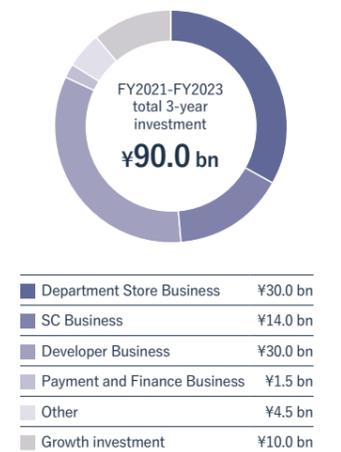
Policy on alliances, M&As, and wing expansion

- We will aggressively engage in alliances with other companies and business acquisitions 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 plan breakdown by segment



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 portfolio to a highly resilient one.

"Operating profit" share of each segment

