Promote Capital Cost-Conscious ROIC Management

Exceeding capital cost is a must

We promote capital cost (WACC)-conscious management, and in the current Medium-term Business Plan, we aim to achieve consolidated operating profit of ¥40.3 billion, ROE of 7% and ROIC of 5% in fiscal 2023, which is the final year of the plan. The cost of capital refers to the level of return expected on the company by the funders that invest in it, including financial institutions, investors, and shareholders. From the perspective of fund management, it is investment return, and from the perspective of the company that receives funding, it should be recognized as the cost of financing.

We recognize that the level of the cost of shareholders' equity (shareholders expected return) is around 6% to 7% in the medium to long term. We set the target of ROE above the cost of shareholders' equity to meet the expectations of shareholders. Specifically, our target ROE for fiscal 2030 is 10%, and as its milestone, we plan to achieve 7% in fiscal 2023.

The cost of capital is affected by market interest rate trends and the company's total interest-bearing liabilities and market capitalization. We recognize the level of our capital cost is around 4% to 4.5% in the medium term. Therefore, we also set the target level of ROIC, which we adopted as a management indicator of capital profitability beginning from the current Medium-term Business Plan, for fiscal 2023 to be 5%, which is above the cost of capital.

ROIC target

Introduced ROIC by business as KPI to realize growth accompanied by revenue

• Set ROIC by business above WACC by business

	FY2023 ROIC target		WACC	FY2030 ROIC target
Department Store	6%	≥II	5%	6-7%
SC	5%		4.5%	5-6%
Developer	4%		4%	4-5%
Payment and Finance	3%		3%	3-5%
New business	10%		WACC of new business (around 8–10%)	10%
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Consolidated	5%		4-4.5%	5% or more

*ROIC = Business profit after tax ÷ Invested capital: Interest-bearing liabilities excluding lease liabilities + Shareholders' equity

Introduced ROIC by business

Funds invested in businesses include funds procured from financial institutions and others as well as shareholders' equity. It is important to manage our businesses from the perspective of how efficiently we will use these funds. The theme of our business portfolio transformation is shift to the Developer Business and the Payment and Finance Business and its point is the use of interest-bearing liabilities. Therefore, we introduced ROIC by business segment to implement management with a

focus on the profitability of "invested capital," which is the total of shareholders' equity and interest-bearing liabilities, as well as the growth potential and profitability of businesses.

Each operating company focused on ROA to use their assets efficiently in the past, but by introducing ROIC, they will evolve their business management. Another point is that an ROIC tree will break down the connection between the improvement of business profit ratio and the efforts of employees into easy-tounderstand indicators. And the holding company will focus the

investment of management resources on the core businesses, implement the withdrawal and sale of non-core businesses, and add new businesses to increase capital profitability (increase the ROIC spread) and thereby maximize corporate value. We think

Illustrated BS by business (FY2030)

 Estimated future BS by business that reflects business characteristics • Developer and Payment and Finance control interest-bearing liabilities with D/E ratio



Ensure that planned ROIC is above WACC when making an investment decision

• Manage ROIC as well as PL figures when monitoring



the dissemination of the importance of capital profitability in the Group will result in the achievement of business portfolio transformation and the improvement of ROE.