

Management Strategy

Review of the Previous Medium-term Business Plan and the Current Medium-term Business Plan

Toward Medium- to Long-term “Regrowth” through Portfolio Transformation

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, ended in fiscal 2020, one year ahead of schedule, due to the rapid changes in the business environment caused by the spread of COVID-19 that began in early 2020.

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.

Positioning the period as a phase of changing the structure aimed at transforming our business portfolio, we have steadily expanded our business domains, transformed our existing business models, and strengthened our ESG initiatives.

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 digitalization.
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 for portfolio transformation. 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
<div>(1) Multi Service Retailer Strategy</div> <div>[Development of new businesses] Development of new businesses in the service areas that relieve the frustration and concern of consumers</div> <div>[Growth of 3 key businesses] • JFR Card • J. Front Design & Construction • Dimples'</div>	<div>(1) Developer Strategy (2) Real × Digital Strategy (3) Prime Life Strategy Develop new businesses with 3 strategies</div> <div>[Holding company] Develop investment projects and alliance partners of a certain size or larger [Operating companies] Develop new businesses in the areas around existing businesses</div> <div>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 Parco and PSS • Dimples': Liquidated the business with the Department Store Business</div>
<div>(2) Urban Dominant Strategy</div> <div>[Large-scale development PJ] Development of GINZA SIX/Ueno FT/Shibuya/Shinsaibashi [Real estate development] Expansion of real estate rental business [Coexistence with area]</div>	<div>(1) Strengthening of development as Developer Strategy</div> <div>[Large-scale development PJ/real estate development] Promote large-scale complex redevelopment. Develop “unparalleled J. Front 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</div>
<div>(3) ICT Strategy in response to the IoT era</div> <div>1. Strengthening of EC 2. Development of LTS-Hub 3. Creation of organization to use ICT</div>	<div>(2) Real × Digital Strategy Digital shift</div> <div>[Operating companies] • Strengthen OMO of customer touch points [Holding company] • Realize full use of LTS-Hub (present JCDP) • Continue to strengthen IT governance</div>
<div>(4) Innovation of existing businesses</div> <div>[Department Store Business innovation] Making stores attractive, reform of rural and suburban stores [Parco Business innovation] Store portfolio transformation</div>	<div>(2) Real × Digital Strategy Making content attractive</div> <div>[Operating companies] • Continue efforts to make stores attractive. Invest in flagship stores, promote renovation, find and co-create content</div>

Overview of FY2021-FY2023 Medium-term Business Plan

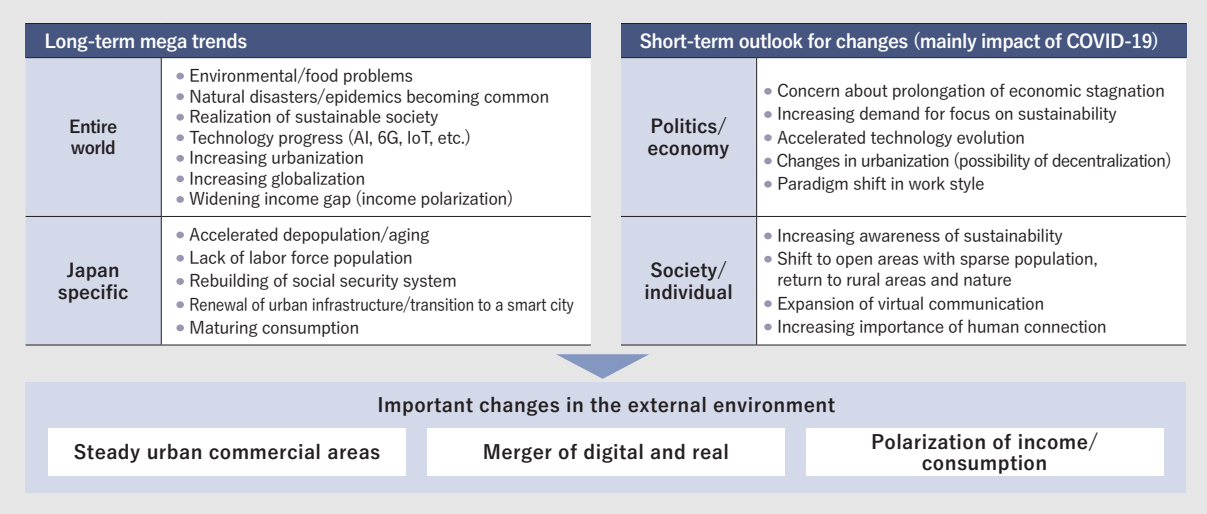
We positioned the current Medium-term Business Plan as the period for achieving “full recovery” from the COVID-19 pandemic by returning our financial figures to fiscal 2019 levels in its final fiscal year 2023 and for getting back on track for “regrowth” from fiscal 2024 onward.

This fiscal year is the final year, but the forecast figures compared to the initial target have been revised downward due to the delay in top-line recovery caused by the longer-than-expected impact of the COVID-19 pandemic, as well as the expected sharp rise in raw material costs, especially fuel costs, triggered by geopolitical risks, which are expected to

lead to a significant increase in costs.

In order to achieve an early profit recovery, we will concentrate on remodeling and digital investment in flagship stores under one of our key strategies Real × Digital Strategy and on strengthening our customer base based on the Department Store's gaisho sales under the Prime Life Strategy. Under the Developer Strategy, as a medium- to long-term growth driver, we will increase investment allocations ahead of schedule during the period of this plan.

At the same time, we will carry out “management restructuring” to reduce fixed costs, replace businesses and assets, and reduce interest-bearing liabilities.



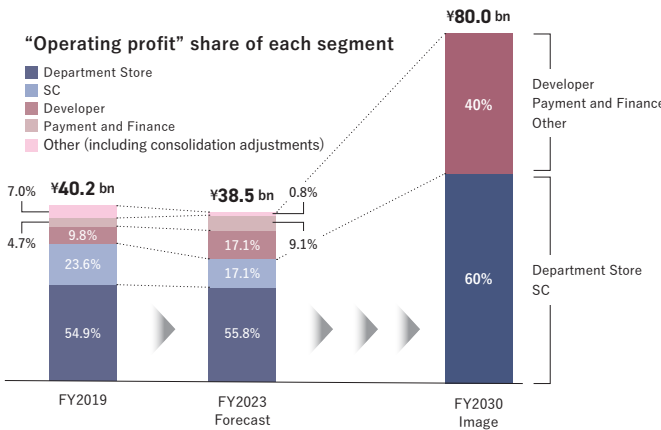
Key performance indicator targets (FY2023)

Capital profitability	ROE	7.0%	ROIC	4.6%
Business growth	Operating profit	¥38.5 bn	Business profit	¥40.0 bn
Financial health	Interest-bearing liabilities*1	¥225.0 bn	Net D/E	0.6 times
Sustainability	GHG emissions*2	-40%	Ratio of women in management positions	26%

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

Portfolio reform

In fiscal 2023, the final year of the current Medium-term Business Plan, the share of the retail business, including the Department Store and Parco, is still expected to exceed 70%, but in fiscal 2030, we will reduce this share to about 60%. On the other hand, we hope to increase the share of non-retail businesses, such as 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.



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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 gaisho 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					
	Digital Strategy Committee		Prime Life Strategy Committee		Developer Strategy Committee	
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

Our 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 the 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.

【Major progress to date】

● Number of department store app users: 1.77 million (results on February 28, 2023)
Sales via app: ¥237.1 billion (results in FY2022)
● Department store online sales: ¥13.7 billion (results in FY2022)

(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 diversifying customer insights 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.

【Major progress to date】

● Department store gaisho sales: ¥188.3 billion (results in FY2022)
● Share of young gaisho customers (20s to 40s): 29.5% (results in FY2022)

(3) Developer Strategy

- We will maximize the value of the Group’s real estate assets. In complex redevelopment and so forth, we will rightsize our department stores 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.

【Major progress to date】

● Established a new company J. Front City Development (March 2023)
● Created CRE Strategy Unit in the holding company (March 2023)
● Development projects underway in the Sakae area, Nagoya and the Shinsaibashi area, Osaka (scheduled for completion in 2026)

Management restructuring

Reduction of fixed costs

- We will reduce fixed costs by ¥10.0 billion or more compared with fiscal 2019 and lower our breakeven point through organization/workforce restructuring and cost restructuring.

【Major progress to date】

● Reduction in consolidated fixed costs: ¥10.4 billion (cost/SGA, cumulative total for FY2021-FY2022)

Improvement of management efficiency and asset efficiency

- 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.

【Major progress to date】

● Transferred all shares of a subsidiary Neuve A (June 2021)
● Daimaru Matsuzakaya Sales Associates merged into Daimaru Matsuzakaya Department Stores (September 2021)
● Transferred part of the shares of a subsidiary Dimples’ (February 2022)
● Tsudanuma PARCO closed (February 28, 2023)
● Shintokorozawa PARCO will close (scheduled for February 29, 2024)
● Matsumoto PARCO will close (scheduled for February 28, 2025)

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 human resources from outside the

Group, while working to establish frameworks and systems that enable their maximum utilization in the Group.

【Major progress to date】

● Number of professional human resources hired from outside the Group: 264 (cumulative total for FY2021-FY2022)

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 disabled people, and LGBT-related initiatives, to enable individual employees to demonstrate their individuality and abilities to the fullest.

【Major progress to date】

● Ratio of women in management positions: 22.2% (results on February 28, 2023)
● Employment rate of disabled people: 2.9% (results on June 30, 2022)

Policy on alliances, M&As, and wing expansion

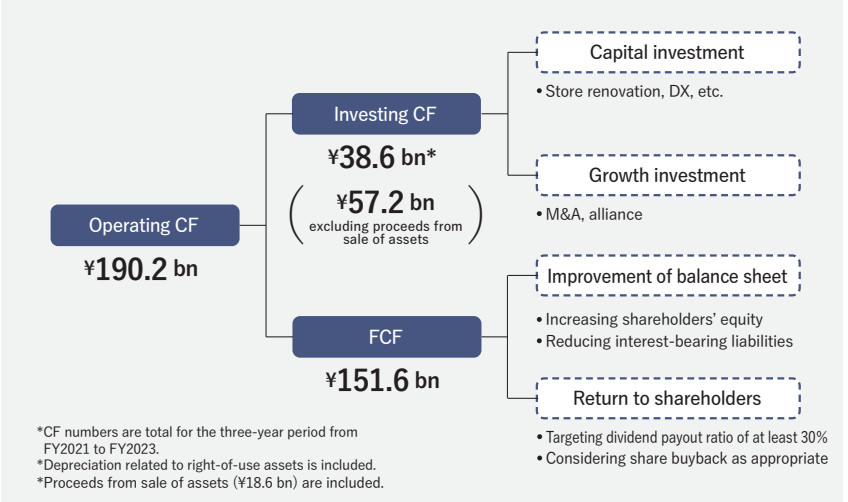
- We will aggressively engage in alliances with other companies and business acquisitions to create new businesses and expand our capabilities, which will contribute to scale expansion and acceleration of the three key strategies.

【Major progress to date】

● Established a CVC fund (October 2022)
● Acquired a 50.8% stake in XENOZ Co., Ltd. and converted it into a subsidiary (November 2022)
● Invested in Financie, Inc. (April 2023)

Cash flow allocation

In the current Medium-term Business Plan, we have decided to prioritize balance sheet improvement by reducing investment compared to the initial plan and proceeding with asset sales, in preparation for the investment phase of the next Medium-term Business Plan and beyond.



Toward the next medium-term plan

The next Medium-term Business Plan will start in fiscal 2024. This is a phase in which initiatives currently underway to prepare for medium- to long-term regrowth will take shape. How will the grains of results that have been seen be chained and expanded in the future? We would like to more clearly show the path to the portfolio transformation that the Group is aiming for 2030, including the pipeline of the Developer Business, which is one of the growth drivers.