

Look Forward to the Challenges of Executives with a Medium- to Long-term Perspective.

YAGO Natsunosuke

Independent Outside Director
Chairperson of Nomination Committee
Chairperson of Remuneration Committee

KOIDE Hiroko

Independent Outside Director
Chairperson of Board of Directors

HAKODA Junya

Independent Outside Director
Chairperson of Audit Committee

New structure of execution and supervision

Yago: A new President has been leading the Company since last fiscal year, but in my opinion, it takes five to ten years for the seeds sown and cultivated by the President to blossom. In this context, it is important to understand how the current President intends to change the Company and whether he has demonstrated his commitment to doing so. In this regard, we can clearly see his intention to reform the portfolio with an eye to the future and to

add new elements if necessary. Therefore, I believe that the intentions of the Nomination Committee are being realized smoothly at this point. On the other hand, although we have achieved the key numerical targets of the current Mediumterm Business Plan two years ahead of schedule, this is largely due to external factors, and I believe it is too early to discuss numerical evaluations.

Koide: I think the President has many things he wants to do, but ultimately, the most important thing is how to form the executive team and management team. In that sense, I have the impression that the team is "still being formed." I think it is good to actively recruit people from outside the Company. Bringing in new perspectives is important in order to break with conventional practices. We are now entering a phase where we can realize what we want to achieve, so I hope to see some new talent join us.

At the same time, it is said that a president's first job is to think about the next succession, so I would like him to seriously consider how to nurture the next generation.

Hakoda: Along with this new execution structure, the role division between management execution and supervision became clearer with the appointment of an independent Outside Director as Chairperson of Board of Directors for the first time. The President understands this well and seems eager to accelerate the pace of management. In that sense, I think the future will be even more exciting.

Yago: In May last year, an Outside Director became Chairperson for the first time in the Company's history, and my first impression is that it has enabled us to conduct meetings without the constraints from the past. When the chairperson is from within the company, it is inevitable that opinions based on his or her own experiences will come up. In that regard, I think the current Board of Directors meetings are becoming more fair and objective in its proceedings.

Koide: The previous Chairperson was originally the President and Representative Executive Officer of the holding company, so I feel that the executive team unconsciously interpreted his remarks as messages from the President. Of course, I am not bound by such constraints, and even when it comes to something as simple as how to prepare board meeting materials, I am in a position where I can easily say, "Let's stop doing this." I believe I have been able to contribute significantly to creating opportunities to change long-standing customs.

Evaluation of the effectiveness of the Board of Directors

Koide: I believe that the essence of the matter is that the Board of Directors must engage in more thorough discussions on medium- to long-term strategies rather than minor improvements. We have reorganized the agenda and revised the criteria for submitting matters to the Board of Directors, so that matters are no longer submitted regardless of their level of detail. The issue is quality, that is, whether we can have truly in-depth discussions on strategic topics, including the Mediumterm Business Plan. For example, the Medium-term Business Plans are often set at three-year intervals, but in this era of

rapid change, it is important to dig deeper into discussions such as how the Company should change in the next 10 years. The current situation is not necessarily adequate in this regard. First of all, if the executive team is not discussing the issue, then naturally it will not be brought up for discussion at the Board of Directors meeting. Within the executive team, are they allocating the appropriate time to such discussion and deploying the necessary talent? Simply adding it to the agenda of the Board of Directors is not enough to resolve the issue, so I think the challenge this year is whether we can have substantive discussions

Hakoda: It is essential to continue with board reform. In that sense, I believe that evaluating the effectiveness of the Board of Directors serves as a mechanism for implementing the PDCA cycle of reform. I believe the evaluation itself was carried out properly, with each Director expressing their candid and unbiased opinions. The effectiveness evaluation for fiscal 2024 was reported at the board meeting in November last year, and at the board meeting in December, the approach to resolving the issues was already on the agenda and discussed. After the new year began, we discussed specific approaches from January to March, and I believe that we were able to take concrete action before the start of the new fiscal year.

Yago: The evaluation of the effectiveness of the Board of Directors provides a good opportunity for all Directors to reflect on their activities during the year, learn from their mistakes, and make improvements. However, there are certainly challenges with the way the effectiveness evaluation is conducted. Repeating the same standard questions does not necessarily allow us to get to the root of the problem. I think the important thing is how broadly and deeply the executive team discusses the efficiency and growth potential of the business before the Board of Directors is asked to make a decision.

Progress of the Medium-term Business Plan

Koide: Last fiscal year, which was the first year of the Medium-term Business Plan,



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we achieved the plan's target figures for important indicators such as business profit and ROE two years ahead of schedule in terms of numerical values, but I believe that essentially, no real change has taken place yet. Although the tailwind effect of inbound tourism was significant, it is good that the Company generated more profits and cash than expected. However, it is not necessarily clear how to utilize that cash or where to invest it. The slow pace of action on the executive side is recognized as an issue within the Board of Directors. When the Company has the capacity to invest but is unable to decide on an investment destination, we cannot help but feel that its commitment to growth is insufficient. I think that is where we should feel the greatest sense of urgency. While considering M&A is certainly one option, there are also countless other ideas for investments aimed at growth, such as investing in human capital. Postponing investment is nothing less than postponing growth

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So, if we are aiming for inorganic growth, I would like to see the Company take on the challenge of making bold investments. Investment always involves risk, but I think it is time for the Company to make investments with a clear understanding of those risks. We must avoid making only small investments and consolidating the entire company into a small one.

As its prerequisite, it is essential to clearly distinguish between necessary and unnecessary businesses and make decisions at the appropriate time. The President must also firmly decide on the criteria for making this distinction. In this way, it is important to organize our portfolio

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and then add new things, thereby achieving a constant renewal.

Koide: I think creativity is also necessary. Even if there are various dots scattered around now, if the dots are connected in a different way, it may become a new business category. We may create a new business model by redefining what we already have. The President needs to have both logical thinking and creativity. I would like him to bring everything together and organize it, plus incorporate new ideas to change definitions.

Hakoda: When it comes to investments

that translate our future vision into concrete figures, the 65.0 billion yen growth investment budget set out in the current Medium-term Business Plan is too small, and I believe we have reached a point where we need to think about something like our previous acquisition of Parco, or even something even bigger. To achieve this, we must also work to further strengthen our management capabilities. For example, while I believe that ROIC is becoming more widely understood at each level, it is undeniable that it is still being managed primarily by people in finance. First of all, it is essential to firmly establish this concept throughout the organization. Once we are able to do this properly, I think we will have a management structure that is capable of taking the risks necessary to make large-scale investments. In that sense, there is no doubt that large-scale investments are necessary for the Company's continued growth, but it is also essential that we further improve our investment management capabilities.

Yago: Achieving inorganic growth can also be said to be possible by acquiring the human resources capable of realizing it. In other words, M&A is not simply about buying a business, but also about absorbing the human resources that drive that business. I believe it is important to be aware that this can lead to inorganic growth.

Develop and utilize diverse human resources

Koide: Human resources strategy is not so much about the system itself as it is about a long-term process that begins with recruitment, continues with training and retention, and ends with those people advancing to positions where they support the company. The biggest obstacle in our efforts to date has been that each Group company has been pursuing its own separate human resources strategies. I believe it is essential to first establish a unified system to address this issue. In the midst of today's fierce talent acquisition competition, it is very important to send a clear message both internally and externally. How does the Company think about and develop human resources? We must clearly communicate our stance on this issue.

Yago: In terms of overall human resources strategy, it is important to raise the overall level of human resources through the process of finding and nurturing candidates for the next President. Ultimately, this means selecting a President, but it also means building a team to support the President.

Koide: Considering the nature of the retail business, it must be said that women's empowerment is still lagging behind. In many other industries, such as manufacturing, it is difficult to find women at the recruitment stage, and they struggle to nurture and promote them. On the other hand, although nearly half of our recruits are women, the ratio of women in management positions is less than 30%. I hear that the systems are reasonably welldeveloped, so perhaps that is not the problem. If half the employees are women at the start, then it would not be strange for them to be half at every level. Unless we dig deeper into why this is happening, I don't think it will lead to any reforms.

Yago: Considering the reality that women's perspectives are not sufficiently incorporated into retail businesses such as ours, where more than half of our customers are women, it may be that there is no concept of utilizing such perspectives in management. This may be common in many companies, but I feel that there is a certain amount of so-called "male jealousy" that limits the opportunities for women to demonstrate their abilities. However, fortunately, about half our new hires are women, so we simply need to focus on promoting women fairly and



themselves, we will not be able to move forward at all.

equitably. I believe that increasing the percentage of female managers at each level will bring about significant changes in the way the company operates.

Raise awareness of improving corporate value

Hakoda: The phrase "enhancing corporate value" is used in various situations within the Company, and I think it is important to be aware of this. Currently, the Company has a market capitalization in the 500.0 billion yen range with a PBR of around 1.0 times, but I believe there are ways to more

effectively utilize our assets. We need to clearly outline specific medium-to-long-term pathways to achieve this. Basically, stock prices reflect the future prospects of the issuer, so I believe that a rise in stock prices is an increase in corporate value that is recognized by society. To achieve this, one measure is to show a specific path for how to recognize capital costs by business segment and how to improve ROIC.

Yago: In order to increase market capitalization, it is naturally necessary to raise stock prices. The prerequisite for achieving this is nothing more than being able to reasonably explain the process of generating profits and steadily accumulating them in the future. For the Company, the two basic points to explain are taking on new businesses and reorganizing existing businesses. Our strength lies in owning stores and land in prime locations, but given the maturity of our main business, we need to take bold challenges that will lead to medium- to long-term profit growth. I would like the President to take the lead in promoting

Koide: The Company may not be able to fully assess which areas have room for growth. Only with such an assessment can we multiply our operational capabilities. At present, we have not even reached the stage of such operations, and I feel that we have not yet determined where we can generate new profits. It is unclear whether we are able to multiply our capabilities or not That is what I want to see

Yago: You mentioned multiplication, which is a basic concept in business. However, it is natural to wonder which field to enter at first, and there is no way to know until you try. There is an old saying, "stop and go," and by repeating this process many times,

we will eventually see which direction is right for us. Therefore, if we avoid such challenges themselves, we will not be able to move forward at all.

Hakoda: What I found interesting at the recent board meeting was that the management planning team members mentioned several specific company names, saying, "This is just a fantasy," and talked about "wanting to acquire these companies." When I asked them about it, they explained their reasoning logically, citing the synergies that could be created with the Company and the direction of the portfolio transformation necessary to achieve this. So, even if it is just a fantasy at first, I want them to discuss it within the Company and, as a result, decide to buy some company or enter some industry.

Yago: In short, we can't let it end as just a fantasy. We have to take a step forward and boldly challenge the possibilities. That is the kind of attitude I believe the Company needs to adopt.

The Board of Directors meetings are not a place to say "no" to proposals made by the executive team, but rather a place to discuss what is lacking in order to realize the proposals, how to think about it, and what measures to take. In other words, the basic role is to give a push. Also, if, after getting started, it turns out that the business is not viable from a rational perspective, it is important to let them cut their losses. I think the Board of Directors meetings are a place to fulfill that basic function. I look forward to seeing challenging dreams that will become reality.

