

# We Are Committed to Early Establishment of New Department Store Business Model and Group-wide Growth.



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Chairman and CEO

Though our operating profit is on a track to recovery after bottoming out in fiscal 2009, its level remains low. Therefore, we need to achieve our highest operating profit of ¥50 billion as early as possible in an effort to meet our stakeholders' expectations and achieve our desired status of leading retail company in Japan both in quality and quantity.

As the first step to reach that goal, last year we developed a three-year management plan starting in fiscal 2011 and we are addressing the resolution of important issues so that we can achieve operating profit of ¥30 billion in fiscal 2013, the final year of the plan.

The first of our important issues is to establish new department store business model.

External factors such as economic environment contribute to prolonged slump in department store business. However, I think more fundamental cause lies in the structural problems of existing department store business model including weak market response capabilities and high-cost structure. For this reason, while maintaining and strengthening the middle to high-end product offerings in which department stores have traditionally been strong, in an effort to adapt to major market changes including the consumer shift to more casual lifestyles and more frugal and price-sensitive behavior, we are trying to expand target customer base, widen the range of products and prices in particular, develop specialty zones and increase management efficiency, and at the same time, each store is trying to clarify and thoroughly implement store strategy.

Daimaru Umeda store, which increased floor space and celebrated its grand opening in April 2011, widened the range of products and prices based on thorough area marketing, instead of just expanding in size, to create a store as the culmination of new department store business model. As a result, the store is attracting much greater footfall than originally expected and wider customer base, which has led to significant sales growth. In addition, Umeda store has successfully established highly efficient operation system by placing the right people to meet the needs of each sales operation type as well as radically streamlining its organization through the reorganization of sales departments by floor and the integration of back-office sections in the Kansai area in line with company-wide drastic reforms of organization and

personnel structure. We will use these achievements and know-how in other stores including Matsuzakaya Nagoya and Daimaru Kobe stores, both of which started major renovation this spring, and Daimaru Tokyo store, which will increase its floor space this fall.

In a bid to further evolve our new department store business model, we reorganized the sales departments of our head office, which had been divided by merchandise category, into Original Merchandising Division and Shop Operation Division. Particularly, Original Merchandising Division, which was created as business operating organization that plans and manages the whole process from buying to selling, allows our department stores to expand or shrink sales space and change product selection freely and timely at their discretion. Utilizing these advantages, the division has developed many new out-of-the-box sales ideas, which are well received by customers. We will work on creating attractive sales zones from a new perspective and responding flexibly to market changes as well as boosting sales of completely bought items and high margin merchandise and increasing profit.

The second is to enhance the Group businesses.

In order to enhance our existing businesses other than department store business, we will correct the allocation of our management resources, which were over-invested in department store business in the past, to make a balanced investment in department store business and other businesses while evaluating the actual situation and potential of each business. Concerning human resources in particular, we are strategically transferring young and mid-career employees from department stores to other companies of the Group so that we can widely develop and use human resources from the Group's perspective.

In the meantime, we are aggressively addressing alliances and M&A with companies outside the Group, which are expected to create synergy with department stores. Alliance with StylingLife Holdings Inc., which became our equity method affiliate in March 2011, has generated tangible synergy in operations and management efficiency. In addition, we acquired shares in Parco Co., Ltd. and made it an equity method affiliate of the Group in March 2012. Parco and J. Front Retailing both intend to operate high quality and high value added retail business in big cities and their customers are also similar in grade and taste. Therefore, we

believe we will be able to increase each other's corporate value by effectively sharing each other's store and customer bases and maximizing synergy. We will speed up our efforts to achieve synergy and results.

The third is to aggressively develop Asian and other overseas markets.

In May 2012, J. Front Retailing has reached a basic agreement with Shanghai New World Co., Ltd., which operates a department store with the second largest sales in Shanghai, and Shanghai Xin Nan Dong Project Management Co., Ltd. to form a business alliance in opening and operating a new department store in Shanghai to create one of the most upscale department stores in China. The new full-scale department store is planned to open in late 2014 or early 2015 with the total floor space of 110,000 square meters. We will send some employees as trainers to provide full technical support related to preparation for opening the department store ranging from marketing to sales service training to its workers as well as the management and operation of the store after opening it. We expect this business alliance will allow us to accumulate know-how to increase the presence of our department stores in Asia and expand business and develop human resources there.

J. Front Retailing and StylingLife Holdings will jointly establish a new company to operate Plaza shops in Asia. First, we will open several shops only in the Taipei area, Taiwan, around next spring. Once putting them on track, we hope to expand the business into other cities in Taiwan such as Taichung and Kaohsiung, and then, other Asian countries.

Besides the above, J. Front Design & Construction opened a representative office in Shanghai in December 2011 to receive orders for designing commercial facilities in China, while Daimaru Kogyo established a company in Thailand in January 2012 to expand business in the ASEAN region. We will continue our group-wide efforts to develop overseas markets, especially in Asia.

Recognizing that we cannot be optimistic about the economic environment for fiscal 2012, we will continuously speed up our efforts to establish new department store model and address other various challenges so that we can develop and grow as a group.

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