# Sustainable Improvement of Capital Efficiency with Profit Growth Is Important. We Aim for ROE of 5.8% as a Milestone, and Beyond That, 8%.



YAMAMOTO Ryoichi

#### Q

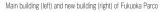
### Would you look back at the business performance in fiscal year 2014?

Consolidated net sales were ¥1,149.5 billion, up 0.3% year on year. Consolidated operating income was ¥42 billion, up 0.7% year on year, and consolidated ordinary income was ¥40.4 billion, down 0.2% year on year. Consolidated net income decreased by 36.9% from the previous year to ¥19.9 billion partly because ¥18.4 billion was recorded as gain on sales of shares of Peacock Stores in the first quarter of fiscal year 2013. As a result, operating income increased for the fifth consecutive year, reaching a record high since J. Front Retailing was established.

In the meantime, compared to October forecast, operating income and ordinary income were behind by ¥900 million and ¥500 million, respectively. This is mainly because the impact of sales tax hike in April 2014 was more prolonged than the Company had expected, which delayed the recovery of department store sales, particularly women's volume clothing sales, and further impeded the recovery of suburban stores and rural department stores. Net income was ¥900 million more than expected mainly because gain on sales of investment securities was recorded as extraordinary income.

By segment, in the Department Store Business, both Daimaru Matsuzakaya Department Sores and associated department stores struggled, affected by the closing of Matsuzakaya Ginza store for redevelopment and the decreased sales floor area of Ueno store resulted from the rebuilding of its south wing as well as the sales tax hike, and sales decreased by 1.2% year on year. However, operating income increased by 0.6% thanks to thorough cost management. The Parco Business increased sales by 2.2% and operating income by 2.0% from the previous year, to which the strong performance of Fukuoka Parco that opened a new building in November 2014 and the new opening of Nagoya Zero Gate contributed. For your information, Parco Co., Ltd. reported another record high in operating income in its financial results. The Wholesale Business decreased sales by 6.2% and operating income by 5.3%. The Credit Business increased sales by 9.9% and operating income by 7.5%. And the Other Businesses increased sales by 9.8% and decreased operating income by 18.3%.







Nagoya Zero Gate



### Sales tax was raised in April 2014 and there were concerns about a decline in consumption. And how did you cope with that?

Daimaru Matsuzakaya Department Stores took every possible measure to minimize the impact of sales tax hike while improving store prowess and expanding the customer base.

As an effort to "broaden product range and customer base," which is a key element in building a new department store model, Daimaru Kyoto store renovated its food floor and opened the first Tokyu Hands in the Kyoto area, which brought more customer traffic to the area. At the same time, the completely renewed exterior of the store added new appeal to the landscape of the area.

In order to consolidate its position as the number one store in the region, Daimaru Sapporo store significantly improved the luxury zone by introducing Chanel Boutique and Franck Muller so that it can better cater, in terms of product range, particularly to *gaisho* customers and foreign tourists to Japan who are remarkably increasing in number recently.





Daimaru Kyoto store

Daimaru Sapporo store

As company-wide measures, we strengthened *gaisho* business with the strong efforts of 89 dedicated staffs to acquire new customers and enhanced sales promotion including attractive events. In the meantime, expecting the number of foreign tourists to Japan to dramatically increase due to the expanded duty free item list and the weak yen and in order to meet the demand from inbound tourists to the utmost extent, we made improvements in the environment and services to receive them, including the introduction of a tax refund system in flagship stores, the expansion of tax refund counters and the strengthening of language support.

However, the total sales of Daimaru Matsuzakaya Department Stores decreased by 1.0% not only because the impact of sales tax hike, which had been expected to weaken in the first half, was more prolonged than expected and recovery slowed down in the second half, but also because Ginza store closed for redevelopment and Ueno store significantly decreased its retail floor area to rebuild the south wing. In the meantime, SGA decreased by ¥3.5 billion (2.5%) from the previous

year thanks to all possible cost-cutting measures taken, including reduction of labor costs through organizational and human resource restructuring, reduction of advertising expenses through a review of loyalty point program. This resulted in an operating income of ¥20 billion, up 2.0% year on year.



## We hear that the "polarization of consumption" is becoming remarkable, and what is your outlook for fiscal year 2015?

We see the recent trend of consumption polarization becoming even more conspicuous after the sales tax hike. The growth of our *gaisho* sales, which mainly consists of purchases by affluent customers, already turned positive in July after the sales tax hike and remained positive even in January and February 2015, when there was a high bar because of the previous year's last-minute demand. Thus consumption by wealthy people remains brisk. In the meantime, the growth of sales excluding *gaisho* sales remained negative until January 2015 since April 2014.

By merchandise category, while "luxury brands" and "jewelry/watches" enjoy brisk sales, the sales of women's volume clothing remain sluggish. The prices of luxury brands and watches have been revised from time to time against the backdrop of the weak yen, and in spite of raised unit prices, their sales remain strong. As for watches, both unit prices and sales quantity have been steadily increasing. However, the rising unit prices of women's volume clothing have yet to make up for a decrease in sales quantity.

In the Department Store Business of the Group as a whole, the gap has significantly widened between urban and rural areas after the sales tax hike. In fact, Shimonoseki Daimaru and Kochi Daimaru, both of which are the Company's subsidiaries, are slower to recover compared to large stores in urban areas. Though large store sales on a like-for-like basis turned positive year on year at the end of fiscal year 2014, the situations of rural stores including Shimonoseki Daimaru and Kochi Daimaru remain difficult with sales falling below urban stores by roughly four to five points.

For fiscal year 2015, which marks the second year of our Medium-term Business Plan, there is an outlook that domestic consumer spending will pick up in the second half on the back of improved employment conditions and an increase in real wages. Given the impact of rising prices and the recovery trend of the local economy, however, the business environment allows no optimism.

#### Q

### Specifically, what approaches will you take in the Department Store Business?

By responding to these market changes, "further growing what is growing" and "taking appropriate measures to grow what is not growing," we would like to achieve solid results.

We will "radically overhaul sales floor composition to adapt to market changes." In women's fashion category, amid shift to more casual lifestyles and globalization, choices are increasingly diversified and we see major changes in customer preferences. Consequently, especially in the middle price range, major fashion trends like there used to be are difficult to emerge and this tendency is expected to continue in the future.

In light of these circumstances, we will thoroughly scrutinize sales floor productivity at each store and dare to shrink low productive sales space and shops. Using the space vacated through such shrinkage, we will expand productive sales space and introduce new categories and brands to strengthen our response to markets with growth potential.

I will take one of our stores as an example of our initiatives planned for the current fiscal year. Nagoya store will renovate 30% of the total sales floor space from this spring to next spring to mainly reduce homeware and women's apparel sales space while expanding women's accessories and men's clothing and introducing new categories. Sapporo store will shrink an unproductive part of women's

apparel sales space and increase women's accessories sales space by 30%. And also at other stores, we will drastically expand and shrink sales floor space to adapt to market changes in each area



Matsuzakaya Nagoya store

At the same time, we will

overhaul the collaboration with the main suppliers of women's volume clothing and develop new sales floor to increase sales. Meanwhile, we will thoroughly analyze the buying behavior of our more than four million cardholders to strengthen CRM activities.



#### While the volume zone is struggling, the consumption of affluent customers and foreign tourists drive sales.

In order to "expand the base of *gaisho* customers and strengthen our sales capabilities," at the beginning of fiscal year 2014, we set a target to develop 10,000 new *gaisho* accounts and a dedicated team thoroughly managed the target and made strenuous efforts. As a result, we could acquire more than 12,000 new accounts in one year. With 73.5% of new accounts thus developed being active, these efforts have directly led to brisk buying activities. In fiscal year 2015, while strongly pushing forward the development of 14,000 new accounts mainly targeting the new rich in urban areas, we will adopt new approaches and services including the expansion of the *gaisho* customer-only e-commerce site into all stores, which was piloted and gained popularity at Nagoya store, to increase sales per account with *gaisho* sales target of ¥152 billion, up ¥7 billion from the previous year.

We will "strengthen our inbound tourist strategy." The number of foreign visitors to Japan exceeded 13 million in calendar year 2014, and in 2015, it is expected to further increase and possibly top 15 million. Our duty-free sales for the previous fiscal year were far greater than initial forecast, growing to more than ¥15 billion. We will improve services and environment and collaborate with travel agents, hotels and transportation hubs in Japan and overseas as well as develop new sales space targeting foreign visitors to Japan to significantly increase sales.

In addition, using the ability of Shanghai New World Daimaru Department Store, which made its grand opening in May 2015, to attract customers and its brand strength, we will create our own system to bring customers in China over to Japan. Through these initiatives, we aim to achieve duty-free sales of ¥25 billion, up ¥10 billion year on year.





Shanghai New World Daimaru Department Store (exterior)

Shanghai New World Daimaru Department Store (interior)



## What is the progress of your initiatives to enhance competitiveness and profitability as a multifaceted retailer?

In the core Department Store Business, in order to establish a new department store model combining the store's appeal to a wide range of customers with highly efficient operations, during this fiscal year, we will overhaul the floor composition primarily of Matsuzakaya Nagoya and Daimaru Sapporo stores among four key stores selected in the current Medium-term Business Plan to adapt to market changes.

In the Parco Business, we will expand the business infrastructure through active investment. During fiscal year 2015, we are planning to renovate 48,000 square meter sales floors, which account for approximately 15% of total floor area of all stores, including Fukuoka Parco, which increased the sales floor area of the main building this spring, and Nagoya Parco Midi, which opened this spring.

Centering on the strengthening of the Group's core Department Store Business and Parco Business, we will step up our efforts to "maximize synergy" as a group. To this end, we will create a "Synergy Committee," which consists of major members of the individual companies of the Group, and speed up to create output.

At the same time, we will consider mergers and acquisitions to expand our business areas as a multifaceted retailer. The capital and business alliance agreement with Senshukai Co., Ltd., a mail-order company, which was announced on April 17, 2015, is one of specific initiatives grounded in these ideas. The Company took a 22.62% stake in Senshukai, and thereby it became our associate accounted for using equity method. A project already started under the three themes of "merchandise," "department store online sale" and the "restructuring of our mail-order subsidiaries." Thus our initiatives to reinforce the Group as a multifaceted retailer will be further accelerated.

Progress to	ward the expans	sion of business	areas as a i	multifaceted retailer
-------------	-----------------	------------------	--------------	-----------------------

Sep 2007	Daimaru and Matsuzakaya integrated management and J. Front Retailing was established.
Mar 2011	StylingLife Holdings was converted into an equity method associate.
Mar 2012	Parco was converted into an equity method associate.
Aug 2012	Parco was converted into a consolidated subsidiary.
Dec 2013	Forest was converted into a consolidated subsidiary.
May 2015	Senshukai was converted into an equity method associate.

### Q

### What is specifically the Urban Dominant Strategy for growing along with local communities?

Under the Urban Dominant Strategy, we will bring together the combined strength of the Group including local department stores as a core, Parco and Daimaru COM Development to activate and make effective use of real estate including idle assets in terms of what appealing areas should be.

Listed below are our specific initiatives. Firstly, under the Ginza 6-chome District Redevelopment Project, we will develop a large-scale complex with the functions necessary for the district including cultural facilities and a tourist hub, as well as retail facilities and offices, to further enhance the appeal of the Ginza area, one of the most prestigious areas in Japan. With regard to retail space, which will be the largest in the Ginza area, we set up the Retail Facility

Planning Office in September 2014 and started full-scale activities to create world class quality retail facilities well suited for Ginza as a global destination. It is scheduled to open in November 2016.

Under the Matsuzakaya Ueno Store South Wing



Artist's impression of the exterior of the facility for the Ginza District Redevelopment

Rebuilding Project, the south wing is being rebuilt into a high-rise complex comprising Parco, a cinema complex and sophisticated offices. The businesses of the Group including department stores and Parco combine efforts with the local community to develop the area. With Matsuzakaya Ueno store as a core, we will draw new crowds to the Ueno Okachimachi area and contribute to the revitalization of the local community to build a business model for growing along with the local community. The new south wing is planned to open in fall 2017.

Adding the Shinsaibashi area and the Nagoya area to be redeveloped under the Urban Dominant Strategy and incorporating the perspective of real estate development more than ever, we will vigorously push forward the activation of the areas around our stores. To this end, we will radically strengthen the promotion systems by creating dedicated teams and establishing cross-group projects and speed up our efforts to consider the effective use of the Group's assets and the maximization of revenue.

### Q

### What is the status of your omnichannel retailing and overseas business?

With regard to "omnichannel retailing" initiative, toward the establishment of J. Front Retailing's own omnichannel model, we are trying various approaches so that we can seamlessly connect with customers anywhere, anytime.

Click & Collect, which Daimaru Matsuzakaya Department Stores launched in 2013, increased the number of brands it offers to as many as 52 in May 2015, and at some stores, the range of items was expanded to include shoes and other accessories. We will further expand the range of brands and items to improve convenience for customers.



At the same time, we will strengthen our focus on the "gift market" in which department stores are strong. We will also take on new challenges including the adoption of a system like Pocket Parco, which is showing some success in Parco, at department stores to increase and deepen contact points with customers through the transmission of information by store staff via SNS.

With regard to overseas strategy, Shanghai New World Daimaru Department Store, on which we formed a business partnership, celebrated its grand opening on May 15, 2015. Plaza Tokyo, which is operated by JFR Plaza in Taiwan, opened three new shops this year and aims to establish a chain store operation and make the business profitable as soon as possible.

In pursuit of the possibility of developing real estate and operating commercial facilities in the Southeast Asian region as a promising market by combining the know-how of the Group, we will reinforce our organizational structure by creating a new position in charge of Overseas Strategy and sharing information and collaborate with the Overseas Business Group of Parco and Parco Singapore.

### Q

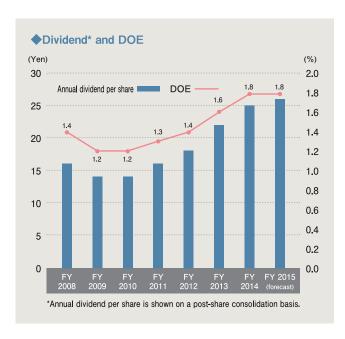
### What do you think about shareholder return?

As a milestone to achieve ROE of 8% in the future, we aim to reach ROE of 5.8% in fiscal year 2016, the final year of the current Medium-term Plan. We believe it is the most important to continuously improve ROE while growing profit at the same time.

With this in mind, we would like to actively return profits to shareholders with an eye on investment in growth and the balance of cash flows as well as enhance profit level.

With regard to the year-end dividend for fiscal year 2014, we have decided to pay ¥13 per share, up ¥1 from our previous announcement of ¥12 per share. For the full fiscal year, revised in accordance with the standard after the consolidation of shares in September 2014, the total dividend together with the interim dividend is ¥25, up ¥3 from the previous year.

As for the dividend for fiscal year 2015, we are planning to pay an interim dividend of ¥13 per share and a year-end dividend of ¥13 per share, which will bring the annual dividend to ¥26, up ¥1 from the previous year, marking the fifth consecutive year of increase. In addition, on April 17, 2015, the Company announced a plan to buy back up to 3.4million shares or ¥5 billion of its own shares during the period from April 20 to July 31 in that year.



The Company has in place a policy to appropriately return profits to shareholders targeting a dividend payout ratio of at least 30%. We will be committed to delivering a sustainable dividend increase coupled with steady profit growth while considering share buyback as appropriate to improve capital efficiency.



#### The draft of the Corporate Governance Code was published in March and what actions will you take?

Following the establishment, publication and implementation of Japan's Stewardship Code last year, the Corporate Governance Code came into effect in June 2015 and listed companies kicked into full gear and accelerate their initiatives to strengthen corporate governance. The Company also took this as an "opportunity to improve corporate value" toward "aggressive governance" and strengthened its organizational structure by creating a new position "in charge of Corporate Governance Promotion" in the Management Strategy Unit.

With regard to the Corporate Governance Code, we are conducting studies with a particular focus on three issues including "shareholder relations," "information disclosure" and the "roles and responsibilities of the Board of Directors." While identifying these issues, we would like to actively engage in constructive dialogue with our stakeholders.

