

— Top Message —

With Aggressive Change, Implement New Strengths.

Three values derived by backcasting

In formulating the FY2024 to FY2026 Medium-Term Business Plan, we have followed the process of targeting a single milestone of 2030 and backcasting from there. In the past year, we have achieved a recovery from the COVID-19 pandemic by continuing to perform well, especially in retail businesses such as Daimaru Matsuzakaya Department Stores and Parco, but one of the key points in formulating the medium-term plan was how to successfully connect this with the next phase toward 2030.

In the short to medium term, I believe that the most important challenge is how to maximize the tailwind from both the affluent and inbound markets that are driving consumption in the current retail industry. Inbound sales for fiscal 2023 grew to 67.1 billion yen at the Department Stores, exceeding the pre-pandemic level, and to a level of over 25.0 billion yen at Parco.

However, I am by no means optimistic that this situation will continue forever. Given that the current situation of inbound sales is centered around luxury goods, there is no doubt that exchange rates are having a significant impact. In recent years, there has been an interesting new trend of the rise of wealthy young people, but it is important to remember that the department store industry as a whole continued to shrink before COVID-19.

Therefore, rather than looking to achieve sustainable growth through existing formats alone, I believe we must also simultaneously create new business models within our retail business. In this context, I believe that we must simultaneously maximize the current tailwind effect, deeply cultivate the newly emerging market, and sow the seeds for the future. For this reason, we have positioned the next three years as a phase of change, and will make aggressive investments in preparation for a leap forward by 2030, as well as move forward with bold initiatives with a sense of urgency.

Through discussions on a vision for 2030, we came to the conclusion that in order to realize the Group Vision of "Create and Bring to Life 'New Happiness,'" we should aim to become a Value Co-creation Retailer that creates three shared values:

Co-creation of Excitement, Co-prosperity with Communities, and Co-existence with the Environment.

First, with regard to Co-creation of Excitement, we are proud to say that we have added excitement to the lives of consumers through the provision of products and services. While maintaining and improving this role, we have decided to position our social role as raising the "temperature" of society, which has tended to drop recently, and the key word in this is "excitement." We want to create and share exciting consumption and thrilling experiences with our customers and employees to raise the level of enthusiasm in the world.

As for the second, Co-prosperity with Communities, it goes without saying that our core business is rooted in the local communities centered around our stores. By making our stores more attractive, we will revitalize the communities, and as a result of the revitalization of the communities, our stores will grow even more. In other words, we have built a kind of ecosystem together with the communities, and by strengthening not only our stores' sales activities but also our collaborative efforts with external companies in the local areas and the local governments, we hope to become an even more essential presence in the communities than ever before.

Regarding the third, Co-existence with the Environment, we are proud to have been leading the industry in environmental efforts to date, but we thought that precisely because we are a retailer that has contact with many customers, there must be more we can do to contribute to a sustainable society. As a result, we came to the conclusion that we should play a role in fostering a culture in which everyone can contribute to creating a society in which we live in harmony with the environment.

I have been talking about sustainability management in the past, and these three values of co-creation and the Value Co-creation Retailer are a more easily understandable expressions of this. All of our corporate activities contribute to both social and economic value - this is the very practice of our corporate credo: Service before Profit and Abjure All Evil and Practice All Good. The Group wants to continue to be such an entity in any age.

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Create greater synergies

The Group is not a simple department store group, but a diverse group of people and companies with many different personalities.

Synergies have already produced some results. For example, the north wing of the Daimaru Shinsaibashi store was converted into PARCO, creating a nearly integrated commercial facility. Also, the Matsuzakaya Ueno store opened a new store format called PARCO_ua in its south wing. In an environment where it is physically and geographically possible to do such things, synergies between Daimaru Matsuzakaya and Parco are being created in various ways. Conversely, I recognize that there is still room for growth in areas and stores that are not in such conditions.

I believe that what is needed to create further synergies is mutual understanding within the Group. As they are

operating companies, it is natural that their mission is to maximize individual profits, but I believe there is much room for improvement in terms of mental and cultural integration so that they can take on initiatives with a view to the growth of the entire Group.

In personnel changes made in March this year, former Parco employees were appointed as the Executive Store Managers of Daimaru Tokyo and Sapporo, which are the flagship stores of Daimaru Matsuzakaya Department Stores, while a former Daimaru Matsuzakaya Department Stores employee was appointed as the head of the planning and preparation office for The Landmark Nagoya Sakae, a new commercial facility developed primarily by Parco. Parco's officers have been seconded to the holding company since several years ago, but this time we started to exchange the top class of sales managers between the operating companies. Exchanges are also progressing at the lower levels, so we are working to

What is missing in synergy creation is mutual understanding.

This is where we step in.

further deepen our understanding through the Group's joint training and other means to grow the Group as one team.

I believe that we can achieve synergies in terms of customers, areas, and content.

First, regarding "customer synergies," up until now, the Department Stores and Parco have worked separately to convert their customers into their members, but going forward, we will implement a customer strategy across the entire Group. Parco is more popular with younger generations than the Department Stores, but ideally, when they reach an age where they can outgrow Parco, they will be able to choose to shop at Daimaru or Matsuzakaya instead. We are thinking about what we can do to achieve this.

An obvious example is the integration of loyalty points. Daimaru Matsuzakaya Department Stores and Parco have created a system that allows some points to be exchanged in Shinsaibashi, but the reality is that they are currently separate

points. If points can be shared, it will be possible to use points at either store, or to use points accumulated on PARCO's fashion floors to buy something on the basement food floor of the department store next door. This is just an example, but we are beginning to study such a possibility.

Regarding "area synergies," we have positioned Sapporo, Tokyo, Nagoya, Osaka, Kyoto, Kobe, and Fukuoka as seven key cities, which are the areas that have potential for development by the Group. As I mentioned earlier, there have been synergies in terms of physical facilities in Ueno and Shinsaibashi to date, but currently, in addition to Daimaru Matsuzakaya Department Stores and Parco, we are working through a trial-and-error process to see how we can integrate within the areas with J. Front City Development, which was established last year to operate the Developer Business, and JFR Card, which operates the Payment and Finance Business. Furthermore, we will promote efforts to collaborate with

companies and governments outside the Group. As part of this, we would like to first create a model case in the Sakae area of Nagoya.

Regarding "content synergies," before I talk about synergies, I must first tell that the Company aims to own content such as products and intellectual properties (IPs). Until now, the Group has focused on creating unique value and providing it to customers through assortments such as purchasing products and attracting tenants. However, such efforts alone will not be enough to avoid the risk of homogenization. Therefore, we would like to implement a new growth axis in which we ourselves act as a "content holder" and provide unique products and services to our customers. In the past, we have developed private brands as a department store operator, but this time, we envision taking a step further than before, with M&As and other options in mind. We will also actively utilize the 50.0 billion yen growth investment quota established in the current Medium-term Business Plan. By bringing together and integrating the Group's know-how, the Department Stores and Parco will develop, own, and grow merchandise content and IP content, respectively.

Co-creation in the Nagoya area marks a turning point for the Group

I believe that what we are trying to achieve in the Sakae area of Nagoya will be a significant milestone in helping people understand the future potential of the Group. The Matsuzakaya Nagoya store and Nagoya PARCO are already adjacent to each other, and The Landmark Nagoya Sakae

is scheduled for completion in 2026. We will operate a new commercial facility from the second basement floor to the fourth floor, combining the know-how of Daimaru Matsuzakaya Department Stores and Parco. Looking at the future development situation in the Nagoya area as a whole, the focus is clearly shifting to the Sakae area.

We hope to strengthen options to shop around at multiple stores such as the Matsuzakaya Nagoya store, Nagoya PARCO, and The Landmark Nagoya Sakae, which will be newly added, and further revitalize the entire Sakae area through collaboration with external parties, making it a "destination" that attracts people to come all the way to.

In order to further solidify these efforts, the holding company has established an organization called the Area Management Promotion Project. In the Sakae area, we will deepen cooperation within and outside the Group and promote strategies to contribute value to the community. At the same time, we would like to realize specific collaborative measures under the establishment of an effective promotion system.

In the Sakae area, we are beginning to see some changes recently. Until now, inbound sales at the Matsuzakaya Nagoya store were not so large, perhaps because many visitors came to the Centrair Airport but passed through Nagoya and headed straight for Hida Takayama or the Hokuriku region. However, since the beginning of this fiscal year, these sales have been growing rapidly, and as of the first quarter, they were more than six times higher than in the same period of the previous year. The Matsuzakaya Nagoya store is currently undergoing major renovations, with four floors closed, but sales are still

Room for growth in seven areas.

They will be an advantage for the future.

up compared to last year. There is no doubt that one of the driving forces behind this is inbound sales. We believe that the inflow of inbound tourists to Nagoya will be further solidified by the Group's initiatives for fiscal 2026.

The large-scale renovation of the Matsuzakaya Nagoya store will span eight floors, with major themes including strengthening luxury items to attract the young affluent and the MZ generation as well as rebuilding the fashion floors. The question of what to do about fashion items in the Department Stores has been a fundamental issue even before COVID-19, and this is what the Nagoya store will tackle. Specifically, it will be a major renovation with 60% of the tenants being replaced on the 3rd and 4th floors of the main building. We have engaged renowned architect NAGAYAMA Yuko to design the interior of the store with the aim of creating an overwhelming store space. We hope to gradually roll out the essence of the transformation that will take shape at the Matsuzakaya Nagoya store, which will stimulate the five senses in a way that only real stores can, to our other flagship stores.

Nagoya PARCO will undergo a major renovation of its east and west buildings to further increase its presence as the number one pop culture hub in the Tokai region and to restructure the fashion zone for the MZ generation. We hope to attract customers from a wide area by further clarifying the

characteristics.

In this way, the existing Matsuzakaya Nagoya store and Nagoya PARCO will continue to work to further strengthen their strengths, and The Landmark Nagoya Sakae will be added to this. Our strength lies in the ability to unite the power of the Group and become stronger as an area, allowing us to compete as a "whole area" rather than as separate single points.

Outside of Nagoya, the "Tenjin Big Bang" project for 2030 is already underway in the Fukuoka area, and with the full acquisition of the south wing of the Daimaru Shinsaibashi store, which was announced recently, development options in the area have increased. I believe that the fact that the Group has seven areas with such potential is a great advantage that will ensure future growth.

Meaning and significance of focusing on content

The strengths of the Group are its customer assets and store assets. I believe that we can make good use of these to grow our content. This means that we can ask our millions of loyal customers directly what they would like to buy next, or we can place content in high-traffic locations in our stores

that we want to grow, raise awareness about it, and then open shops outside the Group. I believe that content is what connects the Group's strengths with its vision for future growth.

In this process, we may develop products together with our suppliers, or we may form a group through M&A. In a completely different direction, we could discover local content in the areas with which our stores have strong store connections, feature it in our national store network and on our website, and then invest in it to feature it within the Group. There are a variety of paths we can take.

One example is the business succession fund we established in March this year. The fund supports local companies with strong content that are facing the challenge of business succession, with a view to eventually bringing them into the Group through the fund.

It is an advantage that the Department Stores and Parco, which are our core businesses, have well-located stores in major cities throughout Japan. There is great potential for value enhancement through rebuilding, renewal, or redevelopment. On the other hand, it is obvious that it is difficult to achieve future growth by opening more stores in Japan. I believe we must have an axis of business that does not rely on the Group's physical stores.

When we closely look at the Group's strengths, "discernment" emerges as a keyword. There was a time when Daimaru Matsuzakaya Department Stores discovered products and services and signed exclusive agreements with overseas luxury brands. Parco, with its unique sensibility and information-gathering ability, has also been quick to take in new things that have emerged in the world, and has often made them a hit. Thus far, "discernment" has been utilized for purchasing and attracting tenants, but in the future we will adapt it to a new way of dealing with content: "ownership through investment."

On the other hand, the Group's challenge is that it does not have commercial facilities overseas. Daimaru and Matsuzakaya stores, which had operated overseas since the late 1990s, withdrew from the market due to low profitability, and there are currently no overseas stores left, except for Shanghai New World Daimaru Department Store, with which

Failure is a proof of challenge.

Instill a culture of taking on challenges.

such capabilities.

We would like to get closer to realizing the content business by focusing on two axes: diversifying the routes through which we acquire content and implementing capabilities to grow the content we acquired.

Human resources are indispensable for sustainable growth over the medium to long term. I believe that my greatest mission is to develop human resources. Human resource development must be considered over some long-term span. Unlike the traditional relationship between a company and its employees, I would like to create a cycle in which employees use the company's power to express their own will and achieve what they want to do, and this will become the driving force behind the company's growth. To achieve

we have no capital ties. Given that the domestic market will inevitably shrink due to demographic trends, we need to consider the state of our overseas business.

Another challenge is e-commerce. Although there are new subscription initiatives such as AnotherADdress, the reality is that the majority of e-commerce sales are from midyear and year-end gift sales. One of the reasons for not being able to expand as much as we would like is that we do not have enough content that we can handle on our own. One of the advantages of digital technology is that it allows producers to connect directly with customers, so it will be difficult for businesses without content to succeed unless they have exceptional scale or a unique point of differentiation.

In other words, owning our own content will lead to the expansion of our e-commerce business, and as an overseas business, opening stores involve a large risk, but I believe it is possible to open stores and export content.

For example, we are about to start a partnership with Central Group in Thailand, and it is conceivable that we will provide our content by opening a tenant in our overseas partner's commercial facilities. So, if we can make it clear that the products are from J. Front Retailing, Daimaru Matsuzakaya Department Stores, or Parco, customers who pick up our products may visit the Group's stores with a sense of familiarity when they come to Japan. We are trying to move forward from various perspectives, including the secondary effects of inbound tourism, so to speak.

Human resource development is our greatest mission

However, it is clear that just having content is not enough. The capabilities to make the content successful, in other words, the human resources who are their source, are critical.

The Group has many discerning people, including buyers, store planners, and specialists, and I think we can make better use of their expertise. On the other hand, the challenge is the capabilities to further develop and grow content such as merchandise and IPs once we own it. To this end, in addition to developing existing human resources, it will be necessary to hire new human resources and engage in M&As to acquire

this, it is necessary to revitalize the corporate culture, and it is also necessary to invest in human resources and improve the level of education. In addition, the company will carefully pick up employees' ideas, and if there are good ones, it will invest in them and develop them into a business. We would like to create a multi-stage, multi-faceted approach in such a cycle.

One of the Company's JFR WAY, or the five action guidelines for realizing our vision, is "Try without fear of failure." I would like to place great importance on this idea. In other words, failure is a sure sign that you have tried something. That's why I want to firmly establish a culture where it's not the failure as a result that's important, but the fact that you tried. It is important to be a group that encourages those who are willing to try, rather than giving up before they even start, thinking

that it would be impossible even if they tried.

One of the sources of our success to date has been our successful cost control, particularly in human resource management. On the other hand, I also feel that precisely because of these successful experiences, it may be more difficult for us to transition from human resource management to human capital management than for other companies. It is very important to be aware of costs first, but now, when Japan's economy is shifting from deflation to inflation, we must be decisive in making investments to raise the top line.

While cost control is a strength, a major shift in mindset is needed, in a sense, to actively invest in human resources in pursuit of returns. In an era like today, where there is not always single right answer, it is necessary to implement a

Align with investors.

Enhancing corporate value is a shared goal.

However, Japan is approaching the exit from deflation and is about to undergo a major change to a "world with interest rates." This will naturally require a change in our recognition of the cost of capital, as well as an increase in the level of ROE we should pursue and the level of ROIC we should achieve in the future.

The current Medium-term Business Plan is positioned as an upfront investment phase, but even so, while ensuring an ROE of 8% or more, we must decisively change our business structure so that we can aim for an ROE of 10% or more in the medium to long term.

Regarding ROIC, we will recognize WACC for each business and use it as a hurdle rate to improve ROIC for each business. When viewed by business, the existing business with the highest ROIC is still the core retail business. In this context, we are sometimes asked by investors why we are actively investing in the Developer, which has lower ROIC than retail, in order to achieve long-term growth.

The main reason why we actively invest in the Developer Business is to make effective use of the assets we already own and to realize profits. The main purpose of proceeding with development in the Developer Business is to further strengthen the core retail business, i.e., to further increase the ROIC of the retail business. However, I recognize that it is necessary to further clarify such stories, and I will keep this in mind in order to improve PER.

As part of this effort, we have decided to establish a system in which the holding company will realize synergies in the key areas where large-scale property development is underway. We would like to take the opportunity of large-scale development projects to clarify the responsibility and authority for improving the Group's total earnings in the areas in order to maximize group synergies.

To achieve this, it is essential that ROIC management is firmly established at the workplace. For this reason, this summer we launched an ROIC project at each operating company and established a promotion system that will increase effectiveness. I myself have been conscious of mentioning ROIC at every opportunity within the Company, and at a recent Catch Ball Meeting, a direct dialogue between myself and the Group employees, I spoke about the deep

variety of capabilities. In changing the culture and moving in a new direction, I am prepared to face high or thick barriers. That is why I would like to take the lead in developing human resources, taking the time and responsibility to do so.

Management conscious of cost of capital to increase corporate value

The Company currently recognizes the cost of shareholders' equity of 7.0 to 7.5% and WACC of 4.0 to 4.5%. Sustained achievement of ROE and ROIC above these levels will lead to medium- to long-term improvement in corporate value. Last fiscal year, we reached our medium-term target of an ROE of 8%, and also achieved an ROIC of over 5%.

relationship between ROIC and the workplace when explaining the Medium-term Business Plan.

Starting this fiscal year, we have adopted ROIC as a management indicator to be achieved in determining officer remuneration, and have also decided to incorporate TSR in order to promote management that is more conscious of stock prices. In other words, the framework for working together with investors on the same vector to enhance corporate value has been further strengthened. By deepening dialogue with the capital market, I hope to enhance the effectiveness of our management.

At the same time, we will increase the dividend payout ratio from the current 30% or more to 40% or more, and will also buy back our own shares as appropriate while monitoring our cash flow situation, with the aim of distributing more than 45.0 billion yen in shareholder returns over the next three years.

What is important in the current Medium-term Business Plan is to carry out aggressive transformation from a long-term perspective. I am resolved that the concrete results we achieve over the next three years will determine the future of the Group, and I would like to build a new group by taking on bold challenges again and again, without fear of failure.

