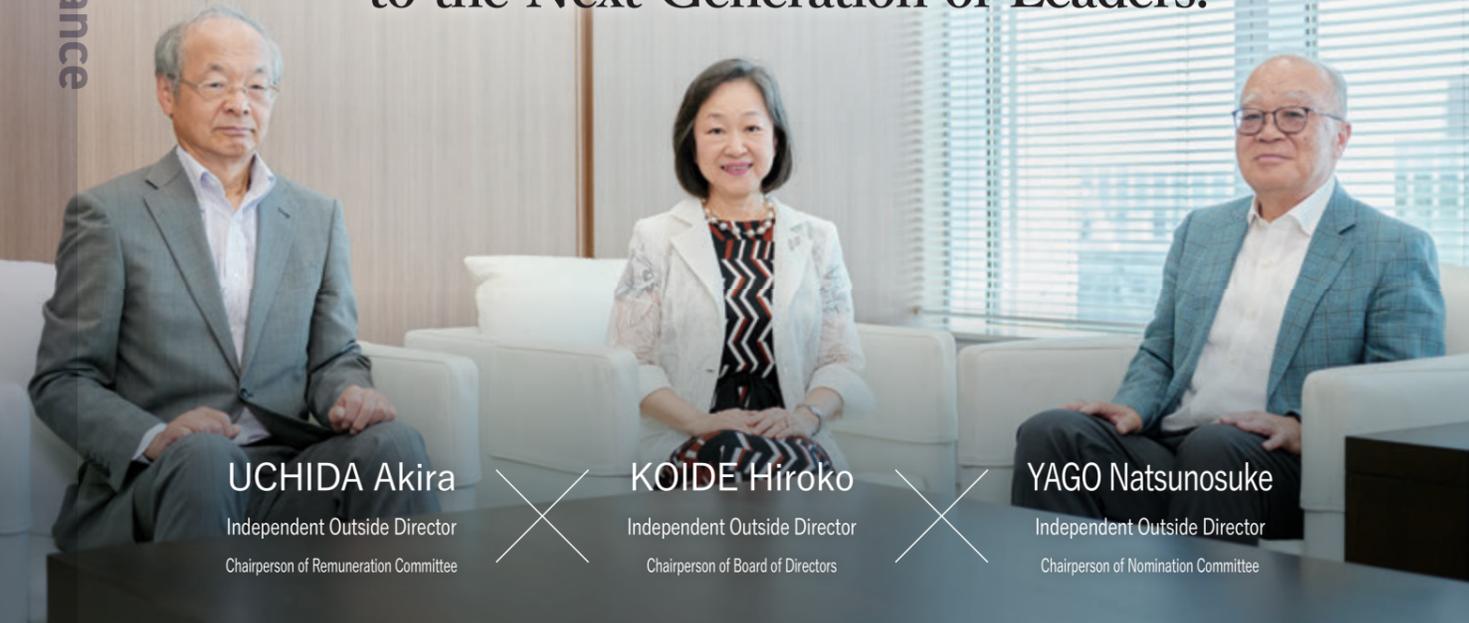


Discussion among Outside Directors

Entrust Aggressive Management to the Next Generation of Leaders.



UCHIDA Akira

Independent Outside Director
Chairperson of Remuneration Committee

KOIDE Hiroko

Independent Outside Director
Chairperson of Board of Directors

YAGO Natsunosuke

Independent Outside Director
Chairperson of Nomination Committee

Execution of succession plan

Yago: Discussions regarding the recent change of President, or succession, began in earnest three years ago when I became Chairperson of Nomination Committee. What we paid particular attention to in this process was transparency and fairness, meaning that anyone is eligible to be a candidate for President. Even more important is continuity. A succession is not a one-time event; every time the President changes, another succession process begins.

The prerequisite for whether or not succession will be successful is whether or not a pool of managerial talent exists. If a pool exists, we can first select multiple candidates from the pool, and then select the best person by checking their characteristics and way of thinking. In this respect, the fact that J. Front Retailing has a Business Management School, which provided a certain level of understanding of the capabilities

and experience of its managerial talent, was an important factor in making this process successful.

In addition, in changing Presidents, it is important, broadly speaking, to switch between “aggressive” and “defensive” human resources as appropriate. I believe it is necessary to determine whether the thinking of top management, that is, what is ingrained in them, is aggressive or defensive. If an organization continues to be aggressive, it will become exhausted, and in that case, it is not uncommon for organizations to fail. While appreciating that the former President had focused on getting the Company back on a growth trajectory again consolidating its defenses partly due to the timing of COVID-19, we decided that at this time, when the Company has begun to return to a growth trajectory, we should select a person who can go on the aggressive.

Koide: It depends on what phase the company is in, but I think the type of

industry is one factor. Considering the nature of the Group, which has retail business at its core, it would be preferable for the current top management to be in an age group that is sensitive to changes in the world and can respond to the speed of such changes. In the sense that we managed to get through COVID-19 and now want to do something new again, I thought that a young person with a high energy level would be ideal.

I feel that Mr. Ono has excellent communication skills. He conveys what he wants to say in a very clear and easy-to-understand manner, which I think is an absolute strength. What is important as a top executive is to clearly verbalize and communicate his message. A top executive cannot do everything by himself, and he must motivate people by communicating his ideas. In that sense, I think the clarity of the message is a great strength.

In addition, while up until now the Presidents of the holding company have all had the common experience

of having served as Presidents of the Department Stores, this is not the case this time. On the contrary, there is hope in the fact that he did not come up through the so-called typical route. It means that he may be able to think differently, has different experiences, and therefore can do different things.

Uchida: Mr. Ono has excellent communication skills, and I think he is also very honest in what he says and does. If he believes the other person’s opinion is correct, he will accept it relatively flexibly, but if he believes he is right, he will firmly assert his opinion. I would say that he has an axis of what is right and is honestly acting accordingly.

On the other hand, I also feel that he has some very strong leadership qualities. He has become the leader at such a young age, so if all goes well, there is a possibility that he could become a long-term leader. One of the challenges he faces going forward is whether he can create a system in which those around him can speak their minds frankly. I think it is necessary for him to have a balanced approach to management.

As for being young, I think young people are more willing to take on challenges and have the ability to adapt to changes in the environment. When I look back at my younger days, I wonder how I could do such things. After all, younger people are able to react more quickly to changes in the environment

and have the ability to overcome difficult challenges. If we want to make non-linear changes to the Group in the future, it is probably better to have younger people.

Expectations for challenges

Yago: What I expect from Mr. Ono in the future is creativity. I look forward to his willingness to take on challenges and go all out without fear of failure. He should not be overly concerned about what is going on around him. I think that will be a factor in determining whether or not he is growing as a President. He may become obsessed with the idea that failure could lower his market value, and he may suddenly try to get on the defensive. Instead, he should take on bold challenges, and the Board of Directors should closely monitor the details of those challenges to ensure that the challenges don’t get out of control. Without challenges, it may be difficult to foresee the future of the industry itself and the Company.

Koide: In connection with this, I would like him to set out a more ambitious long-term vision that shows, for example, how he will change the Company in 10 years’ time. Currently, I feel like he is still in a leadership role in supporting the improvements that everyone is working so hard to make. It may be that he is being cautious because everyone else is working hard, but it may also be necessary to deny

the status quo and declare that we are going in different direction. I believe that the Company will not grow unless he comes up with a new future that no one has yet conceived of, while respecting workers, and I hope that he can quickly come up with a concrete vision for this. I would like to see him demonstrate his strength in envisioning a strategy.

Uchida: For example, the Company is trying to develop content in the current Medium-term Business Plan. As was discussed at board meetings, various ideas for merchandise content development were listed and explained, but none of them had been initiated. I think we should speed up to put them into action, but they were only reported as ideas.

When we try to start something new, it is natural to fail, so we need to do a lot anyway. It would be nice if we would take on more and more challenges, but I have the impression that we are moving somewhat slowly. If we fail, we can learn from it. The Department Stores and Parco have some categories that are performing well, such as luxury goods and Japan content, but they are not fully meeting the expectations of the largest group of customers. If developing content is the solution to this problem, then I think it would be good to continue the challenge and see even 10% or 20% of it succeed.

It will not be easy to get out of the conventional habit of buying and

What I expect is creativity. I look forward to his willingness to take on challenges without fear of failure.

selling products and services all at once. However, if we enter the field of content development and ownership, we may need to be aware that sometimes we may need to be involved in production as well. I would like the Company to make such a leap of thought and think non-linearly, which will lead to concrete results.

Koide: First of all, we need to be a little clearer about who our real “competition” is. It does not mean a close competitor in the same industry. Consumers have a limited amount of money in their wallets, so it is important to know where and how much to allocate it. If less money is being spent on our products and services, we need to think more broadly about where else it is being spent instead, what our competitors are, and where we can take market share from. If we are bound by frameworks such as the Department Stores or Parco, our ideas will not expand. Looking at the broader picture, I would like the Company to clearly identify its real competitors based on consumer purchasing behavior and what advantages it has over them.

Yago: The President expresses his will to do this, and we support him in doing so, and stop him if he gets out of line. This is the way I think, and I would say that I am a supporter of the “passive outside director theory.” In other words,

unless the President stands up to bat and hits the ball, I cannot come up with the next strategy.

Even if we take on new business challenges at the Company, which has department stores and shopping centers at its core, we are unlikely to lose the foundation we have built up thus far, so we should be proactive and give it a try. So it is important to be aware of what we call serendipity. If we think it is not going to work, we give up on it right away. I would like the Company to take on new challenges with the awareness that creating new business is a repetition of the process.

Challenges for the managerial talent pool

Yago: In implementing succession, the Company had a Business Management School run by top management as a process for developing managerial talent, but this approach itself may not be very current. In other words, this can be seen as an opportunity for managers to show “their way of doing things” or “what they want to do,” which can lead to an easy thinking that the right thing to do is to go along with that. If this is repeated, there is a concern that we will end up with a succession, like matryoshka dolls that look the same but are smaller and smaller inside. In this succession process, we used the data obtained from the Business Management School to a certain extent

as the evaluation criteria, so I can say that I have not yet determined my evaluation of the new President.

Koide: I get the impression that Japanese companies prefer a style in which top management acts as the “principal” and develops the next generation of human resources. I haven’t heard of this very often in the Western companies I have worked for. Of course, there are occasions where CEOs talk about the future, but in training or development, I rarely see them say things like, “This is my school.” I think many companies make effective use of groups of experts specializing in training to suit their purposes.

If the Company is looking for professional development, there are many different training approaches with different characteristics. I think there is a lot of room for improvement in terms of the quality and variety of training. Rather than simply learning business skills through classroom lectures, it may be worth considering introducing more essential training that fundamentally changes how they think about leadership or enhances their creativity, in order to seriously think about the future of the Company.

Uchida: There are many business schools in the U.S. that offer MBA degrees, and many people become CEOs after earning an MBA. On the

other hand, in Japan, I hear that when people return to their companies after completing their MBA, they often find that there is no suitable place for them to utilize their achievements. For this reason, sometimes a kind of alternative school to the MBA is created within a company, but in the absence of excellent lecturers, I don’t think it actually works very well. Also, while it is necessary for the President to speak to motivate employees prior to the training, I don’t think it is a good idea for he or she to be present at training sessions as a lecturer. I don’t think it will be very effective unless the school brings in external lecturers who are close to MBA level and packs students in a classroom for a certain period of time, such as six months.

Yago: I think the reason why management professionals are not developed or stand out in Japan is that companies themselves have not sought to do so. Conversely, if the company clearly expresses its intention, it can create a specialized group that can do it. It really depends on the company’s intention.

I also think that some Japanese training programs are implemented without clearly defining their objectives. For example, we could make it clear that this is a process of selecting a President, and make it a tournament of sorts: even if a participant loses in the first or second round, he or she will definitely benefit from this experience. Sometimes they end up wanting to work together and team up. In other words, it’s a place to find members to make their own team and to make their mark. I think it will be important for them to think about how they can best utilize human resources other than themselves to become the next President.

In terms of diversity, some women are not given the opportunity to gain sufficient experience. If these women can use the training as an opportunity to make significant changes and assess their own abilities, I believe it will be useful in promoting the appointment of female officers.

What lies ahead beyond the evolved governance system

Koide: In May of this year, I became the first Outside Director of the Company to serve as Chairperson of Board of Directors. Governance is well evolved externally, with the percentage of Outside Directors already exceeding the majority. However, I believe we need to evolve further in terms of real quality and substance.

The most recent evaluation of the effectiveness of the Board of Directors pointed out that the monitoring of the medium-term plan was not being done sufficiently and that solid discussions on growth strategies in a true sense were not being held. Of course, this will not work unless we improve the quality of both the Board of Directors and executives, but I believe there is still room for improvement in the relationship between oversight and execution in a true sense.

Although a variety of agenda items are set and actively discussed at board meetings, I sometimes wonder if the agenda is the right one to begin with, or if we should spend so much time on such trivial matters. Setting the agenda is an important role of the chairperson, so I would like to change it so that we can have substantive discussions that will help the Company grow in the future. If too much time is spent on details, time will not be available for longer-term strategic discussions.

On the other hand, while it is easy to come up with a strategic agenda, for example, human resources strategy or digital strategy, it is a matter of trial and error as to how to make the discussion meaningful and not merely abstract. Even a strategic agenda is meaningless if it ends up being an abstract argument that will get us nowhere. We need to have discussions that can be applied to our future growth strategy.

As was mentioned earlier, it’s also important not to leave it unreviewed. It’s okay to fail, but if you fail 100 times, it is meaningless to leave it as it is without any verification or analysis. The worst thing would be to just let it disappear without reflecting on it or thinking about how to make

use of it next time. I would like the Company to proactively try new businesses and M&A going forward, but at the same time, unless a system is put in place to regularly review the results, evaluations, and lessons and challenges for the future, the Board of Directors will not be able to properly oversee the Company.

Uchida: The evaluation of the effectiveness of the Board of Directors also pointed out a perception gap between the executive side and Outside Directors. In other words, even if the same words are used, the answer that comes out may not be as expected due to the difference in perception between the two parties. For example, in the deliberation of the medium- to long-term strategy, when asked what they would like to be in 10 years, the executive side came up with the idea of becoming a “culture-creating company.” That is one idea, but it is more of a philosophy or vision. We expected to hear how the business portfolio would be structured, but their statement was not as we had expected.

The same words can be interpreted differently. This is because the DNA, culture, and upbringing of a company are different from the backgrounds and careers of its outside directors. It is important to maintain close communication between the executive side and Outside Directors and to ensure that they are on the same page. The reason why our vision for what the Company will look like in 10 years was not clarified is that discussions on this topic did not mesh well, and I regret that we did not discuss it sufficiently.

Koide: I believe that the key to the Board of Directors is the relationship of trust between executives and Directors. It is important for the executive side to have a flexible mindset, not to simply accept all the opinions of Directors at face value, but to take into account the various perspectives and opinions and gain new insights. Trust cannot be built unless both parties respect each other and feel that it is worth listening to each other. It may seem like a basic idea, but I have come to feel that we



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need to build up that kind of trust. I hope that by doing so, we will be able to have more constructive dialogue.

Yago: Communication is important, but I don't think off-site meetings are a good idea. I believe it is important for Outside Directors to communicate at board meetings based on their own knowledge and experience. What is the benefit of exchanging opinions with each other, given that Outside Directors value their independence? I think that if we think too much about such things, we may not be able to fulfill our original role as Outside Directors.

After all, it is the executives who are responsible for running the business, and I think that their "intention" is extremely important. Since Outside Directors are ultimately outsiders, I feel that it is not normal for them to lead discussions. That is why I want the executives to clearly express their views.

In this sense, when a President follows precedents and does nothing but caters to those around him or her, it could be that the President needs to be replaced. The criteria for changing the President are very difficult, and it may be the case that, for example, ROE has fallen below a certain level for five consecutive years, but I think the biggest reason is responsibility for inaction. We need to judge such things objectively and constantly discuss under what circumstances it would be appropriate to hand over the baton to new management.

Uchida: From the perspective of strengthening governance, in conjunction with the start of the current Medium-term Business Plan, the Company has revised the Officer Remuneration Policy with the aim of further increasing motivation to contribute to improving corporate value over the medium to long term and sharing interests with shareholders. Among other things, we have adopted ROIC and TSR as evaluation indicators, which is a sign that all officers will be even more aware of the need to improve capital efficiency and align themselves with shareholders.

ROE remains an important indicator. At the same time, however, ROE is an indicator of the efficiency of capital attributable to shareholders, and it is an indicator that can be addressed in the short term by significantly increasing shareholder returns, even if profits don't improve. It is doubtful whether this alone shows the true capital efficiency of a company. ROIC is an indicator to see how much profit is earned from the total invested capital, so I think we have made a step forward.

Basically, if ROIC by business is below WACC and there is no prospect of improvement, it should be exited. This is also an indicator to judge such things, so I would like the Company to be aware of this and use it accordingly. However, I think ROIC should be viewed over a three- or five-year range rather than a single fiscal year. For example, it may temporarily decline

during the upfront investment phase. Taking this into consideration, we should look at each business segment and invest capital and resources in the businesses that are most profitable. It is also important to break down ROIC into targets for each site and manage them accordingly.

The adoption of TSR indicates the Company's intention to manage its business with a greater awareness of its share prices. I think share prices are a report card for management. Although share prices can move when earnings or Medium-term Business Plans are announced, it is also important that their details are properly communicated to the capital markets and that they are understood and supported, and management must be proactive in that regard. They are expected to communicate effectively with the market and engage in activities to gain the support of shareholders, even more so than Executive Officers. Since we use TSR relative to TOPIX as an indicator, if it exceeds TOPIX, I believe that it will mean that we have communicated with the market regarding our strategies and results, and gained their understanding and support.

Message from Newly Appointed Outside Director

OMURA Emi

Independent Outside Director
Member of Audit Committee



When I registered as an attorney-at-law in 2002, I mainly handled cases on the labor side, including death from overwork and relief for workplace harassment. Together with a senior attorney who specializes in gender law, I once represented a woman on a fixed-term contract whose employment was terminated after she applied for childcare leave, and we won the case. At the time, childcare leave was not granted to fixed-term workers, and I was able to develop critical thinking about the existing legal system.

I then had the opportunity to study the U.S. legal system through studying abroad at New York University School of Law and an internship at an NGO. Hoping to get more involved in international work, I took on the challenge of working at the Geneva headquarters of the International Labour Organization (ILO), a specialized agency of the United Nations, in 2010. I worked for three years in a department responsible for core labor standards (international standards on the elimination of discrimination in employment, etc.).

After working at the ILO, which is

a tripartite organization consisting of government, labor, and management, I realized the importance of approaching the employer side (companies).

Currently, I advise companies in a variety of industries on topics such as work style reform, occupational health and safety, and measures to eliminate the gender wage gap, which has been identified as a major issue for Japan by the international community. This is because aligning with core labor standards will lead to corporate sustainability.

When I saw the Company's materialities, I thought that I could make use of my expertise in human rights due diligence and sustainability. Human rights due diligence refers to the process by which a company properly understands and addresses the negative impact of its business activities on the subjects of human rights, and is becoming a point of focus for investors.

I think the Company's policymaking regarding the environment and human rights is a strength. There are probably not many companies that go so far as to clearly describe their approach and efforts regarding sustainability in their

securities reports and other documents. I can see their proactive approach to disclosure in accordance with the latest framework.

On the other hand, as an Outside Director, I need to closely monitor whether the reality is aligned with the stated goals. From the perspective of the workplace, I want to see whether there are any situations where people think, "They're saying cool things, but that's not true." In order to verify this, I want to hear stories and opinions from as many diverse employees as possible. Attorneys gather facts through interviews and other means, and develop the skills to analyze and discern what is important from those facts in their daily work. At the Company, too, I would like to take an approach that involves understanding the situation and gathering facts.

In addition, I believe that it is my role as a person who has been involved in labor law to monitor whether management is always aware of creating an environment in which people who work hard every day can work without losing motivation.

I feel that everyone on the Board of Directors proactively expresses their opinions. From the perspective of governance, oversight of execution is the number one priority, but at the same time, I am always asking myself whether they have the foundation to make swift and decisive decisions on strategic investments and new business projects, whether I am putting too much pressure, and what the execution side's true intentions are. I would like them to respond to the points raised by Outside Directors by explaining in detail how they relate to the vision that the Company is aiming for.

I would like the Company, which operates businesses that are rooted in the "lifestyles" of its customers and the local communities, to continue to send out messages that lead the evolution of society through the spaces it creates. In comparison with my experience abroad, I would say that there are still quite a few areas in Japan that are not equal, even though the importance of women's empowerment is emphasized. There must also be difficulties for ethnic and sexual minorities to live. There is still much that the Company can do to realize DE&I throughout society. As an Outside Director, I have high expectations for this, and I intend to make constructive recommendations and proposals to achieve this.