

J. Front Retailing
Summary of Q&A Session at IR Day
Date and Time: 15:30-17:20 on Tuesday, December 10, 2024

<Q&A Session>

Q. How many people are currently transferred across business domains within the Group each year? Also, what is your vision for the number of transfers by 2030? Also, other than transfers of human resources, are there already adequate opportunities for regular communication, for example, study groups and exchange meetings within the Group?

(Imazu)

A. Currently, there are approximately 900 people transferred or seconded across the Group between business domains and the Group companies. Through public recruitment twice a year, about 30 to 40 people are transferred each time, and the number of positions open to recruitment is increasing every year along with the number of people who apply. I mentioned earlier that by 2030, the ratio of human resource exchanges will be 20%. This is based on the idea that we would like to nearly double the current number of secondments for the purpose of human resource exchange.

Currently, Daimaru Matsuzakaya Department Stores' human resources are increasingly being seconded to Parco, JFR Card, J. Front City Development, J. Front Design & Construction, etc., while Parco's human resources are also being seconded to the holding company, Daimaru Matsuzakaya Department Stores, J. Front City Development, etc., within the Group. Transfers are not limited to between retail businesses, but everyone in the Group has the opportunity to experience different businesses, including non-retail businesses. Of course, we will place importance on the individual's own will and motivation, but we also want to increase the number of people who have experience in different businesses.

Aside from human resource transfers, for example, the digital human resources project I mentioned earlier is one example of a group-wide initiative. In addition, all training by management level is held across the Group. Going forward, we plan to increase the number of study sessions and measures for culture transformation that are carried out across the Group.

Q. I would like to ask for additional information on the organizational design for creating a cross-functional system within the Group?

(Imazu)

A. Currently, each business entity basically has its own corporate functions, but some corporate functions are gradually being consolidated into the holding company or the shared service company.

In the future, there are some functions that will be consolidated under the holding company, and we will also consider how we can improve quality while increasing operational efficiency across the Group, and consider organizational design not only on an individual basis, but for the Group as a whole.

(Ono)

A. Just to add a little more, earlier in today's presentation, I mentioned the concept of the "Group optimization," but we are creating the organization not only from an efficiency perspective, but also as a part of the process of creating an environment that facilitates the promotion of the Group strategies.

Specifically, this September we created a position responsible for the Group Customer Strategy at the holding company. Until now, customer management and the creation of touch points with customers were carried out separately by Daimaru Matsuzakaya Department Stores, Parco, JFR Card, and GINZA

SIX. With the view that the Group's collective strength would not be realized unless these were centralized, a new organization was established within the holding company, and the head of customer strategy at Daimaru Matsuzakaya Department Stores and the head of customer policy and CRM at Parco are working together in a dual role at the holding company. We hope to gradually expand the scope of these initiatives and use them to create concrete group synergies.

Q. From Ms. Koide's viewpoint, I would like to know if there are any specific challenges and room for growth regarding human resource allocation, the current cross-functional organization and initiatives.

(Koide)

A. Given the organizational structure of the holding company and each operating company, it is extremely difficult to decide what to consolidate and what authority to delegate, and I don't think there is one right answer. Sometimes the balance has to be changed depending on the phase each company is in. Now, under Mr. Ono's leadership, we have taken a rather large scalpel to that point, and I feel that the speed of action has increased dramatically by taking action on things that we were not able to do immediately before.

However, even though I say that, it is not something that can be easily solved immediately, and I think that there are some difficult aspects because an organization involves people, but I expect them to be patient, but make decisions when they need to. As a holding company, I expect them to make difficult decisions without forgetting the purpose of optimizing the entire Group and moving toward significant growth.

(Ono)

A. I intend to push ahead with this, including making difficult decisions. I have spoken extensively about our human resources strategy, but I believe there are two essential points I am focusing on.

One is to face each employee individually and develop his/her mindset without focusing only on skills, thereby fostering both the will and ability of the employee. I believe that this will lead to a breakaway from the successful sales reform experience I mentioned at the beginning.

The other is the need to increase human productivity in a healthy way. I have been talking internally about increasing productivity in three ways. The first is business productivity, which is similar to capital efficiency and capital productivity. In terms of human productivity, the Group still has a mixture of businesses with high and low per capita human productivity, and I believe that shifting from businesses with lower human productivity to those with higher productivity will be one base concept. The second is business productivity, which is to increase business productivity by digitally replacing existing operations through the use of AI and the advancement of DX. This is a mandate for those in charge of digital and system areas. The third is human productivity, which involves improving the ability and will of each individual. By combining these three factors, I hope to create a company in which each employee is not overburdened, but is highly productive, and to create a cycle in which profits are generated and returned to employees.

Q. I think it will be very interesting when the cultures of both Department Stores and Parco merge with each other. On the other hand, both companies have more employees from their suppliers than their full-time employees, so I imagine they have to change the mindset of not only the employees who have worked for many years in their respective cultures, but also people from their suppliers. What are your thoughts on human resources strategy and human capital, including those of their suppliers?

(Ono)

A. I was transferred to Parco for a year and observed both Parco's relationship with its suppliers and Daimaru Matsuzakaya's relationship with its suppliers, and there is still a difference. Parco has always treated its suppliers with the idea of equal partnership, and has built relationships with them that make it very easy to share information.

While I believe that it all comes down to Department Stores and Parco enhancing each other's strengths, in line with the basic concept of becoming a Value Co-creation Retailer that we are aiming for from now on, I think that we need to recognize our suppliers as one of our partners and develop new sales floors and bring about innovations that have never been possible in Department Stores before.

By utilizing human resources who have built relationships with suppliers at Parco, for example, appointing store managers at Parco as store managers at Daimaru Sapporo and Daimaru Tokyo, and thereby introducing the essence of aspects that could not be understood by the department store business company alone, I expect to see results through the building of new relationships.

Q. When the new system with Mr. Ono as President was announced, the Chairperson of Nomination Committee said, "Please understand that we have given maximum recognition to his future growth potential, rather than his current abilities." It has only been a little over six months, so it may be too early to say, but from Ms. Koide's perspective, what new changes have emerged since the new system was introduced?

(Koide)

A. As the Chairperson of Nomination Committee said, the president required in today's era shifts from a defensive talent to an offensive talent, and to achieve this, we need strong leadership and boldness to envision change that goes beyond the current framework. I think he said that to that end, he has high hopes for his future potential rather than his past experience.

In fact, I feel that Mr. Ono's strengths are not just his youth, but his extremely high energy level, drive, and decisiveness, as well as the clarity of his messages and excellent communication skills. Of course, he is still trying to do through trial and error, and I am sure there are some things that do not work. I feel that he has the ability to push forward without fear of that, and he has the message of why he wants to do so as a very strong point, so I feel that he can draw others in.

As for what I expect from him going forward, I believe that he has the potential to bring about innovation through different experience, different ways of thinking, and different approaches than traditional methods, so we, Outside Directors, have been talking about wanting him to take on the bold challenge of deciding how he wants to change the Company in the long term.

It has only been six months since the reforms began, so I understand that he is trying to achieve results by addressing areas that need to be reformed immediately and areas that can be reformed, but I would like him to raise his sights and envision the future with new ideas. As for the challenges that arise from this, Outside Directors are happy to support him. All the Outside Directors are willing to support him by providing the necessary advice and guidance. I am very much looking forward to hearing more and more proposals on how we can provide value not from an internal perspective, but from the perspective of customers and consumers.

(Ono)

A. I would like to make a comment from two perspectives. One is the relationship between the President and the Board Chair. In the previous system, Mr. Yoshimoto, President, and Mr. Yamamoto, Board Chair, were in a relationship of former boss and his subordinate, and both had long served as Presidents at Department Stores, so the Board of Directors structure and operation were run with a kind of tacit

understanding between them. I think there are naturally good things about this, but on the other hand, I think there were also difficulties.

As Ms. Koide explained, I always take time after the Board of Directors meeting to talk with her, and I believe that we have been able to talk quite frankly, focusing on how today's Board of Directors meeting went. It has only been six months in this way, and I have high expectations that the Board of Directors will improve further in terms of enhancing its effectiveness, so I will continue to do so honestly.

The other is that my own perception of the biggest challenge is that the executives must be stronger with the Board of Directors. In an interview with an Outside Director in a previous Integrated Report, I was very impressed by his comment that he would like to see the executives do something more drastic or make a drastic proposal, so that he would want to give them a push.

Since the Company has many very serious people, I think there was a point where the Board of Directors was positioned as a "boss." I feel that this is the most dangerous thing. Rather, I believe that the Board of Directors is there to firmly express the will of the executives and to step on the brake when that will goes too far or when the risk is too great. I have a strong desire to clarify what we want to do, take bold steps, and further develop strategies among the executives. I would like to continue making efforts to increase the effectiveness of our efforts.

Q. Regarding the issue of unrealized synergies with Parco, I understood that an exchange of human resources would be necessary. On the other hand, in the presentation, the Group's human resource exchange rate was set at 20% in 2030, which would be increased by 8 percentage points over seven years from the actual rate of 12% in 2023. Looking from the outside, it is unclear whether this is a fast rate or not, and it is also unclear whether the 20% level itself is high. Half of the employees are over 50 years old, so 20% may be impressive if the remaining 50% is used as the denominator, but I think that if the remaining half, those over 50, are left behind, the change will be slow. I would like to know more about the background to this 20% target level and timeline.

Also, in today's presentation, I got the impression that this human resource exchange was defined as "secondment," but I think there are plenty of areas where exchanges can be done without going as far as secondment. I would like to know if there are any plans to increase the speed of exchanges that do not involve secondments.

(Imazu)

A. As for the reason why we decided on the figure of 20%, while we would like to set a higher goal, as I mentioned in my explanation, currently there are differences in human resource systems between companies, so we will first increase secondments under different systems and evaluation structures. In doing so, we must consider the possibility that it may affect the individual employee's satisfaction and the salary increase or promotion at the company from which they are seconded. For this reason, we would like to first build a foundation and then increase the number of transfers based on the individual's will and motivation. In order to increase the will of our employees themselves, in other words, to make them think, "I want to do this job," we would like to work hard on various measures starting in the second half of 2024 and 2025, including letting employees know about the types of businesses that exist within the Group.

Although we have conducted open recruitment for secondments and transfers in the past, we believe that most of them were based on the needs of the organization. In the future, we would like to increase the number of transfers based on the will of each employee, and we have set a figure of 20% for fiscal 2030, up from 12% in fiscal 2023, in consideration of creating a solid foundation that will smoothly link the individual's performance to evaluation.

(Ono)

A. I believe that without the active participation of people over the age of 50, the Company cannot achieve transformation into a new Value Co-creation Retailer. Objectively speaking, I will be 50 years old next year, and Mr. Munemori, the President of Daimaru Matsuzakaya Department Stores is my contemporary, so we must consider what we should do in light of the fact that we are excessively young. In particular, there are quite a number of people who joined the Company between 1989 and 1992, and I believe it is necessary for them to demonstrate their productivity while still taking on new challenges.

There was a talk about the goal based on the percentage of seconded employees. If we look at the percentage alone, it will increase to 20% from 12%, but there are probably still some things that we cannot discuss at this stage in terms of the quality of the content, so the answer was based on that. Until now, secondments have been made to consolidate operations at the shared service company as a form of human resource exchange from the perspective of operational efficiency, and such human resources are included in the 12%. From now on, in order to further enhance the top line, we will activate the exchange of human resources in our core business as well. As a part of this, we will proceed with the goals I have just mentioned as a background for the secondment of our employees.

The definition of human resource exchange is, of course, not limited to secondment. We will also promote group-wide recruitment and training for some corporate functions. Furthermore, I, as a manager, will continue to provide opportunities for meetings and message dissemination in each area. There has been considerable progress in cross-functional training across the Group operating companies, and all training by each level of management has brought together all of the Group's eligible employees. I have participated in about 10 general manager training sessions since becoming President, and it is a fact that there are still people who say, "I didn't know there was a company in the Group that was engaged in this kind of business. On the other hand, there is still room for growth, and I would like to promote the exchange of human resources from all possible perspectives.

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