

J. Front Retailing Co., Ltd.
Summary of Q&A session at 16th Annual Shareholders Meeting

Date and time: 10:00 – 11:20 on Thursday, May 25, 2023

Venue: New Pier Hall

< Answers to questions at the venue on the day >

Q. (1) As an individual shareholder, I want the dividend to be raised as much as possible.

(2) I would like to know the book value and market value of the land owned by J Front.

A. (Wakabayashi, Director)

(1) The annual dividend for fiscal 2022 is 31 yen, an increase of 2 yen from the previous fiscal year. Our approach to dividends is decided based on the cash flow generation situation, future growth investment, improvement of financial structure, stock price situation, etc. Our basic policy is to return profits stably and appropriately, aiming for a dividend payout ratio of 30% or more. The dividend forecast for fiscal 2023 is 33 yen, and we would like to continue increasing the dividend.

(2) The book value of the Group's land is approximately 410.0 billion yen, of which that of Daimaru Matsuzakaya Department Stores and Parco each accounts for roughly half.

Q. This is a question about compliance. You should be aware that in the last six months or so, you have been warned many times by a public agency from the viewpoint of compliance. I have repeatedly pointed out your company's dissemination of information via the Internet, social media, etc. One sales floor manager told me not to call him and that he would respond if he was alerted by the public agency. In the past six months, the public agency should have cautioned against this, but salespeople lack legal knowledge. About cosmetics and food products, especially cosmetics. The law stipulates that the efficacy of cosmetics should be communicated within the scope of 56 items. Cosmetics salespeople don't know this.

A. (Sawada, President of Daimaru Matsuzakaya Department Stores)

We recognize that proper labeling and guidance at stores is very important, and we are taking measures to ensure that everyone is fully aware of it. Specifically, we use group training, e-learning, and other means, so that our staff can acquire and consolidate knowledge about related laws and regulations, including the Pharmaceutical and Medical Device Act, the Act against Unjustifiable Premiums and Misleading Representations, and the Food Labeling Act. Furthermore, we are striving for proper labeling and proper guidance by utilizing a third-party organization to conduct "on-site inspections of labeling" at each store.

We will continue to work together with the divisions in charge, each store, and each sales floor to ensure that all salespeople are aware of the proper labeling. We will take the guidance from the government seriously and respond to it.

A. (Yoshimoto, President)

We consider compliance to be of the utmost importance at all of the Group's operating companies and sites. We will take firm measures to ensure compliance.

Q. I believe that you will be investing through CVC in the future, but what are your thoughts on investment exits and investment returns?

A. (Ono, Executive Officer)

In fiscal 2022, we established our first CVC fund, JFR MIRAI CREATORS Fund. It has four main purposes. The first is the creation of new businesses. We will create new businesses by collaborating with various startup companies. The second is organizational culture reform. By coming into direct contact with people who are constantly taking on new challenges, we will spread the Group Vision of "Create and Bring to Life 'New Happiness'"

throughout the Group. The third is human resource development. In particular, we will train entrepreneur-type managerial talents. The fourth is financial returns.

In terms of return on investment, CVC is positioned as an R&D (research and development) investment, and we would like to seek strategic returns first. Rather than sticking only to financial returns, we will manage while focusing on how we can strategically contribute to the Group.

A. (Yoshimoto, President)

As for CVC, more investment projects than originally expected have been finalized, and we are announcing them in our news releases one by one, so that you can understand what we are aiming for as a strategic return. Of course, we are considering financial returns, but in the short term, we will keep a close eye on how effective the projects have been as a whole, rather than individual projects, as we prioritize strategic returns.

Q. Regarding ROIC, you said that this year it would improve to about twice the level of the previous year, but what exactly do you have in mind for the denominator and the numerator? How do you plan to improve the capital structure and increase profits?

A. (Wakabayashi, Director)

ROIC has recently been adopted by many companies as a key performance indicator. It is an indicator that shows how efficiently the company is able to generate profits by investing funds raised from shareholders, financial institutions, and other sources in its business. We have set ROE (return on equity) as an important indicator, but in order to improve ROE, we need to look at how to strategically and efficiently utilize borrowings in addition to shareholders' equity. Based on this recognition, we adopted this indicator in the current Medium-term Business Plan.

As you pointed out, we need to work on improving ROIC from both the denominator and the numerator. For the denominator, we will consider continuously returning profits to shareholders through dividends and other means. At the same time, the important point is to improve business profit, and it is necessary to look at ROIC not only on a consolidated basis, but also on a business-by-business basis. The Company has the Department Store Business, the SC Business, the Developer Business, and the Payment and Finance Business, but since the characteristics of each business are different, the profitability they should seek is also different. For example, the Developer Business, which is a future growth driver, is expected to require a large amount of capital, including up-front investments, and we would like to set a firm target for profitability relative to invested capital and use this as a basis for making decisions when investing. It is a key performance indicator for each business, and each operating company takes the initiative in tackling it, but as the finance division of the holding company, we will carefully determine whether the judgment of the operating company is appropriate. Through these efforts, we will improve ROIC and, as a result, improve ROE, to meet the expectations of our shareholders.

A. (Yoshimoto, President)

Although we have just started business management using ROIC, I think it will be a long-term initiative. We will firmly incorporate it into our strategy and put it into practice for improvement.

Q. JFR Card Co., Ltd. issues the Daimaru Matsuzakaya Card, while the GINZA SIX Card and PARCO Card are issued by different companies. If a single card company issues these cards, they will become easier to use and points will be able to be shared. Also, I am afraid that revenues such as settlement fees are flowing out of the company. There may be some reason why they are issued by separate companies, but since these facilities are now part of the same group, it would be simpler and easier to understand if they were made into one card.

A. (Ono, Executive Officer)

As you have pointed out, currently the cards for some of our commercial facilities are issued by card companies outside the Group. We recognize that if we can incorporate them into the Group, it will lead to further improvement of convenience for our customers and also provide growth opportunities for the Company. Recently, we have decided internally on the direction of switching to the issuance of these cards by JFR Card.

On the other hand, these cards are closely tied to the customer base of each commercial facility, and we recognize that there is a risk of losing the customer base depending on how we proceed. For this reason, we cannot proceed too quickly, but we will move forward with the plan so that we can generate benefits from the card consolidation at an early stage.

A. (Yoshimoto, President)

When we announced our financial results in April, we first mentioned our direction regarding the consolidation of cards within the Group. Each operating company needs to take detailed measures, but we will proceed with this initiative speedily.

Q. I would like to express my gratitude to the management team and employees for producing results in such a difficult situation. Regarding shareholder benefits, I would like you to consider issuing Daimaru Matsuzakaya Card with no annual membership fee for shareholders. Or can you consider rewarding shareholders who hold Daimaru Matsuzakaya Card with points equivalent to the annual membership fee or issuing a shopping card? Also, could the Parco shopping discount card, currently issued exclusively to shareholders, be made available for use at Daimaru and Matsuzakaya stores as well? In that case, I would like you to allow shareholders to register the card on the app as well.

A. (Matsuda, Executive Officer)

First, regarding the integration of Daimaru Matsuzakaya and Parco's discount cards, the business models and systems of Daimaru Matsuzakaya and Parco are significantly different, and the integration is expected to take a considerable amount of time and money. In addition, registration and use of shareholder benefits on the Daimaru Matsuzakaya app are not currently supported. We apologize for any inconvenience this may cause and ask for your understanding.

We would like to refer to the opinions of our shareholders when reviewing them for future shareholder benefits and improving the convenience of the app.

A. (Yoshimoto, President)

Going forward, when considering the cards of the Group as a whole, we will think about how we can meet the needs of our shareholders and other customers.

Q. There was a question about compliance earlier, and I got the impression that the responsibility of the person in charge for the points raised by the shareholder and his concern was obscured. Shouldn't the President have shown remedial measures to address the issue before the public agency pointed it out?

A. (Sawada, President of Daimaru Matsuzakaya Department Stores)

With regard to the labeling stipulated in the Pharmaceutical and Medical Device Act, we recognize that it includes in-store POPs, information posted by salespeople on social media, and sales pitches by salespeople. It is very difficult to check all of them, but we recognize that the most important thing is that the person in charge fully understands the content of the Pharmaceutical and Medical Device Act. Due to the wide variety of labeling, it is essential to improve the level at the site, and we educate and share with new employees and suppliers laws and regulations through classroom lectures and e-learning to ensure that they are thoroughly familiar with them.

A. (Yoshimoto, President)

Labeling is very diverse and in some cases legally difficult to understand. The cosmetics sections of our department stores are working on this issue as a matter of the utmost importance, and we will continue to make firm efforts to comply with the laws.

Q. That comment was about the cosmetics sections of your department stores. Is it correct to understand that this is a problem that also occurs in other department stores?

A. (Yoshimoto, President)

In the cosmetics sections of department stores, many salespeople from suppliers are engaged in customer service and sales operations, and each supplier is also involved in sales and advertising activities. At the same

time, we also proactively advertise and disseminate information. I am not in a position to make comments about other companies, but we are aware of the issues that we face and will thoroughly address them.

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