



SATO Rieko Interview with Outside Director

Biography

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| Apr 1984 | Registered as attorney at law |
| Aug 1989 | Shearman & Sterling LLP |
| Jul 1998 | Partner of Ishii Law Office (present) |
| Jun 2004 | External Audit & Supervisory Board Member of Ajinomoto Co., Inc. |
| Jun 2015 | Outside Director of The Dai-ichi Life Insurance Company, Limited |
| Oct 2016 | Outside Director of Dai-ichi Life Holdings, Inc. (Audit & Supervisory Committee Member) (present) |
| May 2018 | Outside Director of J. Front Retailing Co., Ltd. (present) |
| May 2019 | Director of Daimaru Matsuzakaya Department Stores Co. Ltd. (present) |
| Jun 2020 | Outside Director (Audit & Supervisory Board Member) of NTT Data Corporation (present) |
| | Outside Audit & Supervisory Board Member of Mitsubishi Corporation (present) |

Sincere efforts for governance

Due to the COVID-19 pandemic, almost all companies suffer a decrease in sales and profits. I think few companies will be able to achieve a V-shaped recovery in this situation. And how outside directors will be involved is an important governance challenge. Many companies identified a pandemic as risk but they did not think it would occur when they are

involved. What no one expected actually occurred. In this sense, we face a very difficult situation.

I think the Company's governance is quite good in general. I feel it has more opportunities and time including the Board of Directors meetings to engage with Outside Directors compared to other companies. Not only a system is in place but also people concerned address it sincerely and answer even

primitive questions from Outside Directors seriously. Outside Directors are explained well prior to the Board of Directors meetings and issues presented by Outside Directors are duly fed back to the Board of Directors meetings and the meetings start from them. When I told some other companies about this system, they said it was very helpful.

What impressed me in the past Board of Directors meetings was the discussion about the Medium-term Business Plan. The medium-term plan that started in 2017 had two major strategies. I think the Urban Dominant strategy as the first one works well. I think it worked well because it was implemented by expanding their familiar fields, mainly the department store business, in each area. However, the other Multi Service Retailer is to enter into new fields beyond the framework of retail. Its direction is not wrong but I cannot say they have achieved it.

Maybe it does not work because their idea is based on the conventional way of the industry. For example, in the current COVID-19 era, moving products is a bottleneck finally. Products cannot reach customers unless moved. How will they resolve it? If they sell online to customers who are difficult to visit physical stores, sales staff can explain and sell online. And ultimately, it may be good if they can measure customers and customers can try on clothes online. If they all step back from the department store and think with such idea, they will be able to find various needs and provide products and services that please customers.

Let go of past successes and be flexible

With regard to the speed of execution, I feel companies with legacy are alike. I think the past successes or successful business

models cause a delay and hamper.

Concerning the problem of the speed of execution, for example, seeing the process of the meeting when the department store tries something, they seem to spend much effort carefully preparing detailed and easy-to-understand materials and amending them. It is certainly important. However, I think it will be better if the Company has a culture that encourages specific challenges and actions. In some cases, they do not seem to take action even after thinking well.

For example, one of the problems is the ageing of good customers including *gaisho* customers of the department store. Therefore, I think it will be good to more widely take orders online. However, they close their ears to me saying they already do similar things. Outside Directors have obviously different perspectives from people of the department store. And in fact, it is sometimes frustrating that there is a gap in discussions and that it is not understood. Needless to say, we discuss to enhance corporate value, not to blame them. I would like them to just accept such perspective.

I think they can try various ways online, and if it does not work, they can try another. When I told them to try anyway, they listed the reasons why they will not try. They think it is not a department store unless it provides all possible services or that a department store must provide all possible services. They say they think of customers hard. It may have been good in the past. But if it takes time, it is not good now. Now it is lighter, shorter and changing quickly. So-called “disruptors” lightly jump without thinking of past constraints. It is obvious that they cannot defeat disruptors if they compete with them only with tradition. Tradition and conveniently located physical stores are certainly their strength. However, they cannot take advantage of

physical stores without something to compete in e-commerce. Only physical stores are not strength. They become strength only by operating e-commerce.

They do not want to take a risk and lack flexible thinking. It may be because they have long succeeded as a department store. When I was a child, the department store that I visited with my parents was like a “dreamland” that carries everything including toys and clothes and has restaurants and an amusement park on the top. However, the times have greatly changed. Due to these past successes, I feel their intentions to provide products and services across the board remain strong. They should recognize that customer values are more increasingly changing than they think. Past successes impede flexible thinking. I think it is a major factor.

Seeing execution from a broader perspective

I think Outside Directors also have a role as a coach. The present Outside Directors are from various fields and selected in a very balanced manner. Through an objective perspective, I can see what is not enough and what is too much. When I tell them they had better do something, sometimes they follow my advice promptly and other times they do not do so even if I tell them repeatedly. I think it is the greatest problem.

It is important to stand back to see things. As I have no experience of management and do not know how execution is conducted actually, I consciously take a step or a half step back to see things from a broader perspective. I try not to step into execution too much but to see both what is not enough and what is good as objectively as possible. If seeing only within execution, it is highly likely to become short-sighted. So when taking a step back to see

things, we can find what is not still enough and what to do.

For example, when considering M&A, we should start with a familiar one, not a large one. If they aim to become a Multi Service Retailer, they can make a difference by starting with considering customer needs. I think it will be better to invest small amount firstly, and then acquire know-how or grow it big. I think the first step should be alliance and investment. The Company cannot become a manufacturer, but if they find a D-to-C business, they will get an idea like a manufacturer by investing in it. By returning to the starting point of the Company that started with kimono fabric, found various things and developed as a department store, I think they can provide various products and services.

Concerning the new Medium-term Business Plan, which is being formulated, I expect the business that makes good use of e-commerce and physical stores. We may have to expect the impact of the COVID-19 crisis will continue for about two years and we have to expect that the main consumption channel will be e-commerce. Conveniently located physical stores will not perform well unless e-commerce is improved. I think the idea of “Multi Service Retailer” is excellent. So I hope they will think flexibly outside of the traditional business category of department store, starting with considering what customers need.

