

# Let Go of Past Successes and Take on the Challenge of Creating New Value.

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## A sense of crisis rather than a sense of accomplishment

Last fiscal year, in fiscal 2024, we achieved a record high in business profit, which represents the profit from our core business. This performance was driven by the Department Store Business and Shopping Center (SC) Business, which are centered on retail. In the Department Store Business, sales of gaisho (Japanese department store's traditional personal shopping service) continued to grow by enhancing our product lineup and services to meet the needs of affluent domestic customers, while spending by inbound tourists also expanded rapidly. Furthermore, in the SC Business, Shibuya PARCO and Shinsaibashi PARCO, which opened during the COVID-19 pandemic, gained support from both domestic and

international customers, finally demonstrating their full potential and driving the entire Parco business. I believe this is certainly the result of the support we have received from the consumers preferring high-quality, uplifting consumption and experiences, on whom we are focusing as our target.

We expect consumption by the wealthy to continue to grow steadily. Japan's personal financial assets exceed 2,200 trillion yen, an increase of approximately 200 trillion yen since the COVID-19 pandemic. Furthermore, one private research institute estimates that the number of wealthy households with net financial assets of over 100 million yen increased to 1.65 million in 2023. The rise of power couples, including younger ones, and the growth of the affluent youth demographic are often cited, and these individuals are likely included in that trend. Observing the

trends at our luxury mall, GINZA SIX, makes this particularly tangible. If concerns ease in the future against the backdrop of a sustained improvement in the income environment, the situation could become more positive along with the broadening of the base.

Sales to inbound tourists at our department stores have doubled compared to pre-COVID levels. However, a sober assessment reveals that the primary driver is a surge in purchases by overseas customers seeking to benefit from the price differential between domestic and international luxury goods, largely due to exchange rates. In other words, we have been blessed with a remarkably strong tailwind driven by external factors beyond our own capabilities.

In fact, since March, the yen has strengthened against other currencies. Combined with luxury brand price hikes

and a narrowing gap between domestic and international prices, the landscape of spending by inbound tourists, which had previously been centered on luxury goods, has undergone a dramatic shift. On the other hand, Parco, which has intellectual property (IP) content as one of its strengths, has been able to maintain double-digit growth in sales to inbound tourists even into this fiscal year, which I think suggests a shift in consumer behavior.

Rather than feeling a sense of accomplishment from achieving record-high profits, I feel a growing sense of crisis. Even amid the COVID-19 pandemic, resilience to the external environment has emerged as a major issue, and I am keenly aware once again of the urgent need for us to transform our portfolio to increase our resilience. While we have begun development projects in Nagoya, Shinsaibashi, Hakata, and other locations sequentially, we



still lack both substance and speed to reach the level of transformation we aim for.

I believe it is important to proceed with portfolio transformation in two major directions. One is to deepen retail, that is, to strengthen our existing department stores and Parco while expanding our wings by implementing and nurturing new retail pillars. The other is to promote co-creation with external partners while generating synergies within the Group. We will elevate our strengths to new heights.

### Refine the differences

Shibuya PARCO reopened after reconstruction in November 2019, and has made a strong presence while exuding individuality. Its appeal has garnered

overwhelming support not only from Japan's younger generation but also from overseas. The location of Shibuya PARCO is not particularly convenient. It takes about 10 minutes to walk uphill from Shibuya Station. Yet its ability to draw large crowds stems precisely from the fact that it has become a destination in itself. When it first opened in 1973, the current Koen-dori (Park Street), along which Shibuya PARCO is located, was called Kuyakusho-dori (Ward Office Street). Back then, the area literally had nothing but the ward office. Today, we take pride in the fact that it has become a unique presence that creates vibrancy in the neighborhood and defines the Shibuya area.

Shibuya PARCO has been rebuilt for five years, and times have changed considerably since the COVID-19 pandemic, so this fiscal year we undertook its major

stores and PARCO at the core, we will work with local residents and cooperate with local governments to create the appeal and value that will make the entire area a destination, and we want to make it a place that attracts customers from a wide area, including overseas. Ultimately, we seek to create a virtuous cycle where the revitalization of the entire area further drives the development of our commercial facilities.

We will implement such initiatives tailored to each area's unique characteristics, starting with Nagoya's Sakae area next year. The Landmark Nagoya Sakae, in which J. Front City Development is involved in development, is scheduled to open around summer next year. We believe that the commercial portion will demonstrate the new possibilities for retail that we can create. The adjacent Matsuzakaya Nagoya store and Nagoya PARCO have been undergoing strategic renovations since last fiscal year, each enhancing its unique appeal. Furthermore, the Group is working together as one, involving external partners in the area to prepare

## Strengthen our retail strengths even further.

## Then elevate them into new strengths for the Group.

renovation. One might wonder if there is some risk involved in making such substantial changes despite its strong performance. However, it could be said that Parco's DNA lies in constantly updating itself by anticipating the times and continuing to evolve. Its consistent commitment to a product-out approach in a positive sense may be what attracts so many customers.

In the Department Store Business, the Matsuzakaya Nagoya store underwent a major renovation that took two years. The primary goal was to approach the next generation market. One of the strengths of the Matsuzakaya Nagoya store is that roughly half of its sales come from gaisho customers. In order to further solidify its support from the wealthy, the store has made bold changes to its approach to women's apparel offerings, reducing traditional mass-produced and widely distributed women's clothing by about 60% while also working to create a new fashion zone by strengthening Japan's luxury items and other means. We have taken on some significant challenges for a department store often considered conservative, such as expanding the art section and opening a luxury beauty salon. The Matsuzakaya Nagoya

store has a sales floor area of approximately 87,000 square meters, so I believe there is still much that can be done.

The Daimaru Umeda store has also decided to undergo a major renovation as part of a large-scale renewal of the entire South Gate Building in which it is located. The floor layout will be drastically revised, reducing the sales floor area by 40% from the current level, while revitalizing it to create an edgy store that will enhance its presence. The grand opening is scheduled for spring 2029. Osaka's Kita district, centered around Umeda, has seen its appeal as an area significantly enhanced by developments such as the opening of Grand Green. Amidst these changes, we are working to rebuild our presence that only we can achieve.

GINZA SIX was developed as an integrated two-block complex, including the former Matsuzakaya Ginza store, under the direction of "not operating as a department store." Since its opening in 2017, it has continued to grow as Japan's premier luxury mall. It has now become a globally recognized destination, with customers in their 20s and 30s now accounting for half of its clientele. As it approaches its 10th anniversary milestone, GINZA SIX is undergoing an update to achieve further evolution.

In this way, we will further strengthen the strengths of our core retail business. I believe that first honing respective strengths will increase the appeal of the area and lead to new strengths for the Group.

### Deepen our presence in seven key cities

We operate stores nationwide, with a particular focus on development and revitalization in seven cities: Sapporo, Tokyo, Nagoya, Osaka, Kyoto, Kobe, and Hakata.

It will be important to make each area, centered around the seven key cities, into a more attractive destination. With the Group's commercial facilities such as department

## There is co-creation that only we can do.

## Turn the area into an even more attractive "destination."

various soft initiatives. We hope you will keep an eye on our efforts in the Nagoya area, which could be seen as indicative of the Group's future.

The Shinsaibashi area is expected to become increasingly attractive as Osaka City plans to significantly reposition Midosuji in the future. To further solidify our leadership position in the commercial sector in this Shinsaibashi area, we planted two seeds last fiscal year. One is to make Shinsaibashi Kyodo Center Building K.K., which owns the south wing of the Daimaru Shinsaibashi store, a wholly owned subsidiary, and the other is to expand the scope for redevelopment through investment in a special purpose company that acquired the Shinsaibashi Building. The announcement of our grand design for the Shinsaibashi area is still some time away, but the large-scale complex building, Shinsaibashi Project (tentative name), is scheduled for completion next year. We aim to enhance the distinct appeal of each location—the luxury offered by the Daimaru Shinsaibashi store and the entertainment experience provided by Shinsaibashi PARCO—while also revitalizing the broader Shinsaibashi area, including surrounding businesses.

Furthermore, looking a bit further ahead, in Fukuoka's Tenjin area, we are participating in the Tenjin 2-chome South Block Station-Front East-West Area Project (tentative name), commonly known as the Tenjin Big Bang. This involves jointly exploring a large-scale redevelopment encompassing surrounding shopping districts, with completion targeted for around 2030. We will bring together the collective strengths of the Group to create a large-scale complex that will be the number one in Kyushu, and we would like to work with the local

community to create an overwhelming and exclusive appeal.

### Embody CSV

We advocate sustainability management that balances solving environmental and social issues with our own profits through our business activities. We aim to achieve CSV (Creating Shared Value), which integrates sustainability with corporate and business strategies. We have repeatedly stated this because we believe that no matter how noble or desirable an endeavor may be for society, it is difficult to sustain without accompanying profit for ourselves. That is precisely why, based on the concept of CSV, we contribute to society as social value and generate profits as economic value. I believe we should aim for the co-existence of both: social value comes first, followed by solid economic value. This is the very essence of our Corporate Credo "Service before Profit." In that sense, I believe the Group has the idea of CSV embedded in its DNA from its inception, and it is precisely because we have embodied it that we have been able to continue our business for 300 to 400 years. We will never allow this core principle to waver in the future.

Based on this philosophy, we have decided to enter the reuse business by establishing a joint venture with Komehyo Co., Ltd. as part of our expansion of our business wings this fiscal year. While we have been involved in sharing services centered on AnotherADdress and recycling services centered on ECOFF, this marks our entry into the new business of reuse.

The reuse market is a rapidly growing sector, with



Japan's Ministry of the Environment reporting that the market size exceeded three trillion yen in 2023 and showing strong potential for further expansion. We opened a store specializing in purchasing pre-owned branded goods, MEGRÜS, at the Matsuzakaya Nagoya store in August, and aims to expand to more than 20 locations within the next three to four years.

In our reuse business, I believe that passing on valuable items from person to person and establishing them as "culture" contributes to the creation of rich lifestyles and the realization of a sustainable society. This is an initiative that pursues economic value while minimizing resource waste. Until now, our relationship with our customers has been that of seller and buyer, but through this business, I believe that we and our customers can become value co-creation partners that jointly contribute to the environment.

Since our core business is retail and we occupy a position between suppliers and customers in our supply chain, with diverse contact points, we play a very important role in influencing society both upstream and downstream. While our direct contributions may seem small, by adopting a perspective of co-creation with our

customers and suppliers, and by persistently building upon these efforts, we aim to create significant momentum.

### Let go of past successes

One of our strengths is low-cost operations. Compared to our peers, the ratio of selling, general, and administrative expenses to total sales at Daimaru Matsuzakaya Department Stores is significantly lower. This low-cost corporate structure was built through store-based sales reforms that began in the late 20th century. The store-based sales reform was originally developed and implemented independently by Daimaru. It involved a scientific approach to department store sales, classifying sales floors, dividing up roles such as purchasing and selling, and manualize them, thereby significantly streamlining operations. As a result, we were able to operate our sales floors with significantly fewer staff than before, and we were able to achieve one of the highest profit margins in the industry. This was undoubtedly a successful reform, and in fact it actually contributed to sales growth, serving as the foundation for our long-

show that women hold a high percentage of decision-making authority in purchasing situations, we recognize that for the Group's growth, we need more diverse perspectives, including those of women, in decision-making processes.

That said, merely boosting the immediate ratio of women in management positions will not enhance corporate value. The essence lies in creating an environment where qualified personnel, regardless of gender or other attributes, can assume management roles. First, we will increase the proportion of women within the talent pool eligible for management positions. To achieve this, we must also address the various challenges facing female employees.

Furthermore, women's empowerment can only be achieved by changing the awareness and mindset of those around them, not just the individual. I believe this is a very important theme to tackle as a management strategy, involving the entire Group.

And in the near future, we aim for women's

empowerment to become completely normal in the Group, to a point where even focusing on and discussing it would feel somewhat strange.

### Enhance governance while pursuing capital profitability

In 2017, we transitioned to a Company with Three Committees (Nomination, Audit, and Remuneration Committees). In order to further enhance our governance, we changed to a structure in which an Outside Director serves as Chairperson of Board of Directors last fiscal year, with the aim of strengthening management oversight functions by separating oversight and execution. As a result, we have been able to incorporate more external perspectives into discussions aimed at growing the Group, and the roles of execution and oversight have been made clearer, which I believe has strengthened the supervisory function of the Board of Directors and increased its effectiveness.

## Change our mindset.

## Now is the phase for taking risks and pursuing proactive challenges.

standing strength in cost management. While I certainly have no intention of denying this, every action has its side effects.

Manualization and siloed structures may have hindered new cross-organizational challenges, while excessive cost consciousness may have fostered an overly risk-averse mindset. Perhaps this created an environment that made it difficult for employees to feel motivated. While efforts have been made in the past to address these challenges, the overwhelming success experienced prior to that seems to have led to little improvement in the situation. To achieve growth with a medium- to long-term perspective, I believe it is essential to first change this mindset and forge a new path forward.

Japan is in the midst of a major shift from deflation to inflation. It is self-evident that costs will inevitably rise if left unchecked, and we will continue to rigorously control areas requiring restraint. At the same time, however, we may be entering a phase where it becomes easier to increase sales.

What we need going forward is to increase profits by boosting our top line. To grow our top line, it is essential to engage with the market, develop hypotheses, and pursue new value creation through repeated trial and error. Naturally, this will require commensurate investment.

We plan to invest 195.0 billion yen over the current three-year medium-term plan, with 65.0 billion yen allocated to growth investments. We intend to leverage these funds effectively to steadily nurture the seeds of

medium- to long-term growth. Meanwhile, regarding cost control, we will work to enhance productivity in existing areas by expanding the digital domain of our operations, including the use of AI.

Of course, it is perfectly acceptable to fail many times in the process of taking on a challenge, and in fact I think failure is inevitable. I believe it is important for each employee to change their values so that they don't see the path they are on as a fork in the road between success and failure, but rather that they see success coming from repeated failures. If the company backs them up in this way and changes the experiences and behavior of each individual, the Group can achieve major transformation.

### Women's empowerment leads to enhanced corporate value

From a diversity, equity, and inclusion (DE&I) perspective, women comprise over half of the Group's workforce at 53.8% (as of the end of February 2025). Furthermore, over 60% of new graduates joining the Group in fiscal 2025 are women. Even considering workforce numbers alone, it is clear that women's empowerment is crucial for the Group.

Meanwhile, the ratio of women in management positions was 26.2% as of the end of fiscal 2024, compared to the target of 31% for fiscal 2026. We are making steady progress, but given that many of our main businesses are heavily used by female customers and that survey reports

## Achieve an ROE exceeding 10%.

## To that end, we will steadily build concrete results

## from our transformation efforts.

In terms of applying capital market perspectives to management, I have reaffirmed through dialogue that investors possess diverse viewpoints and values. Through direct conversations with such investors and feedback from our investor relations team, I feel we have gained numerous insights and suggestions regarding our growth strategy, business ideas, and capital policies. What many investors fundamentally share is the expectation that our sustained growth will enhance corporate value, and to that end, I feel that we are being asked to make proactive investments while realizing the transformations we have set forth, one by one. This leads me to ask myself anew whether we are able to clearly communicate our vision for the future to the capital markets. It is essential that we clearly explain and gain acceptance for the rationale and appropriateness of what we are trying to do, such as what growth story we are pursuing and what we aim to achieve, how much capital is required and what returns are anticipated, whether we are taking appropriate risks relative to those returns, the timeline for realization, and why this will enhance corporate value. If we can achieve that, I believe even more investors will support us. And above all, we must ensure that we achieve solid results. By continuing to produce concrete results and meet expectations, I hope to deepen our relationship of trust with investors.

Corporate value can be seen as maximizing cash flow and reducing capital costs, or ensuring a return on capital that exceeds capital costs. In the current Medium-term

Business Plan, we have set a target ROE of 8% or higher. Considering our cost of shareholders' equity and the average for companies listed on the Tokyo Stock Exchange Prime Market, we cannot remain at 8% indefinitely. We would like to accelerate our transformation to evolve into a Value Co-creation Retailer by growing our existing businesses and transforming our portfolio, so that we can become a company with a stable ROE of over 10% at the earliest possible stage.

