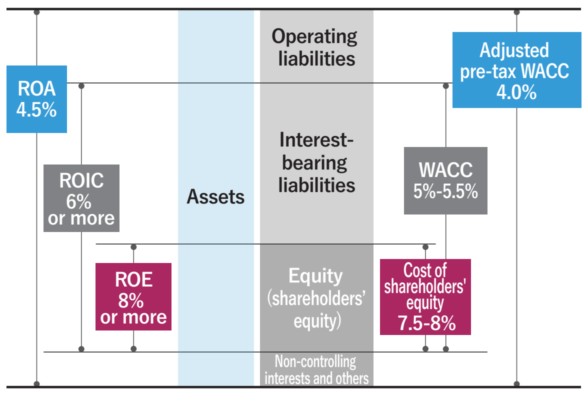
Finance Strategy

Profitable Growth

We believe that achieving a return on capital that exceeds the cost of capital is important to realize an increase in corporate value. In the current Medium-term Business Plan, we aim to improve profit levels by promoting two key strategies: “deepening retail” and “evolving the Group synergies,” while also ensuring return on capital and achieving profitable growth by appropriately controlling the amount of invested capital and equity.

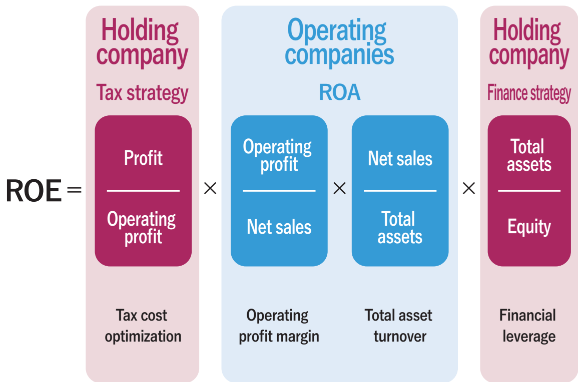
The Company's current cost of shareholders' equity is believed to be around 7.5 to 8.0%. The target ROE is 8% or more by fiscal 2026, the final year of the current Medium-term Business Plan, and 10% or more in the medium to long term. However, last fiscal year, ROE was 10.5% due to the one-off factor of recording gain on step acquisitions of shares. Looking ahead, we aim to become a company that can achieve an ROE of 10% or more in the medium to long term by quickly raising the level of business profit, which indicates the profitability of our core business. Furthermore, as interest rates have risen due to changes in the financial markets, the Group also expects its financing costs through debt to rise, but financial strategies have become increasingly important from the perspective of securing profit. To improve profitability on a consolidated basis, operating companies are increasing their earning power by maximizing ROA, while the holding company is promoting finance strategy. As such, their respective roles are clearly defined.

Relationship between ROIC and ROE targets and hurdle rates



*Cost of shareholders' equity is calculated based on CAPM.

Roles of operating companies and the holding company



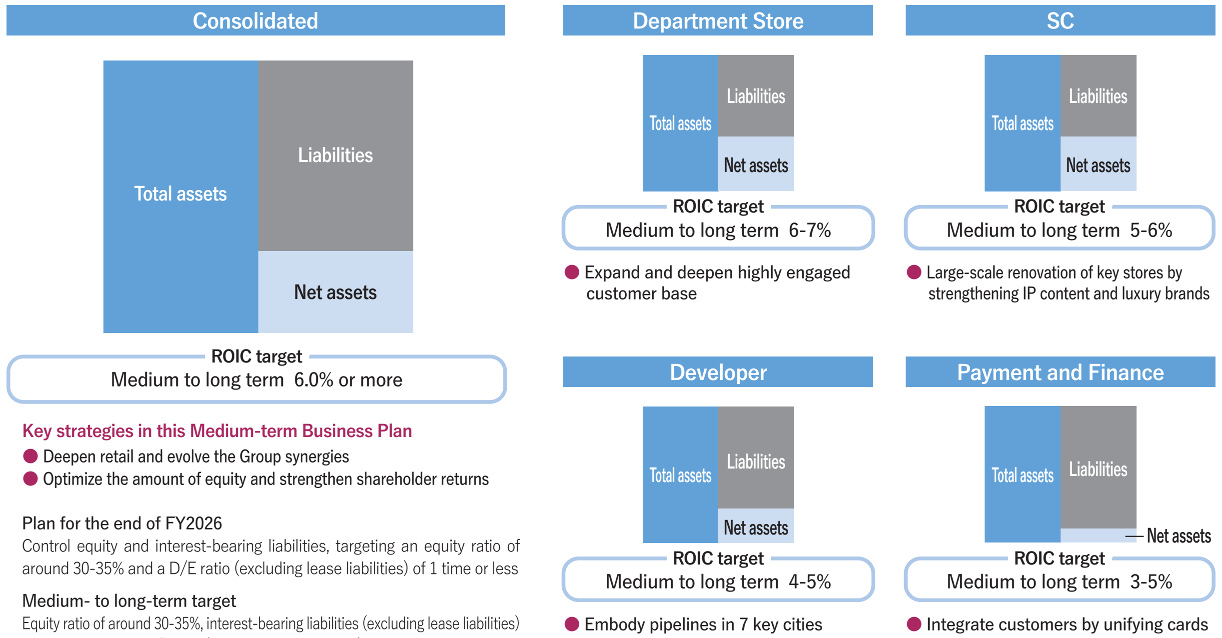
Relationship between ROE and Stock Price Index

PBR (Price book-value ratio)		ROE (Return on equity)		PER (Price earnings ratio)
Market cap / Equity	=	Profit / Equity	×	Market cap / Profit

Balance Sheet Management and ROIC

In managing its balance sheet, the Company controls the equity ratio and D/E ratio at levels that allow it to maintain a sound financial base from a safety perspective. In the medium to long term, we believe that the appropriate levels are a consolidated equity ratio of approximately 30 to 35% and a D/E ratio (excluding lease liabilities) of 1.0 time or less. On the other hand, in order to control the amount of equity within an appropriate range from the perspective of capital efficiency, during the period of this Medium-term Business Plan, we will return profits to shareholders by purchasing treasury stock as appropriate, in addition to paying dividends based on a dividend payout ratio of 40% or more. We also manage cash and deposits held at all times based on the principle of maintaining only the minimum level deemed necessary from an efficiency perspective, without holding excess cash and deposits.

In addition to promoting key strategies, we also manage our balance sheet in accordance with the characteristics and risks of our businesses. For new investment projects involving the acquisition of assets of a certain scale, we convene an Investment Plan Review Committee to ensure that profits are commensurate with the investment amount and quantitatively verify the appropriateness of recognized risks, with the aim of achieving the ROIC target for each segment.



Key strategies in this Medium-term Business Plan

- Deepen retail and evolve the Group synergies
- Optimize the amount of equity and strengthen shareholder returns

Plan for the end of FY2026

Control equity and interest-bearing liabilities, targeting an equity ratio of around 30-35% and a D/E ratio (excluding lease liabilities) of 1 time or less

Medium- to long-term target

Equity ratio of around 30-35%, interest-bearing liabilities (excluding lease liabilities) of ¥270.0 bn or less, D/E ratio (excluding lease liabilities) of 0.70 times or less

	Segment	FY2024 ROIC results	FY2026 ROIC target	WACC
Consolidated	Department Store	10.7%	10.8%	4-5%
FY2026 target ROIC 6.0% or more ROE 8.0% or mote	SC	5.1%	5.4%	3-4%
	Developer	6.5%	5.7%	3-4%
	Payment and Finance	1.8%	3.3%	2-3%

*In principle, WACC by segment is reviewed for each Medium-term Business Plan period.

Proactively Respond to Changes

NAGAMINE Takamasa
Executive Officer
Senior General Manager, Financial Strategy Unit
J. Front Retailing Co., Ltd.

The Japanese economy is currently experiencing steady growth, and as we enter what is being called a “world with interest rates,” Japan’s financial markets are gradually returning to their normal state. Even in this environment, we realize that finance strategies are becoming increasingly important as a stable foundation for supporting our business.

Based on the principle that it is essential to respond more proactively than ever before to changes in international situations and financial markets and to control our liquidity and interest income, in May of this year we issued our first straight corporate bonds (including sustainability bonds) since the COVID-19 pandemic. This funding is being utilized as part of growth capital for future business and capital investments. Anticipating the arrival of a rising interest rate environment, a market shift we had not experienced for a long time, it enabled us to secure stable, low-cost funding from a long-term perspective.

To continuously secure the necessary investment funds under more favorable terms, we engage appropriately with financial markets while also pursuing an optimal capital structure that balances both robustness and efficiency on our balance sheet. We also diligently manage adequate liquidity on hand. Our critical mission is to build a financial foundation that maintains an adequate risk buffer at all times and remains largely unaffected by changes in the business environment through these activities, even in the event of sudden changes in the business landscape.

The Group has adopted ROIC as a metric for measuring business efficiency since 2021. By utilizing it as a common yardstick for expanding consolidated earnings in a manner consistent with our approach, while considering the industry characteristics of the operating companies belonging to different sectors in the Group, we aim to build a balance sheet that enables both growth investments and profit growth for the future and that enhances growth potential. We will continuously refine our “earning power” to ensure that our shareholders and other stakeholders can benefit from the fruits of our growth as a result of these efforts.

We aim to maximize the corporate value of the Group by appropriately linking the pursuit of ideal capital and financial policies, which are shown on the “right” or “defensive” side of the balance sheet, with business activities, centered on investment, which are shown on the “left” or “offensive” side.