



**We are now in transition to a new growth phase toward the next decade. We will drive new transformation and innovation by changing everything that needs to be changed.**

President, CEO and CDTO  
Toshihiko Sugie

## Upon the 10th anniversary of Business integration, we will embark on a new step toward the next growth phase.

I am Toshihiko Sugie, President and CEO. In the current fiscal year, the Isetan Mitsukoshi Group, which was established in 2008, marked the major milestone of the 10th year since its formation. During this time, competition across industries has further escalated and the consumption of products has shifted to the consumption of services, indicating diversifying lifestyles.

In this business environment, in fiscal year 2017 we began to rapidly implement restructuring measures with the aim of achieving sustained growth, including the review of unprofitable businesses and cost structures in the Group, based on in-depth discussions with the officers and employees sitting face to face. As a result, we are now positioned to take the first step forward with an eye on the next growth phase.

### “Connecting people and bridging times” is our mission.

In this regard, we established “our philosophy,” which is the *raison d'être* of the Isetan Mitsukoshi Group and the Group’s vision for itself, in the current fiscal year as a new corporate philosophy and will work to accelerate our reform of “Connecting people and bridging times” for the next growth phase.

In 1904, while modernization had been underway since the Meiji Restoration, Mitsukoshi issued the Department Store Declaration and transformed from a traditional kimono shop into a modern retail store, the first in Japan to do so. We increased the variety of products we offered at the storefront by adding imported cosmetics, children’s clothes, bags, shoes, and other products. We thus played a significant role in developing Japanese culture during the age of modernization.

Department stores have existed for as many as 115 years since their launch in the Meiji Period because they represent an attractive business model, offering everything related to clothing, food and housing.

Approximately 30 years ago, however, they underwent a major shift to a style of selling mainly women’s apparel. This was shortly after the start of the bubble economy. The business model of dealing with highly profitable women’s apparel supported by strong needs among women who were the driving force of consumption in those days led to significant success. After having earned greater profits, however, department stores became conceited and stopped evolving their businesses. Looking back at the major innovations we made in the past, Japan’s first self-propelled parking facilities were constructed at Isetan Shinjuku Main Store preempting the



Internal briefing on the start of our philosophy

popularization of private cars. At a time when women’s apparel came in small, medium and large sizes, we offered six different sizes, from 5 to 15. The Isetan Mitsukoshi Group has built relationships of trust with customers through proposals and the transmission of ideas ahead of the other department stores. In addition, turning the basements of department stores into food hall was a unique idea created by Japanese department stores, and it had not been seen anywhere else in the world at the time.

Unless we revive the innovative structure that we had in the past and establish a corporate culture that can generate innovation, there will be no future for us as department stores.

Today, the Internet has made it easy to purchase goods. What we should do in the future is not to simply sell goods but to “connecting people and bridging times,” which cannot be achieved by the Internet. Creating this connection is our mission as the Isetan Mitsukoshi Group.

### We will resume the corporate culture, spirit and mind that have generated innovations

However, innovations will require some time, because value is created through people in many aspects of the department store business compared to other industries. The headhunting of human resources with wonderful technological expertise or the merger and acquisition of other companies alone are not sufficient to advance reforms.

There are only a limited number of issues that can be solved immediately with a top-down approach. Unless individuals in different positions have an awareness of generating changes and unless individual store changes itself one by one, our reforms will not advance.

For this reason, our policy for this fiscal year is to firmly establish a corporate culture and spirit. I have already conveyed the message “Let us change everything” to all

# We will positively develop reform toward the new era.

employees, so as to develop a workplace environment in which each member can put what he/she should do into proper perspective and then translate that into action, without taking a defensive position. The mission of department stores is to offer customers better lifestyles and fulfillment. In the past, we believed that having value-added products in our stores and selling them to customers would contribute to their well-being and happiness. However, technological progress has enabled easy access to information via the Internet. While maintaining our basic attitude regarding dealing with customers, we will need to change everything about the method and means for communication with customers.

## Digital transformation is paramount.

The most critical matter at present is our response to digital transformation. Approximately 10 years have passed since smartphones became popular. Now, almost all customers use smartphones to collect information, send messages, make purchases and receive services. Our everyday lives have been significantly transformed. The department store business has not been able to respond to these sea changes, and we must begin to innovate rapidly right now.

A couple of decades ago, if we aired a TV commercial, we could draw customers' attention. Now, everything has been overtaken by Internet word-of-mouth. In addition, customers can check current events at the commercial facility where our store is located before visiting it. If there is a more interesting event at another commercial facility, they will simply change their destination. We will need to further enhance our information dissemination capabilities and expedite the process of creating a system to prevent customers from changing their destination. We will be willing to make investments for this purpose.

## Enhancement of customer satisfaction through digital transformation

Moreover, facing an era of population decline, the recruitment of human resources will inevitably become more difficult. In the future, the lack of personnel will also need to be dealt with using digital technologies. Under the current system, customer information is managed

on each shop of our store so that we can treat those who come to the shop as frequent customers. On other shops, however, they are not treated as frequent customers because such information is not shared among the different shops.

In the future, the first floor that a customer visits and made purchase when he/she comes to our store should capture customer visit information that should be shared throughout the store in order to implement an appropriate response. Such information management may be difficult with human power alone, but will be possible using digital technologies. In addition, the purchase data of MI Card users are analyzed on a single product basis in the Isetan Mitsukoshi Group, unlike other department stores. By using such data and other measures such as determining what prompted a user's visit to our store and what a user searched on the Internet before visiting our store, we will be able to improve the quality of our services and achieve greater customer satisfaction.

To cover a shortfall in human resources while improving services and customer service capabilities, digital transformation is essential. Although human beings cannot live in confinement at home, the ratio of sales via the Internet will rise and that of over-the-counter sales will decline further in the future. I am acutely aware that the Isetan Mitsukoshi Group will need to stay at the forefront of such reforms toward the next era.

## The effective use of our assets will be promoted based on a long-term vision.

The task of creating a framework toward the next era is one of the issues about which we must start thinking carefully. How will we deal with our stores in the future? If we are to scale down these stores on the ground, what will we do for the effective use of real estate and other assets?

The Isetan Mitsukoshi Group ranks among the top real estate owning listed companies in Japan. The effective use of the assets is a major issue in any era.

For example, we own parking lots in the peripheral areas surrounding the Isetan Shinjuku Main Store and other real estate properties. We are taking time to consider how these properties should be redeveloped in the future in order to enhance profitability. We have similar issues in our other stores. All of these require a long-term perspective, and I think we need to start working on them now.



We will need to advance reforms at least by the time of the start of the Olympic and Paralympic Games Tokyo 2020, as we expect a large number of customers to visit from overseas. During this period, we need to advance our reform with eyeing on the next era. This notion is shared by all the members of the management team.

### Promotion of structural reforms in all areas

A year has passed since I took office as president. At the beginning, the issues discussed in the management team were broadly categorized into “backlog issues accumulated over the years” and “new issues arising in the last few years.”

Overcoming these issues will inevitably entail painful reforms, and leadership changes are good opportunities for advancing reforms. The current management team is moving ahead positively with reforms of unprofitable



A dialogue with on-site managers on our philosophy

businesses, cost structure and other issues in all areas. For example, Mitsukoshi Isetan Food Service Ltd., a subsidiary operating the supermarket business, had been struggling and had dim prospects for returning to profit after having implemented store remodeling and other measures. In April 2018, we conducted corporate divestiture by selling 66% of its shares to Marunouchi Capital Inc., an investment fund.

In addition, we are reviewing unprofitable stores and closed the Isetan Matsudo Store in March 2018. And we had announced to close the Isetan Sagamihara and Isetan Fuchu stores in September 2019, and Niigata Mitsukoshi in March 2020.

Although, at the onset of the series of structural reforms, we thought it would take more than two years to solve the backlog of issues accumulated over the years, we have actually implemented reforms for those with higher priorities in the past year. We naturally have ongoing initiatives and are working to determine the best direction for the remaining issues and to implement action plans. During the past year, some stakeholders expressed opinions to the effect that they could not see our next growth phase. As we have made some progress in reviewing unprofitable businesses and undertaking cost reduction reforms, we can finally talk about growth in the next 10 years.

We will step up reforms by continuously solidifying our defensive footing while adding new aggressive measures, and we will ensure that both defensive and offensive measures work well.

### “Visualization of profits” at more finely differentiated levels than the store level

At the time I became president of the Company, “visualization of profits” was an important issue. For example, although we could see that a particular store was unprofitable or profitable, we failed to sufficiently examine why. To deal with this problem, we started to examine profits by breaking them down into each floor, each shop and each event from the previous fiscal year. This motivated everyone to make creative efforts and is starting to produce results, including improved profitability. We have been pursuing these initiatives for a year, with some stores returning to profitability as a result of cost cutting while others may face a limit at some stage if sales do not increase.

In this fiscal year, our efforts will be focused on cost reallocation for profit maximization from the current level of cost reduction.

Currently, cost ratios have not changed much even though sales increase or decrease. Cost of sales is part of the expenses that arise before generating profits and it is important to efficiently allocate cost.



# Through the integration of “human resources,” our strength, and “digital technologies,” we will provide new value to our customers.

Unless we make a fundamental change in this regard, we will not transform ourselves into a company with a profit-generating structure. As we are now in the second year of reform in the current fiscal year, we will strengthen the movement toward a complete shift from our previous way of thinking.

## Revitalization with a focus on flagship stores with strong growth potential

Many customers are expected to visit our flagship stores from within Japan and overseas until the end of the Olympic and Paralympic Games Tokyo 2020. In fiscal year 2017, the Isetan Shinjuku Main Store recorded the highest sales, second only to the all-time high recorded in 1991 during the bubble economy.

The Mitsukoshi Ginza Store achieved record-high sales, and we gained confidence that the figures supported the results of repeated trial and error for the past 10 years. We will continue to strengthen sales toward 2020 by actively investing in our flagship stores.

For example, although sales of cosmetics have tripled compared to those 10 years ago at the Isetan Shinjuku Main Store. Since we are obviously inconveniencing customers due to the small area, we think that sales will grow further if the floor area is expanded.

In addition, sales are rising steadily at the brand shops introduced in the new annex of the Mitsukoshi Nihombashi Main Store compared to previously, when the store had insufficient varieties of jewelry, watches and other high-end brand products on offer.

In this way, we will place greater focus and emphasis on developing stores so that they generate profits by concentrating investments in the flagship stores as a starting point. When we accumulate profits in our flagship stores, we can make additional investments for further growth. By working intensively on reforming the flagship stores while we work to maintain the current trend of strong sales, we are determined to build solid financial strength to enable the expansion of cash flows and make reinvestments. Higher cash flows will enable us to take on more challenges in the next growth phase. We will provide new value to our customers through the integration of “people,” our strength, and “digital technologies.”

## Aiming to be future department stores that make use of the power of IT, stores, and human resources, or platformer

The transformation of the business structure using the Group’s strengths is the key to the three-year plan (FY2019 to FY2021) announced in November 2018. In the environment in which electronic commerce and mail order firms are increasing their presence, the Isetan Mitsukoshi Group must accelerate the establishment of new businesses utilizing the digital fields.

In this regard, we will connect e-commerce (online) and stores (offline) by using the power of IT, stores, and human resources, aiming to be future department stores that create new value by taking advantage of human resources as a strength. This is something only the Isetan Mitsukoshi Group can do.

What will be important in the coming era is how we improve our dialogue with customers based on “human resources” + “AI.” I am convinced that we can establish a platform for the dialogue because the Isetan Mitsukoshi Group has extensive human resources who can create new value by having dialogues with customers and making proposals.

For example, staff members at the storefront should improve their capabilities to transmit information, make digital records of proposals to customers and feed these cases as teaching materials into AI. AI can grow further through records of email exchanges with customers.

At the Mitsukoshi Nihombashi Main Store, a new model of human resources development has already been introduced with an eye toward using digital technologies. When staff members acquire the capabilities to have an understanding of and sell the products on an entire shop and make proposals, in addition to being in charge of one particular place of a shop, they can guide customers who are wondering which products satisfy their needs to the right products. We are currently cultivating the seeds of new businesses for the future.

In addition to the above, in the spring of 2019, we are planning to launch new initiatives using digital technologies. One is personal styling, in which our stylists provide counseling to customers via online chat and deliver a personalized selection of products to their homes, without customers’ visiting a store. We will also launch an

integrated cosmetics website, which will offer one of the widest selections of products in Japan, information and contents which allow customers to find the products they want, and convenience.

### **ESG initiatives for responding to demands and issues arising from changing society**

Rapid changes are taking place in the social environment surrounding businesses. In our business activities, we need to respond to demands and issues arising from changing society from the perspectives of ESG and SDGs.

At the Isetan Mitsukoshi Group, we will enhance initiatives for connecting people, connecting sustainable societies, and bridging local communities and times by positioning them as material issues on ESG. In addition, we established the Sustainability Promotion Committee during the current fiscal year and announced the Isetan Mitsukoshi Group Procurement Policy in May 2018 to convey our approach to CSR procurement to stakeholders. We will work to further boost its effectiveness.

As it is important to continue promoting these measures, not to view them as one-off projects, we will clearly define systems for promoting such measures in the future



to contribute to solving social issues around the world, while at the same time creating value that is unique to the Isetan Mitsubishi Group.

### **We will further promote our dialogues with stakeholders.**

We have been working rigorously to uphold our corporate governance system. We are confident that our system is one of the most outstanding systems among Japanese companies.

For example, the Nomination and Remuneration Committee holds more than 10 meetings annually, and the number of meetings held since the corporate integration has already exceeded 110.

Moreover, since reputation and evaluation are vital to department stores and other retailers, we are making utmost efforts to build systems that can be trusted by customers.

We have, however, become aware that our disclosure of these measures has been insufficient. Therefore, we will actively disclose our daily activities starting in the current fiscal year to make investors aware of the merits of the Isetan Mitsukoshi Group.

We will also engage in dialogues with stakeholders more proactively than ever before. We believe that corporate governance does not end when the relevant systems are in place, but is to be fostered based on dialogues with investors and other stakeholders.

As the president of the Company, I sought to respond to opinions and questions from shareholders at general meetings of shareholders as much as possible. I believe that the most suitable form for us as a publicly traded company is to have continuous dialogues with more and a wider variety of people and to incorporate their advice in our management policies. We hope to make fair disclosure of information and have in-depth discussions and sincere dialogues. Under the three-year plan (FY2019 to FY2021), we will aim to achieve 35 billion yen in consolidated operating income with a return on equity (ROE) of 3.7% in FY2019, and 50 billion yen in consolidated operating income and an ROE of 5.0% in FY2021, as our medium-term key performance indicators (KPIs).

We are well aware that our ROE is at a low level and should be raised to the industry average as much as possible. In order to achieve this, we will work to further our business management with an emphasis on net income and ROE. For example, the management team will consider share buybacks and other means of shareholder returns and have positive discussions on enhancing our earnings power.

We would like to ask for the continued support and encouragement of all shareholders and stakeholders.