

We aim to be a “special” department store-centered retail group that enriches the lives of its customers.

Providing exciting solutions for customers' problems and innovative proposals for their interests.



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Director, President and CEO

Backdrop to the Formulation of the New Medium-Term Plan

Creating a new business model for department stores

My name is Toshiyuki Hosoya and I am the President and CEO of the Isetan Mitsukoshi Holdings.

The department store industry has been facing a very challenging management environment for some time. Traditional department stores were the places where people went out with their family and friends and stayed for a long time to shop and eat as they walked freely around the store. They were focused on a mass marketing business model, which involved attracting a large number of customers to the store from a wide area in order to increase sales by customers walking around themselves once they arrived.

However, as the lifestyles and values of customers have changed with the times, customers no longer visit stores with the conventional range of merchandise. Traditional mass marketing does not meet the needs of customers who want to be very

discerning about what they consume or for the products they care about because what customers put emphasis on varies from person to person, while at the same time being focused on function and price for other products that discerning customers are not much interested in. Moreover, with rapid advances in digitization, customers now have so much information we cannot keep up with it. These days, many customers can use their smartphones to instantly search and compare the things they want. As these customers connect with such information on a daily basis, they have become increasingly sensitive to information, and when they come to the store, they only buy what they need and then leave.

The old business model for department stores does not exactly meet this emerging trend, and my mission as president is to find a way to change this.

I became CEO in April 2021, and moved immediately to steer a major change in the business model for the Medium-Term Plan (FY2022 to FY2024), first presenting an outline in May and then announcing more specific details, including numerical targets, in November.

Looking at the environment surrounding the department store industry, as you may know, the future of personal consumption is very uncertain due to soaring raw material costs triggered by the Ukraine crisis, inflation, and the rapid depreciation of the yen. The market size of department stores appears to be getting smaller and smaller, due in part to Japan's accelerated population decline, declining birthrate, and aging population, demographic trends that were already underway prior to the COVID-19 pandemic. However, statistics show that due to the polarization of income, both the high-income segment and households with significant financial assets are expected to increase in the future. In addition, Japanese consumers have experienced the bursting of the bubble economy following a period of rapid economic growth, the Lehman Shock, and prolonged deflation, and their consumer behavior has matured considerably. As I just mentioned, for those items that customers really care about, we need to make proper proposals that do much more than simply appealing to customers on the basis of price.

In fact, although we experienced a significant drop in sales during the COVID-19 pandemic, sales of high-value-added items for which we have a solid product lineup, such as luxury brands, jewelry, watches, and precious metals, remained strong. Even in the tough apparel segment, our unique value-added products have been very well received by customers. These product lines were by no means supported only by high-income earners.

As this example shows, while overall consumer spending may shrink over the long term due to a declining population, we believe that there is ample room for expansion by establishing a business model that continues to provide value to each and every customer that is second to none.

Things that remain the same and things that change when moving toward a new business model

The strengths we have long cultivated through our department store business, and the unique advantages that each of us has built up as Mitsukoshi and Isetan will give us a competitive edge. The strengths of the Isetan Mitsukoshi Group are the value of the goodwill that our customers recognize and the customer base we have treasured throughout our long

history. In addition, Mitsukoshi's strength lies in its abilities to provide hospitality and customer service that meets individual customer needs completely, which are derived from its corporate culture of putting customers first. Meanwhile, Isetan's strength lies in its merchandising capabilities, enhanced by a spirit of challenge that extends to manufacturing in order to attract more customers to stores based on its corporate culture of putting customers first, which is the same as that of Mitsukoshi.

In building a new business model, we will continue to build on these strengths that we have cherished for many years. However, it has been 14 years since the business integration between Mitsukoshi and Isetan, and we have yet to combine and take full advantage of the strengths of the two companies. In order to solve this problem, we decided that we needed to change into a retail group that can create new value and synergy by combining the strengths of our Group companies as well as the core department store business.

Vision of the Isetan Mitsukoshi Group

The aim of our new strategy

Our companies have a long history, with Mitsukoshi having been in business for 349 years and Isetan 136 years in 2022. Throughout this history, both companies have held a customer-first principle since their founding. While facing changes in society and the environment in each era, we have continued to anticipate customer needs and enrich their lives up until the present day. Now we are returning to this starting point with the aim of becoming a “special” department store that can provide exciting solutions for customers' problems and innovative proposals for their interests, thereby creating a new business model as a department store-centered retail group of today.

Our strategy, formulated in response to the Group's vision, describes the types of profit steps and business portfolio we want to achieve over both the medium term (three years) and long term (10 years).

Let's look first at the biggest goal of the Medium-Term Plan, namely the revitalization of our department store business. Here, we aim to achieve a record profit for the Isetan Mitsukoshi Group, with

operating income reaching 35 billion yen in FY2024. We have been thoroughly analyzing all our business units using "Scientific analysis of department stores," and have linked subsequent plans for not only with respect to size of sales, but also in terms of whether they are attaining efficient and appropriate levels of profit. In this case, we create regular profit/loss charts not only for stores, but for individual customer groupings. This response is not linked to a large mechanism but to spreadsheet software. However, it enables us to ascertain whether we are providing appropriate benefits in accordance with customer purchases, how and where we can spend money to please customers when they are shopping, and whether we can generate sustainable profits. We use this approach to formulate strategies and promote discussions based on concrete, not subjective, analysis.

We seek to thoroughly improve and revitalize our department store business, which is our key strength, centered around three determined strategies that I will explain later. Meanwhile, during the three years of the Medium-Term Plan, we will strive to create profitable business models in the long term for each of our Group businesses, centered primarily on real estate and finance by maximizing the appeal of department stores, creating as many customer fans as possible, and unite to respond sincerely to those customers' needs not only through our department stores but also through our Group companies. As a result of these efforts, over a span of 10 years, we are building a stable profit structure for the Group that will boast operating income of 50 billion yen and a business portfolio in which the majority of businesses are not related to department stores.

Let me now introduce the three strategies in the Medium-Term Plan.

Overview of the Medium-Term Plan

"High sensitivity, fine quality" strategy: For consumers who focus strongly on daily living and desire rich, high-quality lifestyles

In order to have as many customers as possible become fans of our Company, we need to shift our thinking from mass marketing, which was a one-size-

fits-all approach, to personal marketing as soon as possible, listening carefully to each customer's needs and responding accordingly.

I will start with a case study of an out-of-store customer. On this occasion, we created several new frameworks for our out-of-store sales staff to be able to make new proposals. In addition to the creation of a framework for encouraging cooperation between out-of-store sales staff and buyers, a framework in which sales staff work as a team rather than individually, and a framework in which sales staff collaborate with in-store attendants, we also created a framework that utilizes digital AI.

Our framework for encouraging cooperation between out-of-store sales staff and buyers is the most distinctive of all. At both Mitsukoshi and Isetan, out-of-store sales staff have always been the industry's most professional in responding to customers' requests. However, there has not been any mechanism for direct collaboration with buyers, who are the product professionals. More specifically, when customers tell sales staff about the kind of items they would like, the information will be immediately shared with the buyers in the relevant departments. Many buyers will then all make proposals to customers. The unexpected quantity and quality of proposals coming all at once will be very exciting for customers who had previously been used to receiving proposals based on the knowledge of a single salesperson. This brings a feeling of amazement, leading to further expectations of wanting to hear more professional proposals or wondering whether another item that the customer would like is also available. In addition to sales, this means we will be able to expand into direct marketing with our buyers listening directly to the voices of our customers. It will also be helpful for future product lineups, and make customers happy, creating a mechanism for lasting synergistic effects.

Our out-of-store customers consume products and services in a variety of other places in addition to those they purchase from us, so when we ask them about their needs through direct marketing, we find many products that we do not currently offer. In order to respond to these needs, we have set up an unprecedented system in which buyers are appointed within the out-of-store organization. In this way, we are now able to offer products that are not available in department stores, based on the reassurance of our

goodwill, and we are expanding our product lineup to include condominiums, cars, and a variety of other categories, which have been very well received by many customers. Through a series of new out-of-store initiatives such as these, we are expanding our share of customers' wallets, which is one way to ensure success even in the shrinking department store market I mentioned earlier.

Next, we need to consider our MICARD member customers. By creating admiration and empathy for stores, particularly the Shinjuku and Nihombashi main stores, among these individual customers, our aim is that they will want to go to Mitsukoshi or Isetan once in a while.

To revive Isetan as a byword for fashion, the Shinjuku Store, the core of the Group, will provide the highest level of customer service in a special environment that focuses on high-value-added products unique to the Shinjuku Store by combining different keywords embodying the store's product lineup, such as "authenticity, essence, discernment, and cutting-edge" with "prior and limited edition." The Nihombashi Store, on the other hand, will further refine its strengths in the areas of "tradition, culture, art, and lifestyle," aiming to become a store that offers everything for the high-quality lifestyle of customers who value the importance of seasonal products. The Central Hall and the Mitsukoshi Theater, both Important Cultural Properties, and the store itself will provide customers with a high-quality space and services set amid tradition and culture. By making these two stores a symbol of admiration and empathy for many customers, our Group stores will also be linked under this goodwill, and will be able to treat customers as a united group.

We will propose high sensitivity, high touch services so that our customers will always choose us when they want to buy a luxury brand bag or a nice watch once a year, fine quality cosmetics once a month, or a neat gift for their loved ones, the kinds of needs which anyone has to achieve this, we will make each of our stores in cities across Japan into mother stores with small stores connected to them like satellites and further support customer needs using digital technology. When digitally connected, customers can also receive assistance, select products, and make purchases at the Shinjuku and Nihombashi stores

from any of the Group stores. We believe that this kind of connection will provide the driving force that will enable us to increase the number of loyal customers by making it possible for them to shop at a nearby store for everyday items, and at main stores in cities across Japan or at the Shinjuku and Nihombashi stores for special occasions and purchases.

The next group of customers is the millennial generation. The millennial generation has not been very interested in department stores to date, but we are taking steps to make this generation lifelong fans of Isetan Mitsukoshi. The millennial generation has grown up in an age where digital technology is the norm, and their values, consumer behavior, and lifestyles are very different from the generations before them. Our digital strategy is providing us with the means to reach this generation. In fact, an overwhelming majority of the users of meeco, our cosmetics EC website, are actually millennials. In addition, both REV WORLDS, our new customer experience app which allows users to enjoy conversing and shopping in a virtual urban space, and our remote shopping app are widely used by millennial customers. These various digital initiatives are no doubt forming new points of contact with our customers. I believe that pursuing this kind of digital approach to attract not only millennials but also many other customers who have not had much to do with department stores in the past is an important strategy that will enable us to differentiate ourselves from other companies.

Finally, there are inbound tourists. After three years of the COVID-19 pandemic, restrictions on entry to Japan are gradually being eased, and the weak yen makes them a very promising group of customers. Although we have only recovered to about 30% of our pre-COVID-19 level, we are confident that our inbound customers will come back to us, and in the medium term, we will establish a system that allows us to respond to them on a personal basis, just as we do with our domestic customers. At our Shinjuku and Nihombashi stores, we are preparing to open salons exclusively for inbound customers and to trial our VIP program.

As I have described it so far, it may seem that our "High sensitivity, fine quality" strategy is only

concerned with very wealthy customers. However, this is most certainly not the case. Whoever the customer, we will strive to respond properly to those who want to experience highly sensitive, fine quality consumption, and encourage admiration and trust.

We believe this is very important for us to become more deeply involved in the lives of our customers from now on.

The meaning of the word "special" in our vision expresses this series of ideas. We intend to be the number one and only one department store that can also communicate with the world. Number one means we can provide the best products and services with confidence. Only one means that customers are only happy with Mitsukoshi or Isetan. By shifting from mass to personal marketing, and by listening carefully to the needs of each customer, we will provide exciting solutions for customers concerns and problems and innovative proposals for their interests.

"CRM strategy connecting with individual customers": Mechanisms to shift from mass to personal marketing

I have already mentioned that in order to realize our "High sensitivity, fine quality" strategy, we need to shift from mass to personal marketing. Now, I would like to talk about how to connect with individual customers.

We want to increase the loyalty of customers by making the benefits we give them for their purchases more appropriate. To this end, we need mechanisms that can capture our customers' data and provide services tailored to individuals. To date, we have only been able to capture this data through MICARD cards, which are issued by the Group. However, we have made it possible even for customers who use cash or ordinary credit cards to do the same through the use of apps and digital IDs. In addition, if customers who are app members or who have a digital ID can appreciate the value in the differences of benefits with purchases, they will have a MICARD in the future, allowing them to connect more deeply with us. At the same time, we are also redesigning the Isetan Mitsukoshi Customer Program to facilitate a more comfortable and enriched shopping experience for customers and create systems to strengthen customer loyalty.

We can use our "High sensitivity, fine quality"

strategy to connect with our customers through our stores, online, apps, etc. In addition to providing appropriate benefits that reflect MICARD holder purchases, we can ensure customers continue to maintain links with us in various other situations by encouraging holders to use the card outside the Group and offering them financial services.

By firmly combining the "High sensitivity, fine quality" strategy with this CRM strategy, it is possible to shift from mass to personal marketing.

Making the strengths of department stores into Group-wide advantages: "Intra-group coordination" strategy

We will use the above two strategies and structural reforms in revenue and expenditures through "Scientific analysis of department stores" to first strive to thoroughly revitalize the department store business. I would now like to explain our "Intra-group coordination" strategy as the next deployment phase. Within the Group, there are a variety of companies involved in finance, systems, logistics, construction and design, staffing and other areas. These companies also provide very distinctive solutions, and some of the companies in the construction and design business have a long-established reputation within the industry for their capabilities, such as contracting for the interior design of luxury hotels and the Diet building. In the past, however, the Group had adopted a unipolar structure focused on the department store business, and the non-department store companies had been organized vertically, with each operating in isolation based on their own know-how and individual routes. By enabling better coordination and developing this business, we will be able to shift away from the traditional department store business model.

As an example, the credit card company MICARD, which has about 2.8 million cardholders, was steadily earning a profit of 4.8 billion yen in operating income even as the department store business suffered a major decline in performance in FY2020, when the COVID-19 pandemic broke out. By developing and expanding this business more using the strength of the department store business, which also has many customers, it is also a business with high reserves that could significantly change the Group's profit portfolio, which was biased toward the department store business. By unlocking this potential, we will

firmly grow and expand each company with new content under the Isetan Mitsukoshi Group brand.

We intend to start this strategy by first promoting the insourcing of business processes. With regard to our internal business affairs, we have not been able to properly coordinate information owing to the vertical nature of our business structure, and so, in many cases, we unknowingly outsourced internal operations to companies outside the Group even though we have Group companies that can provide equivalent services. So, first and foremost, we need to stop bleeding sales and profits outside the Group and promote more insourcing to help build a firm foundation for future business.

The next step is to further expand the potential of individual Group companies and construct a B2B business model that envelops all internal Group resources. Earlier I pointed out that our construction and design know-how is renowned within the industry. To give you another example, a remote shopping app built by our systems company that enables customers to consult a stylist, receive suggestions, and purchase products all without coming into the store has been extremely well received by customers, and is also in demand among companies as a B2B service. We aim for Group companies to encourage innovation by sharing ideas based on our long-amassed expertise, and create a business around this innovation.

Revitalizing the department store business and building business models for each operation through this "Intra-group coordination" strategy will enable us to create a tandem profitability model in which we not only redevelop our own real estate holdings nationwide as a form of urban development in the fruition phase, but also utilize infrastructure organically within the Company. I believe that this is the perfect medium- to long-term strategy for us, and that we are perfectly positioned to achieve it as a "special" department store-centered retail group.

Progress of the Medium-Term Plan

Penetration of strategic direction among employees

Although we have only just begun the execution phase of these strategies, some of the results are already starting to show. What is most encouraging to me is

that the concept of "Scientific analysis of department stores," which I have advocated since assuming the position of president, is gaining ground among our employees faster than I had expected.

For example, in FY2021, we reduced SG&A expenses by 26.2 billion yen on a consolidated basis compared to the previous year, and despite the lingering effects of COVID-19, we were able to record an operating income of 5.9 billion yen, far exceeding our initial plan. This result was not due to my top-down, unilateral implementation of cost reduction measures. I believe this is the result of each and every employee having a clear understanding of the direction of the Medium-Term Plan, correctly understanding numerical indicators such as the direct-to-indirect ratio and the ratio of advertising expenses to sales, thinking independently about where to spend money to generate more revenue, and putting these ideas into practice in their work.

In addition, the reform of out-of-store sales as part of our "High sensitivity, fine quality" strategy has been well received by customers, as it has created variations in their purchasing experience through the implementation of new and unique schemes, such as collaboration between sales and buyers, the introduction of a team system, and the use of digital technology. However, while these kinds of efforts may not have produced immediate results, they have increased the speed at which issues affecting the out-of-store business are resolved because these act as a framework for the Company to organize efforts to



resolve issues, which previously involved employees struggling to find solutions and doing so in an uncoordinated way. Out-of-store sales have been the driving force behind strong sales at Shinjuku and other stores, even in FY2022, when inbound sales still have not recovered.

In addition to the above, our strategies have also produced a number of other results. In our "CRM strategy connecting with individual customers," more than 1.25 million people had registered as app members as of June 2022, a little more than a year after the launch of the app, and we are increasing the number of customers with whom we can communicate interactively faster than planned. In our "Intra-group coordination" strategy, we launched the Alliance Promotion Office in FY2022 as an organization to flexibly promote alliances with external companies. We have also started B2B external sales of group resources by mailing catalogs listing the Isetan Mitsukoshi Group's menu of content to our business partners.

Toward the achievement of new strategies

In the past, such medium-term plans were created unilaterally, formulated by management and communicated afterwards to all the departments, which would then each develop their own specific plans. For this plan, instead of a top-down approach, each company and department prepared a draft plan based on the strategy framework announced in May 2021, and then each department negotiated directly to work out the details. Although this method is time-

consuming, it is producing positive effects. Working together as a group result in more conviction and understanding about the content of the plan, and the formulation process has been providing various insights and hints for improvements.

This is not the only merit of this method. Our new Medium-Term Plan, for the first time, includes not only targets for medium-term operating income, but also lays out long-term steps and announces major financial and customer-related KPIs. This has been facilitated by the repeated discussions between each of these departments. And that's why I believe we are likely to achieve these KPIs. We have used a completely new method for determining this latest Medium-Term Plan.

Management Governance Reform and Risk Management

In June 2020, we transitioned from a company with an audit and supervisory board to a company with a nominating committee, etc., and our management governance has changed significantly as a result. The Company's transparency has been enhanced by having an external director chair the Board of Directors for the first time, and the governance system has become more effective.

Another important issue regarding the succession plan is how to train executive officers. Since FY2022, we have been conducting an executive human resources development training program called the Executive Leader Program (ELP). We set participants advance assignments and encourage them to share and discuss their own strengths and how they would like to take the Company forward, so as to improve their knowledge and skills as well as to gain an understanding of each individual's true nature. Initiatives such as these are highly appreciated by investors in terms of ensuring continuity at the top level.

The content of discussions at the Board of Directors' meetings is also becoming more wide-ranging and future-oriented. The Board of Directors currently has 10 members, six of whom are external directors. An external director chairs the Board of Directors, and external directors also chair the Nominating

Committee and Compensation Committee. External directors with expertise, experience, and a high sense of ethics provide supervision and advice from an external perspective, ensuring sound and transparent management that is not biased by in-house lines of reasoning, and facilitating lively discussions on the formulation and monitoring of the Medium-Term Plan.

In terms of internal control, we have been working to strengthen the compliance and risk management systems over recent years. Particularly in the area of risk management, we have been concentrating on responding to incident risk (incidents and accidents). In FY2021, in order to strengthen our response to business risk in a focused manner, we started developing and enhancing the management system, and we are taking measures to address compliance and incident risks that include strengthening specialized departments.

Realizing a Rich Future for People and Achieving a Sustainable Society

We are implementing sustainability initiatives to contribute to resolving a range of social issues through our business activities and support the realization of a rich future and a sustainable society. We have set out three priority initiatives (material issues), which are connecting people and local communities; connecting a sustainable society and the times; and improving the satisfaction of employees. While building Group governance and communication, which underpins these priority initiatives (material issues), we are also developing various other initiatives linked to individual SDGs.

We published our first Sustainability Report in November 2021 and held our first sustainability briefing in December, which created a new venue for dialogue with all our stakeholders. In addition to myself, the briefing was attended by various other people, including the chief administrative officer in charge of sustainability initiatives, an external director who spoke about supervising business execution, the manager of our Merchandising Headquarters who represented the employees' view, and many others who expressed views in their own words and

facilitated the dialogue. This was the first such initiative, but I feel that we were able to convey a more transparent, equitable, and fair-minded sustainability message.

Our relationship with employees is also an important theme for me. Since I was appointed President and CEO, we have been developing a communication system so that each and every employee will understand and have a shared awareness about the new direction we are aiming for as a group. I hold meetings at least once a week for direct and lively discussions with the executive officers and the general managers of the departments in charge of the matters under discussion. In addition, I have allocated time for dialogue in roundtable discussions with employees at the level of section manager or equivalent and above, which we held 26 times in FY2021 with 1,660 participants, and we have begun to tackle new themes in FY2022. The executive officers also held approximately 220 roundtable discussions with other employees, with approximately 4,100 employees participating. These meetings provide a way to reduce the distance between management and employees, facilitate the smooth penetration of management policy, and share the voices of employees with management. Management has taken the time to communicate with employees to this extent, because we want each and every individual to think and act on their own, and this will be the trigger for achieving results. The fact that we have achieved a variety of results since the first year of the Medium-Term Plan is proof of this.

Finally, in terms of my personal credo, I am committed to providing well-balanced management for all stakeholders in accordance with my own sense of ethics and justice and without being biased by conflict of interests. To make all of our stakeholders into our supporters, we will engage in business and aim to enhance corporate value with a constant awareness of the way we engage in public relations and communication, our attitude toward taking on challenges to make further progress, the role we will play in delivering dreams, and the value we provide to society.

I hope you are looking forward to the Isetan Mitsukoshi Group's future moves and ask for your continued support.



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Sustainability