

## President's Message

We aim to be a retail group centered on extraordinary department stores working toward improving the lives of our customers.

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

**Toshiyuki Hosoya**  
Director, President and CEO

### Backdrop to the Formulation of the Medium-Term Management 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 since before the outbreak of the COVID-19 pandemic. 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. Therefore, the business model was one of mass marketing, attracting large numbers of customers from a wide area.

However, as the lifestyles and values of customers have changed with the times, customers are no longer satisfied with the conventional range of merchandise. While each customer is thoroughly discerning about what they consume when it comes to products they really care about, for those items that they are not so particular about, they are more concerned with function and price, and in this sense traditional mass marketing is far from

adequate to handle their shopping needs. Furthermore, the rapid pace of digitalization means that many customers can now use their smartphones to instantly search and compare the things they want. This trend has increased the sensitivity of customers to information, so that when they come to the store, they shop only for what they need and then leave. Older business models failed to adapt to this reality, and sales in the department store industry have shrunk by more than half in about 30 years. My mission as president is to find a way to change this.

Looking at the environment surrounding the department store industry today, while the industry has recovered from the COVID-19 pandemic, the future of personal consumption is still very uncertain due to soaring raw material costs triggered by the protracted Ukraine crisis, inflation, and the weak yen. The market scale of department stores in Japan appears to be getting smaller and smaller, partly due to the acceleration of population aging and declining birthrates. 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. 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.

However, it has been approximately 15 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

#### Concepts at the origin of our activities

In 2023, Mitsukoshi celebrates its 350th anniversary. Isetan, too, has a long history, having been in business for 137 years. Both companies have continued to uphold a customer-first principle since their founding, anticipating the needs of customers and making proposals in response to the social and environmental changes of the times. In announcing our medium- to long-term plan in 2021, we once again returned to this starting point and set forth our vision to be a retail group centered on extraordinary department stores working toward improving the lives of our customers by providing exciting solutions for customers' problems and innovative proposals for their interests. In order to see our vision fulfilled, we clarified our mission and values, which we reorganized and announced as the new Isetan Mitsukoshi Group Corporate Philosophy in May 2023.

This process of reorganization is very distinctive. Everyone was losing confidence in their work due to the tough situation of the COVID-19 pandemic, and although each of our brands had their own corporate philosophies after the merger, there was nothing that encompassed the Group as a whole. Therefore, we needed to organize what would be our guiding principles and what we could turn to when we were unsure. We spent the entire year discussing with all employees what each one of them finds rewarding in their work, what they value, and what we want our Group to be, and management also held discussions based on these. This process was repeated back and forth as we worked to redesign the Group corporate philosophy. In this way, we have developed an approach to moving forward as a Group toward the realization of our vision.

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### Overview of the Medium-Term Management Plan

#### Medium- to long-term strategy in line with the vision

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 (ten years).

Let's look first at the biggest goal of the Medium-Term Management Plan, namely the revitalization of our department store business. Initially, we had set our operating income target for FY2024 at 35 billion yen, the highest since the business merger. However, due to strong progress in FY2022, the first year of the Medium-Term Management Plan, we brought the plan forward one year and announced in our May 2023 announcement of financial statements that we expected 35 billion yen\* in FY2023 and 40 billion yen in FY2024, far exceeding our initial plan.

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. For example, we create regular profit/loss charts not only for stores, but for individual customers. 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 are proceeding based on concrete 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. The first step is to maximize the appeal of our department stores over the next three years in the hope of attracting as many customers as possible who will become fans of our company. We are committed to meeting the needs of our customers, not only through our department stores but also through our Group companies, and we will continue to do so with sincerity. Over the long term, we will work to develop business models and generate profits in each of the Group's businesses, particularly in the real estate and financial businesses. As a result of these efforts, over a span of ten years, we are building a stable profit structure for the Group that will boast operating income of over 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 Management 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 undertake a quick shift in our thinking from mass marketing, which was a one-size-fits-all approach, to personal marketing in which we respond to each customer's particular needs. One of these strategies is the "High sensitivity, fine quality" strategy.

First, I would like to discuss reform of out-of-store (individual) sales. While out-of-store sales has always been one of our major strengths, with these reforms we have created a new structure for out-of-store sales to enable us 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 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. This will also lead to the development of direct marketing, in which our buyers listen directly to customers' opinions in addition to sales, resulting in a synergistic effect that will continue to be helpful for future product lineups and make customers happy.

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.

As for store reforms, in order for the Group to have an overwhelming presence in the "High sensitivity, fine quality" market, we will evolve both the Isetan Shinjuku and Mitsukoshi Nihombashi main stores into symbols of admiration and empathy, in the hope that they become the kind of place where people want to go when in town.

With the aim of becoming the world's No. 1 department store by proposing "cutting-edge 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 and 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 high-quality space, services, and hospitality 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 that we all have—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.

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



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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 must establish a system that will allow us to provide detailed services and product proposals to meet each customer's individual needs by expanding the number of individual customers (identified customers) with whom we have face-to-face connections and getting to know them better.

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.

I mentioned that this three-year plan, which is the revitalization phase for our department stores, is well ahead of schedule, and with the introduction of this new app member system, I feel that both the “High sensitivity, fine quality” strategy and the “CRM strategy connecting with individual customers” are working very well together. The total number of identified customers connected to us, including MICARD members, app members, and digital members, was approximately 5.9 million at the end of FY2022. 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 the “CRM strategy connecting with individual customers,” 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 are now using the above two strategies and structural reforms in revenue and expenditures through “Scientific analysis of department stores” to steadily revitalize the department store business. I would now like to explain our “Intra-group coordination” strategy as the next development phase. The Isetan Mitsukoshi Group has a variety of companies under its umbrella, including finance, systems, logistics, construction and interiors, staffing and other areas. All of the solutions these companies provide are very distinctive, our company in the construction and interior business having a long-established reputation within the industry for its 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, with all other Group companies each operating in isolation based on their own know-how and individual routes.

As an example, the credit card company MICARD, which has about 2.7 million cardholders, has the potential to develop and expand further if it provides services as a financial business to the 5.9 million customers with whom we are connected. It is a business with high reserves that will significantly change the Group's profit portfolio, which was biased toward the department store business. The same goes for other operating companies. We can offer non-department-store services under the Group's brand to the many customers we have connected with through our strength in department stores, expanding our share of customers' wallets we have connected with and increasing the profitability of each business.

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 with department stores at the core in the fruition phase, but also utilize services and content, as well as functionality and infrastructure, organically within

the Company. Services and content include not only offices, residences, and hotels, but also entertainment, food, and travel, while functionality and infrastructure include financial settlement, construction and interiors,

facility management, systems, logistics, and temporary staffing. I believe that this is the perfect strategy for us, and that we are perfectly positioned to achieve it as a retail group centered on extraordinary department stores.

## Progress of the Medium-Term Management Plan

### Steady revitalization of department stores

These strategies have resulted in very strong progress in the revitalization of our department stores. As I mentioned earlier, we plan to significantly exceed our initial FY2024 target of 35 billion yen in operating income in FY2023, ahead of schedule.

With regard to improving our profit structure, our rigorous efforts to control expenses through the introduction of a scientific perspective, mainly at our operating companies in the Tokyo metropolitan area, have led to a favorable performance. Last year, we compiled this concept into a 300-page guide called “Scientific analysis of department stores.” This is not a unilateral manual, but rather something that has been communicated through dialogue with employees about our medium- to long-term plan, including ideas and specific indicators, so that anyone can manage stores and sales floors. In FY2023, we plan to work in earnest to introduce this scientific perspective not only to our operating companies in the Tokyo metropolitan area, which are already ahead in terms of this initiative, but also to our regional operating companies to further accelerate our efforts to break away from the existing department store business model.

In our “CRM strategy connecting with individual customers,” of the 5.9 million customers identified in FY2022, over two million have registered as app members in the more than two years since we started, and we are rapidly increasing the number of customers with whom we can engage in bi-directional communication. As a result, the share of identified customers in the sales of both main stores has increased from 50% before the introduction of the app to 70%.

### Financial policy based on long-term strategy

As I have explained, we will revitalize our department stores and use their strengths to expand earnings in

businesses other than department stores, and in the long term, we will pursue a strategy that also includes urban development. In this process, of course, financial policy, including financial planning, is very important. Until now, we have not communicated our financial policy from a long-term perspective to our stakeholders. However, in the May 2023 financial results announcement, we set out the concept and future direction of this policy for the first time.

We envision the transformation into a new business entity that will generate significant profits when urbanization is accomplished in the future. We will actively use the cash acquired by the Group to invest in urbanization and other growth investments from the preparatory phase of the transformation. Meanwhile, regarding shareholder returns, in addition to stable dividend increases, we have indicated for the first time our plan to be conscious of maintaining a total return ratio at the 50% level every year.

Based on this, we will continue to engage in dialogue with our stakeholders and receive a variety of opinions as



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we work to firmly control our balance sheet over the medium to long term and continue to achieve ROE that exceeds the cost of shareholders' equity. At the same time, we will also examine management systems that can more efficiently secure earnings on invested capital by adding the perspectives of BS and CF in addition to the

conventional business PL for each business with different characteristics.

We will continue to communicate our financial policy to our stakeholders in a clear manner to ensure that they understand our Group's efforts to transform itself.

## Management Governance Reform and Risk Management

We are listed on the Prime Market, and have been promoting corporate governance reform by becoming a company with a nominating committee, etc., which accounts for a small percentage of all listed companies. Our ongoing efforts to speed up decision-making and strengthen management oversight functions have resulted in a more transparent and effective structure.

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 current Board of Directors consists of nine Board members, six of whom are external directors. The Board of Directors is chaired by an external director, and

the Nominating Committee and Compensation Committee are chaired by external directors. 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 progress and monitoring of strategies.

With regard to internal control systems, in order to maintain internal control systems at a high level, efforts are made on the executive side to evaluate and improve the status of their operation. In recent years in particular, we have been strengthening our compliance and risk management systems in order to respond to changes in the environment and diversifying risks. 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. In terms of compliance, we are working to reform our corporate culture to prevent compliance violations by ensuring that all officers and employees act not only in compliance with laws and regulations, but also with a sense of ethics as a company.

## Realizing a Prosperous Future 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 prosperous 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. In addition, to enhance the effectiveness of our efforts, we have set ESG

indexes as an item for evaluating executive officers since FY2023.

In terms of communication and dialogue, following the publication of our first Sustainability Report in November 2021, we have published this report every year since then, and have also created opportunities for dialogue with our stakeholders by holding sustainability briefings. In addition to myself, various speakers, including the CAO in charge of sustainability and the external directors who oversee the execution of management, are in attendance at these briefings to communicate and engage in dialogue with stakeholders.

Our relationship with employees is also an important theme for me. 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 also allocated time for dialogue with employees at the section chief level and above in the form of roundtable discussions. In FY2021, when the Medium-Term Management Plan was formulated and announced, 1,660 employees participated on 26 occasions in the Tokyo metropolitan area. In FY2022, I promoted dialogue sessions mainly at regional stores, creating an important opportunity for employees to communicate directly with me about not only strategies but also various thoughts and questions about their work. We are continuing to implement this in FY2023, including at Group companies. 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 the results of the Medium-Term Management Plan are coming in faster than expected is proof of this.

In this relationship with employees, the Company and the Group's labor union issued a joint declaration in June 2023. This joint declaration by labor and management commits to creating a workplace environment where people can work with peace of mind. We value people, and the capabilities of each and every employee are an asset to the Company. In order to maximize the capabilities of people and realize our vision, it is essential to create a workplace environment where people can work with peace of

mind. Therefore, we made a joint declaration with the union for the first time to focus on proper working hour management and zero harassment. I believe that because of the good relationship between the Company and the union, we can ensure that each of our specific action guidelines will be followed in our daily work.

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.

