

## CFO's Message



We will strive to increase corporate value by pursuing a capital policy that allows us to also invest for future growth while maintaining a stable financial base.

### Yoshinori Makino

Director, Managing Executive Officer, Chief Strategy and Digital Officer and CFO

### Review of FY2022 and direction of future financial policy

In FY2022, the Group made effective and strong progress in its income and expenditure structural reforms based on the “Scientific analysis of department stores,” its “High sensitivity, fine quality” strategy, and its “CRM strategy connecting with individual customers.” This resulted in consolidated operating income of 29.6 billion yen, a level well above the initial plan and higher than in FY2018, before the COVID-19 pandemic. Consolidated ROE, which we have set as a financial KPI, was 6.1%, ahead of the planned value of 5.3% for the final year of the Medium-Term Management Plan (FY2024).

In response to the changing business environment, in order to further enhance corporate value, our future financial policy will address the three elements of improving business profitability, balance sheet optimization, and capital efficiency as interrelated rather than independent items. At the same time, we will also work to maintain a balance between providing shareholder returns, reducing interest-bearing debt, and making investments that contribute to earnings, while securing sufficient capacity for medium- and long-term investments. Through these efforts, we will seek to build an optimal financial base, both in terms of flow and stock, which will lead to corporate activities that build good relationships with all stakeholders.

### Financial KPIs

#### i) Operating income and net income

**[FY2023]** Operating income exceeded maximum profit after integration of 34.6 billion yen, plan ahead of the original plan of 35 billion yen for FY2024. Net income temporarily decreased due to the impact of tax effect accounting in FY2022.

**[FY2024]** Operating income revised upward to 40 billion yen, up 5 billion yen from the original plan. In addition, net income was revised upward to 33 billion yen, up 5 billion yen from the original plan.

**ii) ROE:** ROE is expected to be 5.0% in FY2023 and 5.7% in FY2024, but it will respond more flexibly to future capital policies.

(Unit: Billions of yen)

	Initial plan (Disclosed November 2021)	FY2022		FY2023		FY2024		
	FY2024	Actual	Year-on-Year change	Planning	Year-on-Year change	Planning	Year-on-Year change	Initial plan difference
Gross sales	1,110.0	1,088.4	+176.3	1,140.0	+51.5	1,180.0	+40.0	+70.0
Selling, general and administrative expenses	275.0	256.9	+19.1	266.0	+9.0	273.0	+7.0	-2.0
i) Operating income	35.0	29.6	+23.6	35.0	+5.3	40.0	+5.0	+5.0
i) Net income	28.0	32.3	+20.0	28.0	-4.3	33.0	+5.0	+5.0
ii) ROE	5.3%	6.1%	+3.7%	5.0%	-1.1%	5.7%	+0.7%	+0.4%

\*Although we have upwardly revised the planned figures for FY2023 to gross sales of 1,155 billion yen, operating income of 38.0 billion yen, recurring income of 40.0 billion yen, and net income of 30.0 billion yen (as of the announcement of 1Q results for the fiscal year ending March 2024), this report shows the figures of the annual plan as announced on May 9, 2023 to ensure consistency of the overall figures.

### Three elements of our financial strategy

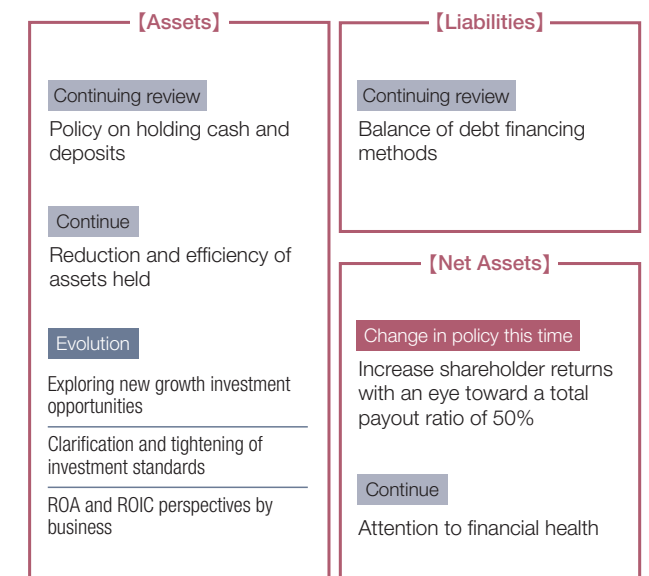
Our financial strategy will focus on the following three elements.

① Business profitability improvement ② Balance sheet optimization ③ Capital efficiency

With regard to ①, we will continue to control expenses in department stores and related businesses through a scientific perspective, while also improving non-operating income. With respect to ② and ③, we will move forward with the execution of more specific policies as a shift to balance sheet-conscious management.

### Shift to balance sheet-conscious management

We will continue efforts to reduce and streamline our asset holdings and control interest-bearing debt, with the aim of achieving an appropriate balance sheet from the standpoints of efficiency and soundness. We will also pursue opportunities for growth investments while rigorously evaluating their effectiveness and efficiency. In addition, to ensure an appropriate level of shareholder returns, we have been mindful of a new target of a 50% total return ratio, and have set the annual dividend for FY2022 at 14 yen per share, up from 12 yen per share, the level prior to the COVID-19 pandemic. In the future, too, we will look to expand shareholder returns, with a focus on increasing dividends in line with profit growth. Going forward, we aim to maintain a consolidated ROE that continuously exceeds the cost of shareholders' equity by controlling our balance sheets in tandem with the expansion of profits from our businesses, while also paying attention to our financial soundness.



### Strategic phase and cash allocation planning

The cash we acquire during the Revitalization Phase of the current Medium-Term Management Plan and the Deployment (“Preparation” for Urban Community Development) Phase beginning with the next Medium-Term Management Plan will be allocated to future investments in urban community development, while the allowance generated from these investments will be allocated to new growth investments and further shareholder returns. We will properly evaluate investments in content and infrastructure that will lead to “Urban Community Development” and other investments based on quantitative and qualitative criteria, while maintaining a balance with shareholder returns.

### 10 year cash allocation plan

