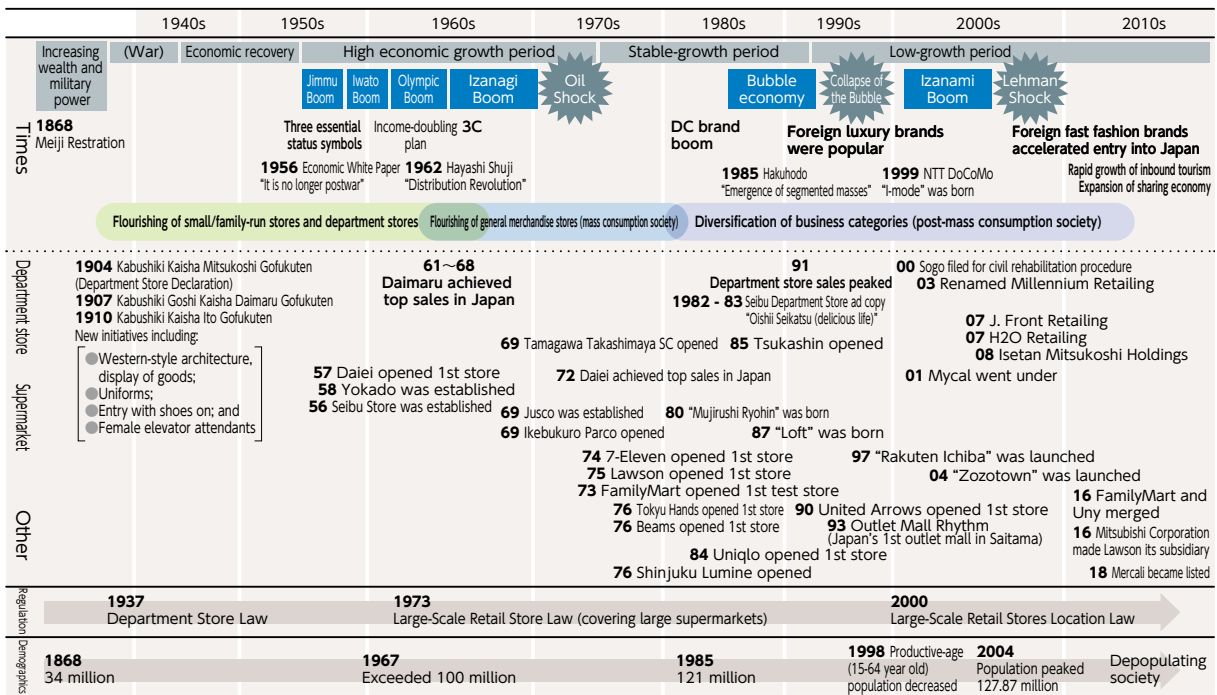


# Turning Point in Department Store Business Model

Japanese department store sales decreased from ¥9,713 billion in 1991 to ¥5,953 billion in 2017, almost 60% level. Amid environmental changes such as intensifying competition beyond industry boundaries and rapidly growing e-commerce, we think the biggest problem of department stores is that the department store business model including sales floor composition overly dependent on women's clothing in spite of the downward trend of spending on clothing and the product range and tenant composition based on *shoka shiire* (purchase recorded at the time of sale), which developed from the high-growth period to the stable-growth period, no longer adapt to changes in the times and in customers' sense of values.

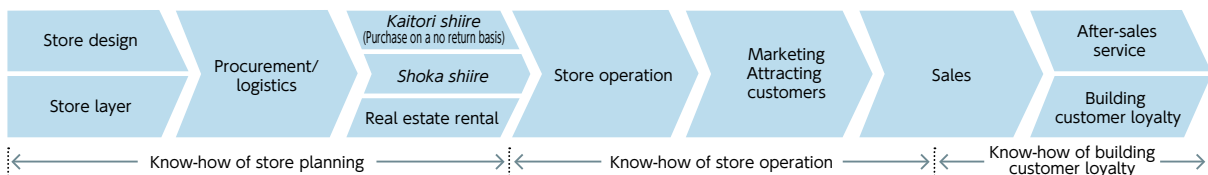
Therefore, from the standpoint of values department stores should create, we intend to change our business model in four main directions. Through these initiatives, we will strive to attract more customers and increase profitability by enhancing store appeal.

## History of Retail Industry



## Department Store Value Chain and Competitive Advantage

In order to entice customers to visit our stores, we need to offer the products they want and the experiences that can be given only in the store space or environment or through sales staff there, namely, new values. By changing our business model, we will strive to enhance store value by adding a perspective of values for customers and values for stakeholders.



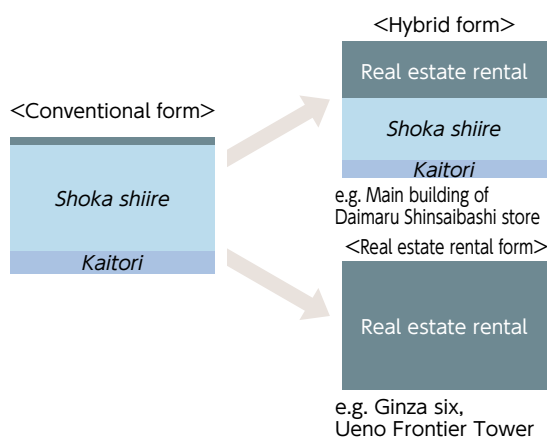
## Direction of Changing Business Model

### Point 1

#### Active introduction of real estate rental format

More than 80% of current typical department stores offer products and have tenants based on *shoka shiire*. In other words, such business practice limits the diversification of store planning.

Therefore, we will realize an optimal mix, for example, by expanding real estate leasing area to increase store appeal and transform the business model into a stable and highly profitable one.



### Point 2

#### Drastic reduction of allocation to women's clothing

While reducing women's clothing area, which remains bloated since the middle of 1980s, by 30% under the current Medium-term Business Plan, we will create new sales areas and newly zone the sales floors in response to changes in customers to increase store appeal. We will renovate our stores in a way that meets the market in each area, for example, by expanding beauty products, food products and daily sundries, which are growth categories.

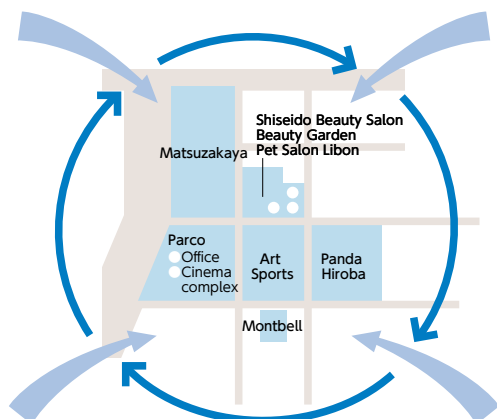
Women's clothing area  
**Down 30%**  
 (Total FY 2017 to 2021 vs. FY2016)

### Point 3

#### Area dominant formation that attracts customers with "areas"

Not as "points" of department stores but as "areas," the Group will dominantly operate Parco and brand shops around department stores and also conduct activities in concert with local communities so that we can attract more customers. This is our own strategy that aims to grow with local communities by attracting new crowd.

#### Example of Urban Dominant Strategy in the Ueno Okachimachi area



### Point 4

#### Strengthening of customer engagement using ICT

The "era of 100-year life expectancy" - "Lifetime Service Hub" is a challenge to establish a new customer information system in order to build stronger lifetime customer engagement. Using not only customer touch points through the Group's cards but also the app that will be released this fall, we will accumulate fixed-form information and unfixed-form information in a multi-layered way through cross-group initiatives. We will provide new products and services to relieve customers' "concerns" and "frustrations" by having more touch points with customers and building a long and deep relationship with them on various occasions and milestones for their entire life beginning with birth.

