

# Message from the President and CEO



President and CEO  
**Yasutsugu Iwamura**

## In these times of climate change and COVID-19, we will only solve social issues and provide new value by appreciating the connections between all and by leveraging AEON MALL as a social foundation.

### My Responsibilities as President

I was appointed president and CEO in March 2020. Today, we face unprecedented social structure reform, business innovations driven by digital technology, and many other incredible changes. Since my appointment, we have been threatened by the spread of COVID-19 and a seeming mountain of other issues to resolve. It is against this backdrop that I assumed leadership of AEON MALL, and I am resolved to not only overcome these issues, but also humbled to take the helm leading our future.

I joined AEON MALL in 2005 after working at a development consulting firm. Having worked in new property market analysis, concept, budget planning, and other planning and development, I was called to oversee development in the Eastern Japan area. The Great East Japan Earthquake of 2011 occurred during my tenure. I remember vividly the devastation in the disaster area. I also remember clearly searching for ways every day to contribute to recovery and reconstruction

through our work.

In 2016, I received an unexpected assignment to head up our local entity in Vietnam. I realized then that AEON MALL was a company that encouraged its people to take on interesting and new challenges not normally experienced. I learned that overseas, people will not provide their support for a new action without a clear reason why. In this sense, I was fortunate in working overseas to learn how to lead others from the perspective of a manager. I came to experience and understand how to move an organization.

When I assumed this new position, I presented two perspectives for achieving our Vision for 2025: (1) How do we provide new value to the markets and continue to create customer value and (2) How do we increase not only economic value, but also social value.

I believe we are a company that seeks diversity among our employees and places the utmost importance on what we think and do. I also believe we foster our people based on these principles. If I were to point out an issue upon my return to Japan, I would say that it is the issue of homogeneity. Even

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when an individual has different thoughts or ideas, it is easy for us to fall into the trap of feeling pressure to conform within a large organization. Outside perspectives are important to respond flexibly to changes in society. However, organizations tend to develop cultures that discourage things that aren't *normal* or *commonly done* within the framework. I don't like the word *normal*, myself. In this rapidly changing market, we must avoid being caught up in our own way of thinking, and I believe this attitude is what our organization expects of me. I am aware that my role requires me to keep an eye on the market, responding quickly and flexibly.

The most important aspect of managing our local subsidiary in Vietnam was my desire to keep our employees employed and housed, no matter what. I believe that a company must grow in line with the growth of its employees, maintaining employment and offering fair opportunities leading to positions commensurate with motivation and performance.

### The Purpose and Significance of a Strategic Approach to ESG Management

My motto is, *It always seems impossible until it's done*, a quote from former president of South Africa, Nelson Mandela. I understand this to mean one can either envision a future and work to make it a reality or not. To achieve something requires all members of a team to

desire change, working together to achieve something as yet unseen. We tend to think innovation is about making dramatic changes. In fact, innovation is the accumulation of 10% or 15% advancements, rather than a sudden change. The accumulation of small changes leads to big innovations. I believe this quote encompasses this meaning.

This is the foundation of our approach to ESG management. What is a corporate philosophy? When we think about the purpose of a company's existence, we think of working hard for the benefit of our customers and the community, creating value that brings joy to everyone, rather than pursuing profit and working hard for money. I believe that profit is like the fuel that runs an engine sustaining our desire to provide value to society. In our approach to ESG management, in other words, in the process of solving social issues and securing continued existence, we consider non-financial information to be a compass for assessing corporate risks and determining action. How we balance the present and the future is the essence of our business, and in a large real estate business such as ours, we invest looking ahead 10 or 15 years into the future. In this decision-making process, it is important to find a balance between financial information and non-financial information, or in other words, be wary of making decisions of making decisions based on numbers alone. This is an absolute requirement for a company to be sustainable, and I believe the companies that survive over the long term are the ones

committed to these standards.

In terms of ESG initiatives, environment (E) is simple and straightforward. We are also moving forward in improving governance (G). Society (S) may be the area in which we are weakest. People often forget the purpose behind what they have been doing. What they do often becomes the purpose itself. It's very important to clarify the purpose behind what we are doing. The value of a company's existence is the link between responses to social issues and management decisions. This means providing solutions to the needs and issues of our customers and communities. We must pay close attention to these social issues and offer clear answers.

## About COVID-19

### <The impact of COVID-19 on Our Businesses>

An outbreak of a global crisis exactly of the type of the COVID-19 pandemic results in the closures of all stores in Japan and overseas. This reminds us that the world is one and that crises have an enormous impact on business activities.

We are taking measures to deal with the COVID-19 pandemic in Japan, China, and ASEAN. In particular, our response in China taught us about COVID-19 preventive measures and customer trends during the pandemic. Through this process, we were able to respond more quickly in Japan than our competitors,

and our initiatives have become a standard.

### <Rent Reductions and Exemptions>

Reducing rents temporarily for our specialty retailers was an extremely pivotal business decision. While the impact on our performance this year was not insignificant, we made this decision based on a longer-term vision. As mall traffic declines and we see more constraints on business operations, our first priority is to support the ongoing business of our business partners and the continued employment of their employees. Our malls engage in mall management and operations together with our tenants. While we will not know whether our decision to reduce rents was correct until next year—or maybe even the year after next—the decision was not made from the standpoint of investment. We made the decision because this was the stance we knew we should make for our business partners.

### <Growing Business in the Post-COVID-19 Era>

I presented my management policy in 2018, when I was in charge of our Vietnamese subsidiary. Even at that time, I stated that we must deal with the *new normal*. From a global perspective, I am talking about *Industry 4.0*. In the future, we must prepare for initiatives that are relevant to a new era in terms beyond quarantines. The first challenge is customer experience. How do we provide value to customers at our malls? This is a question that has never changed, whether pre- or post-COVID-19.

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Obviously, we must also move ahead with digital transformation (DX). Our current three-year medium-term management plan begins this fiscal year, fiscal 2020. This is an extremely important three-year period that will bridge to our next medium-term management plan leading up to 2025. The fact that we must transition structurally came suddenly and unexpectedly with COVID-19. Over the course of three short months, the lifestyles of our customers underwent inevitable change. Remote work and the expansion of online shopping will no doubt see continued improvements in quality and users will continue to increase in number. Knowing this, we must analyze trends carefully and rethink what we should be as a business. I have no doubt that there is no growth without change. It is important for us to provide value

through new initiatives, combining real-world experiences and DX.

### Management Policy (Toward Achieving Our Long-Term Vision)

#### <Revised Financial Indicators (FY2025 Targets)>

The main reason for revising our financial indicators is the application of IFRS 16 at overseas subsidiaries beginning in fiscal 2019. As we enter a new growth stage, it will be difficult for us to measure our future initiatives and investments under our old financial indicators. Overseas, in particular, cash flow is important. Although our basic philosophy has not changed, we will focus more on growth potential as we engage in dialogue with external parties. Our target financial indicators



leading to fiscal 2025 will be EPS growth of 7% (annualized growth between fiscal 2019 and fiscal 2025), net interest-bearing debt to EBITDA ratio of 4.5 times or less, and return on invested capital of at least 5%.

#### <Vision for 2025>

This is our Vision for 2025 (see P.19). In our basic approach to achieving this vision, our business requires significant investment, which also involves a great deal of risk. In addition to our ongoing views of this risk, we must be transparent and accountable for the investments we make. In this way, we will create social value and economic value, achieving sustainable growth in partnership with our local communities.

### Three-Year Business Plan (FY2020-FY2022)

#### <Performance Targets (FY2020-2022)>

Our numerical plan for fiscal 2022 is to achieve operating revenue of ¥390 billion and operating income of ¥74 billion. One major key to achieving these targets is how we approach our investments in the post-COVID-19 era. We must perform a careful review of investment quality, structural reform, and our business portfolio itself. I believe we will need to change our approach if we are to achieve our targets.

COVID-19 will have an enormous impact on fiscal 2020. We expect consumption trends will be extremely challenging and that we must implement different measures to achieve our

fiscal year earnings plan. Continuity in tenant behavioral changes, even in the most trivial details and careful considerations on a day-to-day basis, will become very important. As well, agile initiatives that are executed quickly and revised as necessary will lead to better results. Engaging with speed to address risks and social issues will lead to achieving or even exceeding our earnings plan. And achieving our earnings plan will be a sign that we have changed the mindset of our entire organizations.

#### <Growth Measures (FY2020-FY2022)>

Our three-year medium-term management plan focuses on four growth initiatives: (1) Achieve high profit growth overseas; (2) Achieve stable growth in Japan; (3) Build a finance mix and governance structures supporting growth; and (4) Pursue ESG-based management.

- Achieving high profit growth overseas  
AEON MALL Hoang Mai (tentative name), scheduled to open in 2022, will be our third mall in the Hanoi area and located roughly 6 km south of Hanoi City center. The site offers excellent access, including National Route 1 serving as the entrance to central Hanoi, and a transportation terminal consisting of a bus terminal with routes to train stations and suburbs and a taxi drop-off point. This is a station area under rapid development. Given the nature of the location, we will offer parking for roughly 3,000 vehicles (lack of parking in central Hanoi is quite a social issue today) and office space on the upper floors of the facility. We intend to create a shopping environment

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based on careful market research that offers new experiences and excitement to customers. In addition, we plan to obtain LOTUS\* and other environmental standards certifications in a first attempt of its kind for the AEON Group in Vietnam. It is extremely important that we focus carefully on investment quality in this way overseas. Post-COVID-19 will change our overseas businesses in significant ways. Market research will be even more important, as the markets change more dynamically overseas than in Japan. We will monitor local market trends carefully, making investment decisions while taking into account the risks involved.

\* An environmental performance assessment system for buildings under the jurisdiction of the Vietnam Green Building Council (VGBC).

- **Achieving stable growth in Japan**

Our core strategy for stable growth in Japan remains to create dominant malls in each region. At the same time, COVID-19 has caused certain changes, and we must consider the messages we convey to the market. AEON MALL will continue to proceed steadily in investments, although we will need to change our investment style and quality. We will need to look at our ideal Vision for 2025 and perform backcasting once again.

- **Building a financing mix and governance structures supporting growth**

While our overseas businesses have been funded by investments from Japan, cash flows are expanding in both China and ASEAN. Here, we must build a cash management system that emphasizes efficiency and safety through

a global finance mix, including a mechanism to use cash generated in one country across other countries. We will also strengthen our management system for faster decision-making, while building a governance system that responds to the advance of globalization.

### <Pursuing ESG-based management>

As I mentioned earlier, our mission with respect to ESG-based management is to consider the value we should offer together with our partners as we monitor changes in the social environment, providing safe, secure, and comfortable lifestyles for the customers and the communities in every country in which we do business. To this end, we will leverage the diversity of our employees and create an environment in which everyone can fulfill their potential. At the same time, we will deepen our relationships of trust with customers, local communities, business partners, and other stakeholders, striving to enhance the value of the AEON MALL further.

### <Public Listing of Parent and Subsidiary>

Our parent company, AEON Co., Ltd., owns the majority of AEON MALL shares. We recognize that the relationship of a publicly traded parent and subsidiary is of great interest to our shareholders. While companies in the AEON Group appear to be similar in ways, in fact we occupy different positions and conduct business across a wide range of areas. Even during the COVID-19 pandemic, each company executes its own best strategy while coordinating with

other companies in the AEON Group. We are in an unprecedented environment and times of rapid change and uncertainty. It is extremely important to make decisions with a sense of urgency, recognizing the social nature of a corporation and our role in society. I want to make it clear to our stakeholders that, as a publicly traded company, we make certain decisions with speed and based on our sense of social responsibility.

### **Our Significance (Values) and Business Model**

Our business model is to make our malls a part of the social infrastructure, and make this social infrastructure a part of the local community. As IT and DX advance, climate change, COVID-19, and other real-world matters have brought

unprecedented experiences. It is precisely in times like these that human connections are so very important. We want the members of our organization to understand each other, leveraging their strengths, and emphasizing the value produced through co-creation. Our business cannot merely serve as a platform to accomplish our own vision; it must be an open platform for society. It must also be a platform rooted firmly in the community.

In the wake of the COVID-19 pandemic, the future of the shopping center industry does not necessarily look bright. But there are many things yet we can do—must do—to solve social issues. Here is where the purpose of our existence, our social role, and social responsibilities lie. I ask for the understanding and support of you, our stakeholders, as we move forward.

