

**FY2021~FY2025**

**Medium-term Management Plan**

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**AEON CO., LTD.**

April 9,2021

- 1. Review of Previous Medium-term Management Plan**
- 2. Changes Affecting AEON's Business Environment**
- 3. New Medium-term Management Plan (FY2021-FY2025)**

- (1) Overview
- (2) Management Indicators, Investment Allocation, and Changes to Group Portfolio
- (3) Group Growth Strategy
- (4) Positioning of Environmental and Social Contribution
- (5) Strengthening of Management Foundation

- 1. Review of Previous Medium-term Management Plan**
- 2. Changes Affecting AEON's Business Environment**

# Review of Previous Medium-term Management Plan<sup>※1</sup>



- Made all-out Group-wide effort to focus on the implementation of 4 shifts
- Profitability improvement remains an issue, however, due to delayed progress of cross-Group initiatives such as investment in growth areas

(billion yen)

Review of management target		Previous Medium-term Management Plan Target	FY2020 Result	(Reference) FY2019 Result
	Operating Revenue		10,000.0	8,603.9
Operating Profit		340.0	150.5	215.5

4 shifts	Regional	Digital	Asia	Investment
		<ul style="list-style-type: none"> <li>- <b>Completion of General Merchandise Store Business and Supermarket Business reorganization in 6 areas</b> to establish business foundation based on community-rooted management</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Formation of partnership with UK-based Ocado, etc.</b> to enhance e-commerce</li> <li>- <b>Digital initiatives to enhance customer convenience</b></li> </ul>	<ul style="list-style-type: none"> <li>- Establishment of mall business in Asia</li> <li>- <b>Increase weighting of Group's overseas operating profit from 6% to 20%</b></li> </ul>

## Key environment understanding for AEON

## Implications for AEON (Opportunities)

<p><b>1 Digital technologies and AI are prerequisites for remaining competitive</b></p>	<ul style="list-style-type: none"> <li>- Increasing digitalization of entire society toward "Society 5.0"</li> <li>- Expansion of cashless economy</li> <li>- Further penetration of IoT and AI into society</li> </ul>	<p><b>Creation of new earnings sources through increasing online customer touch points</b></p>
<p><b>2 Intensification of barrier-free competition</b></p>	<ul style="list-style-type: none"> <li>- Elimination of barriers between brick-and-mortar store business formats</li> <li>- Emergence of new competitors in online ecosystems</li> <li>- Expansion of private-brand firms and D2C by manufacturers</li> </ul>	<p><b>Acceleration of development and merchandising of unique original products based on customer needs</b></p>
<p><b>3 Heightening of new health needs</b></p>	<ul style="list-style-type: none"> <li>- Shift in eating habits (new focus on boosting immune system, etc.)</li> <li>- Heightened health and wellness needs</li> <li>- Continued rise in nursing and healthcare expenditure</li> </ul>	<p><b>Meeting wellness needs ranging from disease treatment and prevention to pre-symptomatic treatment</b></p>
<p><b>4 Acceleration of regional revitalization</b></p>	<ul style="list-style-type: none"> <li>- Changes to lifestyles, range of activities</li> <li>- Acceleration of regional revitalization</li> <li>- Population decline and strained finances of local governments</li> </ul>	<p><b>Expansion of community-rooted business fields and acceleration of shift to regional markets</b></p>
<p><b>5 Demographic changes in Asia</b></p>	<ul style="list-style-type: none"> <li>- Continued rise of Asia</li> <li>- Millennials and Gen Z becoming core consumer demographics</li> <li>- Population ageing and rise in number of single-person households</li> </ul>	<p><b>Capturing new customer segments and markets with good growth prospects</b></p>
<p><b>6 Rise in importance of sustainability-related considerations</b></p>	<ul style="list-style-type: none"> <li>- Global warming, constant abnormal weather</li> <li>- Shift to management that incorporates environmental costs</li> <li>- Evaluation of corporate environmental measures (ESG investment)</li> </ul>	<p><b>Helping to make eco-friendly lifestyles a reality through diverse business formats</b></p>

## **3 . FY2021~FY2025**

# **Medium-term Management Plan**

- (1) Overview
- (2) Management Indicators, Investment Allocation,  
and Changes to Group Portfolio
- (3) Group Growth Strategy
- (4) Positioning of Environmental and Social Contribution
- (5) Strengthening of Management Foundation

# (1) Overview of FY2021~FY2025 Medium-term Management Plan

AEON's ideal state for 2030

Sustainable, circular economy-focused management in which AEON's growth in local communities directly leads to the enrichment of local community life

Basic Policy

- Establish business foundation for growth by 2025 on the way to achieving Group vision
- Emphasize operating profit margin by focusing on improving management efficiency

Growth Strategy

- |   |   |   |
|---|---|---|
| 1 | <b>Acceleration and evolution of the digital shift</b>    | <ul style="list-style-type: none"><li>• Create a seamless customer experience through the integration of stores and digital functions</li><li>• Implement quick decision making based on data, AI, and experience</li></ul> |
| 2 | <b>Establishment of unique value by supply chain</b>      | <ul style="list-style-type: none"><li>• Develop and propose products unique to AEON</li><li>• Establish an integrated supply chain</li></ul>  |
| 3 | <b>Advancement of Health &amp; Wellness for a new era</b> | <ul style="list-style-type: none"><li>• Provide products and services to meet new health needs from customer's point of view</li><li>• Propose health-related total solutions across the Group</li></ul>                    |
| 4 | <b>Creation of the AEON Living Zone</b>                   | <ul style="list-style-type: none"><li>• Provide products, services, and spaces from the perspective of local consumers seamlessly</li></ul>   |
| 5 | <b>Further acceleration of the Asian shift</b>            | <ul style="list-style-type: none"><li>• Build and rapidly deploy area-optimized formats without relying on the Japanese model</li></ul>   |

## (2) Management Target

- Focus on improving management efficiency, and strive to increase the soundness of our financial balance while working to establish business foundations.

		FY2019	FY2020	FY2021	FY2025
Management Target	Operating Revenue (billion yen)	8,604.2	8,603.9	8,620.0	11,000.0
	Operating Profit (billion yen)	215.5	150.5	200.0~ 220.0	380.0
	Operating Profit Margin	2.5%	1.8%	2.3~2.5%	3.5%
	ROE	2.5%	-7.0%	—	over 7%
	Debt/EBITDA (excl. Financial Service Business) ※1	3.3	3.6	—	under 2.5
Non-Financial Indicators	Digital Sales (trillion yen)	0.07			1
	Private-brand Products Sales (trillion yen) ※2	1			2
	Overseas Operating Profit Share	20%			25%

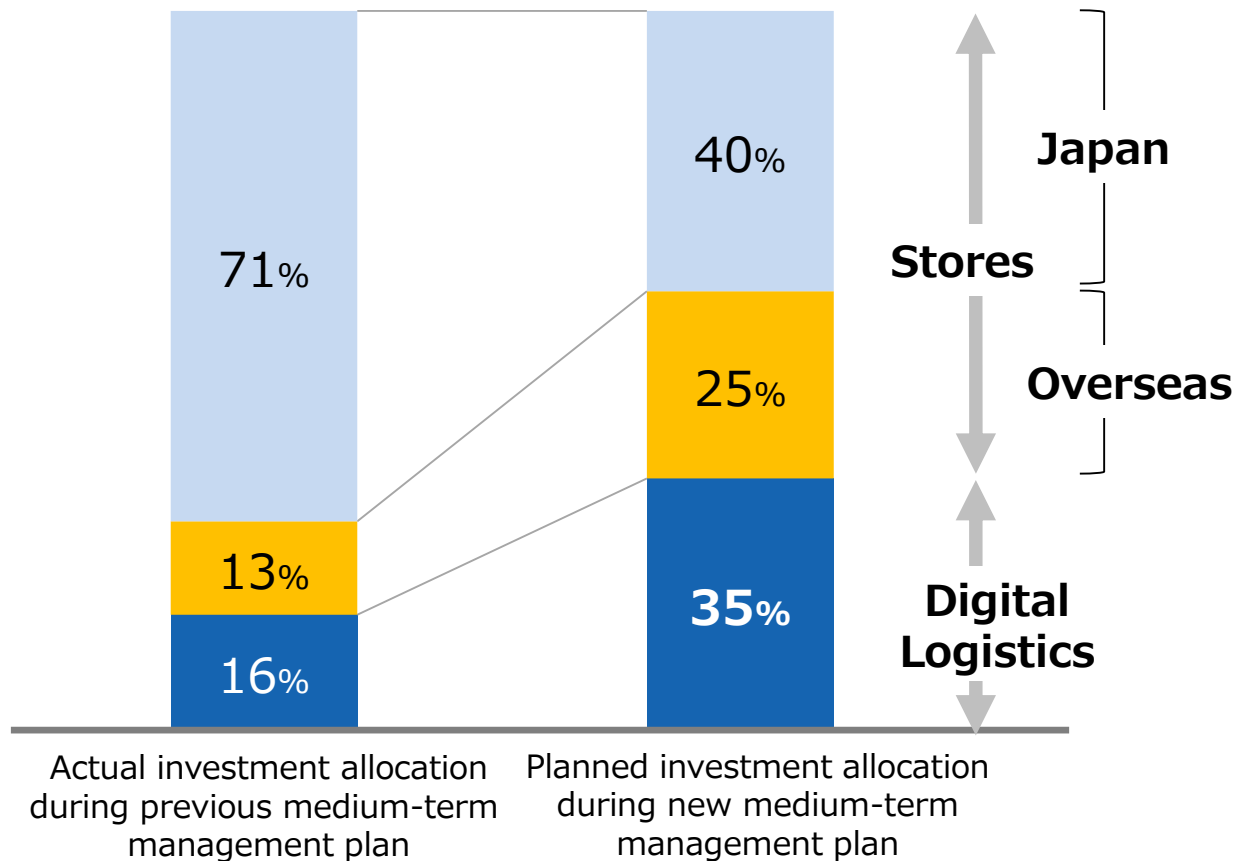
※1 Adjusted in consideration of the capital of hybrid corporate bonds and hybrid loans.  
Set off with cash

※2 Total sales amount of Topvalu Products, Local PB Products, Specialty PB Products



## (2) Investment Allocation

- Prioritize investment to digital, merchandise/supply chain and overseas

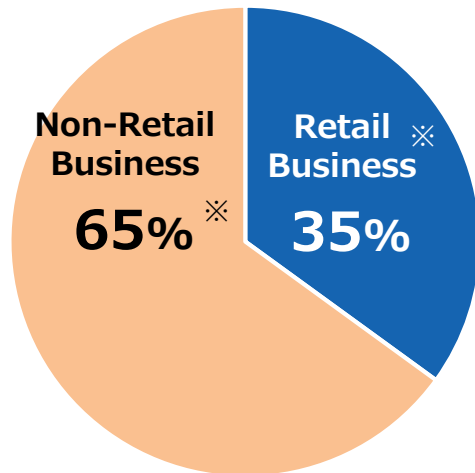


## (2) Changes to our business portfolio

- Increase retail business profit share in group portfolio by improving the profitability of the retail business through reforming digital infrastructure, products, and supply chain.

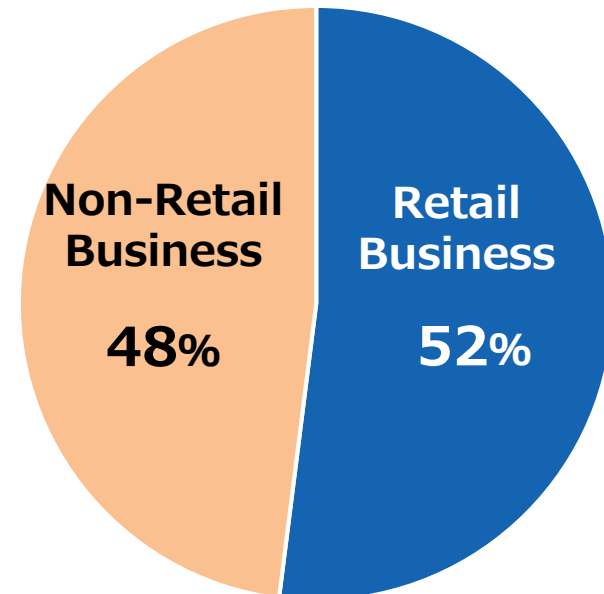
### Operating profit share

**FY2019**



Operating profit **215.5** billion yen

**FY2025**



**380.0** billion yen

※Retail Business : GMS, SM, Health & Wellness and International  
Non-retail Business : Shopping Center Development, Financial services and others

### (3) Growth Strategy

## ① Acceleration and evolution of the digital shift



#### Direction

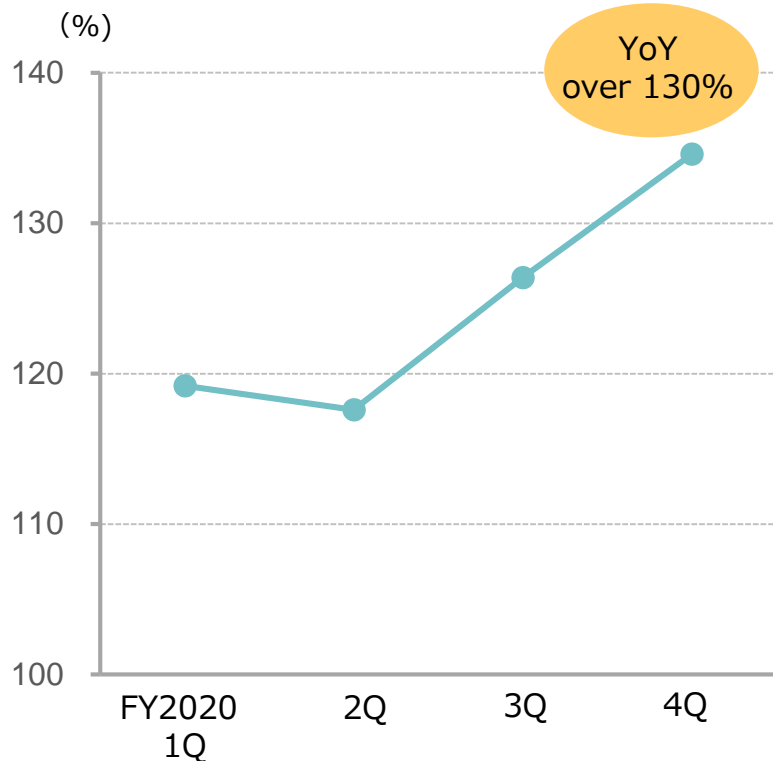
- Build a new customer-focused ecosystem leveraging technology to enable a shift from focusing on brick-and-mortar stores and product sales to the provision of **seamless experiences integrating store-based and online retail formats**
- **Create new earnings model** based on Group-wide data sharing and construction of data infrastructure and also **transform existing operations by leveraging data and AI**

#### Main Initiatives

Key measures	Measures to implement	Timing of effect	
		First half	Latter half
<b>Accelerating the digital business</b>	• Expand e-commerce, online supermarket, and omnichannel sales		●
	• <b>Build next-generation e-commerce platform</b> with Ocado		●
<b>Digitalization of store, HQ work</b>	• <b>Improve customer experience</b> through self-checkout, etc.	●	
	• <b>Improve efficiency of store operations</b>	●	
	• Improve efficiency by reviewing workflow and leveraging digital technology	●	
<b>Development common digital infrastructure</b>	• <b>Personalize sales promotion</b> through apps and loyalty programs		●
	• <b>Create new revenue sources</b> such as through advertising by utilizing customer data		●
	• Improve profit margins through data integration and data infrastructure development		●



## Sales growth of existing online supermarkets

Trend of YoY sales of Online supermarket\*



\*AEON Retail online supermarket sales

## Accelerating the fusion of the online and offline

YoY	Sales Total	Sales from EC	Sales from Store
 New Year dishes	109%	157%	97%
 Elementary school backpacks	108%	148%	107%

Demonstrate the unique strengths of AEON, which has both brick-and-mortar and digital business

\*AEON Retail E-Commerce Sales YoY

Operate next generation online supermarkets



Image of the first CFC (customer fulfillment center) scheduled to start operation in 2023

Customer convenience and productivity improvement



Usage rate of “Regi-Go” increased to 20%, while cashier-related working hours are reduced by 30%

※Usage Rate : Average rate of check-out using Regi-go at AEON Retail stores which Regi-Go has been introduced.  
Reg-go is the self-scan and self-checkout system customers using smartphone-type device.

Horizontal expansion of self-checkout system to non-food departments




Expand the non-contact and convenience operation system to meet customers demand. Employees focus more on customer service and improvement of sales floor

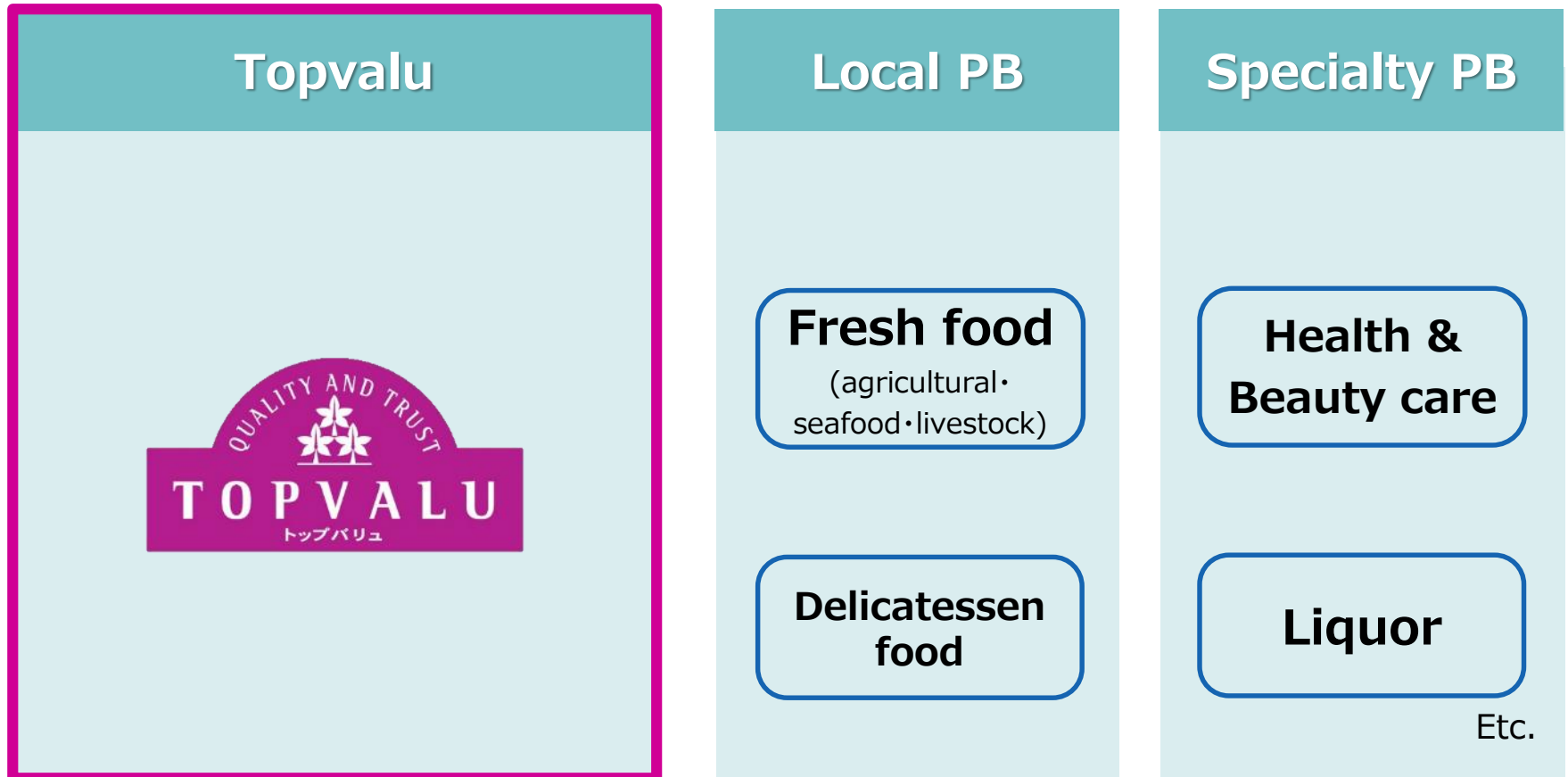
※Result of experiment at AEON Retail stores: Usage rate 34%

### (3) Growth Strategy

## ② Establishment of unique value by supply chain

<b>Direction</b>	<p>-Shift from serving as an intermediary and making proposals for products already on the market to <b>creating and proposing unique values that only AEON can offer</b></p> <p>-Make all-out Group-wide effort to create unique values <b>by drawing not only on the Topvalu brand but also on the expertise of employees in each business format and region-specific values</b></p>
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<b>Main Initiatives</b>	Key Measures	Measures to implement	Timing of effect
			First half    Latter half
	Expansion of demand aggregation for national brand(NB) products	<ul style="list-style-type: none"> <li>• <b>Aggregate demand for NB products</b> by AEON GLOBAL MERCHANDISING</li> </ul>	●
	Create and propose unique private brand (PB) products	<ul style="list-style-type: none"> <li>• <b>Expand PB products</b> (Topvalu, Local PB, Specialty PB)</li> </ul>	●
	Establish the Group's food hub function	<ul style="list-style-type: none"> <li>• <b>Strengthen menu development function and production capacity of food processing centers</b> to supply products across businesses</li> </ul>	●
	<b>Supply chain optimization</b>	<ul style="list-style-type: none"> <li>• 7-step supply chain optimization</li> </ul> 	●





Topvalu



- **Products with areas and functions that NB does not handle** as a brand pursuing unique value

Topvalu  
BESTPRICE

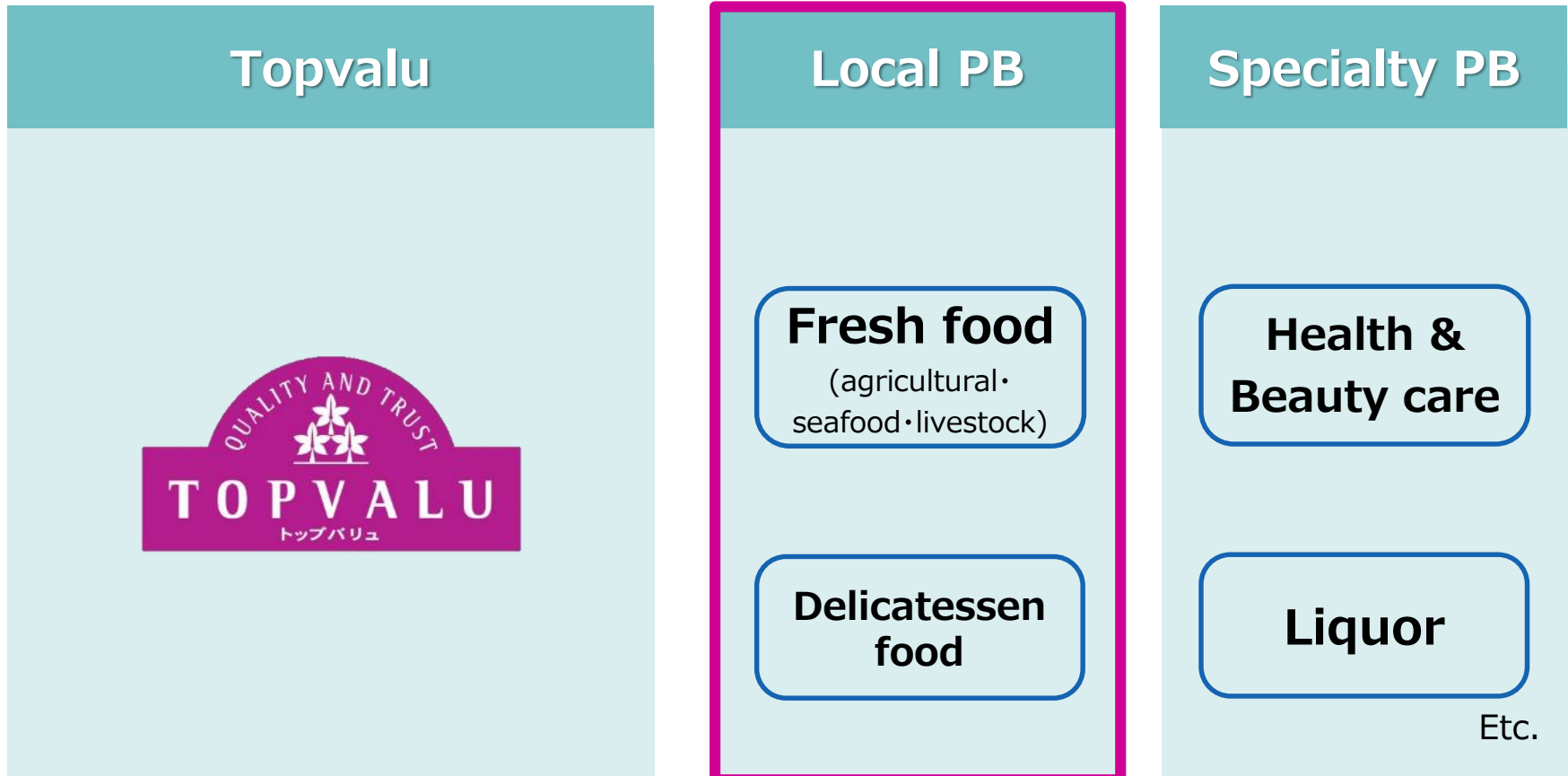


- **Products with guaranteed quality and low prices**

Topvalu  
Gurinai



- **Products that pursue genuine organic and natural**



Local fresh food



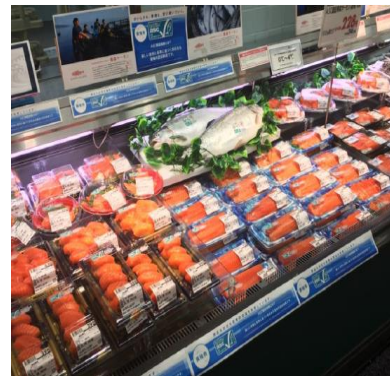
Local vegetables and flowers



Local fresh fish



AEON Agri. Products



MSC/ASC-certified products from Tohoku region

Products sourced and processed in the Tohoku region



Tohoku-sourced REWARD KITCHEN



Processed products made at local manufacturers and factories

Sales trend of “Nigiwai Tohoku” Products

¥ 5.1 billion

2.1 times

¥ 10.6 billion

2016

2017

2018

2019

2020

## Topvalu



## Local PB

### Fresh food

(agricultural·  
seafood·livestock)

### Delicatessen food

## Specialty PB

### Health & Beauty care

### Liquor

Etc.

**Direction**

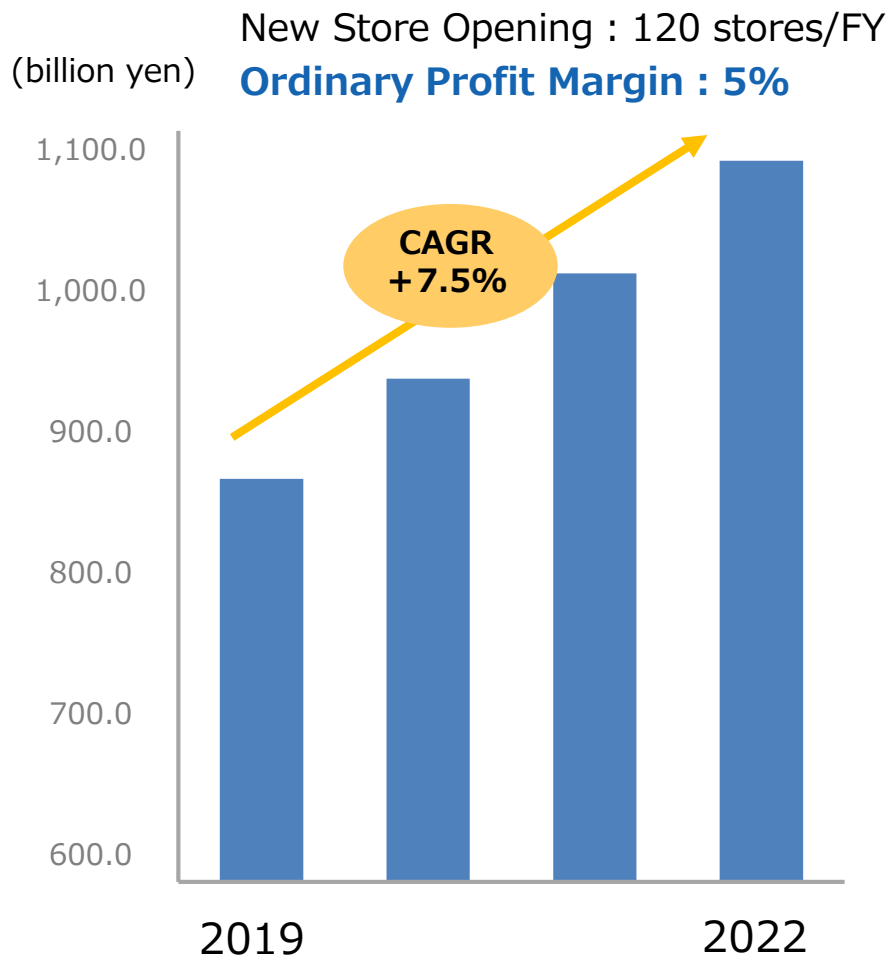
- Shift from focus on providing disease-oriented healthcare to also **meeting new and diversifying health needs including those relating to pre-symptomatic treatment**
- Work to gain understanding of health needs from customers' perspective and provide proposals through seamless cross-business coordination** by shifting from management of customer data by individual business formats and stores to centralized Group-wide data management

**Main Initiatives**

**Expand Health & Wellness business domain**

- Expand Welcia business**
- Provide drug-related products and services for prevention and treatment and have **group companies develop and provide customers with products, services, and sites with focus on newly emerging health needs**
- Provide customer experiences that exceed the level of experiences that can be provided by Aeon alone by forming strategic partnerships with external firms in addition to Group companies

## Welcia Holdings' Sales target in the medium-term management plan



### <Welcia Holdings' Key Initiatives>

- Expand service areas through new store openings
- Establish drugstores able to process prescriptions to serve as healthcare centers for local communities
- Accelerate addition of food and other product lines
- Prepare IT/distribution infrastructure to facilitate further expansion of store network



### <Strengthen ties within the Group>

Specialty private brands

Healthcare malls

Data sharing

Specialist personnel training

**Direction**

- **Construct the AEON Living Zone rooted in their respective communities** combining multi-format store networks and businesses with digital infrastructure
- **Continually contribute to local communities through business activities**, while augmenting the kinds of necessary services and social capital that each community is lacking in

**Main Initiatives**

**Provide products, services, and infrastructure to help enrich people's lifestyles**

- **Provide community-rooted products, services, and lifestyle infrastructure** as the next step in the shift to regional markets
- **Create bases to form the core of the Living Zone that supplement social capital** needed in each community
- **Construct digital infrastructure for the Living Zone** by increasing the number of app users and expanding the cashless payment network



## Integration Progress

March 2019	Maxvalu Nishinohon marunaka SANYO MARUNAKA
September 2019	Maxvalu Tokai Maxvalu chubu
March 2020	AEON Hokkaido Maxvalu Hokkaido
	Maxvalu Tohoku AEON Retail Tohoku Company
September 2020	Daiei KOHYO
	AEON KYUSHU Maxvalu Kyushu AEON Store Kyushu

### (Results of AEON initiatives in Tohoku)

1. Reduced cost of goods by consolidating and coordinating trading relationships
2. Streamlined head office functions
3. Streamlined facility improvement and management operations

Generated integration effect worth more than 1 billion yen in FY2020

## ⑤ Further acceleration of the Asian shift

### Direction

- **Operate brick-and-mortar stores and digital business in parallel in Asia**  
Accelerate speed of growth using dedicated business models for other Asian countries
- **Shift from current Japanese-style business model to models matching the characteristics of each Asian country** and allocate investments in human resources, goods, and capital to Asia as a whole

### Main Initiatives

#### China

- **General Merchandise Store Business initiatives using cutting-edge digital technology**
- Take on the role of transferring know-how and technology to Japan and Asia as the Group's cutting-edge R&D organization

#### Vietnam

- **Accelerate multi-format expansion** at shopping centers and in the General Merchandise Store Business and Supermarket Business
- At the same time, **advance digital initiatives and devise optimal area-specific strategies**

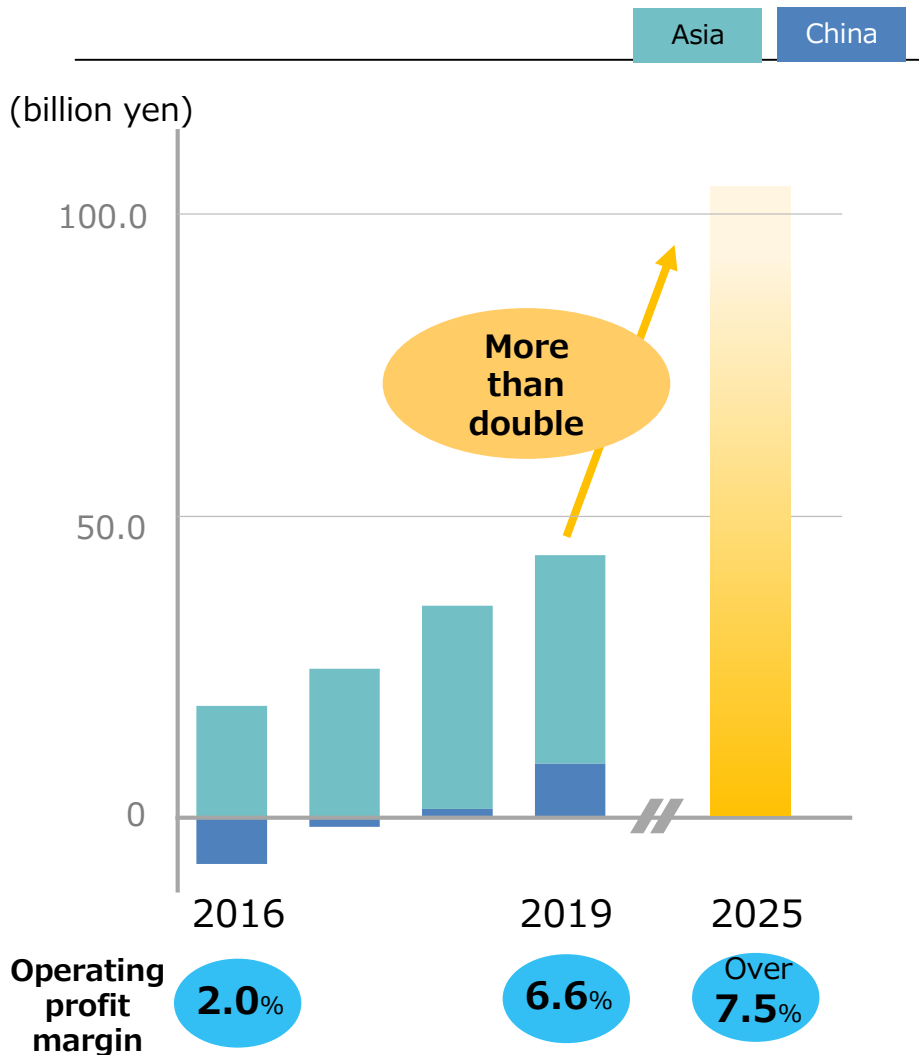
#### Malaysia

- Raise value of existing stores by **refurbishing aging shopping centers and stores**
- Expand horizontally in Asian countries by **developing digital business as an earnings pillar** based on our partnership with U.S.-based BOXED

# (Reference) Speed of profit growth through Asian shift



## Trends in Operating Profit in Asian region



### <Accelerate the opening of real stores>

#### Malls

- Open new **AEON Malls overseas** (to establish overseas network of 50 malls by FY2025)

#### Other

- Open stores by **multi-format** including General Merchandise Store, Supermarket, Convenience Store and Specialty Store



### <Enhance Digital efforts>

#### China

- Promote General Merchandise Store Business DX initiatives through DMC\*

#### ASEAN Countries

- Build digital platform in collaboration with U.S.-based BOXED

## (4) Positioning of environmental and social contributions

- Work on de-carbonizing entire communities together with our customers by further bolstering our current environmental and social contribution activities

### Renewable energy



- Transition to use of renewable energy at shopping centers and stores

### Resource recycling



- Use environment-friendly materials for private brand products, and facilitate the reuse of plastic and food waste, etc.

### Regional coexisting



- Tree-planting activities
- Community-based forest initiatives

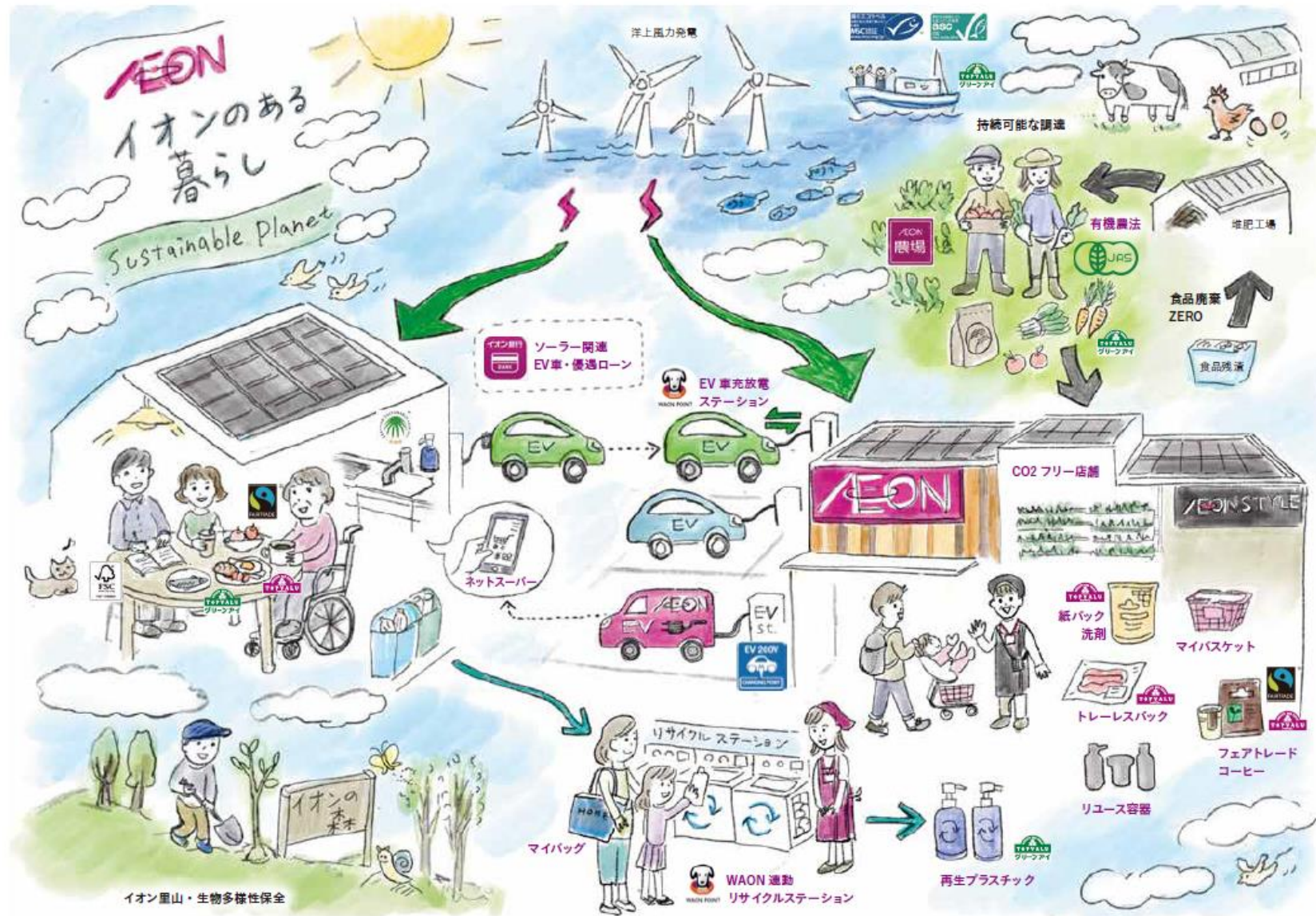
## Main Initiatives

- Aim to transition to using 100% renewable energy to power all 150 AEON Malls in Japan by 2025



AEON Mall Ageo, which is operated with 100% renewable energy

(Reference) Sustainable lifestyles in the AEON Living Zone (Image)



## (5) Strengthening the management foundation



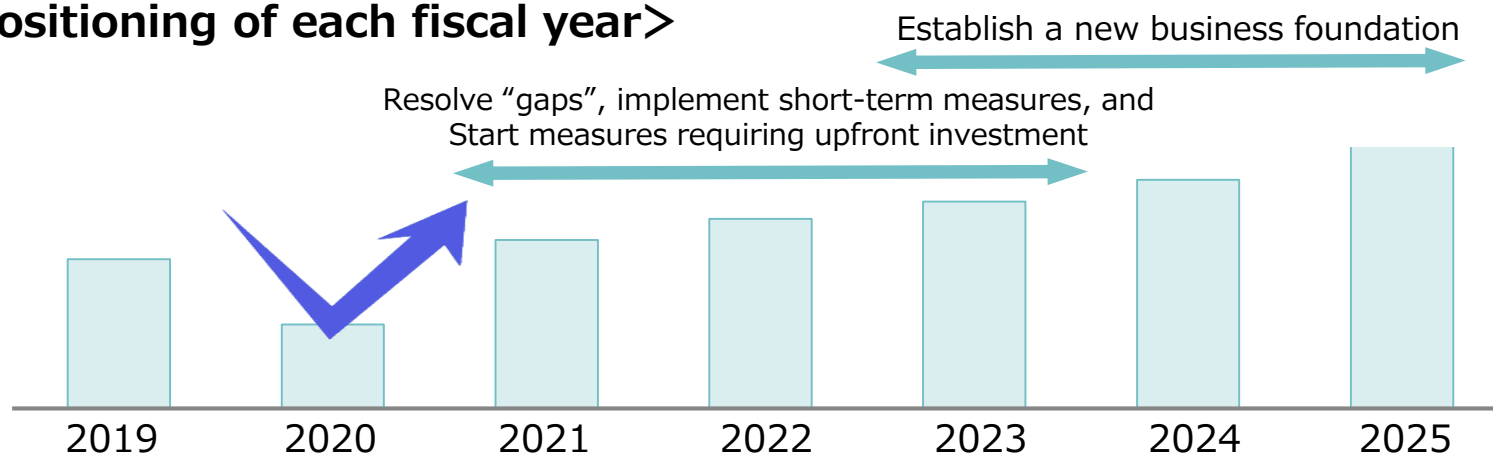
- Strengthen governance framework to facilitate steady implementation of the new Medium-term Management Plan and monitoring of progress

**Board of Directors: Monitor implementation of Medium-term Management Plan**

Manage, oversee

**Executive body: Formulation and surefooted implementation of Medium-term Management Plan**

### <Positioning of each fiscal year>







# Disclaimer regarding Forecast Statement

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