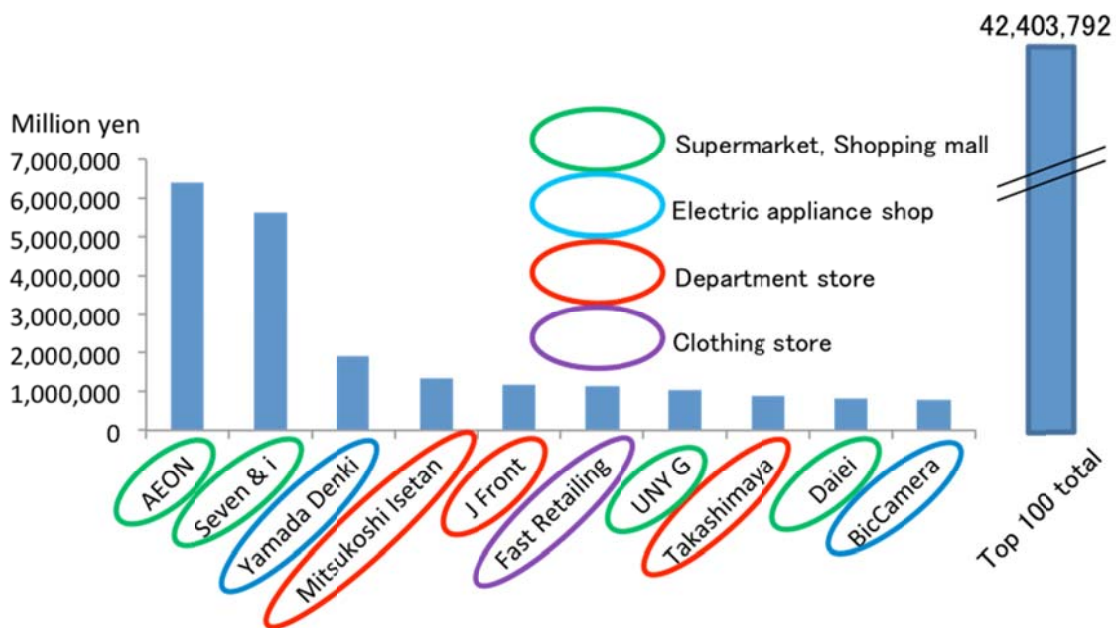


## Retail Sector Highlights (August – October, 2014)

### Market overview

The faces of the top retail\* companies have not changed very much. The top 10 companies still make 50% of the profit of the top 100 retailers. The big 2 - AEON and Seven & i - collectively account for 28% of the total revenue in the sector.

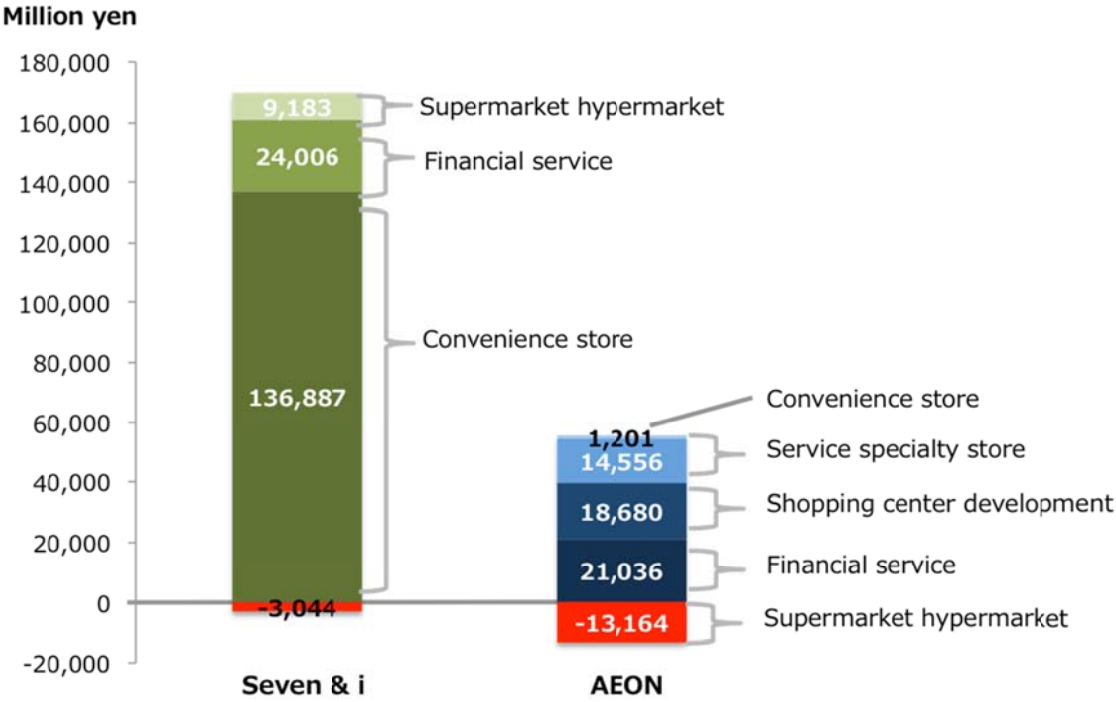


**Figure 1: Retail sales ranking of listed companies, September 2014 (Original data from Nikkei)**

However, the situation is not the same for the two companies. Seven & i Holdings recorded a record high profit in its interim consolidated statement in August 2014. On the other hand, AEON saw a 90% reduction in profit during the same period. One possible reason for these different results is the two companies' differing responses to the increase in consumption tax – from 5% to 8% - which took effect in April 2014. While Seven & i refreshed most of its private brand products, AEON simply maintained the prices of its own private brand products. Renewed and refined products by Seven & i were more

appealing to consumers. In actuality, the strong results achieved by Seven & i were brought about by its convenience store business, as in fact the profit of its supermarket business fell by 22%. This means that convenience stores are no longer seen as complementary shopping options, but are gradually becoming primary shopping sites due to their convenience and high quality product lineups.

The difficulties faced by supermarkets were especially highlighted by the discontinuation of the Daiei brand, which was the symbolic name of a nationwide supermarket chain. Initially, a majority stake in the group was acquired by AEON in March 2013 in order to restructure its operation; however, AEON eventually decided to purchase Daiei in its entirety and terminate the brand.



**Figure 2: Sales profit breakdown of AEON and Seven & i Holdings 31 March – 31 August 2014 (Source: companies’ IR report)**

\*"Retail" includes a broad range of product categories (such as food, drugs, items for daily consumption, clothing, and electric appliances)

in different settings (such as small shops, shopping malls, department stores, restaurants, convenience stores, and discount shops.)

## The presence of “select shops”

“Select shops”, or multi-brand boutique shops, play a significant role as a market entry point, especially for relatively small brands which do not have their own local distribution and/or marketing channels. Select shops refer to shops which retail curated items from different brands. The shops tend to have their own curation concept, but mostly cater to a high-class modern lifestyle with their nicely designed products.

“Select shops” can be segmented as follows:

- **Clothing shops:** as clothing retailers, select shops tend to stock high-end garments by overseas and domestic brands. Such stores include Beams, Ships and Journal Standard, as well as New York-based Barneys New York. They are often seen as tenants in notable commercial buildings, but they also have flagship stores in the center of major cities.
- **General stores:** general stores often embrace clothes, but only as a part of their holistic lifestyle presentation. The variety of items ranges from kitchenware, house cleaning equipment, stationery and music to inspirational books. Again, the store settings can be commercial buildings or on-street shops.

Recent days have seen the announcement of some smaller scale new entrants.

- Kapak – the Hong Kong-based select shop chain opened its first Japan shop in Harajuku (a competitive fashion district in Tokyo). It offers clothes, cosmetics, accessories and other general goods from all over the world.

- Dolchi Follie – the London-based luxury lingerie boutique chain is planning a popup store in Tokyo in 2014.
- Fred Segal – the Los Angeles-based luxury lifestyle select shop chain is opening its first overseas shop in Daikanyama (a premium boutique district in Tokyo) in Spring 2015.

It is interesting to see how these chains differentiate themselves from already popular domestic shops and international competitors.

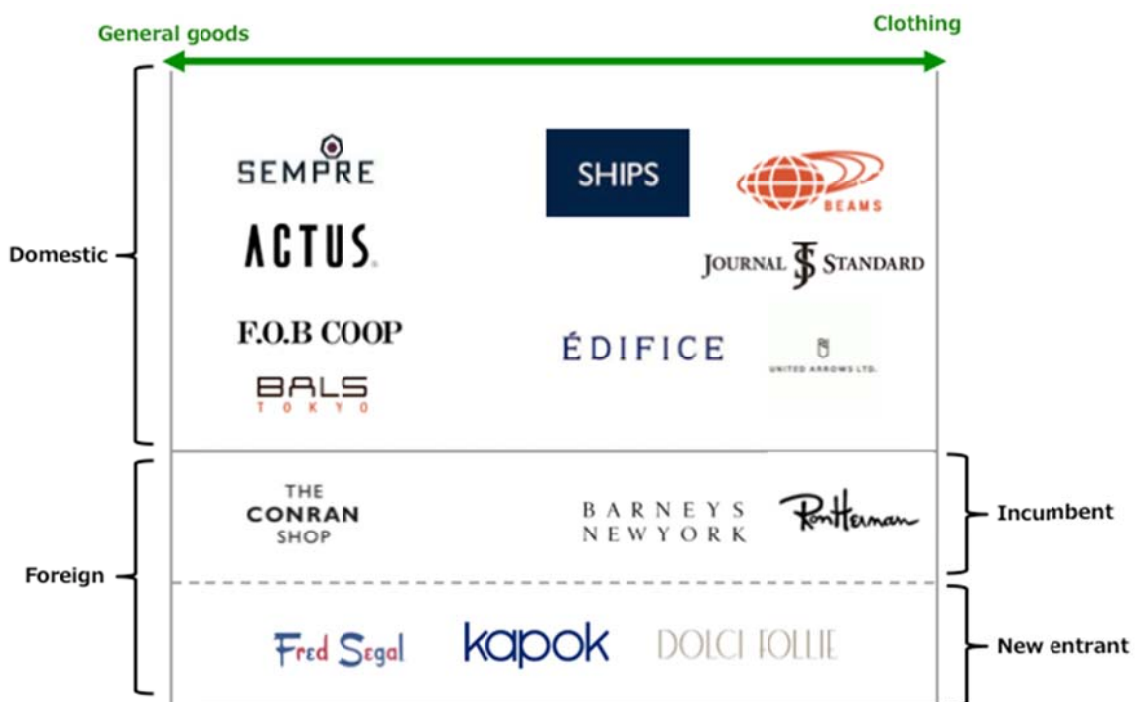


Figure 3: Select Shops positioning in Japan (source: Prepared Slides, LLC)

## Column: Rail companies and retail shopping facilities

Tokyo is one of the most populated and expensive cities in the world. This implies that those who take control over human traffic flow and real estate properties in key points will hold significant commercial advantages. Typical players in this segment are railway companies. The largest player in this segment is JR (Japan Rail), which has extended its railway network throughout the Tokyo area as well as the entire

nation. JR manages terminal buildings in which it operates department, grocery and convenience stores. The revenue from the retail operations of these players is non-negligible. JR East Retail Net registered sales of JPY202billion (USD1.9 billion) in 2013, which is equivalent to 7.9% of JR East's total turnover. Penetration of the retail ecosystem by railway companies is a promising way to penetrate the Tokyo area.

Nevertheless, they do not stop only at retail, but expand their presence further by adding hotels and amusement facilities.

	Department Store	Supermarket	Convenience store
<b>JR</b>	<b>Lumine (17)</b>	Atre (20)	<b>New Days/Kiosk (885)</b>
<b>Tobu</b>	Tobu Dept (6)	<b>Tobu Store (61)</b>	Family Mart (23)
<b>Seibu</b>	Seibu Dept (16)	Seiyu (sold)	Tomony (58) with Family Mart
<b>Keisei</b>	Keisei Dept (1)	Libre Keisei (34)	Seven & Eleven (?)
<b>Keio</b>	Keio Dept (5)	Keio Store (41)	A LoT / K-Shop (72)
<b>Tokyu</b>	Tokyu Dept (11)	Tokyu Store (44)	Lawson + toks (33) with Lawson
<b>Keikyu</b>	Keikyu Dept (1)	Keikyu Store (37)	Seven & Eleven (23)
<b>Odakyu</b>	Odakyu Dept (3)	Odakyu OX (26)	Odakyu Mart (19)
<b>Sotetsu</b>	Sotetsu Joinus (1)	Sotetsu Rosen (51)	Family Mart (9)

**Table 1: Retail stores by railway company in the Tokyo area as of October 2014 (source: railway companies)**

## Sources/References:

Market overview

- [Nikkei](#) (Japanese)
- [AEON Group](#)
- [Seven & i Holdings](#)
- [Japan Department Stores Association \(Japanese\)](#)

## Select Shops

- [Beams](#) (Japanese)
- [Ships](#) (Japanese)
- [Journal Standard](#) (Japanese)
- [Nano Universe](#) (Japanese)
- [Edifice](#) (Japanese)
- [Sempre](#) (Japanese)
- [Actus](#) (Japanese)
- [F.O.B Corp](#) (Japanese)
- [BALS Tokyo](#) (Japanese)
- [Ron Herman](#)
- [Barneys New York](#)
- [The Conran Shop](#)
- [Dolchi Follie](#)
- [Kapak](#)
- [Fred Segal](#)

## Column:

- [JR EAST](#) (Japanese)
- [JR Retail Net](#) (Japanese)
- [Tobu](#) (Japanese)
- [Seibu](#) (Japanese)
- [Keisei](#) (Japanese)
- [Keio](#) (Japanese)
- [Tokyu](#) (Japanese)
- [Keikyu](#) (Japanese)
- [Odakyu](#) (Japanese)
- [Sotetsu](#) (Japanese)