

PART

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Top Message

As a direct marketing conglomerate (DMC) balancing economic value with social value, we demonstrate our true worth by targeting sustainable growth.

Evolving as a corporate group that always cares for its customers while boldly taking on the challenge of transformation

Last year, when I assumed the position of Representative Director and President, Scroll Corporation adopted a new structure. We believe this represents our first step on a path toward further growth as a company that will continue to thrive for the next 100 years.

From the year before last year until last year, the business performance of the SCROLL Group has remained stable. We have once again defined our Group's purpose, our *raison d'être*, as "supporting the emergence of affluent lifestyles in tune with the times through our direct marketing business." This is an expression I arrived at after looking back on the history of our company since its founding, interpreting it and giving it meaning in my own way. In so doing, I considered the spirit of our founding, the corporate culture that has been handed down since our founding, and the merchant spirit that our predecessors nurtured while navigating the rough seas of the times. I gained a strong awareness of their persistent sincerity toward our customers throughout the shifting sands of each era. No matter how the times changed, they never wavered, remaining steadfast in their approach. Therefore, we believe that in the coming era, we will continue indefinitely to uphold this honest stance toward customers who purchase our products and services; we will remain sincere and diligent in pursuit of our group effort that will lead to sustainable growth. We have incorporated that stance into our purpose.

In order to fulfill our purpose, we have formulated a particular mission "to remain a diverse and unique direct marketing conglomerate unafraid of change." On the assumption that the future prospects of the economic environment and the market are not necessarily bright, our mission also stems from a sense of crisis that the history of the Group will end the moment we fail to respond to change and thus no longer grow, or the moment our Group loses its capacity to respond to change.

In addition, we have envisioned our ideal form as "serving as a good life company that offers benefits to individuals, society at large, and our planet." This good life company was established when I was appointed president in 2015, and in a nutshell, it expresses a simple desire to create a "good company," not in my own estimation, but in the view of each and every employee of our company. In other words, we believe that this can be achieved when each individual employee thinks and acts in pursuit of what is truly important to him or her. And as an extension of that, we also desire to be a good company for our stakeholders and our planet.

Developing our business by seizing the opportunities presented by changing circumstances and challenging environments

Looking to recent developments in the market environment, it is abundantly clear that the COVID-19 pandemic has had a serious negative impact on the economy over the past year. In addition, we have witnessed the emergence of geopolitical risks in Eastern Europe and elsewhere that have exacerbated the turmoil in the global economy. Furthermore, looking at the Japanese economy from a long-term perspective, there is no doubt that we will continue to face headwinds in the distribution market as the country enters an era of population decline. In addition, the COVID-19 pandemic has pulled forward secular changes that we had anticipated would emerge only on a medium- or long-term time scale. As a member of upper management, I am determined to move forward vigorously by steadily resolving management issues with a strong sense of urgency.

The SCROLL Group regards the very challenging market environment that is expected to emerge in the years ahead as the advent of a dark age for the distribution sector. While acknowledging this situation calmly, we will not be pessimistic; instead, we will seize the opportunities presented by these changes and aim for further development of our business.

Fiscal 2021 was a year in which we posted strong business performance overall and clarified the essential challenges in each business segment.

Regarding our most recent business performance, we have designated fiscal 2021 as a year to prepare for the evolution of our business model in preparation for the coming dark age of distribution; consequently, our Group has been working together to address management challenges. As a result, although some businesses were greatly affected by the COVID-19 pandemic, sales were favorable overall. Over the past few years, we have been seeking more economical production locations while maintaining quality at our manufacturing sites. We have thus increased the ratio of direct production overseas, mainly in ASEAN territories. On the other hand, with regard to sales, we have remained focused on improving sales efficiency in order to acquire sales despite maintaining lower sales promotion expenses. Considering that we have firmly established this profit and loss structure and have developed business operations that are even more efficient, our response to the COVID-19 pandemic provided several advantages that contributed to positive business results.

However, in spite of the good performance of the Mail-order Business, which is our Group's core business, it was a year in which issues arose in our other businesses, including our Solutions Business. What is common to all these businesses is that the future will clearly not be an extension of the past. As a result of our active efforts focused on new developments in each business, we believe that we have posted rather significant achievements in that we have clarified essential issues. Our Group's biggest challenge is to break away from single-business management that relies on the Mail-order Business for the majority of its revenues; however, I sense that we are responding positively in identifying issues that need to be addressed for future growth, led by our Solutions Business.

Representative Director and President

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Tomohisa Tsurumi



Expanding the breadth and depth of each business in order to survive in the market

As we look ahead to our future business development through the steady implementation of Next Evolution 2024 (“NE2024”), our medium-term management plan, we intend to refine the business models of each of our business segments with the aim of achieving both sales growth and improved profitability.

In order to continue implementing the direct marketing conglomerate strategy that we have adopted, it is essential that we expand the breadth and depth of each of our businesses in the future. In the words of Stanford Professor Charles A. O’Reilly “breadth and depth” represent the ways in which one can deepen and explore a business. “Breadth” means to expand a business as an extension of our existing business, which is not the same as expanding within each business or creating a whole new business block. “Depth” refers to increasing profitability by pursuing more up-to-date technologies and skills, such as improving efficiency, put simply, it means to increase profit margins. To be more specific, if white space exists within a certain business segment, one is challenged to fill that space. This is not limited to the business model, as it may be filled with a product or a new sales method. This is also part of the breadth of the business segment. Of course, a completely different business segment outside the existing one is also part of the breadth of that business. In short, it is not a matter of the breadth outside of the current business segment, but of the range that exists within each business. Organizationally speaking, many elements could expand this range in their own unit, which is the smallest unit.

By pursuing the full potential of this breadth and depth, we will be able to further refine our strengths as a group, further enhance profitability, and further strengthen our financial foundation. By building on our flagship Mail-order Business, we can identify business opportunities in our Solutions Business and E-commerce Business. As a result, we will be able to demonstrate our true value as a direct marketing conglomerate by firmly developing them into the pillars of our enterprise.

Our main objectives are to refine our Mail-order Business; revitalize our Solutions Business; and improve the earnings of our E-commerce Business.

Regarding the future development of NE2024 in terms of each business segment, we will move our Mail-order Business into the future by seeking out new revenue sources and further enhancing our business efficiency.

Specifically, we must focus on how we can build businesses other than our 52-week merchandising business that we have been operating to date. We can achieve this by accelerating the initiatives of our solutions vendor business (SVB), which provides individual goods, experiences, and services to each region. In addition, from a broader perspective on how to improve our business efficiency, we must acknowledge that apparel, one of our main product lines, is reaching a stage in which the market is shrinking, especially over the long term, which indicates that the competition will become more severe among the remaining players. The number of players will inevitably decrease, so how efficiently one can conduct corporate operations and maintain low costs will be the keys to winning in this market. We believe that, by achieving these two goals, our Mail-order Business will continue to evolve.

Next, looking to a growth driver for our Group, our Solutions Business continues to target growth, which will enable it to become the second pillar in both name and reality. This is our foremost challenge. In order to do so, we must not fail to achieve growth that exceeds that of the market while improving our profit margins. We developed our Solutions Business to offer a menu of individualized services, but it has not yet been fully established as a comprehensive one-stop service. A group of mail-order professionals will support our e-commerce and mail order businesses from end to end and fully throughout 360 degrees.

In our E-commerce Business, although the market has expanded against the backdrop of the COVID-19 pandemic, it is becoming increasingly difficult to secure profits year by year as we enter an era of excessive competition. In particular, in the inventory procurement businesses of the Group, it is difficult to secure the expected earnings. Consequently, we will pursue a transition to a highly profitable business by strengthening the introduction of original branded products. The greatest feature of our Group’s E-commerce Business is its strong presence on many online shopping sites. As this demonstrates our strength in marketing, it should present a major opportunity.

Looking ahead to the final year of NE2024, we will focus on a management approach that can secure firm earnings in each business, and not merely on management that pursues only a particular scale of sales. Over the next three years, as we build profits centered on our flagship Mail-order Business, we will work to achieve an ordinary profit of 8 percent for the business as a whole while making appropriate investments and taking risks. In addition, with regard to businesses for which it is difficult to secure profitability, such as those in which the return on invested capital (ROIC) is lower than the cost of capital, we will flexibly and proactively replace such businesses and work to rebuild our business portfolio.

Promoting Responsibility Management through the pursuit of ethical and economic unity

This fiscal year, in conjunction with our evolution as a direct marketing conglomerate, our Group will strive to incorporate Responsibility Management as a priority policy. Our main initiatives include those aimed at achieving carbon neutrality, promoting task diversity, and strengthening our corporate governance. Among these, we will emphasize achieving a balance between economic value and social value while pursuing an orientation toward “ethical and economic unity” in which ethical and economic factors are essentially in agreement.

In other words, we believe it is the mission of our Group to secure stable profits as a business while at the same time addressing one by one those social issues that are related to the ESG management principles of environment, social and governance.

In addition, in promoting Responsibility Management, we believe that value exists in not mirroring the efforts of other companies, but rather in addressing relevant issues earlier than anyone else. In this regard, we will share discussion of

issues throughout the Group and pave the way to solutions. Furthermore, with regard to Responsibility Management, we will continue to collaborate with partner companies and others with the recognition that we are entering an era in which control is required not only within the Group but also across the entire value chain.

Our Group is now entering a new phase that entails renewal of our management structure, a transition to a prime market, and updating of our governance system. Under these circumstances, we have decided to issue an integrated report for the first time this fiscal year with the intention of achieving a higher level of corporate governance. Going forward, we will strengthen the dissemination of information to our stakeholders to demonstrate our commitment to sustainable growth.

We remain committed to refining our strength of character and reasoning skills in order to overcome all difficult environments as we remain focused on addressing our business development. In addition, to ensure that our stakeholders continue to evaluate us as a “good company,” all Group employees will work together under my leadership. We look forward to your ongoing support as we take on these challenges.

