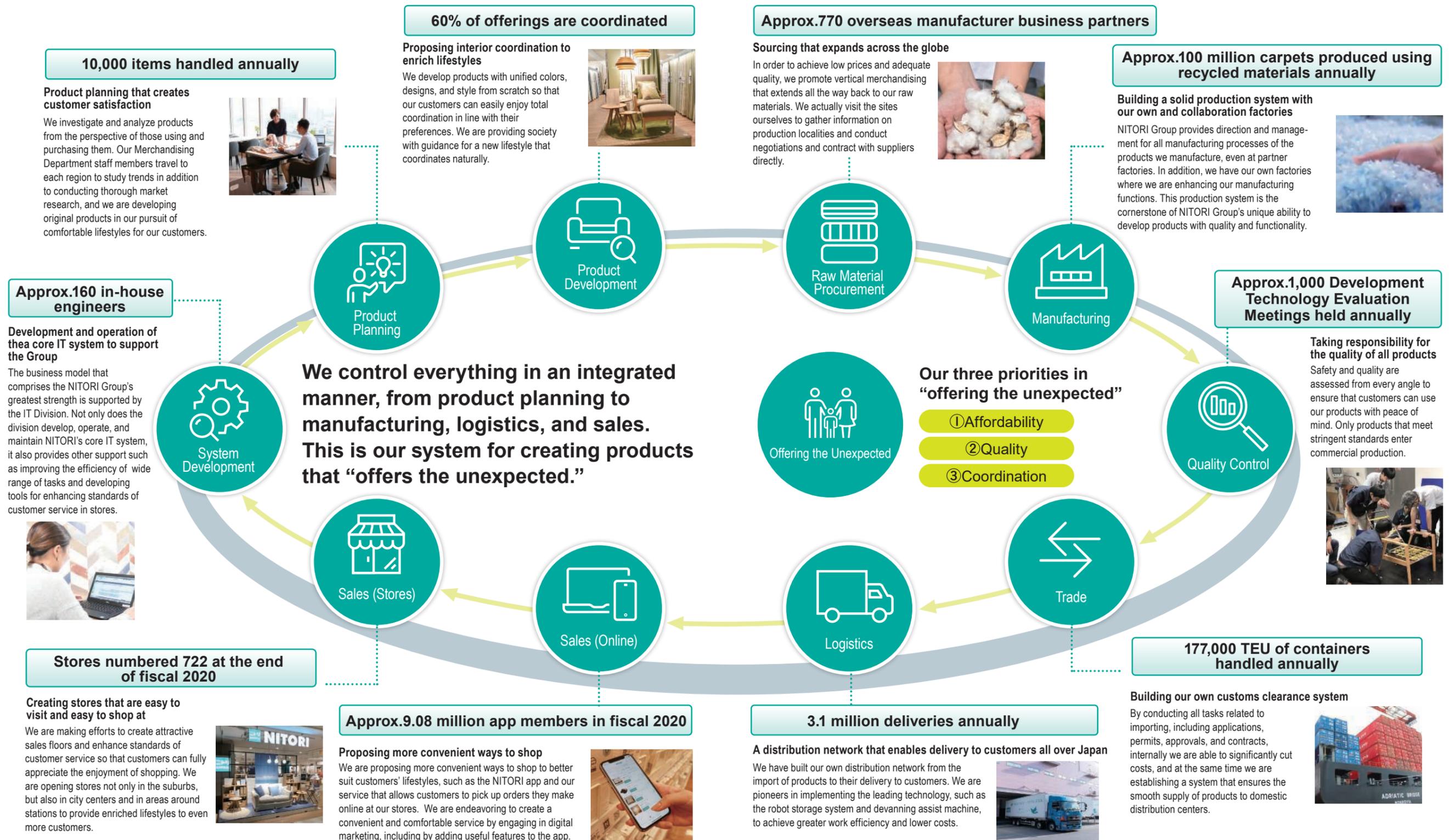


A manufacturing-distribution-IT-retail business: NITORI Group's unique business model provides value by "offering the unexpected"

Leveraging our solid foundation of human resources and global network of partner companies, we have established all operational functions inside NITORI Group to create a manufacturing-distribution-IT-retail business. We are endeavoring to evolve our customer-oriented business model in order to continue creating value by "offering the unexpected."



Focusing on product development to enrich customers' lifestyles



NITORI's coordination continues to evolve



Junichi Yoshima
General Manager
Merchandising Division

Developing new products and extending our product lineup

In developing products on a day-to-day basis, NITORI Group places the highest priority on resolving customers' frustrations and inconveniences and meeting their various needs. As part of efforts in this regard, we were quick to extend our ranges of products for children and babies, electronic appliances, and products designed for use during remote working. It is precisely because we are able to handle everything from market research to sales in-house, that we can proactively develop products that add enrichment and convenience to customers' day-to-day lives at affordable prices.

Case1

Resolving customers' frustrations and inconveniences through product development based on thorough market research

NITORI Group focuses on product development that "offers the unexpected" by providing products of appropriate quality at low prices in order to continue proposing more enriched, comfortable lifestyles. When doing research on design and style trends, we attend exhibits in Asian countries, Europe and the U.S., and visit actual stores to thoroughly research product materials, colors, and sales floor trends. Within Japan, we conduct thorough research from all angles, including studying trends among competitors and purchasing trends among customers at our own stores, in addition to studies based on home visits and on surveys to people inside and outside NITORI. Based on these surveys, our buyers formulate the product lineup and the merchandisers make it a reality in the form of products. Product development meetings held with the participation of



the management and Merchandising Division employees determine which products should be developed, enabling speedy development. We will continue striving to create products that meet customers' lifestyle needs by leveraging our strength of possessing all capabilities from market research through product development to manufacturing and sales.

For further enhancement

Improve the system for raw material procurement to reduce costs, and "offer the unexpected"

Promote product development targeting coexistence with the environment and society

Purchase raw materials ourselves and promote consolidation and shared use of raw material factories to rigorously cut costs during product development as a means of increasing the gross profit margin.

Continue to develop products that contribute not only to enhanced convenience for customers, but also to reducing environmental load, through the development and sale of environmentally friendly functional products (green products).

Case2

Interior Design for Every Home

In fiscal 2020, we announced our new ethos, which expresses our determination to achieve our mission. To enjoy coordinating home interiors will make lives that have become convenient, even more enriched. NITORI's duty is to lead and to make our customers realize this idea. We will continue to use variety of methods including our stores, NITORI-net, and the NITORI app to promote coordination suggestions, aiming to enrich customers' homes.

Interior Design for Every Home

We are here to bring joy to everyday living by

- providing a variety of products you can enjoy shopping for at affordable prices
- offering innovative designs, including items featuring technology to improve your daily life
- helping you discover new ideas for creating your own unique space and lifestyle
- bringing harmony to your home by coordinating colors, shapes and styles.

Case3

Offering total coordination through two brands with different price ranges

Our total coordination initiatives focus particularly on two brands with different price ranges—our DAY+Value and & Style lines. The DAY+Value brand proposes products with basic designs and colors. The brand's price range enables a wide variety of customers to try coordination easily. With the mid-priced brand & Style, we are taking coordination to the next level—style coordination—by adding the elements of shape, materials, texture, and finishing to the arrangement of colors and patterns. We have, moreover, made the NITORI name synonymous with coordination for everything from furniture, soft goods such as curtains, to hard goods such as items of practical use. In fiscal 2020 the proportion of sales floors displaying coordinated products was 60%. We are aiming to increase this to 80% in fiscal 2021. NITORI Group will continue to promote coordination suggestions.

For further enhancement

Increase coordination suggestions and content utilizing the internet and the latest technologies

Promote coordination-related education in-house

Launched the virtual showroom in March 2021, enabling customers to experience NITORI's coordination suggestions from their own homes. NITORI app will continue to increase contents going forward.

Use the NITORI Color Coordination School (NCCS) and educational videos to develop human resources who can employ their knowledge regarding coordination to suggest products and provide customer service.

Manufacturing



Deploying vertically integrated merchandising on a worldwide scale



Masanori Takeda
 Director
 General Manager of Global Merchandising Division
 General Manager of Global Sales Promotion Office
 In charge of Overseas Sales Business

An overseas production system that supports reliable supply

NITORI Group imports approximately 90% of its products from overseas. Of these, around 20% are produced in the Group's own overseas factories. We have increased our own production sites overseas, starting with our Indonesian factory in 1994. In product manufacturing, vertically integrated merchandising enables us to control all processes in-house, including product planning, raw material procurement, production, and quality control. We are also dispersing risk by increasing our production sites. NITORI Group's manufacturing will continue to further extend its reach, spanning national borders and multiple regions to deliver better products to customers all over the world.

Case

Curtain-producing factory constructed in Ba Ria-Vung Tau, Vietnam

Aiming to provide products that "offer the unexpected" by balancing low prices with high quality, NITORI Group pursues vertically integrated merchandising consistently and systematically throughout the entire process from raw material procurement to putting the finishing touches on end products. Our own manufacturing sites overseas help us to supply products reliably. Our Hanoi Factory produces mainly furniture, while our Ba Ria-Vung Tau Factory produces not only furniture, but also N Cool products and bedding. In this existing factory in Ba Ria-Vung Tau, we have gradually started operations of a new curtain factory from July 2021. Plans call for this new factory to initially produce 800 sets of curtains per day. In the future, it will contribute to NITORI Group's overseas production system



as a factory producing not only curtains, but also fabric for sofas and other products. Meanwhile, SIAM NITORI in Thailand is manufacturing carpets and rugs from recycled plastic bottles. We will continue to actively develop production sites geared to a global production system, as we seek to produce more products in-house.

For further enhancement

Enhance productivity at SIAM NITORI

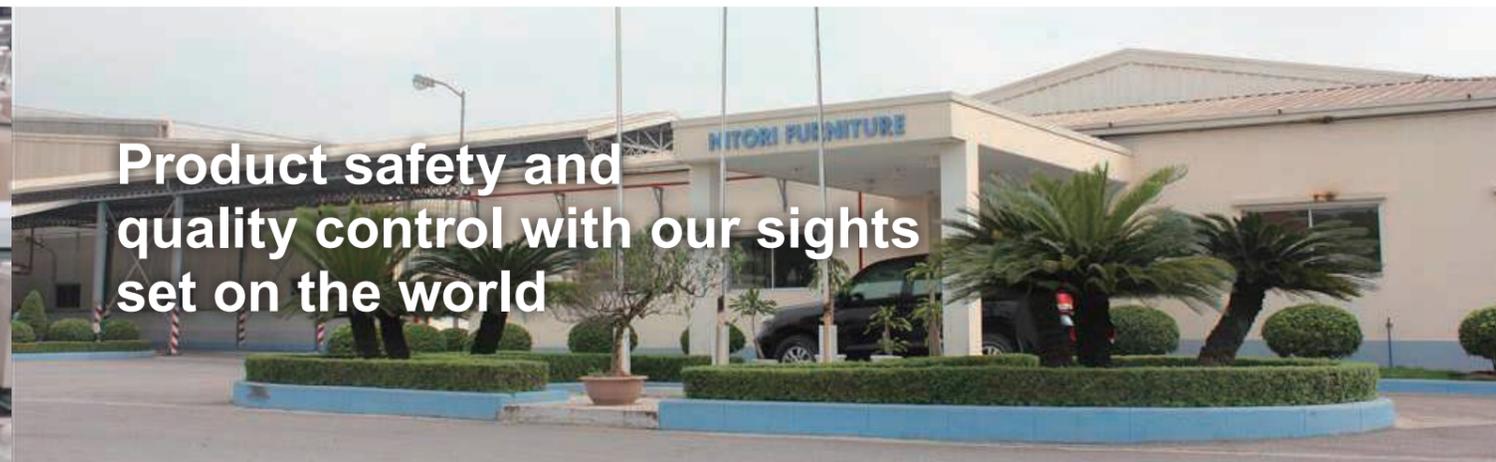
HOME DECO start producing window-covering products other than curtains

→Related topic: p.36

Renovate and extend factories and revamp rug and carpet tile lines.

Started producing HOME DECO custom-made shades in May 2021, and plans for production of custom-made rollers shades and blinds to start in 2022 or later.

Quality



Product safety and quality control with our sights set on the world



Seiichi Endo
 Manager
 Product Quality Control & Improvement Office

Setting our own quality standards as the basis to improve and reform quality

Our philosophy of product safety is that the responsibility of the manufacturer for product safety and the responsibility of the seller for product safety are inseparable and are not allowed to be separated or left to others. In line with this philosophy, we are aiming to create a system for supplying products of reliable quality all over the world through united collaboration with our business partners. Since fiscal 2018, our Product Quality Control & Improvement Office in Japan has been leading role in quality control activities across the Group as a whole, assuming responsibility for determining relevant regulations, as well as auditing and education, as it started to develop a global quality assurance system. We will continue working with our business partners to ensure that quality is further improved.

Case

Building a global quality control system and localizing product evaluation overseas

As NITORI Group accelerates store openings overseas, the number of globally common products is increasing. The Product Quality Control & Improvement Office is currently working in stages to ensure the shared implementation of globally common quality control standards. In addition, we hold Development Technology Evaluation Meetings in which we evaluate product safety and reliability and decide whether or not to introduce certain products. This is done by analyzing the actual product or parts to predict and eliminate any potential defects, failures, or risks due to misuse. As part of our efforts to enhance local quality-related activities, we are taking proactive steps to hold these Development Technology Evaluation Meetings in the countries where our products are produced. This would

offer three main advantages: (1) business partners could participate directly in evaluation meetings so that any issues could be explained to them using the actual product or part, thereby enabling appropriate improvements and development to be undertaken quickly; (2) business partners could use the issues for improvement pointed out to them as standard specifications, and reflect these in their subsequent product development, leading to greater product safety and faster development; (3) the time required for transportation, and costs incurred, when holding meetings in Japan could be saved. The number of evaluation meetings held at production sites overseas in fiscal 2020 was 127.2% of the previous year's figure, including educational training for overseas NITORI staff.

For further enhancement

Undertake reforms following the diatomite issue

Create a new system to prevent products containing hazardous substances from being released into the market

Aiming to prevent products containing substances hazardous to the human body from being released into the market, we are collaborating with a third-party inspection agency to revise our "negative list" of standards relating to restricted substances and enforce bans, or restrictions on the amounts, of the relevant substances in products. We also set up a new Planning & Design Evaluation Meeting to shift to a system that makes evaluation a prerequisite for commercial production of products featuring new materials or new functions.

A distribution network that cuts costs and improves operational efficiency



Hiroyuki Yanagawa
Representative Director & President
Home Logistics Co., Ltd.

The distribution platform that supports NITORI's manufacturing-distribution-IT-retail business

Home Logistics Co., Ltd. plays an important role in handling the logistics that are indispensable to NITORI Group's unique business model integrating manufacturing, distribution, IT, and retail. However, we face many issues including driver shortages, rising labor and transportation costs, and the increased work involved in shipping goods bought online as a result of stay-at-home demand. Our key role is to resolve these issues, achieve even lower-cost operations, and work toward standardization.

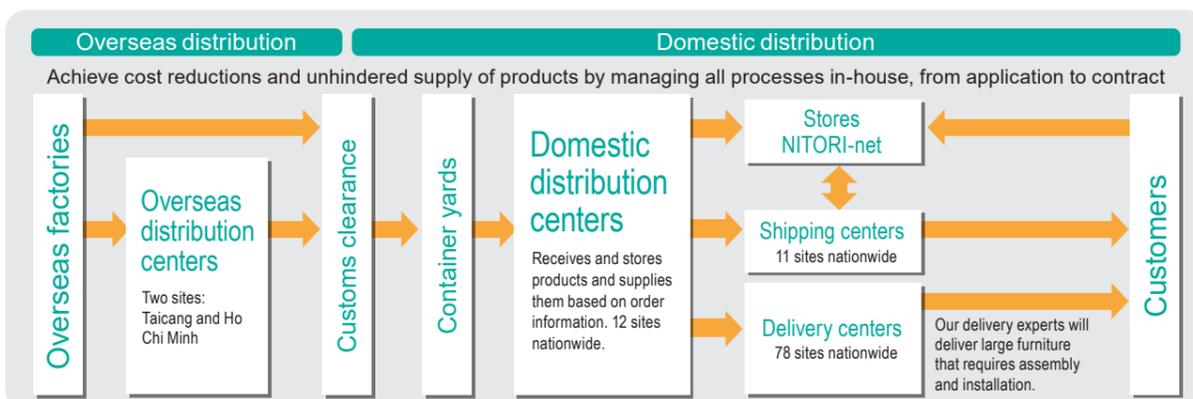
We will utilize our information assets accumulated throughout the supply chain and pursue reforms targeting overall optimization, including developing our network and combining different forms of transportation.

Case 1

A one-stop shipping system that smoothly connects production locations with customers

NITORI Group imports approximately 90% of its products from overseas. The Group imports products into Japan from 73 ports in 15 countries around the world, and total container volume reached 177,000 twenty-foot equivalent units (TEU) for the year in fiscal 2020. The volume of cargo handled is increasing each year, making NITORI Japan's largest distributor operating as a single business enterprise. We are also making substantial cost savings by building our own distribution network and conducting import-related tasks in-house. Overseas, we have two large distribution centers in the Asian region, in Taicang and Ho Chi Minh, where we optimize inventories by supplying the exact

volume of products required when and where they are needed. The Taicang distribution center, which started operating in October 2018, is the Group's largest distribution center and plays a key role globally, including undertaking trading and logistics overseas. In Japan, we have built a network across Japan that can deliver products anywhere in the country, comprising 12 distribution centers with storage capability, 11 shipping centers, and 78 furniture delivery centers. Home Logistics is responsible for providing high-quality logistics through integrated distribution that makes the most of NITORI Group's economies of scale.



Case 2

Digital transformation of logistics operations

In 1980, we introduced the Japanese distribution industry's first automatic warehouse system in our Sapporo distribution center. Since then, NITORI Group has been proactive in introducing the latest technologies and equipment, aiming to expand services and improve convenience for customers. However, if NITORI Group is to maintain sustainable growth globally, it needs to deal with chronic labor shortages. That will require it to do even more to boost the efficiency of the distribution network as a whole, improve work environments, and standardize operations. In 2016, we introduced an automated warehouse picking system called AutoStore, featuring high storage density and high-speed product loading and unloading, at our East-Japan Ecommerce Fulfillment Center, which handles shipping for online sales. Even after this installation, due to manual packing process, overall operational efficiency did not improve greatly. Moreover, the new external factor of soaring shipping costs presented an additional problem. Accordingly, in February 2021, we introduced the German-made automated packaging machine, VARIO558. With VARIO558, products are placed in a special cardboard box, which is loaded into the automated packaging machine. The machine then

automatically measures the height of products, make a box of the right height around them, and seals the box. The East-Japan Ecommerce Fulfillment Center ships around 3.02 million orders annually (as of fiscal 2020), and by using packaging machines for small items such as pillows, towels, and cutlery, we expect to increase the productivity of packaging operations by 10%. Furthermore, the appropriate sizing of packages will also enable us to reduce shipping costs. Through this type of new capital expenditure, we are lightening the load for workers and focusing on creating a positive work environment for our employees.



For further enhancement

Rebuild the domestic distribution center network, cutting costs through increased efficiency, and reducing environmental impact

Plans call for Japan to be divided into eight zones by 2025: Hokkaido, Tohoku, North-Kanto, South-Kanto, Chubu, Kinki, Chugoku-Shikoku, and Kyushu. Approximately 200 billion yen will be invested to set up eight of our own new distribution centers of 66,000–165,000 m2 in size. As the first step, construction of the new distribution center started in Ishikari City, Hokkaido, in May 2021.

Offering enriched homes to many people by expanding our network of stores in Japan and overseas



Manabu Nakamura
General Manager
Store Development Division

Making more people's lives comfortable and convenient

Up until now, NITORI Group has opened stores with the following NITORI, NITORI EXPRESS, and Deco Home formats, offering a variety of suggestions regarding housing to people in local communities. In recent years, we launched the N+ women's apparel brand and NITORI Dining Everyone's Grill, a restaurant business. Through such endeavors, we aspire to make contribution not only in the home-related sphere, but also in clothing and food. With regard to NITORI stores, in the past 15 years, we have gained the capability to open stores also in small market areas with populations of 100 thousand or less. We are pursuing dominance by opening stores not only in urban areas, but also in provincial cities, where we previously had no stores. Through this approach, we are enriching homes for people in every region of Japan and providing an environment that enables anybody to buy the products necessary for daily living whenever needed.

Case

Proactively opening stores in small market areas and urban areas

Looking ahead, Japan's population is expected to continue aging, and declining in size. Under such circumstances, we will still open stores in the suburbs, but we are also proactively opening stores in market areas with low populations, and in urban areas, where it has been difficult to open stores in the past. In December 2020, we opened a NITORI store in Nakashibetsu, Hokkaido. This was possible because we had accumulated the know-how necessary to address various location-related requirements and the needs of market areas with low populations when creating and operating stores. In addition, we are opening small-format stores, including NITORI, Deco Home, and NITORI EXPRESS in urban areas where cars are not required, such as in department stores and shopping centers near station, thereby enhancing convenience for people living in these areas. Looking ahead, we will continue to expand our store network, aiming to make life more convenient, comfortable, and enriched for customers in all regions throughout the country.

Store Openings in Japan during Fiscal 2020



Improving our ability to create attractive sales floors and provide suggestions to our customers



Mitsuyoshi Kubota
General Manager
Store Operations Division

Improving our ability to create attractive sales floors and provide suggestions to our customers

Stores are crucial contact points that connect local customers with NITORI Group. The COVID-19 pandemic temporarily caused closures and reduced opening hours among our stores during fiscal 2020, and we also noticed changes in customers' shopping habits. Prioritizing safety of our customers and employees, we strove to create clearly laid-out sales floors that made shopping easy so that customers visiting stores could enjoy their shopping. We will continue improving our ability to create attractive sales floors and provide suggestions to customers, aiming to make stores that customers want to shop again at.

Case

Creating attractive sales floors to make stores that customers want to return to

As the COVID-19 pandemic persists, the increase in time spent at home has prompted more customers to become interested in coordination and in reorganizing their homes. Under such circumstances, it is crucial that we continue to suggest new discoveries and enriched lifestyles by means of attractive sales floors. NITORI Group's products are unique in the way they are planned: designs and shades of color are uniform, making it easy for our customers to coordinate. On our sales floors, various types of products, including furniture, fabrics, and household items, are combined in groups, arranged in position, and shown to their best advantage to offer customers suggestions for total coordination. In addition, we are creating sales floors incorporating small-scale coordinated displays. For

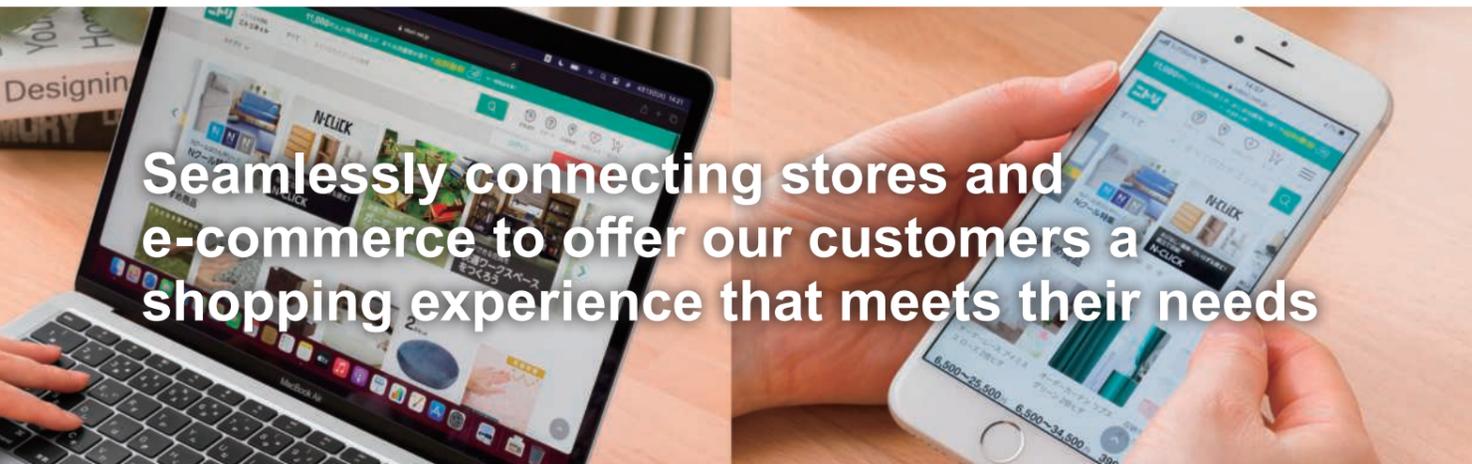


example, on the towel sales floor we are providing coordination suggestions by displaying other complementary washroom items such as soap dispensers and cups. NITORI Group will continue to provide attractive sales floors and spaces where even more customers can enjoy shopping.

For further enhancement

Keep developing new products and sales floors to enrich our customers' lifestyles.

NITORI started selling air conditioners in fiscal 2020. Furthermore, NITORI created sales floors where simple electric appliances with a uniform design were brought together in one place, making it easy for our customers to make a purchase. Future plans call for the roll-out of electric appliances targeting families, and the expansion of sales floors selling products for children and babies, which are increasingly in-demand.



Seamlessly connecting stores and e-commerce to offer our customers a shopping experience that meets their needs



Hiroshi Nagai
General Manager
Sales Planning Office

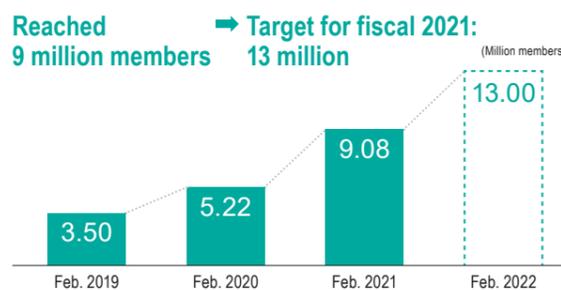
Responding to changes in consumption trends

In fiscal 2020, sales for NITORI Group's online shopping business came to 159.2% of the previous year's figure, marking substantial growth. Meanwhile, the number of NITORI app members surpassed 9 million. Online sales demand is growing from day to day, while customers' offline consumer behavior (at actual stores) and online consumer behavior (via online sales sites and apps) is becoming seamless. Against such a backdrop, we are making the most of the strengths of NITORI Group, which has stores and a distribution network across Japan, to offer a variety of options throughout the process from ordering products to receiving them. We will continue offering our customers suggestions for a more convenient and comfortable shopping experience.

Case

The NITORI app continues to evolve

The NITORI app, launched in March 2014, functions as a key hub that enables us to offer customers a convenient and seamless shopping experience with no dividing line between offline and online. In 2018 we augmented the app with the Tebura de Shopping (meaning empty-handed shopping) function, which creates a wish list when customers scan the barcodes of products displayed in-store. This enables customers to complete the entire process from ordering to delivery without having to carry products around inside the store. Alternatively, customers can research products at home, then easily buy them all together online or in store. In 2019, we introduced the Search by Photo function, which enables customers to use a photo to search for a product. In 2021, we plan to add



contents to the app that will enable customers to enjoy browsing many interior coordination images according to their preferred style and room type, and provide a smooth connection straight to purchasing. Taking advantage of evolving technologies, NITORI Group will continue to pursue an O2O strategy that enables us to offer our customers suggestions for an enriched lifestyle.

For further enhancement

Offer new shopping experiences by promoting digital transformation

Virtual showroom set up on NITORI-net in March 2021

The new showroom utilizes 3D video of coordinated rooms in actual stores to offer customers 360-degree views, enabling them to easily enjoy an online shopping experience almost identical to the in-store experience anytime and anywhere. The virtual showroom is linked to NITORI-net, so customers can progress straight to purchasing. NITORI will keep offering new shopping experiences by promoting digital transformation.

A Wide Range of Business Fields

N+

Launched in 2019, N+ is NITORI Group's apparel brand for women. Inspired by the concept of "total coordinated clothing for adults," the brand proposes affordable priced fashion that is comfortable to wear and can be easily color coordinated. Looking ahead, we will increase the number of N+ stores and further extend the range of PB (private brand) products to provide our customers with attractive products at even more affordable prices.



Corporate Sales and Interior Renovation Businesses

NITORI has cultivated strengths in developing products and suggesting coordination through its residential furniture and home fashion businesses. The Corporate Sales and Interior Renovation Businesses draw on these strengths to propose interior design of office spaces for corporate customers and total renovation services for households, respectively. In the showrooms for these businesses, we employ XR (extended reality) and many other latest technologies, endeavoring to create showrooms befitting the era of digital transformation.

Nitori Public Co., Ltd.

Nitori Public is an integrated advertising agency. In addition to conducting advertising and sales promotion for NITORI Group companies, we also work in a wide range of business for other companies. Nitori Public handles everything from corporate branding strategy through implementation of advertising and sales promotion campaigns to event planning and management. Other businesses include operation of a travel business and a Japanese-style hotel called Ginrinsou in Otaru, Hokkaido, as well as a restaurant business. Nitori Public plays a part in enhancing the value of the Group.

Nitori Facility Co., Ltd.

Nitori Facility is responsible for waste disposal, cleaning, and security, as well as for insurance services as an insurance agency for NITORI Group. Our aim is not only to maintain and manage facilities, but also to consider optimization for the Group as a whole, in order to reduce costs and improve efficiency, as well as enhance provision of benefits for employees.

NITORI MALL Business

To enable our customers to fully appreciate the NITORI MALL concept of "an abundance of products and affordable prices," we created a mix of shops focused on large specialty stores in each category with the ability to pull in a broad spectrum of customers, including popular stores selling apparel or household items, and restaurants. By developing the NITORI MALL business, we will keep on contributing to enriched lifestyles for local customers.

NITORI Dining Everyone's Grill

NITORI Dining Everyone's Grill is NITORI Group's restaurant business, which Nitori Public started in March 2021. The guiding concept is "to provide service that offers the unexpected and ensuring customer satisfaction in terms of both flavor and price." It procures only carefully selected ingredients, and by ensuring operational efficiency it has succeeded in developing menus that combine high quality with reasonable prices. The business will accelerate the opening of new restaurants and develop new menus, working together with NITORI Group to achieve the mission and vision.



Establishing second and third pillars to support medium- to long-term growth

NITORI Group operates a range of businesses to enable customers to experience enriched lifestyles. Having supplemented its established business by launching the N+ apparel brand and the NITORI Dining restaurant business, the Group is now able to offer proposals to customers in all three of the clothing, food, and home-related businesses. We will continue extending the strengths cultivated within the Group into new business domains as we endeavor to achieve our mission and vision.