

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2018

Tokyo, Japan December 28, 2018—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated operating revenue of 659,595 million yen for the third quarter (ended November 30, 2018) of the fiscal year ending February 28, 2019, and profit attributable to owners of parent of 11,438 million yen, or 57.51 yen per diluted share.

Qualitative Information about Consolidated Operating Results

During the cumulative consolidated third quarter (March 1-November 30, 2018), the Japanese economy was affected by natural disasters, including earthquakes and torrential rainfall; but on the whole, it experienced a moderate recovery amid strong corporate performance, increased capital investment, and improved personal consumption. The Takashimaya Group performed well too; in particular, the domestic Department Stores segment (a key segment of the group) saw an increase in revenue, reflecting the strong inbound tourism and the country's steady economic performance.

The economy looks set to continue on its steady recovery path, but there are some worrying, including rising global trade friction, stock market turbulence, and consumers' psychological reaction to the consumption tax hike.

Consequently, the consolidated performance was as follows: Total consolidated operating revenue for Takashimaya Group was 659,595 million yen (up 1.6% compared with the corresponding period of the previous fiscal year), consolidated operating income was 19,383 million yen (down 10.7%), consolidated ordinary income was 22,877 million yen (down 6.1%), and consolidated profit attributable to owners of parent was 11,438 million yen (down 21.0%).

As of the cumulative consolidated first quarter, we have changed the accounting presentation method for our overseas consolidated subsidiaries, which follows International Financial Reporting Standards. What was previously presented as gross profit margin is now presented on a net basis under "sales." The change has been retroactively applied in year-on-year comparisons.

Operating performance by business segment is discussed below.

Department Stores

The Department Stores segment posted sales and other operating revenue of 573,503 million yen (up 1.1%), and operating income of 6,206 million yen (down 23.2%).

The domestic department stores posted revenue increases. This result was due to strong sales of expensive goods and other items, which were underpinned by sustained inbound tourist demand and strong personal consumption.

Regarding our efforts to capture inbound tourist, for some years, we have worked to make our department stores more accessible and pleasant to tourists. For example, in conjunction with facility renewal work, we are expanding mobile payment (the main form of cashless payment in China) across all of our stores, so as to create a more convenient shopping experience. Additionally, to attract even more tourists into our stores, we continued our coupon campaign together with our department stores in Singapore, Shanghai, and Ho Chi Minh City. We also continued our joint campaign with a major Chinese payment company and Chinese online travel agent.

Takashimaya Duty Free Shilla & ANA, which opened in April last year, synergized effectively with Shinjuku Store and Takashima Times Square and increased its sales as a result.

Regarding overseas stores, Takashimaya Singapore Ltd. posted an operating revenue increase, reflecting the success of its 25th anniversary sales campaign and other factors. Shanghai Store struggled to grow sales due to local economic conditions, but the store still posted an operating revenue increase. Takashimaya Ho Chi Minh City also posted an increase in operating revenue. The store benefited from local economic growth, and it gained a further boost from the success of an event commemorating the store's first anniversary. As for Siam Takashimaya, which opened in Thailand in November, due to a difference in accounting period, the store's post-opening results are not included in the third quarter under review.

Real Estate

The Real Estate segment posted sales and other operating revenue of 31,550 million yen (up 5.9%) and operating income of 6,988 million yen (down 7.4%)

In this segment, Toshin Development advanced the Machi-dukuri Strategy, reflecting the attributes of each neighborhood. Regarding the segment's performance in Japan, this September saw the opening of Nihombashi Takashimaya Shopping Center's new wing. This wing, which is a dedicated space for specialty stores, will cater to the needs of visitors to Nihombashi with its early operation hours and intangible goods.

In November, Toshin Development opened a commercial facility, Kokage Terrace, in Nagareyama-Otakanomori Station on the Tsukuba Express line. The developer also opened a food court, Food Street, in Kashiwa Takashimaya Station Mall, and Minamikado in Yanagi Koji, a backstreet area west of Tamagawa Takashimaya Shopping Center that is designated for renewal. Toshin will continue to develop each area so as to increase the appeal of the neighborhoods that our stores serve.

Toshin Development saw an increase in its operating revenue. The two key contributors were management income following the opening of Nihombashi Takashimaya Shopping Center. The other was proceeds from the sale of condominiums in Yokohama. Operating income declined, however, due to the expenses associated with the above.

As for the segment's performance overseas, Toshin Development Singapore Pte. Ltd. renewed contracts with some of its tenants, and these renewals led to decreases in operating revenue and operating income.

Finance

The Finance segment posted sales and other operating revenue of 11,140 million yen (up 5.4%) and operating income of 3,669 million yen (up 12.3%).

In this segment, Takashimaya Credit Co., Ltd. saw increases in operating revenue and operating income due to a rise in commission revenue, which reflected a higher transaction volume among affiliated stores as well as the company's efforts to encourage the use of revolving payments.

Contract & Design

The Contract & Design segment posted sales and other operating revenue of 17,603 million yen (down 3.5%) and operating income of 555 million yen (down 2.3%).

In this segment, Takashimaya Space Create Co., Ltd. experienced a squeeze on profit margins due to a major reactionary downturn from last year's large hotel orders, coupled with higher external financing costs. Consequently, the company posted decreases in operating revenue and operating income.

Other

The Other segment posted sales and operating revenue of 25,797 million yen (up 9.7%) and operating income of 1,915 million yen (down 6.2%).

In this segment, the Cross Media Division made progress in improving its performance, posting increases in operating revenue and operating income. Nonetheless, earnings were down in the segment as a whole, as restaurants, staffing, and other operations fell short of last year's profit levels.

This document is not subject of audit procedures based on the Financial Instruments and Exchange Act. At the time of disclosure of this document, audit procedures of financial statements based on the Financial Instruments and Exchange Act had not been completed.

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2018

	As of February 28, 2018	(million yen) As of November 30, 2018
Consolidated balance sheets		
Assets		
Current assets		
Cash and deposits	99,541	100,461
Notes and accounts receivable - trade	140,038	164,193
Securities	—	8
Merchandise and finished goods	43,517	51,387
Work in process	108	563
Raw materials and supplies	1,120	999
Other	43,482	46,488
Allowance for doubtful accounts	(306)	(354)
Total current assets	327,501	363,748
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	167,732	173,251
Land	361,362	362,729
Other, net	21,663	29,620
Total property, plant and equipment	550,757	565,602
Intangible assets		
Leasehold right	4,939	4,951
Goodwill	97	26
Other	12,998	16,135
Total intangible assets	18,035	21,113
Investments and other assets		
Investment securities	95,231	90,636
Guarantee deposits	29,227	28,933
Other	16,992	10,479
Allowance for doubtful accounts	(1,938)	(2,086)
Total investments and other assets	139,511	127,964
Total non-current assets	708,305	714,680
Total assets	1,035,807	1,078,428

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2018

	As of February 28, 2018	(million yen) As of November 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	102,428	128,433
Short-term loans payable	10,320	15,320
Current portion of bonds	40,062	40,002
Income taxes payable	6,236	2,435
Advances received	96,102	106,323
Gift certificates	52,663	53,736
Provision for point card certificates	2,561	2,675
Allowance for loss on repair construction of building	2,743	1,562
Other	57,769	64,678
Total current liabilities	370,888	415,166
Non-current liabilities		
Bonds payable	35,049	35,036
Long-term loans payable	88,829	83,814
Asset retirement obligations	1,907	1,972
Net defined benefit liability	54,616	54,071
Provision for directors' retirement benefits	297	272
Provision for environmental measures	342	331
Allowance for loss on repair construction of building	1,910	1,625
Other	32,438	29,081
Total non-current liabilities	215,392	206,205
Total liabilities	586,281	621,372
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,025	55,026
Retained earnings	284,320	291,819
Treasury shares	(6,170)	(6,176)
Total shareholders' equity	399,201	406,694
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,837	15,828
Deferred gains or losses on hedges	(3)	0
Revaluation reserve for land	7,145	7,145
Foreign currency translation adjustment	11,604	10,416
Remeasurements of defined benefit plans	3,386	3,493
Total accumulated other comprehensive income	39,970	36,884
Non-controlling interests	10,353	13,477
Total net assets	449,526	457,056
Total liabilities and net assets	1,035,807	1,078,428

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2018

	(million yen)	
	Nine months ended	Nine months ended
Consolidated statements of income	November 30, 2017	November 30, 2018
Operating revenue	649,508	659,595
Net sales	602,990	611,424
Cost of sales	446,932	453,235
Gross profit	156,058	158,188
Other operating revenue	46,517	48,170
Operating gross profit	202,575	206,359
Selling, general and administrative expenses		
Advertising expenses	18,975	20,171
Provision for point card certificates	2,164	2,034
Provision of allowance for doubtful accounts	427	736
Directors' compensations, salaries and allowances	49,551	50,645
Retirement benefit expenses	2,863	2,196
Rent expenses on real estates	25,971	26,227
Other	80,910	84,964
Total selling, general and administrative expenses	180,865	186,976
Operating profit	21,710	19,383
Non-operating income		
Interest income	539	733
Dividend income	757	949
Share of profit of entities accounted for using equity method	1,952	2,213
Other	647	858
Total non-operating income	3,896	4,755
Non-operating expenses		
Interest expenses	485	529
Foreign exchange losses	203	306
Loss on adjustment of account payable	382	164
Other	158	261
Total non-operating expenses	1,230	1,260
Ordinary profit	24,376	22,877
Extraordinary income		
Gain on sales of investment securities	385	—
Other	3	—
Total extraordinary income	389	—
Extraordinary losses		
Loss on retirement of non-current assets	3,609	5,325
Other	2	261
Total extraordinary losses	3,611	5,586
Profit before income taxes	21,154	17,290
Income taxes - current	6,169	5,008
Income taxes - deferred	271	320
Total income taxes	6,441	5,329
Profit	14,712	11,961
Profit attributable to non-controlling interests	234	523
Profit attributable to owners of parent	14,477	11,438

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2018

	(million yen)	
	Nine months ended November 30, 2017	Nine months ended November 30, 2018
Consolidated statements of comprehensive income		
Profit	14,712	11,961
Other comprehensive income		
Valuation difference on available-for-sale securities	3,661	(1,972)
Deferred gains or losses on hedges	(1)	3
Foreign currency translation adjustment	1,281	(755)
Remeasurements of defined benefit plans, net of tax	1,606	92
Share of other comprehensive income of entities accounted for using equity method	756	(444)
Total other comprehensive income	7,304	(3,076)
Comprehensive income	22,017	8,884
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	21,753	8,324
Comprehensive income attributable to non-controlling interests	263	559

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2018

	(million yen)	
	Nine months ended November 30, 2017	Nine months ended November 30, 2018
Consolidated statements of cash flows		
Cash flows from operating activities		
Profit before income taxes	21,154	17,290
Depreciation	14,260	14,623
Amortization of goodwill	71	71
Increase (decrease) in allowance for doubtful accounts	(528)	196
Increase (decrease) in net defined benefit liability	(25)	(409)
Increase (decrease) in provision for directors' retirement benefits	17	(24)
Increase (decrease) in provision for point card certificates	282	116
Increase(decrease) allowance for loss on repair construction of building	(879)	(1,466)
Interest and dividend income	(1,296)	(1,683)
Interest expenses	485	529
Share of (profit) loss of entities accounted for using equity method	(1,952)	(2,213)
Loss on retirement of non-current assets	2,020	2,933
Loss (gain) on sales of investment securities	(385)	—
Decrease (increase) in notes and accounts receivable - trade	(21,121)	(17,983)
Decrease (increase) in inventories	(9,405)	(8,227)
Increase (decrease) in notes and accounts payable - trade	20,971	26,256
Other, net	7,906	10,682
Subtotal	31,574	40,692
Interest and dividend income received	2,146	3,129
Interest expenses paid	(474)	(374)
Income taxes paid	(8,423)	(9,898)
Net cash provided by (used in) operating activities	24,822	33,549
Cash flows from investing activities		
Payments into time deposits	(4,133)	(2,508)
Proceeds from withdrawal of time deposits	3,524	4,515
Purchase of short-term and long-term investment securities	(1,677)	(12)
Proceeds from sales and redemption of short-term and long-term investment securities	11,071	3,530
Purchase of property, plant and equipment and intangible assets	(53,319)	(34,125)
Proceeds from sales of property, plant and equipment and intangible assets	18	27
Other, net	(66)	(177)
Net cash provided by (used in) investing activities	(44,583)	(28,751)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(147)	—
Proceeds from long-term loans payable	22,319	—
Repayments of long-term loans payable	(3,070)	(15)
Cash dividends paid	(4,193)	(4,193)
Proceeds from share issuance to non-controlling shareholders	—	1,026
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(60)	—
Other, net	(540)	(525)
Net cash provided by (used in) financing activities	14,308	(3,707)
Effect of exchange rate change on cash and cash equivalents	1,365	(1,030)
Net increase (decrease) in cash and cash equivalents	(4,087)	58
Cash and cash equivalents at beginning of period	103,765	95,120
Increase in cash and cash equivalents from newly consolidated subsidiary	391	2,474
Cash and cash equivalents at end of period	100,069	97,653