

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2019

Tokyo, Japan Jun 25, 2019—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated operating revenue of 223,682 million yen for the first quarter (ended May 31, 2019) of the fiscal year ending February 29, 2020, and profit attributable to owners of parent of 10,597 million yen, or 50.03 yen per diluted share.

Qualitative Information about Consolidated Operating Results

During the first quarter (March 1, 2019, to May 31, 2019), the Japanese economy experienced moderate growth. However, Japan's economic outlook has grown dimmer in the face of mounting risks and uncertainties. Capital investment and exports have stalled, while global trade friction has hit business and destabilized stock markets. Another concern is the impact of the upcoming consumption tax hike upon consumers' purse strings.

Against this backdrop, the Takashimaya Group advanced the Machi-dukuri Strategy. We worked with our commercial developer, Toshin Development Co., Ltd., and other group companies in a synergistic effort to maximize the appeal of our commercial facilities and their surroundings. For example, we made sure that each department store fulfills its anchor role of drawing people to the area, and we pursued our vision of integrating the department store with specialty stores inside a single building. Regarding our performance in Japan, in March this year, Nihombashi Takashimaya Shopping Center fully opened following the refurbishment of Nihombashi Store, the shopping center's main building.

Alongside these efforts, we pursued the Group Reform Project, a project that involves a digital transformation to overhaul the group's business processes. Under this project, we took steps to streamline business processes as necessary to underpin our growth strategy. In our online business, we established an e-commerce department to coordinate strategy in this sector. We will address the separate needs of in-store and online shoppers and work to make both forms of shopping more pleasant and convenient.

This fiscal year, we have incorporated SDGs into our business strategy, developed the Takashimaya Group SDG Principles, and outlined a roadmap for achieving five SDG-related objectives. We are making active efforts to address social and environmental challenges at the same time as we develop our main business—department stores. This approach will help us achieve sustainable business growth.

Consequently, the consolidated performance was as follows: Total consolidated operating revenue for Takashimaya Group was 223,682 million yen (up 1.8% compared with the corresponding period of the previous fiscal year), consolidated operating income was 7,746 million yen (down 9.4%), consolidated ordinary income was 7,117 million yen (down 28.6%), and consolidated profit attributable to owners of parent was 10,597 million yen (up 81.3%).

As of the cumulative consolidated first quarter under review, we have applied New Leases Standard (IFRS 16 Leases) in overseas subsidiaries, which follow International Financial Reporting Standards.

Accordingly, for leases previously classified as off-balance sheet leases (operating leases), the lessee now recognizes the right-of-use assets and lease liabilities in the balance sheet at the date of initial application. IFRS 16 Leases allows various transition options and practical expedients. Of these, we opted to have the lessee recognize the cumulative effect of applying the new standard at the date of initial application.

Operating performance by business segment is discussed below.

Department Stores

The Department Stores segment posted sales and other operating revenue of 193,316 million yen (up 0.6% compared with the corresponding period of the previous fiscal year), and operating income of 2,849 million yen (down 28.1%).

Operating revenue increased because of strong sales among high-income shoppers coupled with the boost from opening the Nihombashi Takashimaya Shopping Center. However, operating income fell because of an increase in SG&A expenses, including depreciation.

Regarding store development, we focused on providing rest spaces and facilities that exhibit everyday culture. As part of the refurbishment of Nihombashi Store, we created a rooftop garden space covering a total of 6,000 m² (including the main, new, and eastern buildings) as well as a new driveway and entranceway with high-class service. We also opened Takashimaya Archives Tokyo, a second cultural facility to Osaka's Takashimaya Archives.

Regarding merchandise development, we continued efforts to develop shopping spaces that embody the curatorial prowess of a department store. Nihombashi Store got two new stores. One was Dress Up Closet, which offers party dresses. The other was Gallerie Le Chic, which offers a selection of curios and prestige products.

Regarding efforts to attract customers, for customers in general, we modified our approach to sales by deploying store concierges, especially in the larger stores. For inbound tourists, we sought to capitalize on inbound demand by making shopping spaces more tourist-friendly, such as by introducing more cashless payment and simplifying duty-free procedures. We also continued efforts to proactively attract overseas customers in collaboration with overseas travel, financial, and transport businesses.

Regarding cultural events, in March, an exhibition on Yuji Tezuka, titled "Hear the Light, See the Wind," was held in Nihombashi Store, and subsequently in the Yokohama, Osaka, and Kyoto stores. This was the largest exhibition on Yuji Tezuka's ever held, featuring some 70 pieces of the artist's classic and recent works that showcase his efforts to pioneer a new era in Japanese painting. An exhibition celebrating the 30-year reign of Emperor (now Emperor Emeritus) Akihito and the Imperial Couple's 60th anniversary was held in Kyoto Store in January and then Nihombashi Store in April. Titled "30-year journey with the people," the exhibition featured gifts offered to the Imperial Couple, attire used in the enthronement ceremony, and a ceremonial horse-drawn carriage.

Regarding overseas stores, we will aim to increase sales in Siam Takashimaya, which opened in November last year, by working with IconSiam on a synergistic sales strategy.

Real Estate

The Real Estate segment posted sales and other operating revenue of 11,365 million yen (up 8.2% compared with the corresponding period of the previous fiscal year) and operating income of 2,914 million yen (up 10.4%).

In this segment, Toshin Development Co., Ltd., drove forward the group's Machi-dukuri Strategy, leveraging its experience in fully opening Nihombashi Takashimaya Shopping Center and refurbishing Tachikawa Takashimaya Shopping Center. Tamagawa Takashimaya Shopping Center, which celebrates its 50th anniversary on November 11 this year, will transition from a shopping center that people use for shopping into a lifestyle center that people spend time in. To this end, we are gradually transforming the center's merchandising and shopping environment. We are also implementing a digital transformation to attract customers, and integrating the center with department stores to strengthen customer service. Thanks to Toshin Development's efforts, a number of facilities have opened since last year, including the Nihombashi, Tachikawa, and Nagareyama shopping centers. These openings have pushed up rental and management fee revenue. However, the increases were offset by a reactionary decline from last year's sale of condominiums in Kitasaiwai, Yokohama, as well as by cost increases associated with refurbishments, resulting in an increase in operating revenue but a decrease in operating income. Toshin Development Singapore Pte. Ltd. renewed rental contracts with some of its tenants, and these renewals led to decreases in operating revenue. However, the company recorded an increase in operating income, which reflects the fact that we changed our accounting standards after applying IFRS (16 Leases).

Finance

The Finance segment posted sales and other operating revenue of 4,363 million yen (up 6.1% compared with the corresponding period of the previous fiscal year) and operating income of 1,401 million yen (up 3.1%). As of this quarter, the Finance segment includes Takashimaya Hoken Co., Ltd.

In this segment, Takashimaya Credit Co., Ltd., worked to increase its commission revenue by growing its membership and increasing transaction volume. For example, it launched a premium card for out-of-store sales customers and conducted a store-based campaign to win new members and to encourage them to use their card in both Takashimaya's stores and affiliated stores. Takashimaya Hoken Co., Ltd., worked to increase its insurance premium revenue. Consequently, the segment posted increases in operating revenue and operating income.

Construct & Design

The Construct & Design segment posted sales and other operating revenue of 6,628 million yen (up 23.8% compared with the corresponding period of the previous fiscal year) and operating income of 175 million yen (compared to 39 million yen in operating loss in the corresponding period of the previous fiscal year).

In this segment, Takashimaya Space Create Co., Ltd., benefitted from favorable business conditions, with projects related to Tokyo 2020 and higher inbound demand. Consequently, the segment posted increases in operating revenue and operating income.

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Other

The Other segment, which includes the Cross Media Division, posted sales and other operating revenue of 8,008 million yen (up 3.4% compared with the corresponding period of the previous fiscal year) and operating income of 347 million yen (up 32.1%).

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 Three Months Ended May. 31, 2019

	(million yen)	
	As of February 28, 2019	As of May 31, 2019
Consolidated balance sheets		
Assets		
Current assets		
Cash and deposits	97,090	95,695
Notes and accounts receivable - trade	117,107	131,919
Merchandise and finished goods	43,802	45,671
Work in process	477	824
Raw materials and supplies	1,240	1,028
Other	37,740	39,072
Allowance for doubtful accounts	(335)	(385)
Total current assets	297,124	313,825
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	185,639	183,720
Land	411,507	411,240
Other, net	24,081	128,698
Total property, plant and equipment	621,228	723,659
Intangible assets		
Leasehold right	10,671	10,622
Goodwill	1,545	1,491
Other	16,734	17,537
Total intangible assets	28,951	29,651
Investments and other assets		
Investment securities	81,743	73,294
Guarantee deposits	29,485	29,378
Other	21,847	21,591
Allowance for doubtful accounts	(2,250)	(2,175)
Total investments and other assets	130,826	122,089
Total non-current assets	781,006	875,400
Total assets	1,078,130	1,189,225

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2019

	(million yen)	
	As of February 28, 2019	As of May 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	108,560	114,573
Short-term loans payable	13,320	19,820
Current portion of bonds	98	75
Income taxes payable	5,052	4,425
Advances received	100,593	102,199
Gift certificates	52,503	52,090
Provision for point card certificates	2,530	2,622
Allowance for loss on repair construction of building	3,207	1,486
Other	63,348	67,616
Total current liabilities	349,216	364,910
Non-current liabilities		
Bonds payable	95,554	95,543
Long-term loans payable	85,809	79,304
Asset retirement obligations	2,027	2,181
Net defined benefit liability	50,890	50,481
Provision for directors' retirement benefits	286	243
Provision for environmental measures	282	282
Allowance for loss on repair construction of building	5	2,117
Other	32,470	128,297
Total non-current liabilities	267,328	358,451
Total liabilities	616,545	723,362
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,026	55,026
Retained earnings	296,977	304,730
Treasury shares	△6,177	△6,177
Total shareholders' equity	411,851	419,605
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,821	8,002
Deferred gains or losses on hedges	(0)	(2)
Revaluation reserve for land	6,993	6,211
Foreign currency translation adjustment	8,723	9,220
Remeasurements of defined benefit plans	5,528	5,305
Total accumulated other comprehensive income	32,067	28,736
Non-controlling interests	17,665	17,521
Total net assets	461,585	465,863
Total liabilities and net assets	1,078,130	1,189,225

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2019

	(million yen)	
	Three months ended	Three months ended
Consolidated statements of (comprehensive) income	May 31, 2018	May 31, 2019
Operating revenue	219,825	223,682
Net sales	203,747	205,744
Cost of sales	150,497	152,780
Gross profit	53,249	52,963
Other operating revenue	16,077	17,937
Operating gross profit	69,327	70,901
Selling, general and administrative expenses		
Advertising expenses	6,998	7,349
Provision for point card certificates	696	724
Provision of allowance for doubtful accounts	359	288
Directors' compensations, salaries and allowances	16,431	17,055
Retirement benefit expenses	718	373
Rent expenses on real estates	8,649	6,106
Other	26,922	31,257
Total selling, general and administrative expenses	60,775	63,154
Operating profit	8,552	7,746
Non-operating income		
Interest income	223	294
Dividend income	194	240
Share of profit of entities accounted for using equity method	747	821
Foreign exchange gains	212	85
Other	306	166
Total non-operating income	1,684	1,608
Non-operating expenses		
Interest expenses	174	1,412
Provision for loss on repair construction of building	2	643
Loss on adjustment of account payable	61	81
Other	29	100
Total non-operating expenses	267	2,238
Ordinary profit	9,968	7,117

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2019

	(million yen)	
	Three months ended May 31, 2018	Three months ended May 31, 2019
Extraordinary income		
Gain on sales of non-current assets	—	9,677
Other	—	14
Total extraordinary income	—	9,692
Extraordinary losses		
Loss on retirement of non-current assets	1,368	1,138
Other	0	5
Total extraordinary losses	1,369	1,144
Profit before income taxes	8,599	15,665
Income taxes - current	2,612	2,774
Income taxes - deferred	(37)	2,163
Total income taxes	2,574	4,937
Profit	6,025	10,727
Profit attributable to non-controlling interests	180	130
Profit attributable to owners of parent	5,845	10,597

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2019

	(million yen)	
	Three months ended	Three months ended
Consolidated statements of comprehensive income	May 31, 2018	May 31, 2019
Profit	6,025	10,727
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,193)	(2,861)
Deferred gains or losses on hedges	2	(2)
Foreign currency translation adjustment	(2,221)	500
Remeasurements of defined benefit plans, net of tax	30	(191)
Share of other comprehensive income of entities accounted for using equity method	(1,039)	82
Total other comprehensive income	(4,421)	(2,471)
Comprehensive income	1,603	8,255
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,466	8,048
Comprehensive income attributable to non-controlling interests	137	207

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2019

	(million yen)	
	Three months ended	Three months ended
Consolidated statements of cash flows	May 31, 2018	May 31, 2019
Cash flows from operating activities		
Profit before income taxes	8,599	15,665
Depreciation	4,863	7,778
Amortization of goodwill	23	53
Increase (decrease) in allowance for doubtful accounts	319	(24)
Increase (decrease) in net defined benefit liability	(253)	(682)
Increase (decrease) in provision for directors' retirement benefits	(49)	(43)
Increase (decrease) in provision for point card certificates	57	91
Increase(decrease) allowance for loss on repair construction of building	(0)	391
Interest and dividend income	(417)	(535)
Interest expenses	174	1,412
Share of loss (profit) of entities accounted for using equity method	(747)	(821)
Loss (gain) on sales of non-current assets	0	(9,677)
Loss on retirement of non-current assets	603	495
Decrease (increase) in notes and accounts receivable - trade	(4,765)	(15,643)
Decrease (increase) in inventories	(1,830)	(1,984)
Increase (decrease) in notes and accounts payable - trade	6,897	5,648
Other, net	3,849	1,323
Subtotal	17,325	3,446
Interest and dividend income received	1,888	1,740
Interest expenses paid	△99	(1,353)
Income taxes paid	(3,969)	(3,115)
Net cash provided by (used in) operating activities	15,144	717
Cash flows from investing activities		
Payments into time deposits	(2,451)	(37)
Proceeds from withdrawal of time deposits	1,668	802
Purchase of short-term and long-term investment securities	(2)	(21)
Proceeds from sales and redemption of short-term and long-term investment securities	3,508	592
Purchase of property, plant and equipment and intangible assets	(9,551)	(14,284)
Proceeds from sales of property, plant and equipment and intangible assets	8	11,629
Proceeds from withdrawal of investment securities	—	4,003
Other, net	(1)	1
Net cash provided by (used in) investing activities	(6,821)	2,686

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2019

	(million yen)	
	Three months ended May 31, 2018	Three months ended May 31, 2019
Cash flows from financing activities		
Proceeds from long-term loans payable	—	5,000
Repayments of long-term loans payable	(5)	(5,005)
Repayments of lease obligations	(120)	(2,235)
Cash dividends paid	(2,096)	(2,096)
Other, net	(95)	(375)
Net cash provided by (used in) financing activities	(2,318)	(4,712)
Effect of exchange rate change on cash and cash equivalents	(2,119)	640
Net increase (decrease) in cash and cash equivalents	3,885	(667)
Cash and cash equivalents at beginning of period	95,120	94,692
Increase in cash and cash equivalents from newly consolidated subsidiary	2,474	—
Cash and cash equivalents at end of period	101,479	94,024