

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2019

Tokyo, Japan December 26, 2019—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated operating revenue of 676,639 million yen for the third quarter (ended November 30, 2019) of the fiscal year ending February 29, 2020, and profit attributable to owners of parent of 16,447 million yen, or 78.29 yen per diluted share.

Qualitative Information about Consolidated Operating Results

During the cumulative consolidated third quarter (March 1 to November 30, 2019), the Japanese economy expanded moderately, underpinned by an improved employment rate. However, Japan's economic growth was held back by a global slowdown, caused in part by the protracted US-China trade friction. Economic growth looks set to remain slow amid concerning economic indicators. One such concern is personal consumption, which hit a lull following the surge ahead of October's consumption tax hike and has been further weakened by natural disasters. Another concern is a slowdown in capital investment.

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.

In March this year, Nihombashi Takashimaya Shopping Center, a new symbol of the Machi-dukuri Strategy, fully opened following the refurbishment of the Nihombashi Store, the shopping center's main building. The specialty stores have won new customers among young families in the Tokyo Bay area and office workers, and have drawn more foot traffic into the center's department store component.

Alongside these efforts, we used digital technology to adapt to customers' increasingly diverse needs and to streamline work processes. In our online business, we addressed needs of customers to choose properly online or instore shopping and worked to make both forms more pleasant and convenient.

Additionally, we joined RE100 and EV100, two global initiatives bringing together businesses committed to a sustainable future. In joining RE100, we have committed to source 100% of our energy from renewable sources. In joining EV100, we have committed to convert our entire fleet of vehicles to electric. We will continue to engage in sustainability challenges in the medium and long term.

Consequently, the consolidated performance was as follows: Total consolidated operating revenue for Takashimaya Group was 676,639 million yen (up 2.6% compared with the corresponding period of the previous fiscal year), consolidated operating income was 20,261 million yen (up 4.5%), consolidated ordinary income was 19,403 million yen (down 15.2%), and consolidated profit attributable to owners of parent was 16,447 million yen (up 43.8%).

As of the cumulative consolidated first quarter under review, we have applied New Leases Standard (IFRS16 Leases) in overseas subsidiaries, which follow International Financial Reporting Standards.

Operating performance by business segment is discussed below.

Department Stores

The Department Stores segment posted sales and other operating revenue of 580,399 million yen (up 1.2% compared with the corresponding period of the previous fiscal year), and operating income of 6,563 million yen (up 5.8%).

Domestic department stores achieved an increase in sales thanks to the boost in demand ahead of the October consumption tax hike. This surge offset a decline in sales among inbound tourists, which reflected exchange rates. It also offset the post-hike lull in sales, as well as the impact of natural disasters, among domestic customers.

Sales among inbound tourists were down year-on-year too, due in part to exchange rates.

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 Konandai Store, we plan to close the store in August 2020. Regarding Yonago Store, we have agreed to sell our stake in Yonago Takashimaya to a local firm in March 2020. Under the agreement, we will license our trademarks and offer our support to the partner, ensuring that the store continues to operate as before.

Regarding merchandise development, we continued efforts to develop shopping spaces that embody the curatorial prowess of a department store. In October, Osaka Store opened Takashimaya Farm, a self-curated shop with a selection of food products emphasizing taste and food safety. In November, Good Morning Table, which sells confectionary and other snacks using materials from Hokkaido, became the first tenant to open in the new extended area of Yokohama Store. This area will be fully operational in spring 2021.

Regarding efforts to attract customers, for customers in general, we modified our approach to sales by deploying store concierges, especially in the larger stores. Additionally, reflecting the shift to cashless payments, we made all our stores compatible with d-barai ("d Payment"), NTT Docomo's mobile payment service, to make the payment process easier for customers. 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, an exhibition titled “The Ichikawa Ebizo Exhibition — Commemorating his Succession to the Stage-Name of Ichikawa Danjuro Hakuen XIII” was held in Nihombashi, Osaka, Yokohama, and Kyoto stores. The exhibition featured photos, film footage, and valuable items on Ichikawa Ebizo XI, a beloved Kabuki actor. During the last three months of the 2019, Takashimaya Archives Tokyo hosted an exhibition titled “Design Department Store: Hyakka Ryoran, boutique design.” Focusing on the works of Yasuo Kondo, the exhibition showcased designs from 1980s, 1990s, and 2000s.

Regarding overseas stores, Takashimaya Singapore revamped parts of the store area last year, and saw a significant increase in sales as a result. Although operating revenue decreased as a result of applying the New Leases Standard (IFRS 16 Leases), operating income increased. Shanghai Takashimaya continued to operate following the cancellation of the closure, which had been scheduled for August. The store posted increased revenue and income, having benefitted from a closing-down sale. Ho Chi Minh City Takashimaya, likewise, posted increased revenue and income, reflecting the success of the store’s seasonal events. Siam Takashimaya, which opened in November last year, is working to grow sales by organizing promotional campaigns that comport with local retail practices.

Commercial Property Development

The Commercial Property Development segment posted sales and other operating revenue of 33,788 million yen (up 7.1% compared with the corresponding period of the previous fiscal year) and operating income of 7,527 million yen (up 7.7%).

In Japan, Toshin Development Co., Ltd. continued to advance the Machidukuri Strategy. Focusing on the food floor of Tamagawa Takashimaya Shopping Center, which celebrated its 50th anniversary, Toshin worked on refurbishments designed to shift the shopping center’s concept from a place for shopping to a place that for gathering and spending time, as well as shopping.

In Vietnam, Toshin expanded its portfolio. Adding to Saigon Centre in Ho Chi Minh City and the Hanoi real-estate project Starlake, the developer acquired a stake in a local entity that owns and operates Indochina Plaza Hanoi, a mixed retail and office building in the city.

In Singapore, Toshin Development Singapore Pte. Ltd. increased its revenue after the subsidiary raised the percentage rent among its tenants. The company also recorded an increase in operating income, which reflects the fact that we changed our accounting standards after applying IFRS (16 Leases).

In the quarter under review, this reportable segment was renamed from Real Estate to Commercial Property Development. This renaming does not imply any change in segment information. Rather, the purpose of the new name is to better describe how the segment operates under the Machi-dukuri Strategy. That is, in addition to developing and managing commercial property, the developer works to create synergy with the Department Stores segment. The segment information for the same quarter last year uses the new segment name.

Also in this quarter under review, Takashimaya Group’s scope of consolidation expanded with the acquisition of Globaland Limited. Hanoi Residential and Commercial Centre (HRCC). and Gateway

Finance

The Finance segment posted sales and other operating revenue of 13,002 million yen (up 9.6% compared with the corresponding period of the previous fiscal year) and operating income of 3,877 million yen (down 5.8%). As of the first 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 (Takashimaya Premium) for top-spending out-of-store sales customers, as well as a same-day card issuance service in large stores. Takashimaya Hoken Co., Ltd., worked to expand operating revenue by boosting sales of consulting services. For example, the insurer launched a new insurance service in Nihombashi Store.

Contract & Design

The Contract & Design segment posted sales and other operating revenue of 22,726 million yen (up 29.1% compared with the corresponding period of the previous fiscal year) and operating income of 1,286 million yen (up 131.4%)

In this segment, Takashimaya Space Create Co., Ltd. saw increases in orders for accommodation and shopping facilities amid a demand boost in the run-up to Tokyo 2020. Consequently, the segment posted increases in operating revenue and operating income.

Other

The Other segment, which includes the Cross Media Division, posted sales and other operating revenue of 26,720 million yen (up 6.6% compared with the corresponding period of the previous fiscal year) and operating income of 1,660 million yen (up 13.0%).

The increases in operating revenue and operating income reflect strong catalogue order sales in the Cross Media Division. They also reflect improved performance in other companies under this segment, such as Takashimaya Transcosmos International Commerce Pte. Ltd. and Select Square Co., Ltd.

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, 2019

	As of February 28, 2019	(million yen) As of November 30, 2019
Consolidated balance sheets		
Assets		
Current assets		
Cash and deposits	97,090	81,776
Notes and accounts receivable - trade	117,107	133,527
Merchandise and finished goods	43,802	52,176
Work in process	477	435
Raw materials and supplies	1,240	1,046
Other	37,740	44,161
Allowance for doubtful accounts	(335)	(128)
Total current assets	297,124	312,995
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	185,639	196,708
Land	411,507	412,417
Other, net	24,081	116,534
Total property, plant and equipment	621,228	725,660
Intangible assets		
Leasehold right	10,671	10,562
Goodwill	1,545	2,803
Other	16,734	18,674
Total intangible assets	28,951	32,040
Investments and other assets		
Investment securities	81,743	76,557
Guarantee deposits	29,485	28,764
Other	21,847	21,392
Allowance for doubtful accounts	(2,250)	(2,528)
Total investments and other assets	130,826	124,185
Total non-current assets	781,006	881,887
Total assets	1,078,130	1,194,882

From the beginning of the current fiscal year, we have applied New Leases Standard (IFRS16 Leases) in overseas subsidiaries, which follow International Financial Reporting Standards.

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2019

	As of February 28, 2019	(million yen) As of November 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	108,560	122,800
Short-term loans payable	13,320	42,736
Income taxes payable	5,052	2,782
Advances received	100,593	108,389
Gift certificates	52,503	53,676
Provision for point card certificates	2,530	2,870
Allowance for loss on repair construction of building	3,207	1,875
Other	63,447	64,865
Total current liabilities	349,216	399,997
Non-current liabilities		
Bonds payable	95,554	95,515
Long-term loans payable	85,809	56,384
Asset retirement obligations	2,027	2,120
Net defined benefit liability	50,890	50,249
Provision for directors' retirement benefits	286	272
Provision for environmental measures	282	282
Other	32,476	123,164
Total non-current liabilities	267,328	327,988
Total liabilities	616,545	727,986
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,026	55,026
Retained earnings	296,977	308,531
Treasury shares	(6,177)	(12,079)
Total shareholders' equity	411,851	417,504
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,821	10,693
Deferred gains or losses on hedges	(0)	0
Revaluation reserve for land	6,993	6,211
Foreign currency translation adjustment	8,723	6,700
Remeasurements of defined benefit plans	5,528	4,956
Total accumulated other comprehensive income	32,067	28,563
Non-controlling interests	17,665	20,828
Total net assets	461,585	466,896
Total liabilities and net assets	1,078,130	1,194,882

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Takashimaya Reports Earnings for the Nine Months Ended November 30, 2019

	(million yen)	
	Nine months ended November 30, 2018	Nine months ended November 30, 2019
Consolidated statements of income		
Operating revenue	659,595	676,639
Net sales	611,424	623,531
Cost of sales	453,235	464,199
Gross profit	158,188	159,332
Other operating revenue	48,170	53,107
Operating gross profit	206,359	212,439
Selling, general and administrative expenses		
Advertising expenses	20,171	20,153
Provision for point card certificates	2,034	2,211
Provision of allowance for doubtful accounts	736	784
Directors' compensations, salaries and allowances	50,645	52,090
Retirement benefit expenses	2,196	1,182
Rent expenses on real estates	26,227	18,267
Other	84,964	97,489
Total selling, general and administrative expenses	186,976	192,178
Operating profit	19,383	20,261
Non-operating income		
Interest income	733	940
Dividend income	949	1,003
Share of profit of entities accounted for using equity method	2,213	1,618
Other	858	728
Total non-operating income	4,755	4,290
Non-operating expenses		
Interest expenses	529	4,096
Other	731	1,051
Total non-operating expenses	1,260	5,147
Ordinary profit	22,877	19,403
Extraordinary income		
Gain on sales of non-current assets	—	9,677
Other	—	40
Total extraordinary income	—	9,717
Extraordinary losses		
Loss on retirement of non-current assets	5,325	4,452
Other	261	2,123
Total extraordinary losses	5,586	6,576
Profit before income taxes	17,290	22,545
Income taxes - current	5,008	5,341
Income taxes - deferred	320	268
Total income taxes	5,329	5,610
Profit	11,961	16,934
Profit attributable to non-controlling interests	523	487
Profit attributable to owners of parent	11,438	16,447

From the beginning of the current fiscal year, we have applied New Leases Standard (IFRS16 Leases) in overseas subsidiaries, which follow International Financial Reporting Standards.

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2019

	(million yen)	
	Nine months ended November 30, 2018	Nine months ended November 30, 2019
Consolidated statements of comprehensive income		
Profit	11,961	16,934
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,972)	(115)
Deferred gains or losses on hedges	3	0
Foreign currency translation adjustment	(775)	(1,241)
Remeasurements of defined benefit plans, net of tax	92	(574)
Share of other comprehensive income of entities accounted for using equity method	(444)	(781)
Total other comprehensive income	(3,076)	(2,713)
Comprehensive income	8,884	14,221
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,324	13,724
Comprehensive income attributable to non-controlling interests	559	496

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2019

	(million yen)	
	Nine months ended November 30, 2018	Nine months ended November 30, 2019
Consolidated statements of cash flows		
Cash flows from operating activities		
Profit before income taxes	17,290	22,545
Depreciation	14,623	23,195
Amortization of goodwill	71	171
Increase (decrease) in allowance for doubtful accounts	196	71
Increase (decrease) in net defined benefit liability	(409)	(1,460)
Increase (decrease) in provision for directors' retirement benefits	(24)	(14)
Increase (decrease) in provision for point card certificates	116	342
Increase (decrease) allowance for loss on repair construction of building	(1,466)	(1,337)
Interest and dividend income	(1,683)	(1,944)
Interest expenses	529	4,096
Share of loss (profit) of entities accounted for using equity method	(2,213)	(1,618)
Loss (gain) on sales of non-current assets	0	(9,677)
Loss on retirement of non-current assets	2,933	1,536
Decrease (increase) in notes and accounts receivable - trade	(17,983)	(11,995)
Decrease (increase) in inventories	(8,227)	(8,136)
Increase (decrease) in notes and accounts payable - trade	26,256	14,196
Other, net	10,681	2,923
Subtotal	40,692	32,895
Interest and dividend income received	3,129	3,018
Interest expenses paid	(374)	(3,955)
Income taxes paid	(9,898)	(5,965)
Net cash provided by (used in) operating activities	33,549	25,993
Cash flows from investing activities		
Payments into time deposits	(2,508)	(312)
Proceeds from withdrawal of time deposits	4,515	1,326
Proceeds from sales and redemption of short-term and long-term investment securities	3,530	962
Purchase of property, plant and equipment and intangible assets	(34,125)	(32,965)
Proceeds from sales of property, plant and equipment and intangible assets	27	10,429
Proceeds from withdrawal of investment securities	—	4,003
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(5,329)
Other, net	(190)	(140)
Net cash provided by (used in) investing activities	(28,751)	(22,024)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(846)
Proceeds from long-term loans payable	—	5,800
Repayments of long-term loans payable	(15)	(5,055)
Repayments of lease obligations	(425)	(5,572)
Purchase of treasury shares	(7)	(5,902)
Cash dividends paid	(4,193)	(4,145)
Other, net	934	(422)
Net cash provided by (used in) financing activities	(3,707)	(16,143)

Takashimaya Reports Earnings for the Nine Months Ended November 30, 2019

	(million yen)	
	Nine months ended November 30, 2018	Nine months ended November 30, 2019
Effect of exchange rate change on cash and cash equivalents	(1,030)	(2,099)
Net increase (decrease) in cash and cash equivalents	58	(14,274)
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	97,653	80,417