

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Six Months Ended August 31, 2016

Tokyo, Japan October 7, 2016—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated operating revenue of 443,321 million yen for the first quarter (ended August 31, 2016) of the fiscal year ending February 28, 2017, and profit attributable to owners of parent of 8,477 million yen, or 21.33 yen per diluted share.

Summary of Operating Results

During the cumulative consolidated second quarter (March 1 - August 31, 2016), the Japanese economy experienced a moderate recovery while weakness could be seen in some areas. The Department Stores segment generally performed well. However, it is difficult to make firm forecasts about the future owing to factors such as concerns about the impact of the British electorate's decision to leave the EU.

Against this backdrop, the Takashimaya Group made efforts to improve its performance. For example, with a view to maximizing the appeal of its buildings and their surroundings, it advanced the Machi-dukuri Strategy by leveraging the expertise of Toshin Development Co., Ltd., a group company that manages co-creation projects with local communities and the group's real estate, particularly with respect to department stores.

Consequently, total consolidated sales and other operating revenue for Takashimaya Group was 443,321 million yen (down 1.4% compared with the corresponding period of the previous fiscal year). Consolidated operating income was 13,777 million yen (down 0.3% compared with the corresponding period of the previous fiscal year), consolidated ordinary income was 15,055 million yen (down 7.1% compared with the corresponding period of the previous fiscal year), and consolidated profit attributable to owners of parent was 8,477 million yen (down 23.2% compared with the corresponding period of the previous fiscal year).

Operating performance by segment is discussed below.

Department Stores

The Department Stores segment reported strong sales in tax-free sales, primarily in cosmetics. This result was due to the success of sales strategies aimed at further capitalizing on the shift in overseas visitors' needs from high price items to everyday goods. Examples of these strategies include the introduction of an electronic payment system to increase customer convenience, and collaboration with a leading Chinese online travel agency.

The summer clearance sales commenced on July 1, one week earlier than the previous year. This move prompted an across-the-board customer attraction effect that overlapped with the peak of the midyear gift season (chugen), leading to strong sales.

Shinjuku Store, Tamagawa Store, and Konandai Store collaborated with Toshin Development Co., Ltd. to advance the Machi-dukuri Strategy. Regarding Shinjuku Store, following the redevelopment of Shinjuku Station's New South Gate, Takashimaya Times Square experienced an increase in customers throughout the store, and strong sales, particularly in its newly refurbished food area. Tamagawa Store, the core shopping center tenant, saw an increase in revenue. Konandai Store underwent a refurbishment from the first basement floor to the third floor in preparation for the opening of specialist store Nitori. The store, by integrating department store with specialist store, worked to draw out and enhance the appeal of the store as a whole and the surrounding area. As for Kyoto Store, the store created a buzz with a refurbishment of its food area, and the opening in May of an accessory annex which showcases the elegance of Kyoto.

Regarding the promotion of omni-channels, the segment made efforts to enhance the product lineup on the online store, focusing on distinctive merchandise such as Japanese and Western liquor and Meika-Hyakusen (selection of famous sweets), and it also took steps to better connect the stores online.

Regarding alliances with other companies, Takashimaya worked with NTT DOCOMO to strengthen the two companies' business alliance, which commenced in April. Both companies undertook coordinated steps to implement a new customer-acquisition initiative targeting NTT DOCOMO's "d POINT CLUB," which comprises approximately 58 million individuals.

In terms of attracting customers, the segment attracted a wide range of customers by holding an exhibition celebrating a comedy program which ran for 50 years. The exhibition was held in Osaka Store, Kyoto Store, Nihonbashi Store, and Yokohama Store.

Regarding the situation overseas, Takashimaya Singapore Ltd. refurbished its luxury brands sales area on the first and second floor, refurbished other sales areas in response to customer feedback, pursued a house card strategy, and improved the way that it deals with overseas tourists. However, the store recorded a decrease in profits and revenues. This result was due to a number of factors, including the deterioration of Singapore's economy and retail environment, a temporary slump in consumer spending in the wake of Britain's decision to leave the EU, and the impact of the appreciating yen on the exchange rate.

As for Shanghai Takashimaya, the store continued to overhaul its food sales area and other sales areas, enlarged its Japanese-Goods Store, which showcases Japanese culture and sells Japanese made products, and worked to expand its customer base by linking its online store with the products exhibited in the Japanese-Goods Store. These efforts bore fruit in terms of increased visitors and increased sales on a local currency basis, a notable result considering that other major department stores in Shanghai are struggling. However, with the impact of the appreciating yen on the exchange rate, the store recorded decreased revenue on a yen basis.

Consequently, sales and other operating revenue in the Department Stores segment were 384,596 million yen (down 1.8% compared with the corresponding period of the previous year), and operating income was 4,757 million yen (down 11.3% compared with the corresponding period of the previous fiscal year).

Real Estate

In the Real Estate segment, Toshin Development Co., Ltd. pursued the Machi-dukuri initiative as a group-wide initiative at home and overseas. In Japan, Toshin Development used digital signage to better reach out to visitors to the Tamagawa area, and worked with commercial facilities in the surrounding area to provide free parking spaces. In this way, Toshin Development worked to improve customer traffic in the area as a whole, and thereby attract more customers to stores. As for overseas real estate, the segment pursued a site generation-focused Machi-dukuri strategy. As part of this approach, it opened the Saigon Centre in July 30 along with the department store.

Toshin Development Singapore Pte. Ltd., which operates the shopping center Takashimaya Singapore Ltd., worked to increase rent income, primarily by refurbishing the third floor. While it achieved an increase in revenue and profits on a local currency basis, on a yen basis, it recorded increased profits but lower revenues owing to the impact of the high yen.

Consequently, sales and other operating revenue were 21,109 million yen (up 1.1% compared with the corresponding period of the previous fiscal year) and operating income was 5,426 million yen (up 7.9 % compared with the corresponding period of the previous fiscal year).

Finance

In the Finance segment, Takashimaya Credit Co., Ltd. worked collaboratively with department stores to acquire new members and promote use of the card, and it endeavored to improve commission revenue by increasing the number of members and the amount of card transactions. Regarding selling expenses, the segment worked to make effective use of advertising expenses and other such expenses. As a result, the segment reported an increase in revenue and profits.

Consequently, sales and other operating revenue were 6,717 million yen (up 5.7% compared with the corresponding period of the previous fiscal year) and operating income was 2,302 million yen (up 5.4% compared with the corresponding period of the previous fiscal year).

Contract & Design

In the Contract & Design segment, Takashimaya Space Create Co., Ltd. benefited from favorable conditions in the construction market. It received strong orders for hotels and similar accommodation facilities, resulting in an increase in revenue and profits.

Consequently, sales and other operating revenue were 14,235 million yen (up 1.6% compared with the corresponding period of the previous fiscal year) and operating income was 864 million yen (up 13.5% compared with the corresponding period of the previous fiscal year).

Other

The Cross Media Division made efforts to improve its revenue and earnings. It secured strong sales for the net media business and food delivery business, and it revised its catalogue media policies with a view to reducing costs.

Consequently, sales and other operating revenue in the Cross Media Division and other segments was 16,663 million yen (down 1.5% compared with the corresponding period of the previous fiscal year) and operating income was 447 million yen (up 17.4% compared with the corresponding period of the previous fiscal year).

This document is not subject of quarterly review procedures based on the Financial Instruments and Exchange Act.

At the time of disclosure of this document, review procedures of quarterly consolidated financial statements based on the Financial Instruments and Exchange Act had not been completed.

Takashimaya Reports Earnings for the Six Months Ended August 31, 2016

(million yen)

Consolidated quarterly balance sheets	As of February 29, 2016	As of August 31, 2016
Assets		
Current assets		
Cash and deposits	75,487	104,531
Notes and accounts receivable-trade	119,174	126,794
Securities	2,003	3,000
Merchandise and finished goods	41,168	41,119
Work in process	3,947	4,075
Raw materials and supplies	1,036	1,135
Other	48,238	35,868
Allowance for doubtful accounts	(430)	(427)
Current assets	290,625	316,096
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	171,610	169,489
Land	231,174	231,079
Other, net	14,522	15,241
Property, plant and equipment	417,307	415,810
Intangible assets		
Leasehold right	93,712	93,712
Goodwill	404	347
Other	14,210	13,505
Intangible assets	108,327	107,564
Investments and other assets		
Investment securities	102,550	85,725
Guarantee deposits	33,151	32,123
Other	25,040	23,531
Allowance for doubtful accounts	(2,579)	(2,582)
Investments and other assets	158,161	138,798
Non-current assets	683,795	662,174
Assets	974,421	978,270

Takashimaya Reports Earnings for the Six Months Ended August 31, 2016

(million yen)

	As of February 29, 2016	As of August 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable-trade	103,363	103,026
Short-term loans payable	17,187	22,587
Income taxes payable	10,045	5,051
Advances received	82,954	88,136
Gift certificates	52,299	52,214
Provision for point card certificates	3,233	3,249
Allowance for loss on repair construction of building	581	1,398
Other	55,417	53,130
Current liabilities	325,082	328,794
Non-current liabilities		
Bonds payable	75,307	75,258
Long-term loans payable	62,105	70,055
Asset retirement obligations	1,804	1,787
Net defined benefit liability	61,875	60,837
Provision for directors' retirement benefits	371	235
Provision for environmental measures	366	354
Allowance for loss on repair construction of building	5,273	4,384
Other	34,848	33,074
Non-current liabilities	241,951	245,987
Liabilities	567,034	574,782
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,085	55,085
Retained earnings	249,145	254,737
Treasury shares	(6,153)	(6,155)
Shareholders' equity	364,102	369,692
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	17,277	13,413
Deferred gains or losses on hedges	(14)	(10)
Revaluation reserve for land	6,907	7,145
Foreign currency translation adjustment	11,883	4,888
Remeasurements of defined benefit plans	(1,229)	(934)
Valuation and translation adjustments	34,824	24,502
Non-controlling interests	8,458	9,293
Net assets	407,386	403,488
Liabilities and net assets	974,421	978,270

Takashimaya Reports Earnings for the Six Months Ended August 31, 2016

(million yen)

	Six months ended August 31, 2015	Six months ended August 31, 2016
Consolidated quarterly statements of (comprehensive) income		
Operating revenue	449,782	443,321
Net sales	418,289	411,158
Cost of sales	314,150	309,611
Gross profit (loss)	104,139	101,546
Other operating revenue	31,492	32,163
Operating gross profit (loss)	135,631	133,710
Selling, general and administrative expenses		
Advertising expenses	12,490	11,656
Provision for point card certificates	1,700	1,633
Provision of allowance for doubtful accounts	101	83
Directors' compensations, salaries and allowances	32,579	32,335
Retirement benefit expenses	2,385	1,976
Rent expenses on real estates	18,312	18,074
Other	54,241	54,172
Selling, general and administrative expenses	121,811	119,932
Operating income (loss)	13,820	13,777
Non-operating income		
Interest income	280	318
Dividend income	645	660
Share of profit of entities accounted for using equity method	1,255	1,149
Other	752	455
Non-operating income	2,933	2,584
Non-operating expenses		
Interest expenses	426	337
Foreign exchange losses	—	776
Other	114	191
Non-operating expenses	540	1,306
Ordinary income (loss)	16,213	15,055
Extraordinary income		
Gain on sales of investment securities	4,197	—
Gain on liquidation of affiliated companies	—	876
State subsidy	—	126
Other	—	110
Extraordinary income	4,197	1,113
Extraordinary losses		
Loss on retirement of non-current assets	1,629	1,440
Loss on sales of shares of subsidiaries and associates	—	892
Other	39	126
Extraordinary losses	1,668	2,459
Income (loss) before income taxes	18,741	13,709
Income taxes-current	6,624	4,234
Income taxes-deferred	679	620
Income taxes	7,304	4,854
Profit (loss)	11,437	8,855
Profit (loss) attributable to non-controlling interests	399	378
Profit (loss) attributable to owners of parent	11,038	8,477

Takashimaya Reports Earnings for the Six Months Ended August 31, 2016

	(million yen)	
	Six months ended	Six months ended
Consolidated quarterly statements of comprehensive income	August 31, 2015	August 31, 2016
Profit (loss)	11,437	8,855
Other comprehensive income		
Valuation difference on available-for-sale securities, net of tax	166	(3,745)
Deferred gains or losses on hedges, net of tax	0	4
Revaluation reserve for land, net of tax	452	237
Foreign currency translation adjustment, net of tax	(101)	(4,886)
Remeasurements of defined benefit plans, net of tax	509	277
Share of other comprehensive income of entities accounted for using equity method	88	(2,279)
Other comprehensive income	1,115	(10,392)
Comprehensive income	12,552	(1,536)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,119	(1,844)
Comprehensive income attributable to non-controlling interests	433	307

Takashimaya Reports Earnings for the Six Months Ended August 31, 2016

(million yen)

	Six months ended August 31, 2015	Six months ended August 31, 2016
Consolidated quarterly statements of cash flows		
Cash flows from operating activities		
Income (loss) before income taxes	18,741	13,709
Depreciation	9,885	9,915
Amortization of goodwill	56	56
Increase (decrease) in allowance for doubtful accounts	(50)	19
Increase (decrease) in net defined benefit liability	(997)	(549)
Increase (decrease) in provision for directors' retirement benefits	25	(135)
Increase (decrease) in provision for point card certificates	74	16
Increase(decrease) allowance for loss on repair construction of building	—	(72)
Interest and dividend income	(925)	(979)
Interest expenses	426	337
Share of (profit) loss of entities accounted for using equity method	(1,255)	(1,149)
Loss (gain) on sales of non-current assets	—	(110)
Loss on retirement of non-current assets	808	578
Loss (gain) on sales of short-term and long term investment securities	(4,197)	—
Loss (gain) on sales of shares of subsidiaries and associates	—	892
Gain on liquidation of affiliated companies	—	(876)
Decrease (increase) in notes and accounts receivable	1,649	(7,383)
Decrease (increase) in inventories	(816)	(299)
Increase (decrease) in notes and accounts payable	3,114	175
Other, net	(11,238)	7,872
Subtotal	15,301	22,017
Interest and dividend income received	2,230	2,078
Interest expenses paid	(359)	(250)
Income taxes paid	(9,110)	(9,245)
Net cash provided by (used in) operating activities	8,061	14,600
Cash flows from investing activities		
Payments into time deposits	(633)	(1,597)
Proceeds from withdrawal of time deposits	—	598
Purchase of short-term and long-term investment securities	(1,834)	(816)
Proceeds from sales and redemption of short-term and long-term investment securities	9,397	12,078
Proceeds from sales of shares of subsidiaries and associates	—	1,609
Proceeds from liquidation of subsidiaries and associates	—	1,444
Purchase of property, plant and equipment and intangible assets	(14,056)	(9,645)
Proceeds from sales of property, plant and equipment and intangible assets	—	236
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	741	—
Other, net	43	121
Net cash provided by (used in) investing activities	(6,342)	4,029
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	60
Proceeds from long-term loans payable	18,600	15,500
Repayments of long-term loans payable	(30,210)	(2,210)
Purchase of treasury shares	(5,585)	(3)
Cash dividends paid	(1,772)	(2,096)
Other, net	(532)	(460)
Net cash provided by (used in) financing activities	(19,500)	10,789
Effect of exchange rate change on cash and cash equivalents	(307)	(4,977)
Net increase (decrease) in cash and cash equivalents	(18,089)	24,441
Cash and cash equivalents	86,497	73,536
Increase in cash and cash equivalents from newly consolidated subsidiary	—	3,929
Cash and cash equivalents	68,407	101,907