

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Six Months Ended August 31, 2019

Tokyo, Japan October 11, 2019—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated operating revenue of 453,144 million yen for the second quarter (ended August 31, 2019) of the fiscal year ending February 29, 2020, and profit attributable to owners of parent of 12,404 million yen, or 58.76 yen per diluted share.

Qualitative Information about Consolidated Operating Results

During the cumulative consolidated second quarter (March 1 to August 31, 2019), the Japanese economy expanded moderately underpinned by increased capital investment and brisk corporate earnings. However, consumers' purse strings have tightened amid a spate of natural disasters as well as the global economic uncertainties associated with the intensifying US-China trade friction. These factors, combined with a possible slump in spending following October's consumption tax hike, have made a recession increasingly likely.

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.

Alongside these efforts, we pursued a digital transformation called the Group Reform Project. Under this project, we took steps to streamline work processes. In our online business, we addressed the separate needs of in-store and online shoppers and worked to make both forms of shopping more pleasant and convenient.

Consequently, the consolidated performance was as follows: Total consolidated operating revenue for Takashimaya Group was 453,144 million yen (up 2.6% compared with the corresponding period of the previous fiscal year), consolidated operating income was 13,424 million yen (no change), consolidated ordinary income was 12,659 million yen (down 21.5%), and consolidated profit attributable to owners of parent was 12,404 million yen (up 41.2%).

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 388,450 million yen (up 1.2% compared with the corresponding period of the previous fiscal year), and operating income of 4,274 million yen (down 3.5%).

Regarding domestic department stores, sales from inbound tourists—a major sales driver in recent years—have slowed, remaining at last year’s level. Factors behind this trend include economic slowdown in China and a weaker yuan against the yen. On the other hand, sales of high-ticket items skyrocketed ahead of the October consumption tax hike.

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. To further increase convenience for our customers, we provided a privilege for holders of the Takashimaya Platinum Debit Card whereby they can access an airport lounge in over a thousand locations around the world.

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 Store in August, and subsequently in the Osaka, Yokohama, and Kyoto stores. The exhibition featured photos, film footage, and valuable items on Ichikawa Ebizo XI, a beloved Kabuki actor. In August, Takashimaya Archives Tokyo hosted an event titled “Department Store Table Tennis.” The event was jointly held with Setouchi Triennale 2019, and it was supervised by Fram Kitagawa, the Triennale’s art director.

Regarding overseas stores, Takashimaya Singapore revamped its cosmetics 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 due to lower SG&A expenses.

Ho Chi Minh City Takashimaya posted increased revenue and income, having established a customer base and steadily grown its card membership. Siam Takashimaya, which opened in November last year, has suffered from sluggish progress in transport infrastructure, but the store is working to boost its sales by developing merchandise lines that appeal to locals.

Shanghai Takashimaya was set to close on August 25, but the closure was cancelled after the store's financial prospects markedly improved thanks to assistance from the landlord.

Real Estate

The Real Estate segment posted sales and other operating revenue of 22,527 million yen (up 7.4% compared with the corresponding period of the previous fiscal year) and operating income of 5,022 million yen (up 6.1%).

In this segment, Toshin Development Co., Ltd., continued driving forward the group's Machi-dukuri Strategy, focusing on projects such as the development of Tamagawa Takashimaya Shopping Center, which celebrates its 50th anniversary this November. Aiming to make the shopping center a place to gather and spend time, the developer has been refurbishing the rooftop garden and overhauling the food floor. Toshin saw increased rental and management fees from said shopping center as well as from Nihombashi Takashimaya Shopping Center (which opened last year) and other shopping facilities. However, these increases were offset by a reactionary decline from last year's sale of condominiums. They were further offset by cost increases associated with remodelling the Nihombashi property into a shopping center. Consequently, while operating revenue increased, operating income decreased.

Spurred by the steady sales performance of Saigon Centre in Ho Chi Minh City, Toshin decided to participate in a Hanoi real-estate project called Starlake. The developer aims to expand its business in Vietnam by focusing on ground-up community development.

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 8,619 million yen (up 7.8% compared with the corresponding period of the previous fiscal year) and operating income of 2,606 million yen (down 4.1%). 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 for out-of-store sales customers and a same-day card issuance service in large stores. It also 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 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 16,369 million yen (up 34.2% compared with the corresponding period of the previous fiscal year) and operating income of 758 million yen (up 71.9%)

In this segment, Takashimaya Space Create Co., Ltd., posted increased revenue thanks to favorable business conditions. With inbound tourism flourishing in the run-up to Tokyo 2020, the company saw sharp increases in orders for hotels and other accommodation, as well as for shopping facilities such as boutiques with luxury brands. 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 17,176 million yen (up 3.4% compared with the corresponding period of the previous fiscal year) and operating income of 976 million yen (up 13.2%).

The increases in operating revenue and operating income reflect strong catalogue order sales in the Cross Media Division.

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 Six Months Ended August. 31, 2019

	(million yen)	
Tokyo, Japan October 11, 2019—Takashimaya Company, Limited (T	As of February 28, 2019	As of August 31, 2019
Assets		
Current assets		
Cash and deposits	97,090	92,780
Notes and accounts receivable - trade	117,107	131,325
Merchandise and finished goods	43,802	44,363
Work in process	477	386
Raw materials and supplies	1,240	1,187
Other	37,740	37,015
Allowance for doubtful accounts	(335)	(335)
Total current assets	297,124	306,723
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	185,639	183,519
Land	411,507	412,019
Other, net	24,081	123,132
Total property, plant and equipment	621,228	718,671
Intangible assets		
Leasehold right	10,671	10,469
Goodwill	1,545	1,410
Other	16,734	18,023
Total intangible assets	28,951	29,903
Investments and other assets		
Investment securities	81,743	73,687
Guarantee deposits	29,485	28,755
Other	21,847	21,586
Allowance for doubtful accounts	(2,250)	(2,544)
Total investments and other assets	130,826	121,484
Total non-current assets	781,006	870,060
Total assets	1,078,130	1,176,783

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2019

	(million yen)	
	As of February 28, 2019	As of August 31, 2019
Tokyo, Japan October 11, 2019—Takashimaya Company, Limited (TSE Sec1)		
Liabilities		
Current liabilities		
Notes and accounts payable - trade	108,560	113,580
Short-term loans payable	13,320	39,675
Income taxes payable	5,052	4,979
Advances received	100,593	101,854
Gift certificates	52,503	53,135
Provision for point card certificates	2,530	2,638
Allowance for loss on repair construction of building	3,207	2,405
Other	63,447	63,102
Total current liabilities	349,216	381,370
Non-current liabilities		
Bonds payable	95,554	95,526
Long-term loans payable	85,809	59,444
Asset retirement obligations	2,027	2,137
Net defined benefit liability	50,890	50,333
Provision for directors' retirement benefits	286	257
Provision for environmental measures	282	282
Other	32,476	126,609
Total non-current liabilities	267,328	334,591
Total liabilities	616,545	715,962
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,026	55,026
Retained earnings	296,977	306,538
Treasury shares	(6,177)	(11,122)
Total shareholders' equity	411,851	416,466
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,821	7,633
Deferred gains or losses on hedges	(0)	(3)
Revaluation reserve for land	6,993	6,211
Foreign currency translation adjustment	8,723	7,753
Remeasurements of defined benefit plans	5,528	5,144
Total accumulated other comprehensive income	32,067	26,740
Non-controlling interests	17,665	17,614
Total net assets	461,585	460,821
Total liabilities and net assets	1,078,130	1,176,783

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2019

	(million yen)	
	Six months ended	Six months ended
Tokyo, Japan October 11, 2019—Takashimaya Company, Limited (T	August 31, 2018	August 31, 2019
Operating revenue	441,524	453,144
Net sales	409,356	417,630
Cost of sales	303,558	311,176
Gross profit	105,797	106,453
Other operating revenue	32,167	35,513
Operating gross profit	137,965	141,967
Selling, general and administrative expenses		
Advertising expenses	12,868	13,114
Provision for point card certificates	1,248	1,326
Provision of allowance for doubtful accounts	489	545
Directors' compensations, salaries and allowances	33,640	34,253
Retirement benefit expenses	1,448	777
Rent expenses on real estates	17,324	12,205
Other	57,525	66,319
Total selling, general and administrative expenses	124,544	128,543
Operating profit	13,420	13,424
Non-operating income		
Interest income	435	609
Dividend income	789	860
Share of profit of entities accounted for using equity method	1,428	973
Other	690	548
Total non-operating income	3,343	2,992
Non-operating expenses		
Interest expenses	319	2,794
Loss on adjustment of account payable	100	126
Other	218	836
Total non-operating expenses	638	3,757
Ordinary profit	16,125	12,659
Extraordinary income		
Gain on sales of non-current assets	—	9,677
Other	—	39
Total extraordinary income	—	9,717
Extraordinary losses		
Loss on retirement of non-current assets	3,201	3,431
Other	23	133
Total extraordinary losses	3,224	3,564
Profit before income taxes	12,901	18,811
Income taxes - current	3,565	3,697
Income taxes - deferred	201	2,395
Total income taxes	3,766	6,093
Profit	9,134	12,718
Profit attributable to non-controlling interests	351	313
Profit attributable to owners of parent	8,782	12,404

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2019

	Six months ended August 31, 2018	(million yen) Six months ended August 31, 2019
Tokyo, Japan October 11, 2019—Takashimaya Company, Limited (T		
Profit	9,134	12,718
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,008)	(3,194)
Deferred gains or losses on hedges	4	(3)
Foreign currency translation adjustment	(2,397)	(572)
Remeasurements of defined benefit plans, net of tax	61	(383)
Share of other comprehensive income of entities accounted for using equity method	(1,103)	(405)
Total other comprehensive income	(5,443)	(4,558)
Comprehensive income	3,690	8,159
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,431	7,858
Comprehensive income attributable to non-controlling interests	259	300

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2019

	Six months ended August 31, 2018	(million yen) Six months ended August 31, 2019
Tokyo, Japan October 11, 2019—Takashimaya Company, Limited (T		
Cash flows from operating activities		
Profit before income taxes	12,901	18,811
Depreciation	9,634	15,467
Amortization of goodwill	47	107
Increase (decrease) in allowance for doubtful accounts	264	293
Increase (decrease) in net defined benefit liability	(304)	(1,103)
Increase (decrease) in provision for directors' retirement benefits	(38)	(29)
Increase (decrease) in provision for point card certificates	(29)	109
Increase(decrease) allowance for loss on repair construction of building	(762)	(807)
Interest and dividend income	(1,224)	(1,470)
Interest expenses	319	2,794
Share of loss (profit) of entities accounted for using equity method	(1,428)	(973)
Loss (gain) on sales of non-current assets	0	(9,677)
Loss on retirement of non-current assets	1,606	968
Decrease (increase) in notes and accounts receivable - trade	(219)	(15,646)
Decrease (increase) in inventories	516	(434)
Increase (decrease) in notes and accounts payable - trade	3,443	4,694
Other, net	1,206	3,319
Subtotal	25,933	16,425
Interest and dividend income received	2,646	2,617
Interest expenses paid	(232)	(2,715)
Income taxes paid	(4,593)	(2,403)
Net cash provided by (used in) operating activities	23,753	13,924
Cash flows from investing activities		
Payments into time deposits	(2,516)	(316)
Proceeds from withdrawal of time deposits	2,941	974
Proceeds from sales and redemption of short-term and long-term investment securities	3,530	615
Purchase of shares of subsidiaries and associates	—	(1,272)
Purchase of property, plant and equipment and intangible assets	(18,182)	(19,734)
Proceeds from sales of property, plant and equipment and intangible assets	17	10,429
Proceeds from withdrawal of investment securities	—	4,003
Other, net	(5)	(133)
Net cash provided by (used in) investing activities	(14,215)	(5,434)

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2019

	Six months ended August 31, 2018	(million yen) Six months ended August 31, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(800)
Proceeds from long-term loans payable	—	5,800
Repayments of long-term loans payable	(10)	(5,010)
Repayments of lease obligations	(237)	(3,727)
Purchase of treasury shares	(4)	(4,945)
Cash dividends paid	(2,096)	(2,096)
Other, net	934	(399)
Net cash provided by (used in) financing activities	(1,415)	(11,180)
Effect of exchange rate change on cash and cash equivalents	(2,285)	(955)
Net increase (decrease) in cash and cash equivalents	5,837	(3,645)
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	103,432	91,046