October 16, 2023

Takashimaya Company, Limited FY2023/Q2 Financial Results Briefing | Main Q&A

The following is a summary of questions and answers during the financial results briefing held on Friday, October 13, 2023.

<Domestic Department Stores>

Recovery appears to be progressing smoothly but are there any sectors or products where you are not seeing a recovery? Also, looking three to five years ahead, how do you think department stores will be positioned once the market readjusts from current environment of pent-up demand driven by COVID-19?

You could say that fashion, a mainstay of department stores, is a sector where recovery is not advancing. However, over the past six months, we are seeing signs of a recovery. Inbound tourists and consumption of high-ticket items are certainly driving sales but this is not something we want to rely on, and will advance efforts towards fundamentally making the department stores more profitable. Over the past few years, we have been collaborating with vendors to strengthen merchandise towards meeting the needs of a post-COVID-19 market environment, and anticipate seeing the benefits of those efforts moving forward.

As we overcome the environment caused by COVID-19, Takashimaya department stores are beginning to regain their former strength, and we believe that we can further increase the value of the brick-and-mortar shopping experience offered by Takashimaya. Our approach is to enhance our allocation of resources dedicated to culture dissemination and other initiatives towards creating enjoyable commercial facilities.

Looking at total operating revenue from domestic department stores, you revised forecasts upwards by 5 billion yen compared to June forecasts. This includes an additional 20 billion yen from inbound tourists but a decrease of 15 billion yen when excluding inbound tourists. Please indicate the reasons for this.

In a comparison with last year, this was impacted by a downward correction from having recorded bumper orders from corporate business and VIP customers.

Forecasts as of June were formulated based on trends seen during a period of sales recovery during the second half of FY2022, resulting in an overestimation of growth. As such, we revised forecasts to reflect performance from the first half of this fiscal year.

As for inbound tourists, we took a conservative view for the first half but actual sales increased significantly, so we revised forecasts to reflect those results.

<u>Regarding department stores moving forward, what is your forecast for high-ticket item consumption? What is your view on growth from VIP customers and the affluent market?</u>

The past few years, outbound tourism has been suppressed due to COVID-19. This caused customers to turn towards domestic consumption, which drove up the consumption of high-ticket items. In response to those conditions, overseas brands have been welcoming affluent customers at domestic stores and making efforts to attract affluent customers by creating environments that offer leisurely and comfortable shopping experiences. Moving forward, even if yen depreciation subsides and we see an uptick in outbound travel, we do not think this will lead to a rapid decline in the domestic consumption of high-ticket items.

During this period, we have seen multiple price increases for high-ticket items but sales trends have remained steady with no signs of slowing down. Additionally, there are strong needs among VIP customers for products with strong asset value, and we expect those needs will continue as well. We are also seeing growth in the next generation of VIP customers. Based on these factors, we expect the consumption of high-ticket items will remain firm for the foreseeable future.

<Commercial Property Development>

<u>Looking at Toshin Development Co., Ltd., operating profit are trending upward favorably but what factors are driving this performance? It appears that you are not forecasting growth during the second half. Are there risks or other factors you are considering? Also, Q2 operating revenue increased significantly. Did some special factors contribute to this performance? Please provide a summary of conditions influencing the company.</u>

As an overview of all the specialty stores operated by Toshin Development Co., Ltd., sales are gradually recovering to pre-COVID-19 levels, but customer numbers are still down by double digits compared to prior to COVID-19. As such, we do not view conditions as representing a complete recovery. At the same time, vacancy rates by floor area were 2.3% at the end of FY2022 but by August 2023 had improved to 1.7%, which is nearly on par with normal operating conditions. Additionally, the number of tenants receiving reduced rent measures is down by nearly half compared to the end of FY2022. Overall, revenue is on a clear recovery trend.

The upswing in first-half performance is greatly influenced by the fact that we used highly conservative estimates for heating and lighting expenses but overall bills did not increase as much as estimated. The risk of soaring electricity bills remains present in the second half, so we continue to use conservative estimates in our forecasts.

The reason operating revenue increased significantly during Q2 is due to the company making the investment for the expansion to the Kyoto Takashimaya Shopping Center and then selling the property to Takashimaya Company, Limited. The result of that transaction is seen when looking at the company on a non-consolidated basis but is offset in consolidated accounting.

<Financial Policy, Shareholder Returns>

Commercial Property Development accounts for half of growth investments. Specifically, what types of investments are you considering? Are there other domestic projects in the pipeline after the Kyoto Takashimaya Shopping S.C.?

The amount for domestic investments is relatively low but for this fiscal year as well, we will steadily conduct ESG investments and investments related to the incorporation of luxury brands.

The background behind allocating investments with a focus on Commercial Property Development is related to our Group's framework for generating profits. At present, department stores are the most capable of maximizing the brand strengths of our Group and Commercial Property Development is a vehicle for leveraging department stores to generate profit and drive growth. Moving forward, there will be a limit to the opportunities and land necessary for new development in Japan. As such, in Japan, we will polish up existing department stores and shopping centers, and invest the brand strength and knowhow cultivated through those sites towards countries and cities overseas with high growth potential.

From past experience, we know that the potential for growth and profitability overseas is significantly higher than in Japan. In overseas markets, we will conduct investments focused on growth potential and profitability. In Japan, we will focus on stability and sustainability. Overseas, we have already cultivated knowhow and established a presence in Singapore and Vietnam. In Vietnam, where there are numerous business opportunities, we will engage in the multi-function development in not only the commercial sector, but also residential properties and office space. We believe this will enable us to secure high profitability and returns.

Please discuss your intentions behind raising DOE to 1.2% and also newly setting EBITDA and operating cashflow as metrics for shareholder returns.

When we announced financial results in the spring, we explained that our position was to set a DOE of 1% and transition from stable dividends to progressive dividends. We are maintaining our stance of taking this approach. At the same time, to address the need to ensure appropriate shareholder returns based on cash flow, we incorporated EBITDA and operating cashflow as elements that factor into considerations.

If EBITDA and operating cashflow increase, we will issue dividends to reflect such increases. Conversely, we will focus on stable dividends in times of stagnant growth in areas.