December 26, 2023

Takashimaya Company, Limited FY2023/Q3 Financial Results Briefing | Main Q&A

The following is a summary of questions and answers during the financial results briefing held on Monday, December 25, 2023.

<Consolidated>

Q: You conducted an upward revision to your full-year forecast but it appears to be very conservative. Based on current conditions along with indications that December performance has been favorable, it does appear that Q3 trends will continue into Q4 as well. Is there some element of concerning regarding Q4? Or, should it be viewed that the upward revision only reflects Q3 performance?

A: January and February during the previous fiscal year was a period of significant sales growth, which set the bar for performance at a relatively high level. Additionally, we view future yen appreciation as a risk that could have a negative impact on performance. Also, current sales at overseas department stores are somewhat stagnant. Based on these factors, we are not forecasting an uptick in performance for Q4.

Q: Looking at the range of the revisions to forecasts for each profit category, you revised forecasts upward by 1 billion yen for operating profit, 2 billion yen for ordinary profit, and 0.5 billion yen for profit attributable to owners of parent. Please indicate if there are any factors behind the increases or decreases in ordinary profit and profit attributable to owners of parent.

A: The significant increase to the ordinary profit forecast is in part due to the conservative nature of the forecast announced in October. Additionally, we are anticipating profit from entities accounted for using the equity method such as JR Tokai Takashimaya and NAD in Singapore, which have recorded firm performance during the fiscal year. Also, our Singapore subsidiaries are expected to see significant increases in interest income because local term deposit interest rates are very high at around 4%. Regarding profit attributable to owners of parent, we are taking a conservative stance due to a lack of transparency concerning expense estimates, mainly labor costs, associated with the liquidation of Gifu Takashimaya as well as the risk of impairment in the future. However, we are highly confident that we can achieve profit of 30 billion yen.

Q: Last year, bumper orders drove up Q3 operating profit by roughly 1.7 billion yen and 1.9 billion yen for H2 overall. Is this an accurate understanding?

A: That is correct. There were two during Q3 of last year: a VIP customer order resulting in sales of roughly 1.4 billion yen and operating profit of roughly 0.25 billion yen, and a corporate business order resulting in sales of roughly 4.4 billion yen and operating profit of 1.4 billion yen. However, this year there were no bumper orders equivalent to these. On the other hand, Q4 of the previous year resulted in sales above 2 billion yen and operating profit of roughly 0.2 billion yen.

<Domestic Department Stores>

Q: You indicated that the revised forecast reflects domestic department stores recording 5 billion yen in increased sales from inbound travelers. Is it correct to assume that you raised your full-year target for sales from inbound travelers from 58 billion yen to 63 billion yen?

A: That is correct. Our full-year target for sales from inbound travelers is 63 billion yen. Our forecast is conservative due to the possibility that results could change depending on performance during the New Year holiday and the risk of foreign currency fluctuations. However, if performance maintains current trends, then results could be higher than forecast.

Q: Regarding net sales by product type, you explained that apparel benefitted from collaborations with vendors. Can you elaborate on this subject?

A: During the previous year, product manufacturing volume declined due to lockdowns in China and raw material imports were affected by the global logistics shutdown. As a result, we were unable to secure sufficient supply volume in response to the period of strong demand for heavy winter clothing. This year, for our major vendors, we applied the lessons learned from the previous year to predict demand and place orders by model number. From September to October, sales of heavy clothing were sluggish due to the effect of warm weather but, thanks to a shared awareness with vendors, we were able to secure inventory based on highly accurate product orders. Being able to secure inventory resulted in our ability to significantly increase sales when temperatures dropped suddenly in the latter part of November.

Q: You explained that you have been further promoting structural reforms since the second half of this fiscal year towards optimizing back-office processes. Please indicate what specific initiatives you are undertaking and what effects you aim to achieve.

A: At department stores, there were discrepancies in cash register and back-office operations depending on the store or floor, so we are advancing efforts to standardize these operations. By standardizing these operations across all stores, we aim to optimize administrative operations and increase productivity. In the future, we want to incorporate IT into standardized operations to establish a structure that will allow us to perform those tasks with a smaller number of personnel. As such, while these efforts will not immediately have a significant effect on this fiscal year, from next fiscal year onward we will look to reduce SG&A expenses with plans to reduce personnel-related expenses even further in the future.

Q: Regarding Q4 SG&A expenses for domestic department stores, are there any increase factors you are currently anticipating?

A: There is the risk of an increase in the unit price for electricity and the possibility that an increase in in-store or EC sales could trigger an increase in variable costs or shipping costs. However, overall, we are not anticipating any significant increase in SG&A expenses.

<Group Companies>

<u>Q: Please indicate the reasons why Takashimaya Space Create Co., Ltd. recorded a loss in Q3 accounting, your outlook for Q4 accounting, and the impact on consolidated accounting.</u>

A: Operating profit results for Takashimaya Space Create Co., Ltd. resulted in a slight profit through Q2 but recorded a loss of 0.5 billion yen during Q3 accounting. This difference was due to construction process standards applied by TSC. Certain large-scale projects are experiencing construction delays. This resulted in the up-front recording of a spike in labor costs and material expenses. In Q4, we expect the spike in costs to be accurately reflected in accounting and that the company will record sales based on prices revised to account for increased costs. As a result, we anticipate the company will be able to cover a certain portion of those up-front costs. TSC typically sees the completion and handover of numerous properties in Q4, and we expect the company will record sales as a result. Full-year plans are for operating profit of 0.7 billion yen and results are trending near that level, so we view the impact on consolidated accounting as minor.

<Shareholder Returns>

<u>Q: I would like to hear your reasoning for conducting an upward revision to earnings but not revising dividends. Does this mean that the scope of the upward revision is not enough to warrant an increase in the dividend amount?</u>

A: Our stance is that this upward revision is not large enough to warrant an increase in the dividend forecast. As such, we plan to proceed according to dividend targets announced during Q2 accounting.