

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Three Months Ended May 31, 2017

Tokyo, Japan Jun 26, 2017—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated operating revenue of 225,480 million yen for the first quarter (ended May 31, 2017) of the fiscal year ending February 28, 2018, and profit attributable to owners of parent of 5,154 million yen, or 12.97 yen per diluted share.

Summary of Operating Results

During the cumulative consolidated first quarter (March 1-May 31, 2017), Japan experienced a moderate recovery with robust personal consumption. The Group's domestic department stores saw a steady increase in sales amid the strong personal consumption and a revival in inbound demand from foreign visitors. However, it is difficult to make firm forecasts about the future given the unstable economic conditions around the world, particularly in Europe.

Against this backdrop, the Takashimaya Group made efforts to improve its performance by pursuing the Group-wide Machi-dukuri Strategy. In addition to ensuring that the department stores fulfill their anchor role by drawing people to the area, we integrated department stores with specialty stores by leveraging group company Toshin Development's expertise in commercial development (a core business), so as to maximize the appeal of its buildings and the surrounding areas.

Consequently, the consolidated performance was as follows: Total consolidated operating revenue for Takashimaya Group was 225,480 million yen (up 2.8% compared with the corresponding period of the previous fiscal year). Consolidated operating income was 8,088 million yen (up 5.1% compared with the corresponding period of the previous fiscal year), consolidated ordinary income was 8,691 million yen (up 7.2% compared with the corresponding period of the previous fiscal year), and consolidated net income attributable to owners of parent was 5,154 million yen (up 44.7% compared with the corresponding period of the previous fiscal year)

Operating performance by segment is discussed below.

Department Stores

The Department Stores segment posted sales and operating revenue of 197,351 million yen (up 2.6% compared with the corresponding period of the previous year), and operating income of 2,948 million yen (down 12.6% compared with the corresponding period of the previous fiscal year).

The Department Stores segment benefitted from an increase in employee incomes accompanying the steady improvement in employment and income environment, strong personal consumption buoyed by an improved consumer mindset, and a renewed upsurge in inbound demand from the end of last year.

Regarding stores and facilities, we endeavored to cater to the increasingly diverse array of customer needs and create sales spaces that deliver new value. For example, in March this year, Shinjuku Store opened Wellbe Field, a curated floor offering wellbeing-related goods and services with the theme of positive and healthy living. Featuring an integrated assortment of facilities, including shops, a café, studios, a gym, Wellbe Field offers new lifestyle solutions that help customers lead refined, abundant, and beautiful lives.

Regarding alliances with other companies, we strengthened our business alliance with NTT DOCOMO and Loyalty Marketing, Inc. and pursued multifaceted initiatives, including a joint marketing effort directed at both companies' customers and loyalty scheme membership. These initiatives proved successful, yielding many new customers in the 20s and 30s age groups.

Regarding the promotion of omni-channels, we made efforts to harmonize the product lineup between stores and the online store, develop distinctive merchandise, provide a streaming service aimed at enhancing convenience for customers and in-store tablets to introduce customers to the online store. These and various other measures contributed to strong sales.

To further capitalize on inbound demand, we worked with NTT DOCOMO to distribute coupons to subscribers of overseas carriers affiliated with the mobile phone operator, extensively promoted the use of the mobile payments services Alipay and WechatPayment, and implemented a joint promotional campaign with major Chinese online travel agency C-Trip. These joint initiatives proved successful, yielding significant year on year increases in sales and sales volume.

In April this year, an airport-style duty-free shop was opened in Takashimaya Times Square, Shinjuku, by A&S Takashimaya Duty Free, a joint venture with ANA Trading and Hotel Shilla (Head office: Seoul, South Korea). We used the opening of the store as an opportunity to attract overseas tourists with an appealing merchandise lineup, provide an enhanced one-stop shopping experience by integrating the shop with Shinjuku store, raise our recognition level by transmitting information, and take various other measures to attract more people into the store and expand sales.

Regarding overseas stores, Takashimaya Singapore Ltd.'s sales campaign among card members proved successful, yielding strong sales among the members. However, earnings declined primarily because of a fall in the number of overseas tourists.

Amid the favorable economic climate in China, Shanghai Takashimaya Co., Ltd. saw strong sales in personal goods and other items. The store also stepped up its efforts to differentiate itself by promoting its Japanese-Goods Store, a retail space devoted to showcasing Japanese culture and selling Japanese goods. These efforts resulted in increased earnings.

Having opened in July last year, Takashimaya Ho Chi Minh City developed business with the aim of becoming the top collection of brands in the region. It also promoted sales through a precisely targeted campaign. These efforts proved successful and contributed to strong financial results.

Real Estate

The Real Estate segment posted sales and other operating revenue reached 9,960 million yen (down 6.7% compared with the corresponding period of the previous fiscal year) and operating income of 2,783 million yen (down 4.4% compared with the corresponding period of the previous fiscal year).

In this segment, Toshin Development pursued the Machi-dukuri making use of its accumulated expertise. With the aim of developing the Takashimaya brand in the commercial development arena, Toshin worked with department stores to enhance the provision of high-quality services and strengthen marketing, including joint marketing. These efforts were focused primarily in Tachikawa TM Building and Shinjuku Times Square, areas in which Toshin, from last year, had started a scheme to integrate operational management.

Toshin Development renovated Kashiwa Takashimaya Station Mall and Nagareyama Otakanomori Shopping Center to better meet the needs of local customers. Reaching its 10-year anniversary, Nagareyama Otakanomori Shopping Center got a new kids' zone featuring children's goods, a childcare facility (a crèche and breastfeeding area), and other goods and services that are in keeping with the local area's reputation as a great place to raise a family.

Overseas, the second phase of construction got underway in the Saigon Centre, which opened for business in July last year. In collaboration with major Singaporean developer Keppel Land Limited, we provided the finest commercial environment in Vietnam, and garnered great acclaim among locals.

Finance

The Finance segment posted sales and other operating revenue of 3,607 million yen (up 3.5% compared with the corresponding period of the previous fiscal year) and operating income of 1,190 million yen (up 1.4% compared with the corresponding period of the previous fiscal year).

In this segment, Takashimaya Credit Co., Ltd. marked the tenth anniversary of the "gold" Takashimaya card by conducting a campaign to acquire new members and promote use of the card. It also endeavored to improve commission revenue by increasing the number of members and the amount of card transactions. These efforts yielded an increase in revenue and profits.

Contract & Design

The Contract & Design segment posted sales and other operating revenue of 6,926 million yen (up 44.1% compared with the corresponding period of the previous fiscal year) and operating income of 264 million yen (compared to 80 million yen in operating loss in the corresponding period of the previous fiscal year).

In this segment, Takashimaya Space Create Co., Ltd. made steady progress in construction work for commercial facilities and hotels, leading to an increase in revenue and profits.

Other

The Other segment, which includes the Cross Media Division, posted sales and operating revenue of 7,634 million yen (down 5.1% compared with the corresponding period of the previous fiscal year) and operating income of 550 million yen (up 230.2% compared with the corresponding period of the previous fiscal year).

The Cross Media Division made efforts to improve its revenue and earnings. It steadily expanded sales in the net media business, and improved cost efficiency by revising its catalogue media policies.

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.

(million yen)

Consolidated quarterly balance sheets

	As of February 28, 2017	As of May 31, 2017
Assets		
Current assets		
Cash and deposits	107,159	99,673
Notes and accounts receivable - trade	122,728	128,487
Securities	2,000	2,000
Merchandise and finished goods	41,191	44,216
Work in process	2,746	2,916
Raw materials and supplies	1,112	1,026
Other	48,899	43,220
Allowance for doubtful accounts	(336)	(333)
Total current assets	325,500	321,206
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	164,940	165,421
Land	230,386	245,102
Other, net	18,375	15,800
Total property, plant and equipment	413,703	426,324
Intangible assets		
Leasehold right	93,725	93,725
Goodwill	193	169
Other	13,254	12,856
Total intangible assets	107,172	106,750
Investments and other assets		
Investment securities	89,114	89,242
Guarantee deposits	31,892	31,875
Other	21,535	20,704
Allowance for doubtful accounts	(2,454)	(2,515)
Total investments and other assets	140,087	139,307
Total non-current assets	660,963	672,382
Total assets	986,464	993,589

Takashimaya Reports Earnings for the Three Months Ended May 31, 2017

(million yen)

	As of February 28, 2017	As of May 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	101,320	106,790
Short-term loans payable	9,007	5,907
Income taxes payable	5,597	4,535
Advances received	91,852	94,809
Gift certificates	51,702	51,925
Provision for point card certificates	2,509	2,535
Allowance for loss on repair construction of building	2,160	2,527
Other	55,641	53,548
Total current liabilities	319,793	322,579
Non-current liabilities		
Bonds payable	75,210	75,185
Long-term loans payable	71,045	73,040
Asset retirement obligations	1,867	1,888
Net defined benefit liability	58,251	57,658
Provision for directors' retirement benefits	265	255
Provision for environmental measures	419	413
Allowance for loss on repair construction of building	3,767	3,400
Other	33,954	34,847
Total non-current liabilities	244,780	246,689
Total liabilities	564,574	569,269
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,085	55,025
Retained earnings	265,033	267,913
Treasury shares	(6,160)	(6,161)
Total shareholders' equity	379,984	382,802
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	15,921	15,531
Deferred gains or losses on hedges	1	0
Revaluation reserve for land	7,145	7,145
Foreign currency translation adjustment	8,510	8,147
Remeasurements of defined benefit plans	661	832
Total accumulated other comprehensive income	32,240	31,656
Non-controlling interests	9,665	9,861
Total net assets	421,890	424,320
Total liabilities and net assets	986,464	993,589

Takashimaya Reports Earnings for the Three Months Ended May 31, 2017

Consolidated quarterly statements of income	(million yen)	
	Three months ended May 31, 2016	Three months ended May 31, 2017
Operating revenue	219,318	225,480
Net sales	203,340	209,966
Cost of sales	152,525	158,116
Gross profit	50,815	51,849
Other operating revenue	15,977	15,514
Operating gross profit	66,793	67,364
Selling, general and administrative expenses		
Advertising expenses	6,428	6,571
Provision for point card certificates	955	653
Provision of allowance for doubtful accounts	114	112
Directors' compensations, salaries and allowances	15,782	16,025
Retirement benefit expenses	959	960
Rent expenses on real estates	9,112	8,953
Other	25,746	26,000
Total selling, general and administrative expenses	59,100	59,276
Operating income	7,692	8,088
Non-operating income		
Interest income	156	177
Dividend income	88	303
Share of profit of entities accounted for using equity method	634	703
Other	174	258
Total non-operating income	1,053	1,443
Non-operating expenses		
Interest expenses	163	156
Foreign exchange losses	441	303
Loss on adjustment of account payable	0	274
Other	35	105
Total non-operating expenses	640	840
Ordinary income	8,106	8,691
Extraordinary income		
Gain on sales of investment securities	-	10
Gain on sales of non-current assets	67	-
State subsidy	88	-
Gain on liquidation of affiliated companies	-	3
Total extraordinary income	156	13
Extraordinary losses		
Loss on retirement of non-current assets	580	1,029
Loss on sales of shares of subsidiaries and associates	892	-
Other	88	-
Total extraordinary losses	1,562	1,029
Profit before income taxes	6,700	7,675
Income taxes - current	2,360	2,682
Income taxes - deferred	585	(181)
Total income taxes	2,945	2,501
Profit	3,754	5,174
Profit attributable to non-controlling interests	191	19
Profit attributable to owners of parent	3,563	5,154

Takashimaya Reports Earnings for the Three Months Ended May 31, 2017

Consolidated quarterly statements of comprehensive income	(million yen)	
	Three months ended May 31, 2016	Three months ended May 31, 2017
Profit	3,754	5,174
Other comprehensive income		
Valuation difference on available-for-sale securities	576	(382)
Deferred gains or losses on hedges	8	(0)
Revaluation reserve for land	237	-
Foreign currency translation adjustment	(1,095)	(264)
Remeasurements of defined benefit plans, net of tax	112	163
Share of other comprehensive income of entities accounted for using equity method	(396)	(99)
Total other comprehensive income	<u>(556)</u>	<u>(583)</u>
Comprehensive income	<u>3,197</u>	<u>4,590</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,029	4,570
Comprehensive income attributable to non-controlling interests	168	20

Takashimaya Reports Earnings for the Three Months Ended May 31, 2017

Consolidated quarterly statements of cash flows	Three months ended May 31, 2016	(million yen) Three months ended May 31, 2017
Cash flows from operating activities		
Profit before income taxes	6,700	7,675
Depreciation	4,996	4,876
Amortization of goodwill	28	23
Increase (decrease) in allowance for doubtful accounts	59	57
Increase (decrease) in net defined benefit liability	(396)	(359)
Increase (decrease) in provision for directors' retirement benefits	(139)	(9)
Increase (decrease) in provision for point card certificates	147	27
Increase(decrease) allowance for loss on repair construction of building	(46)	-
Interest and dividend income	(245)	(480)
Interest expenses	163	156
Share of (profit) loss of entities accounted for using equity method	(634)	(703)
Loss (gain) on sales of non-current assets	(67)	-
Loss on retirement of non-current assets	235	365
Loss (gain) on sales of investment securities	-	(10)
Loss (gain) on sales of shares of subsidiaries and associates	892	-
Gain on liquidation of affiliated companies	-	(3)
Decrease (increase) in notes and accounts receivable - trade	(3,421)	(5,562)
Decrease (increase) in inventories	(2,054)	(3,122)
Increase (decrease) in notes and accounts payable - trade	2,657	5,743
Other, net	4,335	1,944
Subtotal	13,210	10,619
Interest and dividend income received	1,382	1,311
Interest expenses paid	(3)	(197)
Income taxes paid	(8,230)	(4,076)
Net cash provided by (used in) operating activities	6,360	7,655
Cash flows from investing activities		
Payments into time deposits	(212)	(1,412)
Proceeds from withdrawal of time deposits	-	1,117
Purchase of short-term and long-term investment securities	(306)	(1,668)
Proceeds from sales and redemption of short-term and long-term investment securities	12,078	8,525
Proceeds from sales of shares of subsidiaries and associates	1,609	-
Proceeds from liquidation of subsidiaries and associates	-	28
Purchase of property, plant and equipment and intangible assets	(6,111)	(18,456)
Proceeds from sales of property, plant and equipment and intangible assets	193	10
Other, net	104	(103)
Net cash provided by (used in) investing activities	7,355	(11,960)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-	(60)
Proceeds from long-term loans payable	2,000	2,000

Takashimaya Reports Earnings for the Three Months Ended May 31, 2017

	(million yen)	
	Three months May 31, 2016	Three months May 31, 2017
Repayments of long-term loans payable	(2,165)	(3,045)
Cash dividends paid	(2,096)	(2,096)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(60)
Other, net	(310)	(275)
Net cash provided by (used in) financing activities	<u>(2,572)</u>	<u>(3,537)</u>
Effect of exchange rate change on cash and cash equivalents	<u>(1,267)</u>	<u>(262)</u>
Net increase (decrease) in cash and cash equivalents	<u>9,875</u>	<u>(8,105)</u>
Cash and cash equivalents at beginning of period	73,536	103,765
Increase in cash and cash equivalents from newly consolidated subsidiary	3,929	391
Cash and cash equivalents at end of period	<u>87,341</u>	<u>96,051</u>