

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Three Months Ended May 31, 2016

Tokyo, Japan Jun 24, 2016—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated sales and other operating revenue of 219,318 million yen for the first quarter (ended May 31, 2016) of the fiscal year ending February 28, 2017, and profit attributable to owners of parent of 3,563 million yen, or 8.95 yen per diluted share.

Summary of Operating Results

During the cumulative consolidated first quarter (March 1-May 31, 2016), Japan experienced a moderate recovery while weakness could be seen in some areas. There was also an increase in inbound demand reflecting rising numbers of foreign visitors, and the domestic department achieved strong business performance. However, it is difficult to make firm forecasts about the future given the rising sense of uncertainty concerning the global economy.

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, consolidated sales and other operating revenue was 219,318 million yen (down 0.0% compared with the corresponding period of the previous fiscal year), consolidated operating income was 7,692 million yen (up 3.2% compared with the corresponding period of the previous fiscal year), consolidated ordinary income was 8,106 million yen (down 2.9% compared with the corresponding period of the previous fiscal year), and consolidated profit attributable to owners of parent was 3,563 million yen (down 43.6% compared with the corresponding period of the previous fiscal year).

Operating performance by segment is discussed below.

Department Stores

The Department Stores segment reported an impressive double digit growth in tax-free sales, primarily in cosmetics, compared with the previous fiscal year. This result was due to the success of sales strategies aimed at capitalizing on the growing inbound demand, examples of which include the introduction of an electronic payment system to increase customer convenience, and a visitor promotion initiative conducted in collaboration with a leading Chinese online travel agency.

Shinjuku Store and Tamagawa Store collaborated with Toshin Development Co., Ltd. to advance the Machidukuri Strategy. The area surrounding Takashimaya Times Square received a facelift with the redevelopment of Shinjuku Station's New South Gate, and the store benefitted through strong sales, particularly in its newly refurbished food area. Tamagawa Store saw an increase in revenue following a refurbishment of its sales areas. The store had implemented this refurbishment in the previous fiscal year with a focus on conveying a sense of sophistication as the core tenant of Tamagawa Takashimaya Shopping Center. Osaka Store also saw increased revenue, attributable to its rigorous promotion of local merchandise and its strengthening of merchandise with enhanced features. 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. It also worked to improve usability by enabling customers to use the Takashimaya Friends Club Shopping Card when purchasing goods on the online store.

Regarding alliances with other companies, Takashimaya has commenced a business alliance with NTT DOCOMO. In April, the two companies embarked on a point card joint venture, and they have been implementing reciprocal customer referrals with a view to gaining new customers.

In terms of attracting customers, the segment attracted a wide range of customers by holding highly topical cultural events. For example, Nihombashi Store hosted the Shoten 50th Anniversary Special Exhibition, which attracted an impressive number of visitors. Thanks to these efforts, the domestic Department Stores achieved an increase in revenue and profits.

Regarding the situation overseas, Takashimaya Singapore Ltd. improved its sales performance on a local currency basis through a series of initiatives. For example, it refurbished its sales area in response to customer feedback, pursued a house card strategy, and improved the way that it deals with overseas tourists. However, due to the impact of the appreciating yen on the exchange rate, the store recorded higher profits but lower revenues.

As for Shanghai Takashimaya, in January, the store enlarged its Japanese-Goods Store, which showcases Japanese culture and sells Japanese made products, and it significantly expanded its product lineup. The store also worked to expand its customer base by enriching the lineup of food and daily necessities on its online store, and further linking it with the products exhibited in the Japanese-Goods Store. In addition, the store endeavored to attract more visitors by focusing on hosting cultural events. This and other customer attraction initiatives resulted in increased sales on a local currency basis. However, revenue was down due to the exchange rate impact.

Consequently, sales and other operating revenue in the Department Stores segment were 192,315 million yen (down 0.2% compared with the corresponding period of the previous fiscal year), and operating income was 3.372 million yen (up 4.6% compared with the corresponding period of the previous fiscal year).

Real Estate

In the Real Estate segment, Toshin Development Co., Ltd. worked on the renovation of existing shopping centers. For example, in September last year, it renovated Marronnier Court, a shopping center annex of Tamagawa Takashimaya, and made it the first annex in the shopping center with early morning business hours. In this way, the segment provided local customers a place for early morning communication and thus a new range of early morning lifestyle possibilities, and this in turn contributed to an improvement in business performance. In addition, the segment successfully implemented a scheme to integrate operational management throughout its Tachikawa business projects. This and other achievements resulted in an increase in revenue and profits.

Toshin Development Singapore PTE Ltd. was also negatively affected by the exchange rate impact, but an increase in rent income following the completion of renovation work resulted in an increase in revenue and profits.

Consequently, sales and other operating revenue were 10,671 million yen (up 3.1% compared with the corresponding period of the previous fiscal year) and operating income was 2,912 million yen (up 11.2% compared with the corresponding period of the previous fiscal year).

Finance

In the Finance segment, Takashimaya Credit Co., Ltd. saw an increase in revenue and profits. It achieved this result by working collaboratively with department stores to acquire new members and promote use of the card, and because it endeavored to improve commission revenue by increasing the number of members and the amount of card transactions.

Consequently, sales and other operating revenue were 3,483 million yen (up 5.1% compared with the corresponding period of the previous fiscal year) and operating income was 1,173 million yen (up 2.4% compared with the corresponding period of the previous fiscal year).

Contract & Design

In the Contract & Design segment, despite the fact that Takashimaya Space Create Co., Ltd. received strong orders, revenue and profits were both down due to a lengthening of construction periods.

Consequently, sales and other operating revenue were 4,805 million yen (down 3.5% compared with the corresponding period of the previous fiscal year) and operating loss was 80 million yen (compared to 112 million yen in operating income in 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 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 8,041 million yen (up 0.1% compared with the corresponding period of the previous fiscal year) and operating income was 166 million yen (up 66.0% 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 Three Months Ended May 31, 2016

(million yen)

Consolidated quarterly balance sheets	As of February 29, 2016	As of May 31, 2016
Assets		
Current assets		
Cash and deposits	75,487	89,436
Notes and accounts receivable - trade	119,174	123,455
Securities	2,003	999
Merchandise and finished goods	41,168	43,052
Work in process	3,947	4,146
Raw materials and supplies	1,036	975
Other	48,238	37,134
Allowance for doubtful accounts	(430)	(443)
Total current assets	290,625	298,758
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	171,610	170,622
Land	231,174	231,046
Other, net	14,522	14,328
Total property, plant and equipment	417,307	415,997
Intangible assets		
Leasehold right	93,712	93,712
Goodwill	404	376
Other	14,210	13,804
Total intangible assets	108,327	107,892
Investments and other assets		
Investment securities	102,550	95,510
Guarantee deposits	33,151	33,189
Other	25,040	23,608
Allowance for doubtful accounts	(2,579)	(2,625)
Total investments and other assets	158,161	149,683
Total non-current assets	683,795	673,573
Total assets	974,421	972,331

Takashimaya Reports Earnings for the Three Months Ended May 31, 2016

(million yen)

	As of February 29, 2016	As of May 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	103,363	105,775
Short-term loans payable	17,187	22,567
Income taxes payable	10,045	3,862
Advances received	82,954	86,989
Gift certificates	52,299	51,630
Provision for point card certificates	3,233	3,380
Allowance for loss on repair construction of building	581	581
Other	55,417	54,295
Total current liabilities	325,082	329,083
Non-current liabilities		
Bonds payable	75,307	75,283
Long-term loans payable	62,105	56,560
Asset retirement obligations	1,804	1,892
Net defined benefit liability	61,875	61,231
Provision for directors' retirement benefits	371	231
Provision for environmental measures	366	366
Allowance for loss on repair construction of building	5,273	5,226
Other	34,848	34,230
Total non-current liabilities	241,951	235,023
Total liabilities	567,034	564,106
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,085	55,085
Retained earnings	249,145	249,823
Treasury shares	(6,153)	(6,154)
Total shareholders' equity	364,102	364,780
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,277	17,827
Deferred gains or losses on hedges	(14)	(5)
Revaluation reserve for land	6,907	7,145
Foreign currency translation adjustment	11,883	10,427
Remeasurements of defined benefit plans	(1,229)	(1,104)
Total accumulated other comprehensive income	34,824	34,291
Non-controlling interests	8,458	9,153
Total net assets	407,386	408,224
Total liabilities and net assets	974,421	972,331

Takashimaya Reports Earnings for the Three Months Ended May 31, 2016

	(million yen)	
	Three months ended	Three months ended
Consolidated quarterly statements of (comprehensive) income	May 31, 2015	May 31, 2016
Operating revenue	219,392	219,318
Net sales	203,899	203,340
Cost of sales	152,160	152,525
Gross profit	51,739	50,815
Other operating revenue	15,493	15,977
Operating gross profit	67,232	66,793
Selling, general and administrative expenses		
Advertising expenses	6,916	6,428
Provision for point card certificates	977	955
Provision of allowance for doubtful accounts	104	114
Directors' compensations, salaries and allowances	15,966	15,782
Retirement benefit expenses	1,172	959
Rent expenses on real estates	9,066	9,112
Other	25,577	25,746
Total selling, general and administrative expenses	59,781	59,100
Operating income	7,451	7,692
Non-operating income		
Interest income	126	156
Dividend income	89	88
Share of profit of entities accounted for using equity method	771	634
Other	199	174
Total non-operating income	1,187	1,053
Non-operating expenses		
Interest expenses	223	163
Foreign exchange losses	-	441
Other	67	35
Total non-operating expenses	291	640
Ordinary income	8,347	8,106
Extraordinary income		
Gain on sales of investment securities	4,197	-
Gain on sales of non-current assets	-	67
State subsidy	-	88
Total extraordinary income	4,197	156
Extraordinary losses		
Loss on retirement of non-current assets	736	580
Loss on sales of shares of subsidiaries and associates	-	892
Other	38	88
Total extraordinary losses	775	1,562
Income before income taxes and minority interests	11,769	6,700
Income taxes - current	4,556	2,360
Income taxes - deferred	691	585
Total income taxes	5,247	2,945
Profit	6,521	3,754
Profit attributable to non-controlling interests	201	191
Profit attributable to owners of parent	6,319	3,563

Takashimaya Reports Earnings for the Three Months Ended May 31, 2016

	(million yen)	
	Three months ended	Three months ended
Consolidated quarterly statements of comprehensive income	May 31, 2015	May 31, 2016
Profit	6,521	3,754
Other comprehensive income		
Valuation difference on available-for-sale securities	2,989	576
Deferred gains or losses on hedges	13	8
Revaluation reserve for land	452	237
Foreign currency translation adjustment	(1,717)	(1,095)
Remeasurements of defined benefit plans, net of tax	240	112
Share of other comprehensive income of entities accounted for using equity method	(927)	(396)
Total other comprehensive income	1,051	(556)
Comprehensive income	7,572	3,197
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,369	3,029
Comprehensive income attributable to non-controlling interests	203	168

Takashimaya Reports Earnings for the Three Months Ended May 31, 2016

	(million yen)	
	Three months ended	Three months ended
	May 31, 2015	May 31, 2016
Consolidated quarterly statements of cash flows		
Cash flows from operating activities		
Income before income taxes and minority interests	11,769	6,700
Depreciation	5,045	4,996
Amortization of goodwill	28	28
Increase (decrease) in allowance for doubtful accounts	18	59
Increase (decrease) in net defined benefit liability	(691)	(396)
Increase (decrease) in provision for directors' retirement benefits	4	(139)
Increase (decrease) in provision for point card certificates	164	147
Increase(decrease) allowance for loss on repair construction of building	—	(46)
Interest and dividend income	(216)	(245)
Interest expenses	223	163
Share of (profit) loss of entities accounted for using equity method	(771)	(634)
Loss (gain) on sales of non-current assets	—	(67)
Loss on retirement of non-current assets	352	235
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
Decrease (increase) in notes and accounts receivable - trade	(1,008)	(3,421)
Decrease (increase) in inventories	(2,444)	(2,054)
Increase (decrease) in notes and accounts payable - trade	4,231	2,657
Other, net	(1,927)	4,335
Subtotal	10,581	13,210
Interest and dividend income received	1,526	1,382
Interest expenses paid	(170)	(3)
Income taxes paid	(8,204)	(8,230)
Net cash provided by (used in) operating activities	3,733	6,360
Cash flows from investing activities		
Payments into time deposits	—	(212)
Purchase of short-term and long-term investment securities	(1,767)	(306)
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
Purchase of property, plant and equipment and intangible assets	(10,301)	(6,111)
Proceeds from sales of property, plant and equipment and intangible assets	—	193
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	741	—
Other, net	27	104
Net cash provided by (used in) investing activities	(1,903)	7,355
Cash flows from financing activities		
Proceeds from long-term loans payable	11,600	2,000
Repayments of long-term loans payable	(20,163)	(2,165)
Cash dividends paid	(1,772)	(2,096)
Other, net	(354)	(310)
Net cash provided by (used in) financing activities	(10,690)	(2,572)
Effect of exchange rate change on cash and cash equivalents	(2,251)	(1,267)
Net increase (decrease) in cash and cash equivalents	(11,112)	9,875
Cash and cash equivalents at beginning of period	86,497	73,536
Increase in cash and cash equivalents from newly consolidated subsidiary	—	3,929
Cash and cash equivalents at end of period	75,385	87,341