April 15, 2024

Takashimaya Company, Limited FY2023 Financial Results Briefing and Medium-Term Management Plan Briefing | Main Q&A

The following is a summary of questions and answers during the financial results briefing and the Medium-Term Management Plan briefing held on Friday, April 12, 2024.

<Department Stores in Japan>

Q: What is your view of the external environment influencing department stores in Japan this fiscal year?

A: FY2023 resulted in extremely favorable sales from inbound travelers due in part to yen depreciation. Our target for sales from inbound travelers for FY2024 is 85.0 billion yen, a year-on-year increase of 24%. This is a conservative target that reflects factors such as yen depreciation and increased inbound travel to Japan from other regions, but does not incorporate the increase in group tours from China. As such, we view this target as sufficiently feasible.

There has been a notable increase in demand among middle-class earners for fashion, apparel, and travel, and we think the demand environment will continue to shift from a focus on finding bargains to choosing retail-priced products. Fashion increased by 11% year on year. While business is still down by 19% compared to 2019, we are seeing movement in demand for office apparel such as jackets and suits, as well as demand related to splurge spending. We expect to see continued growth in these categories this year. We are seeing a clear trend towards the polarization as consumer consumption is becoming more selective, even for non-luxury items. In the future, consumers will purchase products with value, even it means paying a higher price.

While it is currently difficult to make detailed projections regarding a favorable cycle for wages and prices, the market saw favorable trends from the most recent labor negotiations. If small-to-medium sized enterprises continue to reflect cost increases in prices and middle-class wages increase, then these trends should help stimulate consumption.

Q: Share for department stores in Japan declines in the business portfolio of your long-term plan through 2031. How do you position department stores in Japan over the next three years?

A: Page 9 of the Medium-Term Management Plan materials explains the details of our business portfolio through 2031. Looking at progress through FY2026, the Plan outlines a contraction of operating profit share by business for department stores from 61% in FY2023 to 58% in FY2026.

The Plan also outlines region-specific operating profit share for Japan to transition from 73% in FY2023 to 70% in FY2026.

Department stores in Japan represent the Group's core business, and during the three-year period of the Medium-Term Management Plan, we are projecting profit growth on sales to inbound travelers and increased consumption by middle-class earners. However, the relative share represented by department stores in Japan will decrease due to efforts to grow other businesses on a scope that outpaces growth by department stores in Japan. We will pursue profit growth for all businesses and, for the overall Group, plan to achieve an annual growth rate of roughly 7%.

<Commercial Property Development>

Q: The Medium-Term Management Plan indicates that Toshin Development Co., Ltd. will, in addition to aggressive investments in Vietnam, will also work to expand business in Japan. What types of projects are you anticipating?

A: The 38.0 billion yen in investments for Commercial Property Development in Japan outlined in the Medium-Term Management Plan can be largely broken down into three categories. The first is facility investments and system investments for the conservation and maintenance of existing properties. We will conduct conservation and maintenance work within the scope of depreciation expenses. These investments are being made to maintain the operating profit levels of Commercial Property Development in Japan.

The second category is renovation investments. The company will advance renovation work for properties such as Kashiwa Takashimaya Station Mall, Tamagawa Takashimaya Shopping Center, and the specialty store zone of Takashimaya Times Square in Shinjuku. We will advance the conversion of these properties into next-generation shopping centers.

The third category is the acquisition of completely new property. This category entails value enhancement projects that take advantage of Toshin Development Co., Ltd.'s unique capabilities. For example, this includes acquiring commercial facilities and making investments to improve the property's value, or acquiring residential property or office space to generate rent income.

<Shareholder Returns>

Q: On the subject of shareholder returns, with the majority of operating CF being allocated towards growth investments, is the allocation for shareholder returns on the low side?

A: As is explained on P32 of the Medium-Term Management Plan materials, our plan is to allocate 7% to 10% of the 250.0 billion yen in operating CF towards shareholder returns. The order of priority is determined based on conditions. For example, should we decide to reduce the currently planned investment amount of 220.0 billion yen or if free CF exceeds expectations due to an upswing in profits, then we do have the option to expand shareholder returns.

<Others>

Q: Your long-term plan for 2031 outlines incorporating dividend income from Toshin Development Co., Ltd. into your evaluation of profits. Does this mean that dividend income will be included in operating profit? Please discuss your approach to accounting treatments.

A: Based on current accounting standards, dividend income at Toshin Development Co., Ltd., which we expect to increase moving forward, is treated as ordinary profit. This accounting treatment also applies to dividends from investment securities and dividend income gained on the acquisition of stock in companies with real estate holdings. As such, accounting for the distribution of profits at Toshin Development Co., Ltd. will entail treatments such as separate recording from operating profit. As for NOPAT, which is the numerator for ROIC, the figure includes this distribution of profits.

The impact of the distribution of profits at Toshin Development Co., Ltd. will increase moving forward, so there is the possibility that our positioning of core KPI could shift from operating profit to ordinary profit.

Q: Please indicate the objective behind changing segments.

A: In light of differences in WACC between Japan and overseas, and even between businesses, we felt the need to further clarify returns on investments in each segment. As such, we changed segments to reflect the new Medium-Term Management Plan, including separating Departments Stores and Commercial Property Development into Japan and Overseas.

Moving forward, we will engage in business management based on ROIC set for the new segments. At the same time, we will use an ROIC tree and other tools to help permeate understanding and ensure that employees at each level are acting based on an awareness of capital efficiency.