October 18, 2024

Takashimaya Company, Limited FY2024/Q2 (Interim) Financial Results Briefing | Main Q&A

The following is a summary of questions and answers during the financial results briefing held on Tuesday, October 15, 2024.

<Department Stores in Japan>

What trends are you currently seeing for customers in Japan and inbound travelers? Also, please indicate your assessment of these trends relative to the Medium-Term Management Plan.

− Looking at trends for customers in Japan during H1, sales from affluent customers increased by 8% YoY. By comparison, sales from middle-income customers increased by 2.5%. We view this as an indication that rising prices, particularly higher prices for daily necessities, are having a certain level of impact on middle-income customers. Also, we saw a partial deceleration in consumption during August due to a temporary but sudden drop in stock prices. Our view on the market moving forward is that the trend of selective consumption will continue. At the same time, we expect that the impact on business will be limited due to characteristics unique to department stores. In fact, with sustained wage increases gaining traction, our view is that we can expect to see consumption at department stores.

− As for inbound travelers, there was significant growth in sales between March and May but deceleration from July onward due in part to the impact of foreign currency. While H2 will not likely have the same intensity as early H1, we project strong results on factors such as Chinese National Day in October, which grew significantly YoY. During the period of the Medium-Term Management Plan, we are anticipating that an increase in inbound travelers to Japan will contribute to increased store visits and customer transactions. However, we expect yen appreciation will cause per-customer sales to decline. At the time of the announcement made in April of this year, our forecast for sales from inbound travelers in FY2026 was 87.0 billion yen. In light of these factors, we revised our assumptions for FY2024 downward slightly from 115.0 billion yen to 110.0 billion yen.

Please discuss your view of H2 sales from inbound travelers. You revised the original forecast of roughly 10.0 billion yen per month to slightly below 9.0 billion yen, but how is this broken down? How do you break down this change when viewed in terms of Q3 and Q4?

- At 62.0 billion yen, H1 sales from inbound travelers were somewhat abnormally strong. During H2, we expect sales to normalize, so we are expecting roughly 53.0 billion yen. This touches back on my previous explanation but we calculated this figure based on various factors. Using actual H1 results of 62.0 billion yen as baseline, we factored in the trend of fewer inbound travelers during H2 and an anticipated decline in per-customer sales due to yen appreciation. We then further accounted for a higher number of holidays in H2, including Chinese National Day and the Chinese New Year. The forecast is not based on a breakdown of expected results for specific quarters.

Looking at a breakdown of sales from inbound travelers, what types of changes are you currently seeing and what types of trends are you anticipating in the future?

- Sales of luxury items remain favorable. H1 sales of luxury items increased by 2.5x YoY, representing 5.5x growth compared to 2019. Cosmetics grew by 2.3x YoY but still down by 48% compared to 2019. Moving forward, we expect the trend of purchases centered on luxury items to maintain some momentum but do anticipate a drop-off from current levels. We think cosmetics have room for further improvement with increases in the number of travelers from mainland China, among whom cosmetics demand is strong. During H1, luxury items accounted for 73% of sales, representing a very high percentage. However, moving forward, we think the share represented by cosmetics will expand gradually. Looking at overall demand among inbound travelers, we expect needs to shift from department store shopping to genres such as dining, sightseeing, and experiences.

Do you expect continued growth among customers in Japan during the period of the Medium-Term Management Plan? If so, please indicate the basis and background for your assumptions.

- Our outlook on domestic consumption is not pessimistic. Overall, Japan is currently seeing a shift towards higher wages. We anticipate that this trend will become more apparent once the government further outlines its policies. Looking at consumption overall, we expect the trend of consumers looking for bargains where available while also being willing to spend money on personal interests and things with asset value. We believe such a trend will serve as a factor that contributes to sales growth for department stores. We are currently working to increase the appeal of our merchandise to better capture such trends.

<u>Please discuss your progress in capturing young customers</u>

- We are steadily attracting younger generations such as people considered to be a part of Gen Z, and the next generation of affluent customers currently in their 30s and 40s. Customers who are unable to take shopping trips overseas due to COVID-19 or yen depreciation and customers who want a safe place to buy products they saw on social media are visiting department stores for the basement level food floors, cosmetics, luxury brands, and more. This is often leading to the development of new fans, who come to appreciate the level of customer service and product quality available at department stores. In particular, the Yokohama Store has benefited from the redevelopment of the surrounding area. The basement food floors and first floor cosmetics sales spaces have seen a noticeable increase in young customers.

<Shareholder Returns and Capital Policy>

<u>The purchase of treasury shares for the amount of 15.0 billion yen seemed relatively large. Please explain why you decided on this timing for the purchase and why you went beyond the scope of cash allocation.</u>

- We maintain a standard for cash and deposits of roughly 80.0 billion yen to 85.0 billion yen, depending on the scale of Group sales. However, cash and deposits exceeded 100.0 billion yen. As such, we decided to strengthen shareholder returns by purchasing treasury shares at an amount equivalent to that difference. For the current fiscal year, we intend to conduct cash allocation as planned. We attribute these results to efforts implemented since COVID-19 to focus on EBITDA and strengthen our ability to generate cash, including through tax planning.

<u>Please discuss your current thoughts on capital policy. For example, if you had an opportunity to reevaluate your capital policy, including to incorporate revised assumptions for the upcoming Medium-Term Management Plan, what would you consider as ideal?</u>

- At present, we have no plans to change our policy on cash allocation. However, we do think there is room to reevaluate factors such as asset utilization. As was mentioned during the briefing, we are considering business portfolio diversification to reflect investment participation, etc., including the REIT business and investment plans aimed at securing capital gains. Also, if measures such as the sale of assets lead to improvements in cash flow, then we will engage in redistribution based on cash allocation policy. At the same time, we will continue efforts to further increase our ability to generate cash, including through tax planning. The Company also has 60.0 billion yen in CB redemptions coming up in 2028. We will assess trends during the current Medium-Term Management Plan while deciding on a response method.

− The first assumption concerning the upcoming Medium-Term Management Plan is that we successfully achieve the targets outlined for the current Medium-Term Management Plan. From there, our focus will be on nurturing the seeds we planted in Japan and overseas during the current Plan period to ensure our ability to steadily reap the benefits of those efforts.

On the subject of shareholder returns and cash allocation, you explained that the decision for 15.0 billion yen to purchase treasury shares was partially based on the fact that cash and deposits surpassed standards but how does this impact equity?

− The current equity ratio is 36.6%. The impact of this treasury share purchase on the equity ratio will be limited and there is no change in our approach of striving to continuously increase our equity ratio, including during the period of the current Medium-Term Management Plan. In particular, we anticipate that the adoption of lease accounting in the future will cause the equity ratio to decline significantly. As such, we will respond by building a financial base capable of withstanding company-wide impairment losses, even in the event of a pandemic or other large-scale disaster. Moving forward, we will evaluate the need for appropriate allocations should we see a build-up of cash due to a decrease in cash flow from financing activities or favorable outcomes from tax planning.