

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2014

1. Qualitative Information about Consolidated Operating Results

(1) Summary of Operating Results

Total consolidated sales and other operating revenue for the Takashimaya Group rose 4.8% from the same period of the previous fiscal year, to 224,269 million yen. Consolidated operating income was up 23.6%, to 7,535 million yen, and consolidated ordinary income increased 10.8%, to 8,552 million yen. Consolidated net income climbed 13.3%, to 4,551 million yen.

In the first three months of the fiscal year ending February 2015 (March 1, 2014–May 31, 2014), the Japanese economy saw growth in consumption as a result of a last-minute surge in demand ahead of the consumption tax hike, against a backdrop of modest economic recovery. However, given the cautious buying behavior since the consumption tax hike, the situation continues to require close observation. In this environment, the Takashimaya Group worked to enhance its sales capabilities, while at the same time implementing structural reforms and endeavoring to improve its results.

(2) Segment Information

Operating performance by segment is discussed below.

Department Stores

In the Department Stores segment, sales and other operating revenue increased 5.0% from the same period of the previous fiscal year, to 198,591 million yen. Operating income rose 45.6%, to 3,916 million yen.

The Group worked to realize department stores from a “machi-zukuri community development” perspective according to the characteristics of each store, based on its “Customer-First Principle.” In Japan, revenues increased, largely due to a last-minute surge in demand ahead of the consumption tax hike in April. In terms of merchandise, the Group renovated the Salon Le Chic section of merchandise specially chosen by store buyers at four major stores around the theme of original merchandise bought overseas. It also worked to create new floors, including introducing the Takashimaya Farm section selling natural food products to meet today’s needs at the Yokohama Store, and strove to improve and expand its line-up of community-based products by assigning buyers to stores.

The Group also reduced expenses, especially rental expenses as a result of the acquisition of the Shinjuku Store and Tachikawa Store retail real estate.

The Group took steps to promote sales, holding special topical events such as exhibition focusing on the career of 23-year old figure skater Mao Asada and an exhibition focusing on the career of special effects master Eiji Tsuburaya, and these events drew a broad range of customers into the Group’s stores.

Overseas, revenues increased largely due to expansion of the floor area at Takashimaya Singapore Ltd. last fall. However, earnings fell due to higher expenses, including rental expenses.

Contract & Design

The Contract & Design segment contributed 5,551 million yen in sales and other operating revenue, an increase of 28.9% from the same period of the previous fiscal year, and operating income of 79 million yen, an increase of 400.2% compared with the same period of the previous fiscal year.

Revenues and earnings both increased, reflecting a solid performance in existing business by Takashimaya Space Create Co., Ltd. and growth in orders received in the housing reform business as a result of the organization of a sales structure in cooperation with department stores.

Real Estate

The Real Estate segment's sales and other operating revenue increased 6.8% from the same period of the previous fiscal year, to 9,427 million yen. Operating income totaled 2,239 million yen, an increase of 3.7%.

Toshin Development Co., Ltd. posted higher revenues and earnings attributable to the strong results of existing shopping centers and contributions from newly opened peripheral facilities at the Tamagawa Takashimaya Shopping Center and the Nagareyama Otakanomori Shopping Center. Toshin Development Singapore Pte. Ltd. posted increased revenues and decreased earnings, reflecting greater rental income due to the strong results of specialty stores but increased rental expenses.

Finance

Sales and other operating revenue in the Finance segment rose 6.4% from the same period of the previous fiscal year, to 3,228 million yen, and operating income climbed 6.2%, to 1,135 million yen. Takashimaya Credit Co., Ltd. increased its revenues and earnings, due to growth in card transactions driven by a last-minute surge in demand ahead of the consumption tax hike and higher annual fee income.

Other

Sales and other operating revenue in the Other segment, including the Group's Cross Media Division, decreased 14.7% from the same period of the previous fiscal year, to 7,470 million yen. The segment posted an operating income of 72 million yen, up 13.6% from the same period a year ago.

In the Cross Media Division, net media steadily generated sales, and efforts were made to improve profits by reducing expenses through a review of catalog strategies. Functional subsidiary Takashimaya Service Co., Ltd. increased its earnings, reflecting efforts to improve profitability mainly by increasing staff efficiency.

2. Qualitative Information about Consolidated Financial Status

Consolidated assets at the end of the quarter under review (as of May 31, 2014) amounted to 940,326 million yen, up 38,186 million yen from the end of the previous fiscal year (February 28, 2014), mainly due to increases in leasehold rights and buildings and structures, offsetting decline in cash and deposits and investment securities. Consolidated liabilities rose 53,076 million yen from the end of the previous fiscal year, to 590,303 million yen, primarily reflecting an increase in net defined benefit liability. Consolidated net assets reached 350,022 million yen, down 14,889 million yen from the end of the previous fiscal year mainly due to a decrease in retained earnings.

Consolidated cash and cash equivalents at the end of the first quarter (May 31, 2014) totaled 66,265 million yen, down 78,843 million yen from the end of the previous fiscal year (February 28, 2014). Net cash provided by operating activities came to 15,403 million yen, an increase of 5,567 million yen from the same period a year ago. The result mainly reflects an increase of 7,826 million yen in notes and accounts receivable.

Net cash used in investment activities totaled 111,391 million yen, an increase of 103,770 million yen from the first quarter of the previous fiscal year. The result is primarily due to a 105,351 million yen increase in purchases of tangible and intangible fixed assets.

Net cash provided by financing activities was 17,807 million yen, an increase of 17,579 million yen from the first quarter of the previous fiscal year. The result was mainly attributable to a 22,000 million yen increase in the proceeds from long-term loans payable and a 4,312 million yen increase in the repayment of long-term loans payable.

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2014

	As of February 28, 2014	(million yen) As of May 31, 2014
Consolidated quarterly balance sheets		
Assets		
Current assets		
Cash and deposits	106,451	67,518
Notes and accounts receivable-trade	106,671	108,372
Short-term investment securities	43,099	2,000
Merchandise and finished goods	38,490	39,242
Work in process	262	316
Raw materials and supplies	487	485
Other	37,098	34,595
Allowance for doubtful accounts	(439)	(381)
Total current assets	332,121	252,149
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	157,381	174,711
Land	223,296	229,785
Other, net	13,759	14,263
Total property, plant and equipment	394,436	418,760
Intangible assets		
Land leasehold right	11,414	93,702
Goodwill	631	603
Other	16,670	16,323
Total intangible assets	28,716	110,629
Investments and other assets		
Investment securities	105,890	106,251
Guarantee deposits	34,420	35,337
Other	9,321	20,222
Allowance for doubtful accounts	(2,768)	(3,024)
Total investments and other assets	146,864	158,787
Total noncurrent assets	570,017	688,176
Total assets	902,139	940,326

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2014

	As of February 28, 2014	(million yen) As of May 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable-trade	95,901	95,762
Short-term loans payable	17,301	32,301
Current portion of bonds	30,000	30,000
Income taxes payable	7,822	6,468
Advances received	78,125	78,793
Gift certificates	54,498	53,400
Provision for point card certificates	3,260	3,343
Other	48,690	57,304
Total current liabilities	335,599	357,374
Noncurrent liabilities		
Bonds payable	65,503	65,478
Long-term loans payable	54,724	59,562
Asset retirement obligations	1,514	1,521
Provision for retirement benefits	42,098	—
Net defined benefit liability	—	68,904
Provision for directors' retirement benefits	254	263
Provision for environmental measures	647	647
Other	36,884	36,551
Total noncurrent liabilities	201,627	232,928
Total liabilities	537,227	590,303
Net assets		
Shareholders' equity		
Capital stock	56,025	56,025
Capital surplus	45,085	45,085
Retained earnings	221,857	210,756
Treasury stock	(549)	(551)
Total shareholders' equity	322,418	311,315
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	16,815	17,391
Deferred gains or losses on hedges	(0)	(1)
Revaluation reserve for land	8,537	8,537
Foreign currency translation adjustment	10,422	9,444
Remeasurements of defined benefit plans	-	(3,418)
Total accumulated other comprehensive income	35,775	31,954
Minority interests	6,718	6,753
Total net assets	364,912	350,022
Total liabilities and net assets	902,139	940,326

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2014

	(million yen)	
	Three months ended May 31, 2013	Three months ended May 31, 2014
Consolidated quarterly statements of (comprehensive) income		
Net sales	199,848	209,100
Cost of sales	147,913	155,990
Gross profit	51,934	53,109
Other operating revenue	14,159	15,169
Operating gross profit	66,093	68,279
Selling, general and administrative expenses		
Advertising expenses	6,504	6,578
Provision for point card certificates	1,018	898
Provision of allowance for doubtful accounts	70	328
Directors' compensations, salaries and allowances	15,977	16,313
Retirement benefit expenses	1,113	1,132
Rent expenses on real estates	10,170	10,190
Other	25,143	25,300
Total selling, general and administrative expenses	59,999	60,743
Operating income	6,094	7,535
Non-operating income		
Interest income	89	104
Dividends income	103	103
Gain on adjustment of account payable	35	34
Equity in earnings of affiliates	650	1,000
Foreign exchange gains	735	-
Other	341	235
Total non-operating income	1,955	1,477
Non-operating expenses		
Interest expenses	275	272
Foreign exchange losses	-	0
Other	59	187
Total non-operating expenses	334	460
Ordinary income	7,715	8,552
Extraordinary loss		
Loss on retirement of noncurrent assets	1,396	590
Other	-	17
Total extraordinary losses	1,396	608
Income before income taxes and minority interests	6,318	7,944
Income taxes-current	1,650	5,224
Income taxes-deferred	452	Δ2,062
Total income taxes	2,103	3,162
Income before minority interests	4,215	4,781
Minority interests in income	199	230
Net income	4,016	4,551

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2014

	Three months ended May 31, 2013	(million yen) Three months ended May 31, 2014
Consolidated quarterly statements of comprehensive income		
Income before minority interests	4,215	4,781
Other comprehensive income		
Valuation difference on available-for-sale securities	3,771	588
Deferred gains or losses on hedges	6	(0)
Foreign currency translation adjustment	2,051	(590)
Remeasurements of defined benefit plans	-	211
Share of other comprehensive income of associates accounted for using equity method	1,446	(392)
Total other comprehensive income	7,276	(182)
Comprehensive income	11,491	4,599
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	11,292	4,366
Comprehensive income attributable to minority interests	199	233

Takashimaya Reports Earnings for the Three Months Ended May. 31, 2014

	Three months ended May 31, 2013	(million yen) Three months ended May 31, 2014
Consolidated quarterly statements of cash flows		
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	6,318	7,944
Depreciation and amortization	4,620	4,818
Amortization of goodwill	28	28
Increase (decrease) in allowance for doubtful accounts	(175)	199
Increase (decrease) in provision for retirement benefits	(197)	-
Increase (decrease) in net defined benefit liability	-	(552)
Increase (decrease) in provision for directors' retirement benefits	9	8
Increase (decrease) in provision for point card certificates	234	83
Interest and dividends income	(192)	(207)
Interest expenses	275	272
Equity in (earnings) losses of affiliates	(650)	(1,000)
Loss on retirement of noncurrent assets	951	267
Decrease (increase) in notes and accounts receivable-trade	(10,154)	(2,327)
Decrease (increase) in inventories	(2,031)	(822)
Increase (decrease) in notes and accounts payable-trade	9,761	(402)
Other, net	2,628	12,153
Subtotal	11,426	20,462
Interest and dividends income received	1,257	1,467
Interest expenses paid	(168)	(156)
Income taxes paid	(2,678)	(6,369)
Net cash provided by (used in) operating activities	9,836	15,403
Net cash provided by (used in) investing activities		
Payments into time deposits	(155)	-
Proceeds from withdrawal of time deposits	29	167
Purchase of short-term and long term investment securities	(203)	(2)
Proceeds from sales of short-term and long term investment securities	0	1,000
Purchase of property, plant and equipment and intangible assets	(7,291)	(112,642)
Other, net	(2)	85
Net cash provided by (used in) investing activities	(7,621)	(111,391)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	40	-
Proceeds from long-term loans payable	3,000	25,000
Repayment of long-term loans payable	(849)	(5,162)
Cash dividends paid	(1,649)	(1,649)
Other, net	(313)	(380)
Net cash provided by (used in) financing activities	227	17,807
Effect of exchange rate change on cash and cash equivalents	2,598	(662)
Net increase (decrease) in cash and cash equivalents	5,041	(78,843)
Cash and cash equivalents at beginning of period	63,980	145,108
Cash and cash equivalents at end of period	69,021	66,265