

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Six Months Ended August 31, 2018

Tokyo, Japan October 12, 2018—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated operating revenue of 441,524 million yen for the second quarter (ended August 31, 2018) of the fiscal year ending February 28, 2019, and profit attributable to owners of parent of 8,782 million yen, or 44.18 yen per diluted share.

Qualitative Information about Consolidated Operating Results

During the cumulative consolidated second quarter (March 1—August 31, 2018), the Japanese economy experienced a moderate recovery amid strong corporate performance, increased capital investment, and improved personal consumption. The Takashimaya Group performed well too; in particular, the domestic Department Stores segment (a key segment of the group) saw an increase in revenue, reflecting the strong inbound tourism and the country's steady economic performance. The future outlook is generally positive; in particular, personal consumption looks set to continue on its steady recovery path. However, there are also some causes for concern, including rising global trade friction and fears about the long-term impact of the recent disasters in Japan.

Against this backdrop, the Takashimaya Group advanced the Machi-dukuri Strategy and bolstered its sales capability. Leveraging the collective strengths of the group, particularly that of our commercial developer Toshin Development Co., Ltd., we maximized the appeal of our commercial facilities and their surroundings. For example, we made sure that each department store fulfills its anchor role of drawing people to the area, and we pursued our vision of integrating the department store with specialty stores inside a single building. In March this year, we opened the east wing of Nihombashi Takashimaya Shopping Center—a new symbol of our Machi-dukuri Strategy—as part of our preparations for the center's full opening in September.

Alongside these efforts, we are getting fully underway with our Group Reform Project, in which we use digital technology to radically reform our group's management structure. Through this project, we will secure a foothold for future growth.

Consequently, the consolidated performance was as follows: Total consolidated operating revenue for Takashimaya Group was 441,524 million yen (up 1.9% compared with the corresponding period of the previous fiscal year), consolidated operating income was 13,420 million yen (down 3.4%), consolidated ordinary income was 16,125 million yen (up 3.1%), and consolidated profit attributable to owners of parent was 8,782 million yen (down 2.5%).

As of the cumulative consolidated first quarter, we have changed the accounting presentation method for our overseas consolidated subsidiaries, which follow International Financial Reporting Standards. What was previously presented as gross profit margin is now presented on a net basis under "sales." The change has been retroactively applied in year-on-year comparisons.

Operating performance by business segment is discussed below.

Department Stores

The Department Stores segment posted sales and other operating revenue of 383,735 million yen (up 1.8%), and operating income of 4,427 million yen (up 7.2%).

The domestic department stores posted revenue increases. This result was due to strong sales of expensive goods and general goods, which were underpinned by increased inbound tourist demand and strong personal consumption.

In March this year, we opened Pokémon Center Tokyo DX and Pokémon Cafe in Nihombashi Takashimaya Shopping Center's east wing ahead of the new wing's opening on September 25.

In August, we revamped the household goods area in Shinjuku Store with a view to providing everyday moments of relaxation. In April, we opened a new store, Eki-Taka Izumigaoka, on the concourse outside the ticket barriers of Izumigaoka Station (Semboku Rapid Railway, Osaka Prefecture). The store aims to become an everyday fixture for locals during their daily commutes to school or work, and it will work with nearby Semboku Store to better meet shoppers' needs.

Regarding independent merchandise creation (a key strength of our department stores), this June saw the opening of next-gen experiential beauty salon, Belle Sympathique, in Yokohama Store. Belle Sympathique caters to shoppers' increasingly diverse beauty needs by offering enriched beauty services in a comfortable and approachable setting. Along this same line, we introduced more Suit Closet outlets among our department stores. Suit Closet offers an extensive range of suits to professional women. We also expanded the lineup of women's Cool Biz outfits (smart-casual office attire for summer).

This year, our department stores tried something new in an effort to increase sales further; as well as holding their traditional summer clearance sale, the stores held a second summer sale (called the "Midsummer Last-Spurt Sale") in conjunction with July's Premium Friday.

Regarding our efforts to provide enriching cultural experiences, in March, Osaka Store, Kyoto Store, Nihombashi Store, and Shinjuku Store held an exhibition titled Fūeishō: Tan, Jō, Raku, Rō to commemorate the 110th anniversary of the Takashimaya's Art Gallery. The exhibition presented our vision of contemporary art spaces.

Regarding our efforts to capture inbound tourist demand (which remains as strong as ever), we have for some years now been making our department stores more tourist friendly; for example, we have already expanded mobile payment options and, in small/medium stores, provided multilingual announcements. Building on these in-store efforts, we aimed this year to connect better with potential inbound customers via new communications channels. To this end, we revised our organizational approach to social media marketing and issued online video messages. Additionally, to attract even more tourists into our stores, we conducted a coupon campaign together with our department stores in Singapore, Shanghai, and Ho Chi Minh City. We also conducted a joint campaign with a major Chinese payment company and Chinese online travel agent.

Takashimaya Duty Free Shilla & ANA, which opened in April last year, synergized effectively with Shinjuku Store and increased its sales as a result.

We also focused on strengthening our domestic customer base. To this end, we continued our business alliance with NTT Docomo and Loyalty Marketing. Docomo launched an AI-powered agent service called “my daizTM” in May, and we participated in the project.

Regarding overseas stores, Takashimaya Singapore Ltd. posted an operating revenue increase, reflecting the success of its 25th anniversary sales campaign coupled with Singapore’s favorable economy, which has been on the recovery since the second half of 2017. Shanghai Store pursued a differentiation strategy for the products that it showcases in its Japanese-goods store. This strategy, combined with the store’s customer retention efforts and other initiatives, resulted in increased sales. As for Takashimaya Ho Chi Minh City, capitalizing on Vietnam’s economic growth, the store steadily increased its card membership and organized promotional campaigns for all card holders. These efforts resulted in increased operating revenue.

Real Estate

The Real Estate segment posted sales and other operating revenue of 20,979 million yen (up 5.3%) and operating income of 4,732 million yen (down 7.2%).

In this segment, Toshin Development worked with the department stores to advance the Machi-dukuri strategy.

Regarding the segment’s performance in Japan, this March saw the opening of Nihombashi Takashimaya Shopping Center’s east wing. The shopping center’s new wing opened in September, and the entire facility will open next spring. In the run-up to the full-opening, Toshin Development is developing the facility to ensure that it embodies our vision of a department store integrated with specialty stores.

Toshin Development saw an increase in its quarterly sales and other operating revenue due to two main factors: first, an uptake in rent and management income following the opening of Pokémon Center Tokyo DX and Pokémon Café; second, an uptake in condominium sales. Toshin’s operating income declined, however, due to rising expenses—particularly expenses associated with the above items as well as that associated with the opening of Nihombashi Takashimaya Shopping Center’s new wing.

As for the situation overseas, Toshin Development Singapore Pte. Ltd. renewed contracts with some of its tenants. These renewals led to decreases in operating revenue and operating income on a local currency basis. When converted into yen, the result was an increase in operating revenue and a decrease in operating income.

Finance

The Finance segment posted sales and other operating revenue of 7,493 million yen (up 4.1%) and operating income of 2,401 million yen (up 7.0%).

In this segment, Takashimaya Credit Co., Ltd. saw increases in operating revenue and operating income due to a rise in commission revenue, which reflected a higher transaction volume among affiliated stores as well as the company's efforts to encourage the use of revolving payments.

Contract & Design

The Contract & Design segment posted sales and other operating revenue of 12,196 million yen (down 8.8%) and operating income of 441 million yen (down 40.2%).

In this segment, Takashimaya Space Create Co., Ltd. made proactive efforts to increase orders for department stores, luxury brands, and other projects. However, intense competition put downward pressure on profit margins, and the company posted an increase in operating revenue but a decrease in operating income.

Other

The Other segment, which includes the Cross Media Division, posted sales and other operating revenue of 17,118 million yen (up 8.4%) and operating income of 1,179 million yen (down 12.9%).

In this segment, the Cross Media Division saw increases in operating revenue and operating income, much of which came from improved catalogue sales. Nonetheless, earnings were down in the segment as a whole.

This document is not subject of audit procedures based on the Financial Instruments and Exchange Act. At the time of disclosure of this document, audit procedures of financial statements based on the Financial Instruments and Exchange Act had not been completed.

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2018

	(million yen)	
	As of February 28, 2018	As of August 31, 2018
Consolidated balance sheets		
Assets		
Current assets		
Cash and deposits	99,541	107,717
Notes and accounts receivable - trade	140,038	139,634
Securities	—	8
Merchandise and finished goods	43,517	42,685
Work in process	108	361
Raw materials and supplies	1,120	1,137
Other	43,482	39,783
Allowance for doubtful accounts	(306)	(331)
Total current assets	327,501	330,996
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	167,732	169,077
Land	361,362	362,724
Other, net	21,663	24,585
Total property, plant and equipment	550,757	556,387
Intangible assets		
Leasehold right	4,939	4,951
Goodwill	97	50
Other	12,998	14,639
Total intangible assets	18,035	19,641
Investments and other assets		
Investment securities	95,231	89,076
Guarantee deposits	29,227	28,842
Other	16,992	16,868
Allowance for doubtful accounts	(1,938)	(2,178)
Total investments and other assets	139,511	132,609
Total non-current assets	708,305	708,637
Total assets	1,035,807	1,039,634

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2018

	As of February 28, 2018	(million yen) As of August 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	102,428	105,762
Short-term loans payable	10,320	15,320
Current portion of bonds	40,062	40,022
Income taxes payable	6,236	4,778
Advances received	96,102	98,468
Gift certificates	52,663	52,912
Provision for point card certificates	2,561	2,529
Allowance for loss on repair construction of building	2,743	2,138
Other	57,769	57,914
Total current liabilities	370,888	379,847
Non-current liabilities		
Bonds payable	35,049	35,040
Long-term loans payable	88,829	83,819
Asset retirement obligations	1,907	1,908
Net defined benefit liability	54,616	54,221
Provision for directors' retirement benefits	297	258
Provision for environmental measures	342	331
Allowance for loss on repair construction of building	1,910	1,752
Other	32,438	28,490
Total non-current liabilities	215,392	205,824
Total liabilities	586,281	585,671
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,025	55,026
Retained earnings	284,320	291,261
Treasury shares	(6,170)	(6,174)
Total shareholders' equity	399,201	406,138
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,837	15,746
Deferred gains or losses on hedges	(3)	1
Revaluation reserve for land	7,145	7,145
Foreign currency translation adjustment	11,604	8,295
Remeasurements of defined benefit plans	3,386	3,457
Total accumulated other comprehensive income	39,970	34,646
Non-controlling interests	10,353	13,176
Total net assets	449,526	453,962
Total liabilities and net assets	1,035,807	1,039,634

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2018

	(million yen)	
	Six months ended	Six months ended
Consolidated statements of (comprehensive) income	August 31, 2017	August 31, 2018
Operating revenue	433,279	441,524
Net sales	401,904	409,356
Cost of sales	297,989	303,558
Gross profit	103,914	105,797
Other operating revenue	31,375	32,167
Operating gross profit	135,289	137,965
Selling, general and administrative expenses		
Advertising expenses	11,967	12,868
Provision for point card certificates	1,211	1,248
Provision of allowance for doubtful accounts	231	489
Directors' compensations, salaries and allowances	32,805	33,640
Retirement benefit expenses	1,927	1,448
Rent expenses on real estates	17,968	17,324
Other	55,284	57,525
Total selling, general and administrative expenses	121,396	124,544
Operating profit	13,893	13,420
Non-operating income		
Interest income	354	435
Dividend income	598	789
Share of profit of entities accounted for using equity method	1,308	1,428
Foreign exchange gains	—	121
Other	481	569
Total non-operating income	2,743	3,343
Non-operating expenses		
Interest expenses	307	319
Foreign exchange losses	244	—
Loss on adjustment of account payable	330	100
Other	117	218
Total non-operating expenses	1,000	638
Ordinary profit	15,636	16,125
Extraordinary income		
Gain on sales of investment securities	385	—
Other	3	—
Total extraordinary income	389	—
Extraordinary losses		
Loss on retirement of non-current assets	2,685	3,201
Other	37	23
Total extraordinary losses	2,722	3,224
Profit before income taxes	13,302	12,901
Income taxes - current	4,026	3,565
Income taxes - deferred	195	201
Total income taxes	4,222	3,766
Profit	9,080	9,134
Profit attributable to non-controlling interests	68	351
Profit attributable to owners of parent	9,012	8,782

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2018

	Six months ended August 31, 2017	(million yen) Six months ended August 31, 2018
Consolidated statements of comprehensive income		
Profit	9,080	9,134
Other comprehensive income		
Valuation difference on available-for-sale securities	977	(2,008)
Deferred gains or losses on hedges	(0)	4
Foreign currency translation adjustment	224	(2,397)
Remeasurements of defined benefit plans, net of tax	327	61
Share of other comprehensive income of entities accounted for using equity method	186	(1,103)
Total other comprehensive income	1,715	(5,443)
Comprehensive income	10,795	3,690
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,717	3,431
Comprehensive income attributable to non-controlling interests	77	259

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2018

	(million yen)	
	Six months ended August 31, 2017	Six months ended August 31, 2018
Consolidated statements of cash flows		
Cash flows from operating activities		
Profit before income taxes	13,302	12,901
Depreciation	9,553	9,634
Amortization of goodwill	47	47
Increase (decrease) in allowance for doubtful accounts	(685)	264
Increase (decrease) in net defined benefit liability	(297)	(304)
Increase (decrease) in provision for directors' retirement benefits	3	(38)
Increase (decrease) in provision for point card certificates	(42)	(29)
Increase(decrease) allowance for loss on repair construction of building	(633)	(762)
Interest and dividend income	(953)	(1,224)
Interest expenses	307	319
Share of (profit) loss of entities accounted for using equity method	(1,308)	(1,428)
Loss on retirement of non-current assets	1,564	1,606
Loss (gain) on sales of investment securities	(385)	—
Decrease (increase) in notes and accounts receivable - trade	(9,876)	(219)
Decrease (increase) in inventories	(2,058)	516
Increase (decrease) in notes and accounts payable - trade	2,130	3,443
Other, net	4,481	1,207
Subtotal	15,148	25,933
Interest and dividend income received	1,790	2,646
Interest expenses paid	(344)	(232)
Income taxes paid	(3,483)	(4,593)
Net cash provided by (used in) operating activities	13,111	23,753
Cash flows from investing activities		
Payments into time deposits	(2,503)	(2,516)
Proceeds from withdrawal of time deposits	2,094	2,941
Purchase of short-term and long-term investment securities	(1,675)	(9)
Proceeds from sales and redemption of short-term and long-term investment securities	11,071	3,530
Purchase of property, plant and equipment and intangible assets	(26,736)	(18,182)
Proceeds from sales of property, plant and equipment and intangible assets	14	17
Other, net	(63)	3
Net cash provided by (used in) investing activities	(17,798)	(14,215)

Takashimaya Reports Earnings for the Six Months Ended August. 31, 2018

	Six months ended August 31, 2017	(million yen) Six months ended August 31, 2018
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(60)	—
Proceeds from long-term loans payable	2,020	—
Repayments of long-term loans payable	(3,070)	(10)
Cash dividends paid	(2,096)	(2,096)
Proceeds from share issuance to non-controlling shareholders	—	1,026
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(60)	—
Other, net	(404)	(335)
Net cash provided by (used in) financing activities	(3,672)	(1,415)
Effect of exchange rate change on cash and cash equivalents	298	(2,285)
Net increase (decrease) in cash and cash equivalents	(8,060)	5,837
Cash and cash equivalents at beginning of period	103,765	95,120
Increase in cash and cash equivalents from newly consolidated subsidiary	391	2,474
Cash and cash equivalents at end of period	96,096	103,432