April 17, 2025

Takashimaya Company, Limited FY2024 Financial Results Briefing | Main Q&A

The following is a summary of questions and answers during the financial results briefing held on Monday, April 14, 2025.

<Department Stores in Japan>

Q: Given the uncertain consumer environment, what are your assumptions and projections for net sales to customers in Japan and inbound travelers for Department Stores in Japan for this fiscal year?

A: Growing uncertainty about the global economy, including U.S. tariff policies, has raised concerns about the negative impact on future consumption in Japan. The key point for this fiscal year is whether the trend for consumption of high-ticket items by inbound travelers and high net worth individuals, who drove consumption last year, and consumption by the middle class, which has been steady, will remain intact and grow.

As for inbound travelers, a positive factor is that more Chinese visitors are expected to visit Japan due to relaxed visa requirements for stays in Japan, etc., but negative factors include the sluggish Chinese economy and the country's recent reciprocal tariff policy, so a large increase in sales is not expected.

On the other hand, the net sales per customer is increasing. We will aim to further increase this metric by retaining VIP customers of Takashimaya Singapore and encouraging their visits to Japan in an effort to make them repeat customers.

We do not expect much in the way of higher spending by customers in Japan amid concerns about inflation, but we are seeing some movement as of late in spring occasion shopping, such as for apparel, etc. Going forward, we will continue to take measures to spark consumption, such as strengthening our efforts with key business partners, to increase sales of retail priced items while also improving our gross margin ratio.

Q: Can you provide details about your measures to further increase sales to inbound travelers other than those related to the external environment?

A: With the assumption that the number of travelers on Chinese group tours will not increase, we will assess the situation, including the shift toward service-based consumption among travelers from East Asia outside of Greater China, and Europe and the United States, and get word out appropriately through social media and other means. Our strategy to encourage 1,500 VIP customers from Takashimaya Singapore to visit Japan has proven to be a success to some degree. In the future, we are planning to expand this to include high net worth customers from Takashimaya Siam in Thailand and Takashimaya Ho Chi Minh City in Vietnam. Although not inbound travelers, it is also important to increase the number of high net worth foreigners living in Japan as key customers, and we will continue to work on this mainly at large stores in the Kanto region.

Q: I have a question about the upside to operating profit of Department Stores in Japan in the previous fiscal year. Total operating revenue was down 0.8% compared to the forecasts, while the in-store gross margin ratio was up 0.04%, so the impact on the forecasts is small. On the other hand, operating gross profit was up significantly compared to the forecasts. Could you please explain whether other operating revenue was higher than expected and provide any details?

A: Rental income is a major component of other operating revenue. One of the reasons for the increase in rental income from the Citadines Namba Osaka hotel in the Osaka East Annex was due to the effect of inbound travelers, which increased more than expected.

<Cost Reduction>

Q: Regarding cost reductions, you cut 3.2 billion yen last fiscal year and plan to reduce costs by 4.6 billion yen this fiscal year. Does this mean that there are still areas that can be cut? Can you provide details?

During the COVID-19 pandemic, we implemented a cost-optimization program, such as internalizing workflows, and continued to work on cost reductions in the previous fiscal year. As of today, we expect to achieve cost reductions this fiscal year through utilization of digital technology, streamlining of the logistics system, and workflow reforms. If sales conditions change significantly moving forward, we will flexibly control overall costs, such as by making additional cuts to controllable expenses.

<Store-specific ROIC>

Q: It appears that your store-specific ROIC in Japan will improve this fiscal year, but will remain at the same level or decline slightly in 2026. Can you explain the reasoning behind this? Also, why was there large growth in Osaka?

A: In the current medium-term management plan, we are in the upfront investment phase. Invested capital, which is the denominator of ROIC calculation, will increase. The numerator, in this case profit, will decrease slightly toward 2026 due to the impact of revamps associated with investments. Most of the Osaka Store is rented, and when considering the assumption of right-of-use assets under the new lease accounting standard that will be applied from FY2028, it tends to be higher than other stores.

In terms of segment-specific ROIC, we expect that in Overseas Commercial Property Development, the numerator of profits will increase and ROIC will rise from FY2027 onwards as the Vietnam business begins full-scale operations. In addition, with the Finance segment also aiming for operating profit of 10 billion yen, we will reach a slightly higher ROIC level in FY2031.

To add to my explanation of Overseas Commercial Property Development investments in Vietnam, we are focusing on real estate investments in Vietnam. For example, in FY2024, we invested approximately 15 billion yen in the Vu Yen project, a residential project in Haiphong. The denominator in ROIC increased accordingly, but we expect the recovery and dividends on that investment to occur in FY2026 to FY2027. As a result, ROIC for our Vietnam business temporarily declined.

In Commercial Property Development in Japan, revamps of each shopping center are continuing from FY2023 to FY2025. Since there is a time lag until the rebound from these renovations occurs in FY2025 to FY2026, the ROIC trend will be as stated in the financial results briefing materials.

<Commercial Property Development in Japan>

Q: Can you provide more details as to why the profit forecasts for Commercial Property Development in Japan for this fiscal year is lower than last fiscal year. What is the impact of revamps and loyalty point costs? If there is an impact on profits, can you share that amount?

Additionally, you have stated that operating profit for FY2026 will be 7.1 billion yen. Can you share an update with regards to FY2026?

A: The revamp of Tamagawa Takashimaya Shopping Center is currently underway, and the impact of vacant space rent during the project will account for about half of the decrease in profits. The other half is due to an increase in costs. Specifically, this is attributed to an increase in outsourcing costs accompanying rising personnel related expenses, an increase in expenses due to changes to the Takashimaya Card loyalty points program, an increase in utility costs and other costs. In FY2026, the impact of these costs will be offset by increased revenue from revamps of Kashiwa Takashimaya Station Mall and Kyoto Takashimaya Shopping Center, and profits are expected to exceed the previous year's figures.

<Seamlessness>

Q: Seamlessness seems to be the culmination of the Group-wide Machi-dukuri Strategy." What benefits do customers stand to gain from your achievement of seamlessness? What effects can Takashimaya expect?

A: Currently, from the customer's perspective, department stores have VIP sales staff, but specialty stores do not. Services vary from facility to facility, such as whether or not you can use Tomonokai card. Our policy is to provide consistent, one-stop services from the customer's perspective, which is our "goal." By acquiring mass data on in-store and customer information and managing it centrally, we can provide more personalized services to customers. At Toshin Development Co., Ltd., our tenants are also our customers, so it is important for us to create shopping centers that make them want to open stores there. Our ideal position is to centralize and seamlessly connect services, and have our customers and business partners feel the benefits, which will also lead to an increase in our brand value.