

Takashimaya Company, Limited

Takashimaya Reports Earnings for the Six Months Ended August 31, 2017

Tokyo, Japan October 10, 2017—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated operating revenue of 452,980 million yen for the second quarter (six months ended August 31, 2017) of the fiscal year ending February 28, 2018, and profit attributable to owners of parent of 9,012 million yen, or 22.67 yen per diluted share.

Summary of Operating Results

During the cumulative consolidated second quarter (March 1 - August 31, 2017), Japan continued on the path of moderate recovery with robust personal consumption. The Group's domestic department stores achieved an increase in sales amid the strong personal consumption and favorable inbound demand from foreign visitors. However, the outlook remains uncertain due to various global developments, including monetary tightening among Western countries, where there is a shift from ultra-relaxation to normalization of monetary policy, and the emergence of geopolitical risks in Asia.

Against this backdrop, the Takashimaya Group made efforts to improve its performance by pursuing the Group-wide Machi-dukuri Strategy. In addition to ensuring that the department stores fulfill their anchor role by drawing people to the area, we leveraged the expertise of group company Toshin Development, whose core business is commercial development, to integrate department store and specialty store shopping within a single building as part of a group-wide effort to maximize the appeal of its buildings and the surrounding areas.

Consequently, the consolidated performance was as follows: Total consolidated operating revenue for Takashimaya Group was 452,980 million yen (up 2.2% compared with the corresponding period of the previous fiscal year). Consolidated operating income was 13,893 million yen (up 0.8% compared with the corresponding period of the previous fiscal year), consolidated ordinary income was 15,636 million yen (up 3.9% compared with the corresponding period of the previous fiscal year), and consolidated net income attributable to owners of parent was 9,012 million yen (up 6.3% compared with the corresponding period of the previous fiscal year)

Operating performance by segment is discussed below.

Department Stores

The Department Stores segment posted sales and operating revenue of 396,702 million yen (up 3.1% compared with the corresponding period of the previous year), and operating income of 4,130 million yen (down 13.2% compared with the corresponding period of the previous fiscal year).

The Department Stores segment benefitted from the continued increasing trend in employee incomes accompanying the steady improvement in employment and income environment, stable personal consumption, and the favorable inbound demand from the end of last year. Sales of expensive goods were particularly strong, with specialty store Takashimaya Watch Maison achieving steady sales growth in luxury watches.

Regarding alliances with other companies, we continued to work with NTT DOCOMO and Loyalty Marketing, Inc. in a joint marketing campaign directed at both companies' customers and loyalty scheme membership.

We continued to pursue joint initiatives aimed at further capitalizing on inbound demand, including supporting NTT DOCOMO's initiative to distribute coupons to mobile phone and smartphone owners who visit Japan, extensively promoting sales via mobile payments services Alipay and WechatPayment, and implementing a joint promotional campaign with major Chinese online travel agency CTrip. These joint initiatives continued to prove successful, yielding significant year-on-year increases in sales and sales volume.

In April this year, an airport-style duty-free shop was opened in Takashimaya Times Square, Shinjuku, by A&S Takashimaya Duty Free, a joint venture with ANA Trading and Hotel Shilla (Head office: Seoul, South Korea). Integrating the airport-style duty-free shop with Shinjuku Store, we use the opening to promote awareness of the store among overseas visitors and expand sales.

The corporate business division's aggressive sales efforts paid off, resulting in a significant increase in revenue from newly acquired large orders.

Regarding overseas stores, Takashimaya Singapore Ltd. saw declining sales in the country amid the economic slowdown and falling numbers of overseas visitors.

Shanghai Takashimaya Co., Ltd. saw growing sales buoyed by strong personal consumption. The store continued to differentiate itself by promoting its Japanese-Goods Store, a retail space devoted to showcasing Japanese culture and selling Japanese goods. It also expanded its loyalty membership base by strengthening its loyalty card policies, and improved its customer retention, resulting in increased earnings.

Takashimaya Ho Chi Minh City, which opened in July last year, has made steady progress in developing its loyalty card membership. The store also strengthened its sales by incorporating customer feedback and jointly organized promotional events with specialty stores. These efforts proved successful and contributed to strong financial results.

Real Estate

The Real Estate segment posted sales and other operating revenue of 19,925 million yen (down 5.6% compared with the corresponding period of the previous fiscal year) and operating income of 5,100 million yen (down 6.0% compared with the corresponding period of the previous fiscal year)

To mark the 10-year anniversary of Nagareyama Otakanomori Shopping Center, which Toshin Development operates, the developer built a kids' zone in the shopping center featuring children's goods and a childcare facility (a crèche and breastfeeding area) in an effort to highlight the local area as a great place to raise a family. Consequently, the shopping center saw a year-on-year increase in tenant revenue and number of visitors. To mark the 25-year anniversary of Kashiwa Takashimaya Station Mall, Toshin Development strengthened the fashion area, which targets working people in their 30s and 40s, and created a large bookshop floor catering to a broad range of customers. The developer will continue to gradually renew the mall, taking advantage of the fact that it adjoins JR Kashiwa Station.

As for overseas real estate, Saigon Centre, which opened for business in Ho Chi Minh City July last year, has been providing a shopping environment with a high standard of quality, safety, and peace of mind, thereby garnering considerable support from customers. In March this year, we acquired a portion of the property rights for A & B Tower, which we intend to use to further our Machi-dukuri Strategy in the city.

Finance

The Finance segment posted sales and other operating revenue of 7,197 million yen (up 7.2% compared with the corresponding period of the previous fiscal year) and operating income of 2,243 million yen (down 2.6% compared with the corresponding period of the previous fiscal year).

In this segment, Takashimaya Credit Co., Ltd. marked the tenth anniversary of the "gold" Takashimaya card by conducting a campaign to acquire new members and promote use of the card. It also endeavored to improve commission revenue by increasing the number of members and the amount of card transactions. These efforts yielded an increase in earnings.

Contract & Design

The Contract & Design segment posted sales and other operating revenue of 13,368 million yen (down 6.1% compared with the corresponding period of the previous fiscal year) and operating income of 738 million yen (down 14.5% with the corresponding period of the previous fiscal year).

In this segment, Takashimaya Space Create Co., Ltd. made steady progress in construction work for large hotels and department stores, but with a reactionary decline following last year's large project, the segment posted a decrease in revenue and profits.

Other

The Other segment, including Contract & Design, posted sales and operating revenue of 15,786 million yen (down 5.3% compared with the corresponding period of the previous fiscal year) and operating income of 1,353 million yen (up 202.2% compared with the corresponding period of the previous fiscal year).

Regarding the Cross Media Division specifically, the segment's steady expansion of sales in the net media business and its efforts to improve profitability by revising its catalogue media policies contributed significantly to the above results.

This document is not subject of quarterly review procedures based on the Financial Instruments and Exchange Act.

At the time of disclosure of this document, review procedures of quarterly consolidated financial statements based on the Financial Instruments and Exchange Act had not been completed.

(million yen)

Consolidated quarterly balance sheets

	As of February 28, 2017	As of August 31, 2017
Assets		
Current assets		
Cash and deposits	107,159	99,877
Notes and accounts receivable - trade	122,728	132,642
Securities	2,000	-
Merchandise and finished goods	41,191	41,735
Work in process	2,746	4,246
Raw materials and supplies	1,112	1,125
Other	48,899	39,695
Allowance for doubtful accounts	(336)	(318)
Total current assets	325,500	319,003
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	164,940	164,799
Land	230,386	248,523
Other, net	18,375	16,262
Total property, plant and equipment	413,703	429,586
Intangible assets		
Leasehold right	93,725	93,725
Goodwill	193	145
Other	13,254	12,700
Total intangible assets	107,172	106,571
Investments and other assets		
Investment securities	89,114	91,954
Guarantee deposits	31,892	31,223
Other	21,535	18,873
Allowance for doubtful accounts	(2,454)	(1,786)
Total investments and other assets	140,087	140,264
Total non-current assets	660,963	676,423
Total assets	986,464	995,426

Takashimaya Reports Earnings for the Six Months Ended August 31, 2017

(million yen)

	As of February 28, 2017	As of August 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	101,320	103,385
Short-term loans payable	9,007	5,907
Income taxes payable	5,597	5,277
Advances received	91,852	95,361
Gift certificates	51,702	52,955
Provision for point card certificates	2,509	2,465
Allowance for loss on repair construction of building	2,160	1,715
Other	55,641	51,872
Total current liabilities	319,793	318,941
Non-current liabilities		
Bonds payable	75,210	75,160
Long-term loans payable	71,045	73,035
Asset retirement obligations	1,867	1,949
Net defined benefit liability	58,251	57,486
Provision for directors' retirement benefits	265	268
Provision for environmental measures	419	413
Allowance for loss on repair construction of building	3,767	3,579
Other	33,954	34,070
Total non-current liabilities	244,780	245,963
Total liabilities	564,574	564,904
Net assets		
Shareholders' equity		
Capital stock	66,025	66,025
Capital surplus	55,085	55,025
Retained earnings	265,033	271,771
Treasury shares	(6,160)	(6,165)
Total shareholders' equity	379,984	386,656
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	15,921	16,906
Deferred gains or losses on hedges	1	0
Revaluation reserve for land	7,145	7,145
Foreign currency translation adjustment	8,510	8,892
Remeasurements of defined benefit plans	661	1,001
Total accumulated other comprehensive income	32,240	33,946
Non-controlling interests	9,665	9,918
Total net assets	421,890	430,521
Total liabilities and net assets	986,464	995,426

Takashimaya Reports Earnings for the Six Months Ended August 31, 2017

(million yen)

Consolidated quarterly statements of income

	Six months ended August 31, 2016	Six months ended August 31, 2017
Operating revenue	443,321	452,980
Net sales	411,158	421,605
Cost of sales	309,611	317,690
Gross profit	101,546	103,914
Other operating revenue	32,163	31,375
Operating gross profit	133,710	135,289
Selling, general and administrative expenses		
Advertising expenses	11,656	11,967
Provision for point card certificates	1,633	1,211
Provision of allowance for doubtful accounts	83	231
Directors' compensations, salaries and allowances	32,335	32,805
Retirement benefit expenses	1,976	1,927
Rent expenses on real estates	18,074	17,968
Other	54,172	55,284
Total selling, general and administrative expenses	119,932	121,396
Operating income	13,777	13,893
Non-operating income		
Interest income	318	354
Dividend income	660	598
Share of profit of entities accounted for using equity method	1,149	1,308
Other	455	481
Total non-operating income	2,584	2,743
Non-operating expenses		
Interest expenses	337	307
Foreign exchange losses	776	244
Loss on adjustment of account payable	10	330
Other	180	117
Total non-operating expenses	1,306	1,000
Ordinary income	15,055	15,636
Extraordinary income		
Gain on sales of investment securities	-	385
Gain on liquidation of affiliated companies	876	3
State subsidy	126	-
Other	110	0
Total extraordinary income	1,113	389
Extraordinary losses		
Loss on retirement of non-current assets	1,440	2,685
Loss on sales of shares of subsidiaries and associates	892	-
Other	126	37
Total extraordinary losses	2,459	2,722
Profit before income taxes	13,709	13,302
Income taxes - current	4,234	4,026
Income taxes - deferred	620	195
Total income taxes	4,854	4,222
Profit	8,855	9,080
Profit attributable to non-controlling interests	378	68
Profit attributable to owners of parent	8,477	9,012

Takashimaya Reports Earnings for the Six Months Ended August 31, 2017

	(million yen)	
Consolidated quarterly statements of comprehensive income	Six months ended August 31, 2016	Six months ended August 31, 2017
Profit	8,855	9,080
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,745)	977
Deferred gains or losses on hedges	4	(0)
Revaluation reserve for land	237	-
Foreign currency translation adjustment	(4,886)	224
Remeasurements of defined benefit plans, net of tax	277	327
Share of other comprehensive income of entities accounted for using equity method	(2,279)	186
Total other comprehensive income	(10,392)	1,715
Comprehensive income	(1,536)	10,795
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,844)	10,717
Comprehensive income attributable to non-controlling interests	307	77

Takashimaya Reports Earnings for the Six Months Ended August 31, 2017

	(million yen)	
Consolidated quarterly statements of cash flows	Six months ended	Six months ended
	August 31, 2016	August 31, 2017
Cash flows from operating activities		
Profit before income taxes	13,709	13,302
Depreciation	9,915	9,553
Amortization of goodwill	56	47
Increase (decrease) in allowance for doubtful accounts	19	(685)
Increase (decrease) in net defined benefit liability	(549)	(297)
Increase (decrease) in provision for directors' retirement benefits	(135)	3
Increase (decrease) in provision for point card certificates	16	(42)
Increase(decrease) allowance for loss on repair construction of building	(72)	(633)
Interest and dividend income	(979)	(953)
Interest expenses	337	307
Share of (profit) loss of entities accounted for using equity method	(1,149)	(1,308)
Loss (gain) on sales of non-current assets	(110)	(0)
Loss on retirement of non-current assets	578	1,564
Loss (gain) on sales of investment securities	-	(385)
Loss (gain) on sales of shares of subsidiaries and associates	892	-
Gain on liquidation of affiliated companies	(876)	(3)
Decrease (increase) in notes and accounts receivable - trade	(7,383)	(9,876)
Decrease (increase) in inventories	(299)	(2,058)
Increase (decrease) in notes and accounts payable - trade	175	2,130
Other, net	7,872	4,484
Subtotal	22,017	15,148
Interest and dividend income received	2,078	1,790
Interest expenses paid	(250)	(344)
Income taxes paid	(9,245)	(3,483)
Net cash provided by (used in) operating activities	14,600	13,111
Cash flows from investing activities		
Payments into time deposits	(1,597)	(2,503)
Proceeds from withdrawal of time deposits	598	2,094
Purchase of short-term and long-term investment securities	(816)	(1,675)
Proceeds from sales and redemption of short-term and long-term investment securities	12,078	11,071
Proceeds from sales of shares of subsidiaries and associates	1,609	-
Proceeds from liquidation of subsidiaries and associates	1,444	28
Purchase of property, plant and equipment and intangible assets	(9,645)	(26,736)
Proceeds from sales of property, plant and equipment and intangible assets	236	14
Other, net	121	(92)
Net cash provided by (used in) investing activities	4,029	(17,798)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	60	(60)
Proceeds from long-term loans payable	15,500	2,020

Takashimaya Reports Earnings for the Six Months Ended August 31, 2017

	(million yen)	
	Six months August 31, 2016	Six months August 31, 2017
Repayments of long-term loans payable	(2,210)	(3,070)
Cash dividends paid	(2,096)	(2,096)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(60)
Other, net	(463)	(404)
Net cash provided by (used in) financing activities	10,789	(3,672)
Effect of exchange rate change on cash and cash equivalents	(4,977)	298
Net increase (decrease) in cash and cash equivalents	24,441	(8,060)
Cash and cash equivalents at beginning of period	73,536	103,765
Increase in cash and cash equivalents from newly consolidated subsidiary	3,929	391
Cash and cash equivalents at end of period	101,907	96,096