July 1, 2024

Takashimaya Company, Limited FY2024/Q1 Financial Results Briefing | Main Q&A

The following is a summary of questions and answers during the financial results briefing held on Friday, June 28, 2024.

The Q&A session was held online but was suspended mid-session due to a system malfunction. As such, we separately conducted a hearing of the questions and compiled this document with the questions and answers.

<Regarding the Full-year Forecast for FY2024>

Q: Regarding the latest revision to your full-year forecast, particularly in sales from inbound travelers, to what extent does the revision reflect changes for Q1? How about for Q2 through Q4?

A: There is no breakdown of our revised figures comparing Q1 versus Q2 through Q4. For Department Stores in Japan, we upwardly revised the 1H forecast by 3.9 billion yen and the 2H forecast by 0.7 billion yen, mainly factoring in growth in sales from inbound travelers (please see page 27 of the financial results briefing).

Looking at sales from domestic customers, our forecast as of this April already took into account the favorable cycle for wages and prices to a certain extent, and our Q1 performance was largely in line with the forecast. As sales from domestic customers since June have also remained firm, we slightly raised our projection for Q2. Although we anticipate positive effects in 2H from factors lifting consumer spending, such as the fixed-amount tax cut and increase in real wages, we have left the 2H forecast unchanged, in consideration of a certain amount of risk.

In our overseas operations, at the time of the April forecast, we had expected to see some progress in yen appreciation. However, given the current weak yen, we revised our exchange rate assumptions. In Singapore, while the yen depreciation has been boosting our earnings, the appreciation of the Singapore dollar against the Chinese yuan has been slowing down sales from mainland Chinese tourists, resulting in a trade-off between the two. As for Shanghai, we have reflected in our forecast the struggling sales owing to the economic slowdown, and as for Bangkok (Siam Takashimaya), we factored in the impact of construction work. Accordingly, for both of these locations, we revised downward our forecast for operating revenue and operating profit.

Q: In the latest revision, you have revised upward the consolidated operating profit forecast for 1H by 4.1 billion yen and for 2H by 0.9 billion yen. Is it correct to understand that the 0.9 billion yen upward revision for 2H mostly factors in the increase in sales from inbound travelers in the Department Stores in Japan business and some foreign exchange impact in overseas operations, and that no other factors were counted in?

A: Factors accounted for in the revision of the operating profit forecast for 2H include the solid sales from inbound travelers and the impact of further yen depreciation, as well as the decline in the gross margin ratio. In terms of the exchange rate, the yen trended at around the 140 yen level against the US dollar at the beginning of 2024, and we had assumed a yen appreciation of approximately 10% toward the end of the year. However, given that the yen has actually depreciated by approximately 10% to date, we made adjustments incorporating realistic figures. The fact that domestic consumer spending grew not only in the affluent demographics but also in the mass market was a notable phenomenon observed in Q1. We had already factored in this trend in the forecast as of April, so the 2H forecast remains unchanged. Operations apart from Department Stores in Japan, such as commercial property development, finance, and other domestic businesses, have progressed largely in line with our expectations. As such, we have not revised our forecast in these areas.

Q: Regarding the latest forecast revision in the Department Stores in Japan business, the expected operating profit growth versus the sales increase appears to be more limited in 2H compared to 1H. Is this because of your conservative outlook for gross profit margin?

A: That is correct. In addition to the large increase in luxury brand sales, we are concerned that our performance could be affected by cost increases from the yen depreciation, among other factors. Therefore, we are watching our gross profit margin even more carefully.

Q: Compared to the substantial YoY growth demonstrated through May, the growth rate appears to have weakened from this June, although this is partly due to firm performance from June onward in the previous fiscal year. I assume sales from domestic customers have not changed much, but there are concerns that sales from inbound travelers are facing a major slowdown and that sales from inbound travelers from mainland China may not grow any more moving forward. Please comment on your understanding of this matter and future outlook from the angles of both sales from domestic customers and inbound travelers.

A: It is true that sales from inbound travelers have slowed slightly in June compared to May, but we believe there is still room for growth on this front, considering sales from inbound travelers from mainland China have been growing since May. The National Day Holidays and the Chinese New Year are in 2H, and we also believe there are substantial opportunities to secure sales growth during these holidays.

Sales from domestic customers, including for fashion items, have continued to grow, even after the revitalization of consumer spending last year, which was fueled by the Japanese government’s downgrading of COVID-19 to a Class 5 infectious disease on May 8, 2023. We have expectations for the turnaround in real wages moving forward, but we hope to assess the situation a little more closely before reaching a conclusion.

<Sales from Inbound Travelers>

Q: I understand that your original assumption was for the yen to appreciate toward 2H, lowering sales from inbound travelers. In the latest forecast revision, are you envisioning favorable conditions to continue from June onward and through 2H? Is there room for a further upward revision in the future?

A: In terms of sales from inbound travelers, we factored in our June performance as well and recalculated the estimate for annual sales, assuming daily sales of approximately 0.33 billion yen. However, generally speaking, sales from inbound travelers tend to be higher in 1H, which includes the cherry blossom season, compared to 2H.

Since Q1, there has been a notable increase in sales from inbound travelers from mainland China, so we still see room for growth on this front.

Q: Do you have any measures to lock in inbound customers?

A: While there are many cases where overseas customers visit our stores repeatedly, we are aware that the lack of organizational measures to lock in these customers is an issue. There is a need to explore specific initiatives toward collaborations with overseas stores and the retention of overseas customers.

<Merchandise Supplies>

Q: I understand that department store sales, including sales from inbound travelers, are extremely robust. Are there any issues on the merchandise supply front?

A: Securing merchandise is our most important sales measure. Currently, luxury brand sales are strong overall, with sales tending to concentrate on several large brands. Over the past several years, the Takashimaya Group has been steadily remodeling the large luxury brand stores within each department store. Thanks in part to this effort, we have been able to secure merchandise. We have also obtained sufficient merchandise supplies from fashion-related vendors. Although sales are currently growing, we have yet to encounter a situation where we had no merchandise to sell.

<SG&A Expenses>

Q: Regarding the SG&A expenses in the Department Store in Japan business, it appears you have quite notably reined in actual expenditure in Q1, in comparison with your estimate for Q2. Is it correct to understand that the SG&A expenses in Q1 were in line with your expectations?

A: Yes. As you say, SG&A expenses in Q1 were largely in line with our expectations. Since the current Medium-Term Management Plan incorporates base salary increases and other human capital investments as well as an increase in variable costs, SG&A expenses are increasing overall. We expect SG&A expenses to rise in Q2 due to the planned payment of bonuses, which have been raised. Meanwhile, although our major cost structure reforms have run their course, we plan to continue our cost reduction efforts and keep the increase in SG&A expenses to a minimum.

<Segment>

Q: What is the difference between the business category "Department Stores in Japan" in the financial results briefing and the reporting segment "Department Stores in Japan"? If the two are indeed different, please consider providing an explanation or a notation so that investors can understand the difference.

A: "Department Stores in Japan" in the financial results briefing represents the total of four companies: Takashimaya Company, Limited and three domestic department store subsidiaries (Gifu Takashimaya, Takasaki Takashimaya, and Okayama Takashimaya). The reporting segment "Department Stores in Japan" also includes Takashimaya Tomonokai Co., Ltd., in addition to the aforementioned four companies. We are aware that this is an issue and plan to devise a solution, such as by applying a new notation method.

<Capital Policy>

Q: You did not mention cash allocations and shareholder returns in the Q1 financial results briefing. Will there be a reevaluation or an explanation in the future?

A: In light of the latest significant upward revision to our earnings forecast, we also see the need to pursue even higher profit targets in our Medium-Term Management Plan. After thoroughly assessing the changes in consumer spending, the status of our businesses, and various risks, we plan to disclose our profit targets and capital policy, among other matters, at the time of the Q2 financial results briefing.