

J. Front Retailing

Earnings call for the first quarter (1Q) of the fiscal year ending February 29, 2020

Q & A summary

Date and time: 15:15 – 15:45 on Friday, June 28, 2019

【Impact of IFRS 16】

Q. Though the impact of IFRS 16 was disclosed in detail at the beginning of the current period, this time only its impact on consolidated and Daimaru Matsuzakaya Department Stores' operating profit was disclosed. Since it is important information, I prefer it to be disclosed in figures by segment. I would like you to publish it in the materials in an easy-to-understand manner in 2Q and beyond.

A. Impacts on consolidated performance on B/S, P/L and CF have changed from April forecast. Impact on business profit and operating profit was ¥1.06 billion in consolidated total. And by segment, main impacts were approximately ¥0.66 billion in the Department Store Business and approximately ¥0.4 billion in the Parco Business, and impact in the Real Estate Business was around ¥0.02 billion. In April, we expected its impact on profit before tax to be almost zero. At this stage, such impact has increased by approximately ¥0.1 billion in consolidated total, including approximately ¥0.06 billion in the Department Store Business and approximately ¥0.02 billion in the Parco Business.

Q. At the beginning of the current fiscal year, you expected its impact on business profit and profit for the current fiscal year to be an increase of ¥3.5 billion and ¥0, respectively. However, at the recent 1Q results presentation of Parco, they explained that its impact only on Parco would be an increase of around ¥0.4 billion in the year. How much impact will be on business profit, operating profit and profit of J. Front Retailing during the year?

A. Impact on business profit and operating profit will be ¥4.6 billion, ¥1.1 billion above April forecast, including an increase of around ¥0.5 billion each in the Department Store Business and the Parco Business. Concerning profit before tax, we forecast zero impact in April, but at this time, we expect an increase of around ¥0.6 billion. We do not estimate profit after tax, which is the amount after deducting corporate tax.

【Overall business】

Q. You said that it was almost as planned. Were there any differences in profit between segments?

A. The Department Store Business and Daimaru Kogyo seem to have somewhat struggled in sales, etc. The Electronic Device Department of Daimaru Kogyo has performed poorly since last year. However, I can say the overall business was in line with the plan, even including these poor results.

Q. If 1Q results were “almost in line with the plan” as explained, profit decline rate in 2Q will be higher. Actually, given 2Q results last year, I think it will be easier for you to increase profit in 2Q. Let me know the reasons and background for your projection of higher profit decline rate in 2Q.

A. It is not because some negative factors occurred after our initial forecast. I said our performance in 1Q was a little weak. And in 2Q, we would like to make efforts including ordinary cost reduction efforts to increase profit as well as sales.

【Department Store Business】

Q. While sales to inbound tourists are strong, spending by Japanese consumers mainly on volume zone items has been weak since last fall and total department store sales fell a little short of forecast. Is it correct?

A. Department store sales in 1Q seem to be a little weak. Their growth excluding sales to inbound tourists was negative. *Gaisho* sales also decreased by about one point, which I recognize is temporary. Our basic recognition is that spending by Japanese consumers is a little weak while sales to inbound tourists are strong.

Q. Concerning SGA of Daimaru Matsuzakaya Department Stores, “operational costs” increased by ¥0.8 billion YoY due to increased system cost. Will it increase by the same amount quarterly during the current period?

A. The reason for this cost increase is introduction of terminals for payment processing in front of customers as explained in April. Such cost increase will occur mainly in 1H. You can understand it is as planned.

Q. The main building of the Shinsaibashi store will open in the current period. Was temporary cost associated with it incurred in 1Q? How will it be incurred in the future?

A. Since extra depreciation of the north wing of the Shinsaibashi store has been incurred since 2Q of the previous fiscal year, there was a YoY net increase in such cost in 1Q. There is no additional large cost at present. Promotion and other costs are expected to be incurred immediately before opening.

Q. What do you think about last-minute demand before the tax hike?

A. Our important initiatives to meet last-minute demand before the tax hike include capitalizing on demand from inbound tourists and *gaisho* sales. Though I said earlier that *gaisho* sales were a little sluggish, we strengthened and held in May a large-scale event, which is usually held every fall, as part of measures before the tax hike and its sales far exceeded our goal. At present I do not feel there is a last-minute demand but we would like to capitalize on everything we can in 1H, including early approach to and early receipt of orders from *gaisho* customers.

Q. I think Chinese authorities issued a notice to tighten the e-commerce law on June 20. You said share of sales to inbound tourists reached a record high in 1Q. What is your outlook for the

impact of tightened e-commerce law?

- A. The implementation of the e-commerce law in January affected us, and in the short term, we need to pay close attention to the impact including currency movement. In the meantime, in the medium- and long-term, based on the basic recognition that the trade area expanded, I would like to capitalize on demand from inbound tourists in terms of merchandise, sales service and the convenience of payment. Though there may be a temporary impact, my outlook on the basic trend remains unchanged.

【Other businesses】

Q. According to your initial forecast, Daimaru Kogyo was expected to decrease profit in 1H and increase profit in 2H. Its profit in 1Q was not so large and could you explain how it performed against plan in 1H? Also let me know whether it will really be able to increase profit in 2H.

- A. 1Q results of Daimaru Kogyo fell a little below our plan of profit decline. Its profit is expected to recover in 2H. The company is making improvements in, for example, negotiations with clients and relations with suppliers to achieve better performance in 2H. I would like to expect them to improve performance.

【Next period】

Q. Concerning the new main building of the Daimaru Shinsaibashi store and Shibuya Parco, both of which will be fully operated in the next period, and the Credit and Finance Business, I would like you to reorganize your thoughts about the next period clear. You said previously that the main building of the Shinsaibashi store was expected to increase profit by ¥2 to 2.5 billion. In the Credit and Finance Business, there seem to remain some cost factors partly due to the issue of a new card. And I would like you to reorganize your thoughts about the next period in these three areas.

- A. The new main building of the Daimaru Shinsaibashi store and Shibuya Parco are scheduled to open on September 20 this year and late November this year, respectively. In FY2020, the new main building of the Daimaru Shinsaibashi store is expected to increase profit roughly by ¥2 to 2.5 billion compared to FY2019. On the other hand, with regard to Shibuya Parco, compensation cost for the suspension of business was recorded as other operating revenue while it was closed. Therefore, business profit will contribute to increasing profit but operating profit will not.

The Credit and Finance Business incurs upfront costs for increased labor, etc. in order to achieve growth in the future. A new card is expected to be issued in the next fiscal year or later. I think it will contribute to business performance in FY2021 or later.

Now that we are at the halfway point of the five-year medium-term plan, we will thoroughly discuss future initiatives of each business as well as the progress during this period to achieve operating profit of ¥56 billion.

End