

J. Front Retailing

Financial results for the first three months of the fiscal year ending February 28, 2019

Q & A summary at conference call

Date and time: 15:15 – 16:00 on Thursday, June 28, 2018

【Overall business】

Q. Each segment's progress of sales/profit vs. 1H plan

A. As a whole, we think we had a good start. In the Department Store Business, sales to inbound tourists increased by 58% year on year. Spending by the affluent also continued strong, above internal plan in the first three months ("1Q"). Meanwhile, Parco and associated businesses have problems. In Other segment, the progress of the design and construction business is sluggish. The business posted a loss in the previous six-month period and strengthens its focus on profitability. Though the market has high demand such as the needs to convert existing buildings to hotels, etc., we are afraid that rising costs of raw materials and personnel have negative impact on costs and revenue. Considering only the status in 1Q, we recognize that it is in a tough situation.

【Department Store Business】

Q. You stated that sales of the Department Store Business were strong but spending by Japanese customers seems to have been slightly weak in May. Can I understand it is because of the weather or temperature? Or do you recognize that you have no need to be too concerned about some stagnant spending by Japanese if sales to inbound tourists continue strong?

A. Sales excluding to inbound tourists in 1Q were almost same as the previous year. Sales of women's volume zone clothing were above the previous year's level in March due to the weather but remained weak, down 2.4% year on year, in 1Q. Sales to inbound tourists and the affluent offset this negative growth and total sales continue strong.

Q. What do you think about the risks to be posed by the recent earthquake in northern Osaka to sales to inbound tourists in the future? I am concerned about the possibility that foreign tourists will hesitate to travel to the Kansai area over the next several months.

A. We recognize the effect of the earthquake as a risk factor. Total sales of all stores including the stores unaffected by the earthquake such as the Tokyo and Sapporo stores on the day decreased by approximately 35% compared to the same day of the previous year. After the day following the earthquake, however, there is no significant effect on sales.

Q. About SGA of Daimaru Matsuzakaya Department Stores. SGA was initially forecast to increase at an annualized rate of 3.5% due to temporary costs such as the updating of POS systems and the introduction of the systems for payment processing in front of customers. However, SGA slightly decreased from the previous year at the end of 1Q. Is this because such costs will be incurred in 2Q and beyond or due to cost reduction efforts? What costs will you incur in 2Q and 3Q?

A. In 1Q, slightly decreased year on year. In April, we told that temporary costs of approximately ¥1.8 billion mainly for the updating of POS systems. Our stores are updating POS systems one by one, which will be expanded into stores in the Kansai area. Therefore, we will continue to incur these costs in 2Q and beyond. In the meantime, since control of overall SGA is our strong area, we will remain committed to thorough cost control throughout the year.

Q. SGA of Daimaru Matsuzakaya Department Stores was initially forecast to increase by ¥4.3 billion from the previous year, which includes POS and other system investment of ¥1.8 billion, management advisory fee of ¥1.6 billion and depreciation of safety and security investment of ¥8 billion. According to your statement, the current full-year forecast of these significant cost increases remains unchanged from initial forecast but other costs are decreasing. Therefore, can I understand SGA is being reduced at a better rate than initial full-year forecast of ¥4.3 billion increase?

A. Though SGA was below the previous year's level in 1Q, our forecast remains unchanged because we will update POS systems in 2Q and beyond and make safety and security investment in a planned way in five years. Please understand that SGA will increase as planned on a fiscal year basis.

【Real Estate Business】

Q. Status of Ginza Six and Ueno Frontier Tower

A. Ginza Six achieved sales of approximately ¥60 billion and 20 million customers in its first year. Currently customer traffic calms down compared to when it was opened but mainly customers visit it for the purpose of shopping itself. Though sales differ by category, actual sales of luxury items in May, which are comparable to the previous year, were above the previous year's level, which benefited from its opening. In other fashion categories, sales of the shops that strengthened merchandising and sales promotion and strived to increase customer loyalty were strong. All cosmetics shops had more loyal customers, and like luxury brands, their sales as a whole remain above both the previous year's level and target.

Ueno Frontier Tower goes as planned. It performs well, attracting young people who did not visit the store before as well. Its challenges for the future include drawing these new customers and increased traffic to the main building of existing Ueno store to increase customer loyalty and sales as a department store.

Q. Let me know a breakdown of business profit of ¥1,565 million of the Real Estate Business segment. What effect did the second-year Ginza Six and the portion of revenue of the tenants around the Daimaru Kobe store that was transferred to the Real Estate Business have on 1Q performance?

A. Concerning the Real Estate Business, operating profit is planned to be ¥3.3 billion in total this fiscal year. Ginza Six and Ueno Frontier Tower, which are in full operation, plan operating profit of ¥3.4 billion and ¥0.5 billion, respectively. Beginning in March 2018, the tenants around the Kobe store are being placed under fixed-term lease one by one. As we have so many tenants and the number of thus transferred tenants is increasing every month, it is impossible to grasp the details. However, operating profit is planned to increase by ¥0.4 billion this fiscal year. We believe it will go almost as planned.

In 1Q, as the tenants around the Kobe store are being switched to fixed-term lease properties one by one, the amount of their revenue is not so huge.

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