**J. Front Retailing**

**Financial results for the third quarter of the fiscal year ending February 28, 2019**

**Q & A summary at teleconference**

**Date and time: 15:15 – 15:45 on Thursday, December 27, 2018**

**【Overall business】**

**Q. I would like to know the causes of weak operating profit in 3Q by component such as sales, gross profit and costs and by business.**

A. Mainly the Department Store Business and the Parco Business were greatly affected by the disaster in September and about half of the YoY decrease in business profit of ¥1,650 million occurred in September. In addition, the progress of J. Front Design & Construction and Daimaru Kogyo in Other segment was behind the original plan.

**【Department Store Business】**

**Q. You said you would reduce costs and add sales promotions in 4Q. In general, however, sales promotions involve costs. Specifically, what measures will you take?**

A. Considering the progress until 3Q, each operating company has already taken measures in terms of both sales and costs in December. Particularly, 4Q performance has a great weight in the core Department Store Business. Therefore, we implement measures in terms of both sales increase and cost reduction. We recognize the difference between actual sales in 3Q excluding the disaster's effects and budgeted sales for 4Q is approximately ¥4 billion. As additional measures, we strive to send more inbound tourists to our stores and strengthen sales promotions. For the purpose of increasing sales to affluent customers, we will organize new events for *gaisho* customers and add joint campaigns with a credit card company to offset the difference from budgeted sales. In terms of costs, while continuing temporary investment in growth for the next fiscal year and beyond and the improvement of services, we have already taken measures to reduce ordinary costs including personnel costs, facility costs, advertising costs and operating costs. Through these measures, we would like to achieve planned performance.

**Q. I understand that YoY cost increase of about ¥1 billion in 3Q will lead to growth for the next fiscal year and beyond and has been factored in the original plan. Is it correct?**

A. Yes, it is correct. Costs increased from the previous year but decreased from the original plan.

**Q. I think 3Q performance was affected by warm winter. Isn't there a risk of a significant decrease in gross margin on the basis of gross sales of the Department Store Business toward 4Q?**

A. Though coats moved slowly in 3Q due to warm winter, we recognize that it will not so significantly affect the gross margin of the Department Store Business including 4Q. Meanwhile, we think that strong growth in cosmetics sales including demand from inbound tourists will support gross margin. We expect the basic trend not to change greatly.

**【Other businesses】**

**Q. You explained that the large-scale construction project undertaken by the design and construction business has been delayed and that the reporting thereof has been "postponed." Can it be reported by the end of the current fiscal year? What amount will be reported for the project?**

A. The reporting of the highly profitable large-scale project has been postponed from 3Q due to labor shortage throughout the construction industry. We understand that it will be reported by the end of the current fiscal year.

**Q. I remember that you revised the forecast for J. Front Design & Construction downward from the original plan at the first-half results announcement. I am afraid you as a holding company have a governance problem because the variance is too large. Since this is not the first time the performance of J. Front Design & Construction does not meet the plan, I would like you to prevent it from falling below the forecast revised downward at 2Q results announcement.**

**【Share of profit and loss of entities accounted for using equity method】**

**Q. I would like to confirm with you something to see profit for the current fiscal year. Share of profit of entities accounted for using equity method only in 3Q seems to be below the previous year's level. Is it as expected? Is it in line with the forecast for the current fiscal year?**

A. For the nine months ended November 30, 2017, about ¥1.3 billion was recorded as share of loss of Senshukai but for the same period in 2018, it was not recorded. Meanwhile, share of profit of StylingLife Holdings decreased by approximately ¥0.2 billion year on year. For the current fiscal year, we expect share of profit and loss of entities accounted for using equity method to be almost in line with the plan.

**Q. Since share of loss of Senshukai was recorded in the 4Q of 2017, is it correct to understand that share of profit and loss of entities accounted for using equity method for the current fiscal year will contribute to profit improvement for the same year?**

A. For fiscal year 2018, share of profit of entities accounted for using equity method is expected to significantly increase compared to the previous fiscal year.

**【Cash flows】**

**Q. I would like to ask you about cash flows. Operating cash flows were almost the same as investing cash flows in 3Q. Since there is a large-scale development investment, I think it cannot be helped. However, what do you think about the balance between operating cash flows and investing cash flows at the end of the current fiscal year and the next fiscal year?**

A. As you pointed out, subtracting investing cash flows from operating cash flows result in loss of around ¥0.1 billion in 3Q. The investment plan of ¥200 billion under the five-year Medium-term Plan is expected to peak in fiscal year 2019. In such circumstances, free cash flow was significantly positive last year, but for the current fiscal year, it is not expected to be so positive as the previous fiscal year.

**【Important management indicator】**

**Q. You said assets would increase from the current fiscal year to the next fiscal year. Is ROA, which is one of your important KPIs, planned to improve in the year after next or later at the earliest?**

A. We plan large-scale investment in the Daimaru Shinsaibashi store and Shibuya Parco in fiscal year 2019. These projects are expected to produce full effect in operating profit and cash flows in fiscal years 2020 and 2021.

End