J. Front Retailing

Results presentation for the second quarter (2Q) of the fiscal year ending February 29, 2020

Q & A summary

Date and time: 16:30–17:30 on Tuesday, October 8, 2019

【Overall business】

Special factors in 2H

Q: Of "special factors that could not be factored in" on slide 15 of the results presentation material, "revision of retirement benefit and pension systems due to extension of retirement age to 65" has the positive effect of ¥3.5 billion. Will it become a temporary negative effect on personnel expenses under IFRS? If so, it will become a factor of decreasing profit by ¥3.5 billion in the next period. Will the effect continue after the next fiscal year and which companies in the Group will be affected? I would also like to know about your logic about why it is a factor of increasing profit.

A: At present, only Daimaru Matsuzakaya Department Stores has decided to extend retirement age to 65. Other companies in the Group just began to consider it. The ¥3.5 billion increase in business profit is mainly attributable to a decrease of ¥2.1 billion in retirement benefit liability due to abolition of the current "system of transfer at 55 years of age" (abolition of lump-sum transfer allowance) associated with the extension of retirement age and a decrease of ¥1.9 billion in Second Life Support Pension, which supports career change, due to its abolition.

Meanwhile, as retirement age will be extended, we support employees who intended to retire at 60 with expanded options such as a time-limited expansion of voluntary early retirement program. The costs to be incurred include ¥0.5 billion for such program and a total of ¥1 billion for changing systems. Accordingly, operating profit will increase by around ¥2.5 billion.

In the next fiscal year and beyond, there will be some factors of decreasing personnel expenses such as early retirement under the expanded voluntary early retirement program mentioned above and attrition.

The "north wing" of the Shinsaibashi store

Q: You said you decided to bring forward the opening of the north wing of the Shinsaibashi store. I thought loss on retirement would arise from the connection of the north wing, etc. in the final year of the Medium-term Plan according to the original plan. Some may think it is better to generate loss on retirement early in order to achieve ROE. But let me know about the impact of the opening of the north wing ahead of schedule on profit in the period after next.

A: Loss on retirement of the "north wing" will decrease due to extra depreciation.

As depreciation will be brought forward to the current period and the remaining loss on retirement will be recorded in the next period, "other expenses" in the final year (FY2021) will not be so large.

Q: You said you aim to open the north wing of the Shinsaibashi store in fall of next year, six months ahead of the original plan. I would like you to explain why it became possible to open it six months earlier.

A: The north wing will open ahead of schedule largely because we could open the main building earlier than planned. The main building was originally planned to open a little later. But the construction went smoothly and we could open it earlier.

【Consumption tax】

Q: I would like to know about the impact of consumption tax hike. Consumption tax has just increased and how does it affect each of the affluent and volume zone?

A: In August, we said we did not see so many last-minute buyers, but after the middle of September, there was a great last-minute demand mainly for durables and consumer goods that can be stored. Year-on-year sales growth in September was 31%. It was below the growth of 36% in March 2014, immediately before the previous consumption tax hike but growth later the month may be greater than before the previous consumption tax hike. We also see that downward pressure on sales last year such as the earthquake in Hokkaido and typhoons in the Kansai region pushed up growth this year. In addition, we recognize that the grand opening of the main building of the Shinsaibashi store on September 20 also helped capture last-minute demand.

It has been one week since the beginning of October and sales decrease by around 25% compared to the previous year. Sales decreased by 27% one week after the previous tax hike, almost at the same level. Meanwhile, this time the tax was raised in October. November and December are the year-end shopping season, and particularly concerning the Shinsaibashi store, the affluent and inbound tourists, we are well prepared and expect faster recovery than the previous tax hike.

Since the beginning of October, the Shinsaibashi store sees the momentum, which it had immediately after opening in September, slowing. However, the combined total of sales from *kaitori* and *shoka shiire* and sales of tenants under fixed-term lease of the Shinsaibashi store is increasing at a rate of 5% year on year while total sales of all stores are decreasing by 20% year on year. We see the Shinsaibashi store curb sales decrease.

Looking back on the situation after the previous tax hike, we recognize that the most important point is that sales of volume zone items decreased and have not recovered yet and that another point is that sales of rural and suburban stores significantly decreased compared to urban areas and that such trend continues since then. Therefore, on the assumption that the current tax hike could cause similar situation, we have decided to greatly change the earnings structure of Shimonoseki Daimaru by introducing tenants operated under fixed-term lease on upper floors and directly managing the store though the store is profitable. Also with regard to other rural and suburban stores, we recognize that it will become an important point to decrease rental area as much as possible and increase efficiency.

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