

J. Front Retailing

Earnings call for the third quarter (3Q) of the fiscal year ending February 29, 2020

Q & A summary

Date and time: 15:30 – 16:00 on Thursday, December 26, 2019

Q. I heard your explanation but I am not certain whether your 3Q performance was positive or not. I would like to know what you think about your 3Q performance against your plan, including performance by segment and profit.

Business profit does not seem to grow so much when excluding the impact of IFRS 16, one-time changes in SGA, etc. I would like to know how Daimaru Matsuzakaya Department Stores performed in real terms.

A. As for department store sales, last-minute demand before tax hike was higher than expected in September, but in October and November, reactionary drop was substantial. Meanwhile, in the current fiscal year, sales lag costs partly due to opening of the new main building of the Shinsaibashi store. In spite of constant cost reduction efforts, the Department Store struggled partly affected by weak top line. Other business segments had mixed results. Tax hike affected 3Q Department Store and consolidated performances.

When subtracting the impact of IFRS 16 and one-time cost decrease due to the revision of retirement benefit plan, business profit did not grow so much. This is because sales recovery after tax hike was slow and the top line was weak.

Q. Judging from December MTD sales, your sales do not seem to be so strong. Your basic strategy is that you will further strengthen cost reduction efforts to achieve your full year plan. Is it correct?

A. *Gaisho* sales recovered fast after the previous tax hike. So we take additional measures such as *gaisho* events to increase sales. At the same time, we implement additional cost reduction measures such as hiring less temporary staff for busy periods. With these efforts, we would like to achieve the full year plan.

Q. I understand that other expenses increased from ¥0.5 billion to ¥1 billion due to the expansion of voluntary early retirement program associated with the extension of retirement age and that personnel expenses will be around ¥0.5 billion below your original estimate. Is it correct? If costs for the current period are ¥1 billion or ¥1.5 billion, are personnel expenses expected to decrease ¥1-odd billion in the next period?

A. At present, more employees have applied for the expanded voluntary early retirement program than expected and we incur twice originally estimated other expenses. It is difficult to forecast because the application period continues through January 31 and it is a selective program based on free will. As was the case in the past, the number of applicants may increase in the final month. Therefore, we cannot forecast reduction effect for the next period.

Payments are not the same for each employee and the increased amount of other expenses will not be the same as the reduced amount of personnel expenses. However, personnel expenses will be below our forecast released in October.

Q. As for Daimaru Matsuzakaya's personnel expenses, retirement benefit expenses decreased ¥4.1 billion from the previous year. If more employees apply for the voluntary early retirement program, is it possible that related expenses will further decrease in 4Q?

A. The cost reduction of ¥4.1 billion is attributable to system changes and almost fixed in 3Q. We expect it not to change in 4Q. Meanwhile, expenses associated with the "expansion of voluntary early retirement program" of ¥1 billion of "other operating expenses" may increase depending on actual applications received.

Q. Personnel expenses decreased ¥4.3 billion partly due to special factors in 3Q, but in 4Q, there will be no special factor and they will be roughly flat. Is it correct?

A. There will be no special factor such as system changes and we will have only routine cost reduction.

Q. You said in 2Q that personnel expenses will decrease ¥3.5 billion, but in 3Q, such cost reduction was ¥4.3 billion. Is it correct to understand that there will be no effect in 4Q? I would also like to know what impact IFRS 16 will have on the business profit of the Department Store Business.

A. Personnel expenses decreased to ¥4.1 billion in 3Q from our October forecast of ¥3.5 billion. Of the difference of ¥0.6 billion, ¥0.5 billion arose because these expenses, which had been originally reported as SGA, were changed to be reported as "other operating expenses." This change was caused by system changes and there will be no change in 4Q.

On the other hand, expenses associated with the expansion of voluntary early retirement benefit plan increased to ¥1 billion from our original forecast of ¥0.5 billion. They may increase in the future.

IFRS 16 had a positive effect of about ¥0.7 billion on the business profit of the Department Store Business in 3Q. It is expected to have a positive effect of about ¥0.6 billion in 4Q. Annual positive effect is expected to be ¥4.4 billion on a consolidated basis, which remains unchanged from our forecast released in October.

Q. With regard to "Other" business, which was sluggish last year, business profit increased ¥1.1 billion in 3Q. I would like to know about each company's performance. For example, how much did Daimaru Kogyo increase business profit? How about J. Front Design & Construction? Can I have such breakdown?

A. Profit increase of "Other" is mainly attributable to J. Front Design & Construction. As for Daimaru Kogyo, sales of electronic devices continue to be sluggish. Though they turned positive in 3Q, total revenue and profit decreased in reaction to a big order received by the automotive department last year.

End