J. Front Retailing
Financial results for the fiscal year ended February 28, 2018
Q & A summary at results presentation
Date and time: 10:00 – 11:20 on Wednesday, April 11, 2018

【Overall business】

Q. How much impact did Senshukai have on your financial results for fiscal year 2017? And I would like to know what discussions you had at your company till you have reached this decision.

A. With Senshukai's business environment deteriorating, J. Front Retailing (the "Company) and Senshukai discussed and studied carefully and repeatedly since last year.

・Senshukai wished to partner with REVIC to ensure that the medium-term business plan is implemented. Considering that it is beneficial for Senshukai to integrate its partners into REVIC to increase the likelihood that the new medium-term business plan is implemented, the Company has decided to accede to Senshukai's purchase of own shares.

・The impact of this matter on the financial results for the current period was ¥4.3 billion in total, including share of loss of entities accounted for using equity method of ¥2.6 billion and other operating expense of ¥1.6 billion as impairment loss on investment in associates.

【Recognition of business environment】

Q. I found the page titled "Six Priority Risks for FY2018" of the materials provided today very interesting. Concerning "risks associated with rising consumption tax, post-Olympic recession" among them, what measures will you implement in the current period?

A. Since consumption tax is scheduled to increase in fall 2019, as a matter of course, we think we have to start preparing now. We see rising consumption tax as both risk and chance. The consumption tax increase of 2% will have a great impact on retailers.

・When consumption tax was raised last time, annual sales increase by 0.5%. Given this, it does not seem that the upcoming tax hike will have so great impact in real terms. However, we think we need to be cautious.

・Particularly, the previous consumption tax hike most affected our rural and suburban stores. The consumption of volume zone items also became sluggish after consumption tax hike. Concerning the rural and suburban stores, further cost reduction is an unavoidable and urgent task of the highest importance. Concerning volume zone items, we need to review their sales area once again, reduce or add space, and introduce new goods and services.

・Another thing we should consider is that childcare and education will be made free of charge, which the government vowed associated with the upcoming consumption tax hike. We will not only see the consumption tax hike as a risk but also have to seize a new business opportunity by responding to the market with attention to how consumption by the child-rearing generation in their 20s and 30s will be affected by this.

【Department Store Business segment】

Q. How long will you continue to invest in safety and security and systems? And how much return do you expect on such investment?

A. The use of ICT is essential for the Company to think about its future strategy.

・System investment is both "defensive" and "aggressive." As "defensive" investment, we will strengthen the department store security systems. As "aggressive" investment, we think we have to invest in building systems in order to collect and store customer information from all contact points including the Internet, analyze it using AI, and provide actual products and services based on the concept of "Lifetime Service Hub" mentioned at our earlier presentation.

・One of the major causes of increase in SGA of the Department Store Business in the current fiscal year 2018 is system investment. This is mainly due to the replacement of equipment for payment processing in the presence of customers. It is a single-year cost and will have no impact on the next fiscal year's results.

・ We will speed up to address safety and security investment, beginning in the current fiscal year. In the current fiscal year, we will increase investment to ¥4.5 billion from ¥2.8 billion in the previous fiscal year. And in the next fiscal year and beyond, we will invest around ¥5 billion. Accordingly, cost will increase by around ¥0.5 billion per year as a single-year repair cost, which will continue in the next year and beyond. However, the growth rate will become smaller in the next fiscal year and beyond.

・The growth of repair cost and supplies expense will peak this year and will slow down in the next fiscal year and beyond. However, depreciation of about ¥0.2 billion will be added every year.

・Cost incurred only in the current fiscal year will be approximately ¥1.8 billion, mainly including the electronic processing cost of system equipment.

・We recognize that cost reduction requires more prominent initiatives than ever before. While implementing cost reduction initiatives using ICT including RPA, we have to accelerate the creation of a new business model, which enables further reduction of SGA. As the first step, the new main building of the Daimaru Shinsaibashi store will open in fall 2019.

Q. How much sales are you actually planning to make to inbound tourists in fiscal year 2018?

A. Actual sales to inbound tourists were ¥47.9 billion, up 62.8% year on year, last year. Their share of total sales increased to 7.3% from 4.6% in the year before last.

・For the current fiscal year, we expect around ¥55 billion. Sales were up 70% in March and up about 40% from April 1 to yesterday. We do not know whether or not these growth rates will continue. Given the current exchange rates and stock prices, however, we think we will be able to achieve sales of ¥55 billion.

Q. Sales of volume zone items seemed to pick up in the 3rd quarter but declined again in the 4th quarter partly due to climate change. How do you see sales of volume zone items in the current fiscal year? How are they incorporated into the top-line forecast for the Department Store Business?

A. In the previous fiscal year, annual sales of women's clothes "excluding luxury brands" decreased by 2% or so. However, sales of the same products were almost flat in the second half of the fiscal year because the temperature was low and coats sold well in the second half.

・Though the conditions this March were not so bad, we expect sales not to increase for the time being but to continue to decrease by 1 to 2%. As women's clothes still occupy excessive floor space, we think we need to earnestly address this issue.

・Meanwhile, sales of men's items are relatively strong. Though sales of women's items are still slightly weak, we expect that we will be able to turn sales of men's items somewhat positive by adding promotional measures, etc. Women's clothes remain our greatest problem but other products escaped concern about year-on-year negative sales growth.

【Real Estate Business segment】

Q. I would like to ask you about the Real Estate Business, which became independent as a new segment in fiscal year 2017.

A. The Real Estate Business' operating profit of ¥4.1 billion for fiscal year 2017 includes profit of ¥3.5 billion from the properties of former Daimaru COM Development (merged into Daimaru Matsuzakaya Department Stores) and existing properties of the Department Store Business, profit of ¥2.6 billion from Ginza Six, loss of ¥0.2 billion from Ueno Frontier Tower, other loss on retirement of ¥0.1 billion resulting from new development and common cost of ¥1.9 billion. As existing properties of ¥3.5 billion include gain on sales of real estate of ¥1.5 billion, we see actual profit of the Real Estate Business at ¥2.6 billion. As operating profit is planned at ¥3.3 billion in the current fiscal year, profit is planned to increase by ¥0.7 billion in real terms.

【Development projects】

Q. Shibuya Parco, which will open in fall 2019, as well as the north wing of the Daimaru Shinsaibashi store, which will open in 2021, will contribute to the Real Estate Business. What is your income and expenditure plan for the store? Do you expect it to generate operating profit from the first fiscal year or around fiscal year 2021? If you have a quantitative plan, please let me know.

A. The quantitative plan is under consideration. As base figures are significantly changing partly due to growth of sales to inbound tourists, we are reviewing our plan presently. Since the store will open in fall 2019, it will make a small contribution to the business performance for fiscal year 2019 and its full-scale contribution to earnings is expected to start in fiscal year 2020.

・We cannot give you figures because they are still under scrutiny. However, we would like to increase profit while reducing cost using a new model combining purchase on a no return policy (*kaitori shiire*), purchase recorded at the time of sale (*uriage shiire*) and lease so that we can expect it to contribute to profit from the year after its opening.

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