

## **J. Front Retailing**

### **Q & A summary at results presentation**

**for the fiscal year ended February 28, 2019**

**Date and time: 16:30 – 18:00 on Tuesday, April 9, 2019**

#### **【Overall business】**

**Q: Could you tell me why you expect business profit for the current year to slightly decline in 1H and increase by 20% in 2H? There seems to be a clue in SGA on page 26 of the results presentation materials. What costs will come to an end in 2H, and conversely, what costs will remain in 1H?**

A: The Department Store Business has many cost increase factors in 1H. Operational costs will increase due to replacement of POS systems and we will incur extra depreciation of the north wing of the Shinsaibashi store. In the meantime, the new main building of the Shinsaibashi store will open late September and operating income will increase more in 2H.

Concerning other businesses, Daimaru Kogyo expects effect of strengthening of order taking system in 2H. The design and construction contracting business will have profit increase factors mainly in 2H because it will report construction sales related to the new main building of the Shinsaibashi store in 2H.

**Q: Is only the design and construction contracting business under upward pressure on costs such as labor shortage and rising material costs as described on page 21? Or are the core businesses including the Department Store Business, the Real estate Business, and the Parco Business also in such upward phase?**

A: Upward cost pressure is not just limited to the design and construction contracting business. The Department Store Business also faces continuing price rises. We estimate YoY increase factors of about ¥2 billion including home delivery costs, fuel costs, and utility costs in FY2018. We expect similar cost-push factors of around ¥1.5 billion in FY2019. We face unprecedented upward cost pressure.

#### **【Department Store Business】**

**Q: SGA seems to remain at quite high levels in 2H of the previous year and 1H of this year. Can I expect this SGA to decline in this 2H and next year? In seeing your growth, profit increase effect is important and are costs expected not to decline so much?**

A: It is true that upward cost pressure is increasing. In the meantime, as a matter of course,

we will continue efforts to reduce costs. We strive to overhaul personnel structure and optimize costs in the plan for the current fiscal year. For example, with regard to the new main building of the Shinsaibashi store, we are planning to decrease about 250 posts. We will curb persistent increase in labor costs. Personnel expenses will decrease through these efforts. As for ad expenses, we will spend aggressive costs for promotion for new openings and new loyalty point programs while reviewing and streamlining existing advertisement. With these combined efforts, we will keep balance. In that sense, we will infinitely strive to reduce costs.

SGA of the Department Store Business excluding effect of application of IFRS16 is expected to increase by ¥0.8 billion in FY2019. Though there are some cost increase factors, we are planning to reduce personnel expenses by ¥1 billion. Our policy that the entire Group will absorb cost increase factors, if any, or strive to reduce costs in all areas without exceptions.

#### **【Parco Business】**

**Q: How did or will compensation income from the redevelopment of Shibuya increase in the previous year and the current year? Will it change after opening Shibuya Parco?**

A: Shibuya Parco receives compensation for the redevelopment project and it will open in fall 2019 after receiving compensation according to the closing period. We received compensation in the previous year and the amount to be received in the current year is smaller compared to the previous year.

We will receive compensation for real estate transaction associated with redevelopment when the development is advanced in FY2019.

**Q: We understand that concerning San-A Urasoe West Coast Parco City, which will open in summer 2019, Parco is positioned to plan and operate the store. Parco has 49% ownership, which is not so large. Could you tell me about its income/revenue structure and impacts of opening costs?**

A: Parco will receive 49% of profit after tax of San-A Parco, which is the same as its ownership percentage, as a separate item under operating profit. Dividend payment will start next fiscal year when performance for the current year is recognized. Its effect on operating profit is a small portion of license fee.

#### **【Other businesses】**

**Q: Profits of J. Front Design & Construction and Daimaru Kogyo were far below their**

**initial plans and had a significant negative impact on consolidated business performance. All companies are forecast to increase business profit in the guidance for the current fiscal year. In the past, however, there were many cases where your forecasts were not achieved. Therefore, I would like to confirm with you whether these goals can be achieved. If not achieved, what will you do?**

A: We assumed that we would definitely have a market for construction and interior decoration works including those for the Olympics. We drew up a budget last year factoring in already decided orders and additional orders. However, we could not record some due to late completion of construction and we could not achieve initially expected profit margins due to soaring labor costs and material costs. In light of these factors, I think we have developed a fairly accurate budget. As for the design and construction contracting business for the current year, orders of approximately ¥15 billion associated with the new main building of the Daimaru Shinsaibashi store have been determined. In addition, an order for hotel interior work has been determined. Accordingly I think we have budgeted with great accuracy.

Daimaru Kogyo improved performance two years ago because they received many orders for electronic devices and vehicle-related products. However, their results for the previous fiscal year fell far below the plan due to fewer orders for electronic devices because of fiercer competition and lower margins. Since the top management changed and they strive to strengthen their order receiving system, we recognize they will be able to achieve the plan.

In the meantime, as a matter of course, we will organize a system in which other operating companies compensate when the demand forecast changes.

#### **【Overall Medium-term Business Plan】**

**Q: According to the composition of operating profit for each fiscal year during the period of the Medium-term Business Plan on page 29 of the presentation materials, the “Credit and Finance and Other” are planned to significantly grow. I think these segments’ profit share will also grow, and as a matter of course, the actual profit amount is expected to also increase. Could you explain about to what extent it is built up as a business model and how probable it is at this point?**

A: Actual operating profit of the “Credit and Finance and Other” for FY2021 in the chart will be around ¥10 billion, comprising existing businesses of ¥ 8 billion and new businesses of ¥2 billion. ¥8 billion will be generated by existing major businesses including the Credit and Finance Business, the staffing service business, and the design and construction contracting business. Since it is difficult to expect new businesses to contribute greatly, I

think how existing businesses will generate ¥8 billion will be the key.

The businesses we would like to greatly grow include the Credit and Finance Business, the staffing service business, and the design and construction contracting business. We position these businesses, which have high market potential, as "three key businesses" and we will focus our personnel allocation as well as investment on them as one of the strategies in the current Medium-term Business Plan.

The important tasks of the Credit and Finance Business include reduction of operation costs, merchant acquiring to earn more commissions, review of outsourcing contracts to reduce costs, and issue of new cards to increase cardholders.

The purchase record of the holders of the cards issued by the company indicates that the usage rates of those in their 50s and older are very high but that the usage rates of those in their 30s and 40s are getting lower. In the meantime, the company is affiliated with Rakuten Card and posted sales of about ¥12 billion, of which 77% were generated by the holders in their 20s to 40s. Based on these current conditions, by issuing new attractive cards as the Group, we would like to attract customers in their 20s and 30s. This is the direction of our card strategy.

The staffing service business has been based on the Kansai region but currently there is a great need mainly in the Tokyo area. Therefore the first key is to strengthen the staffing service business in the Tokyo area. The second is to employ foreign people. With increasing inbound tourists, labor supply of foreign workers including interpreters forms a great market. The third is to expand recruitment instead of the past core temporary staffing service. These markets are expanding and we strive to reinforce the business.

There is a fairly large market for the design and construction contracting business. However, we face issues including recruitment, rising labor costs, and soaring material costs. If we can control these issues severely and select orders successfully, I think we will be able to operate the business at a stable profit level. Particularly, the company is strong in high quality interior works and we have a good chance to expand the market. We would like to expand the market by strengthening human resources.

**Q: According to the chart of business profit in the Medium-term Plan on page 30, you seem to expect business profit to increase by around 20% in FY2020. Opening of the new main building of the Shinsaibashi store and Shibuya Parco may almost explain it. However, if other factors including cost reduction effects due to new systems and other reasons are expected to appear in FY2020, I would like to know.**

A: In FY2020, the new main building of the Shinsaibashi store will start full operation and greatly contribute to profits. Sales to inbound tourists still have great potential to grow.

Concerning *gaisho* business mainly for affluent people, I believe consumption of products that have high asset value has enough room for growth.

There are some new development projects in the Real Estate Business and they will generate revenue. In the Parco Business, Shibuya Parco will start full operation in FY2020. In addition, Kinshicho Parco, which opened in March 2019, and San-A Urasoe West Coast Parco, which will open this summer, will also generate revenue. I think the entertainment business, which struggled, will increase revenue partly due to opening of theater in Shibuya Parco and increase in young customers. We would like to put the Credit and Finance Business on a track to recovery in FY2020. We would also like to make the design and construction contracting business and the staffing service business steadily profitable. With these efforts, I think we will be able to steadily step up toward the goal for FY2021.

**Q: Concerning streamlining of existing businesses using RPA, actually how much cost is reduced? And how much effect will appear during the remaining period of the Medium-term Plan? I would like to know about your projections about them.**

A: We began to use RPA three years ago and the Group has a shared service company that undertakes back-office services for Daimaru Matsuzakaya Department Stores and associated operating companies. Simple tabulations are almost made by RPA. Initially we asked vendors to introduce RPA and provide guidance. Currently, however, we have found out that we can do this by ourselves within the Group. Accordingly our employees operate robot technologies and strive to use RPA for all operations. We would like to spread RPA to sales locations of *gaisho* business and department stores to streamline operations. In the meantime, cost reduction figures generated by RPA are person-hours and it is difficult to reflect them in cost reduction efforts. However, we strive to increase profitability and streamline human resources by taking on many back-office services from associated operating companies.

End