Business Overview (FY2019) At a Glance

**Department Store Business**
- Percentage of total revenue: 54.8%
- Percentage of total operating profit: 43.7%

**Parco Business**
- Percentage of total revenue: 23.2%
- Percentage of total operating profit: 26.9%

**Real Estate Business**
- Percentage of total revenue: 3.5%
- Percentage of total operating profit: 16.7%

**Credit and Finance Business**
- Percentage of total revenue: 1.4%
- Percentage of total operating profit: 4.7%

**Other**
- Percentage of total revenue: 17.1%
- Percentage of total operating profit: 8.0%

- The percentage of total revenue represents the ratio of revenue to external customers after eliminating intersegment transactions.
- Calculation of percentage of total operating profit of “Other” segment includes adjustments.

**Reference**

- New lease accounting standards (IFRS 16)
  - The Group recognized right-of-use assets and lease liabilities on the effective date of IFRS 16 for leases previously classified as operating leases in accordance with IAS 17. Lease liabilities are measured at the present value of the total outstanding lease payments discounted using the borrower’s additional borrowing interest rate at the start date of application. Right-of-use assets are measured retrospectively as if IFRS 16 had been applied from the inception date of the lease.
  - As a result, assets and liabilities increased by ¥210.6 billion and ¥225.2 billion, respectively, and equity decreased by ¥14.5 billion in the consolidated statement of financial position at the beginning of fiscal 2019. In the consolidated statement of profit or loss for fiscal 2019, operating profit increased by approximately ¥4.6 billion compared with the previous accounting standard (prior to the adoption of IFRS 16), but the impact on profit was immaterial.
Due to the spread of the COVID-19 infection, the outlook for fiscal 2020 is extremely uncertain. In particular, our department stores were hit hard by both inbound and domestic consumption. Sales in February were down 20% from the previous year, while sales in March were down 40% and in April most department stores and Parco stores were forced to shut down due to the declaration of a state of emergency. In late May, sales resumed gradually, and both department stores and Parco finally improved to a decrease of 20%-plus in June, but the outlook remains uncertain. For this reason, in the forecast for FY2020, we expect to see a decrease in sales and operating loss in the second half of the fiscal year by thoroughly reducing costs, mainly in the Department Store Business.

Fixed costs of ¥11.2 billion (¥3.9 billion for cost of sales and ¥7.3 billion for selling, general and administrative expenses) arising from the suspension of operations will be reclassified to other operating expenses. In addition, as a result of deteriorating business performance, impairment loss of ¥11.5 billion was recorded in the Department Store Business, Parco, Neune A, etc. as of the first quarter of the fiscal year under review.

**Department Store Business**

We believe we will be most influenced by COVID-19 in the Group. As of June, business was resumed at almost all stores. In view of the current travel restrictions, however, we anticipate that the inbound demand will be almost nil, and we assume that gross sales will only recover to approximately 70% of the previous year's level in the second quarter alone and to approximately 80% in the second half. On the other hand, we expect to post both business profit and operating profit in the second half of the fiscal year as a result of additional cost-cutting measures, including significant reductions in capital expenditures and reductions in controllable costs.

**Parco Business**

Shibuya PARCO, which opened in November last year, made a full contribution, and Parco will open in the north wing of the Daimaru Shinbashī store this fall. However, the impact of COVID-19 has resulted in a certain degree of relaxation of the rent conditions for real estate, which is income from tenants, and in the second half of the fiscal year, we expect the number of seats to be 50% in the entertainment business. In addition, as real estate related to the north wing of the Shinbashī store is scheduled to be transferred to Parco in the second half of the fiscal year, expenses such as the registration and license tax related to the asset will increase, and this segment expects to continue to record a loss in the second half of the fiscal year.

**Real Estate Business**

The north wing of the Daimaru Shinbashī store is scheduled to open in the fall of this year with PARCO as the core tenant. However, due to the burden of expenses incurred until the north wing starts operations and we expect a decline in percentage rents on existing real estate rental properties due to COVID-19, we expect both sales and profits to decline.

**Credit and Finance Business**

In the current fiscal year, we will issue the "Daimaru Matsuzakaya Card," which will ramp up our point system and design, and we will be finally ready to prepare for medium-term growth. However, the impact of COVID-19 will inevitably lead to a decline in transaction volume, particularly at department stores. And there will be an increase in costs associated with the issuance of new cards. So we expect both sales and profits to decline.

**Other**

In addition to a reduction in reaction to a special demand for the renovation of the main building of the Shinbashī store in J. Front Design & Construction, which operates the design and construction business, last year, COVID-19 is likely to affect the supply chain of the design and construction business and wholesale businesses, which will lead to a delay in delivery. In addition, greatly affected by a decrease in needs in the staffing business due to the shutdown of commercial facilities, we expect both sales and profits to decline.