December 26, 2024

# Takashimaya Company, Limited FY2024/Q3 Financial Results Briefing | Main Q&A

The following is a summary of questions and answers during the financial results briefing held on Tuesday, December 24, 2024.

**<Business Conditions>**

**When viewing Q3 in a vacuum, what are the reasons for the downturn in profits in Departments Stores in Japan and Overseas Department Stores despite steady topline growth? What is your outlook for Q4 in terms of achieving the fiscal year forecast? Will profits increase in the department store segment in Japan and overseas? Will other Group companies make up for any shortfall?**

- The decline of profits in Q3 for Department Stores in Japan was largely the result of changes in the accounting treatment of sales. Based on the previous accounting practice (delivery standard), sales of undelivered products were reversed in Q3 (November) and the same amount was re-recorded in Q4 (December). Furthermore, from this Q3, we expanded the range of products for reversal and re-recording, such as ordered products. Due to this change, operating profit will decrease by 600 million yen in Q3 and increase by 600 million yen in Q4. Based on the above, the decrease of sales in Department Stores in Japan is within expectations and according to the previous accounting treatment operating profit would have increased YoY. Since this treatment has been carried out for the same products as in the current Q3 since February 2024, there will be no impact at the end of the fiscal year in February 2025. Overseas Department Stores were affected by the sluggish domestic demand in Singapore as well as the renovation work of main brand stores, but have been performing well since the renovations were completed in October.

- Looking at the outlook for Q4, there are a number of negative factors. For example, the impact of fewer business days because department stores will also be closed on January 2 (a day which they typically opened in the past) and last year was a leap year, while luxury brands have seen weaker sales growth, not to mention inflation. As mentioned above, however, sales were carried over from Q3 to Q4, and we see the possibility of sales from inbound travelers increases due to the weakening of the yen. Therefore, we expect to achieve our full-year earnings forecast. We also do not see any major deviations from the current forecast for Group companies.

**I understand that sales of Department Stores in Japan are currently progressing smoothly. What are the internal and external factors behind this? What are your thoughts on business conditions in 2025?**

- Sales from inbound travelers are progressing as expected, but we believe that there will be some impact on domestic consumption due to the increased demand for travel during the New Year holidays. While the momentum of luxury brands seems to have slowed, sales of high-profit margin items such as fashion and cosmetics are recovering. We will increase the share of retail priced items in the shopping season from January onwards and aim to improve profit margins. We believe that our efforts to strengthen the fundamental sales capabilities of department stores, such as product appeal and sales power to sell out without price reductions, are gradually leading to results.

- Regarding business conditions in fiscal 2025, we need to wait and see to what extent a positive upward wage-price spiral can be realized.

**What are the reasons for the profit decline at Takashimaya Singapore in 3Q?**

- Regarding sales, the main luxury brand sales floor space was reduced due to renovation work until mid-October, and sales from foreign nationals failed to increase amid the sluggish Chinese economy and the strong Singapore dollar. SG&A expenses were affected by the rise in personnel costs and utility costs due to inflation.

**<Selling, General and Administrative Expenses>**

**Looking at only Q3, SG&A to total operating revenue ratio has risen to the same level as the previous Q3. What factors are there behind this? Also, are there any areas where results are not progressing as expected?**

- In addition to personnel expenses, such as base pay hikes, variable costs and outsourcing expenses are increasing in line with sales growth. Additionally, in Q3, we shifted to a more proactive use of SG&A expenses; for example, holding hotel events that have not been held for the past few years. Other than that, we continue to thoroughly reduce costs and implement well-balanced cost controls.

**Is it correct to understand that the SG&A expenses of Department Stores in Japan are not significantly different from the H2 forecast? Or will they increase slightly, centered on personnel expenses? Also, is it correct to understand that in Q4, as temperatures drop, sales will increase and the SG&A expenses ratio will decrease?**

- This year, we are increasing bonuses. By offsetting this with other cuts to other expenses, we will be able to control overall SG&A expenses as planned. Your point regarding the SG&A expenses ratio in Q4 is correct.

**Regarding the use of SG&A expenses by Department Stores in Japan, is it safe to assume that even in a situation where the topline is weak, you can steadily invest in strengthening sales capabilities and in human capital?**

- We intend to steadily implement initiatives aimed at future growth, such as sustainable measures to strengthen sales capabilities and measures to improve engagement, including capital investment, without being bound by short-term earnings results.

**<Other>**

**<u>How will the Tamagawa renovation work affect the future earnings of Toshin Development Co., Ltd.?</u>**

- Renovation work has been underway at Tamagawa Takashimaya Shopping Center since this year, which is a factor in the decline of rent income. The renovation work at Tamagawa is scheduled to be carried out intermittently over the next few years, and the impact of this work has been factored into the medium-term management plan. When the renovation is completed in 2027, the shopping center is expected to become even more attractive.