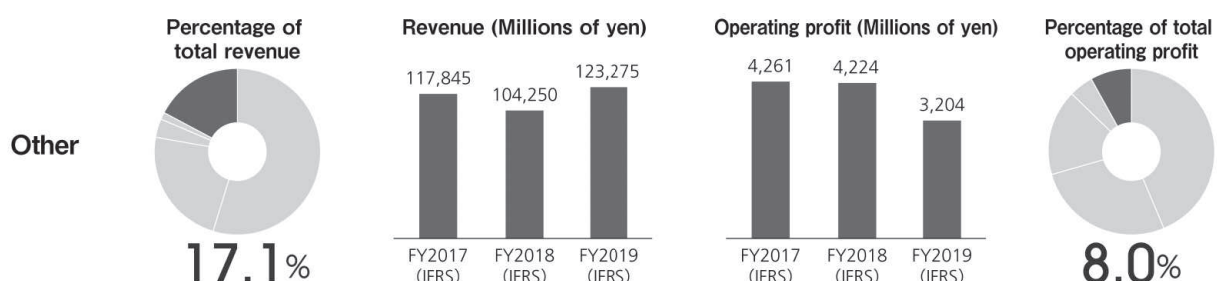
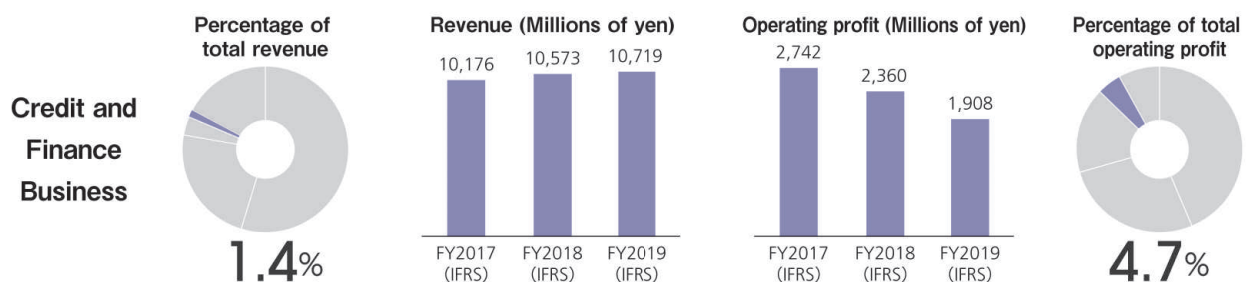
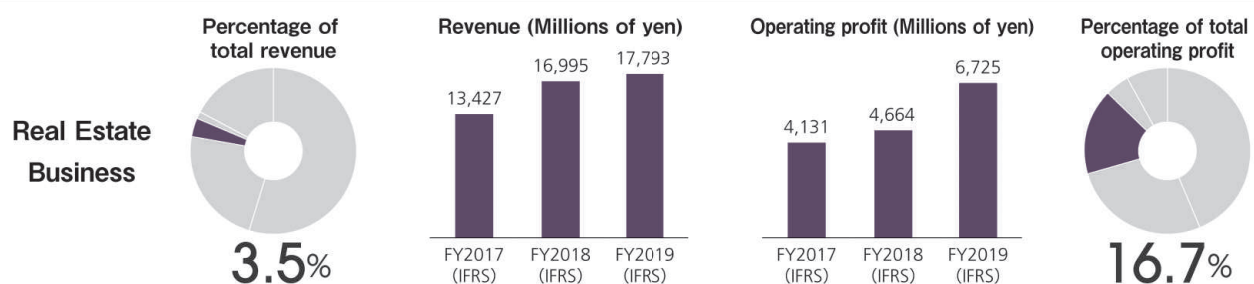
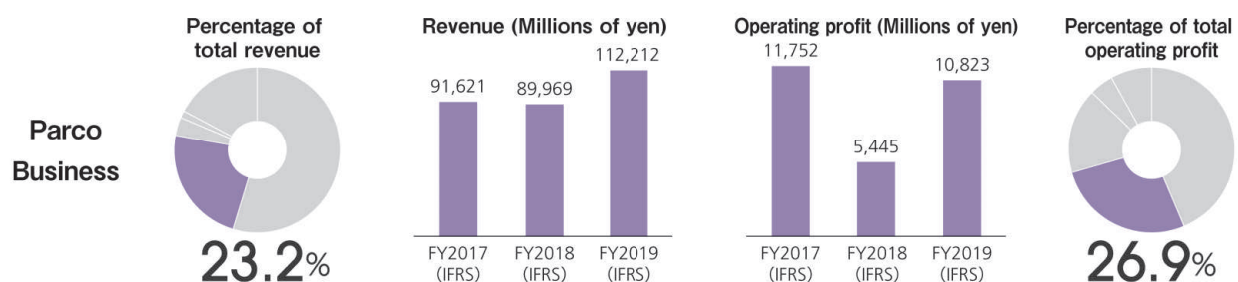
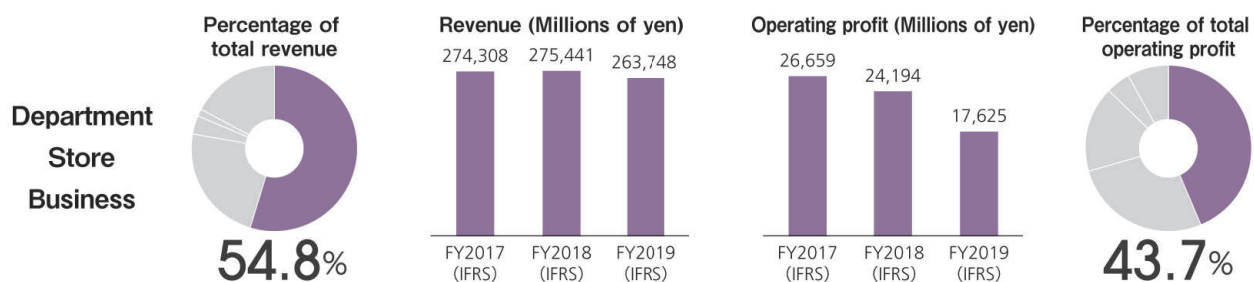


Business Overview (FY2019) At a Glance



- The percentage of total revenue represents the ratio of revenue to external customers after eliminating intersegment transactions.
- Revenue and operating profit include 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.



Overview of Fiscal 2019

Department Store Business

From June to July, the peak season of the first half of the fiscal year, temperatures remained low for a long time, and sales of summer items, mainly apparel, at both full and discounted prices were sluggish. In August, the typhoon landing in western Japan forced the three stores in Kansai to close temporarily, and the impact of the rapid progress of the cheap yuan resulted in a temporary downshift in duty free sales, which forced a difficult struggle.

In September, in addition to the grand opening of the main building of the Daimaru Shinsaibashi store, consumption surged ahead of the consumption tax hike, which led to a sales increase of more than 30% primarily for high-end products. In October, we saw a reactionary decline in double digits. Subsequently, the rate of decline began to shrink every month. However, due to record-breaking warmth, the winter sales were extremely sluggish, and the pace of improvement slowed drastically.

Furthermore, from late January onward, due to the spread of the COVID-19 infection, not only inbound consumption slowed down sharply but also more and more people avoided going out in Japan. This resulted in a sharp decline in the number of customers visiting our stores both from Japan and overseas, which caused unprecedented damage to sales.

As a consequence, gross sales decreased by 3.8% on a year-on-year basis but business profit increased by 5.2% partly due to a substantial decrease in retirement benefit expenses. Operating profit decreased by 27.2% partly due to one-time expenses associated with personnel system reforms and the recording of a loss on retirement of the north wing of the Shinsaibashi store.

Parco Business

New openings including the opening of Kinshicho PARCO in March, the grand opening of Shibuya PARCO in November, and the sale of reserve floor area related to Shibuya PARCO (¥21.7 billion) resulted in an increase in gross sales of 11.5% compared with the previous fiscal year. Sale of reserve floor area was carried at the same cost.

Despite the positive impact of the opening of these new stores, business profit declined 1.6% due to sluggish sales at some rural stores and sluggish sales at Neuve A, which operates accessories shops. Meanwhile, operating profit nearly doubled (up 98.7%) due to an increase in compensation income related to Shibuya PARCO and a reactionary increase from the previous year, when losses on the closure of Utsunomiya PARCO and Kumamoto PARCO were recorded.

Real Estate Business

Sales of Ginza Six and Ueno Frontier Tower were firm, and the transfer of many department stores to the Real Estate Business also contributed to a 4.0% year-on-year increase in gross sales. On the other hand, operating profit declined 13.8% due to higher depreciation and property taxes resulting from the transfer of the north wing of the Daimaru Shinsaibashi store to the Real Estate Business after the opening of the main building in September. However, operating profit significantly increased 44.2% due to the posting of a gain on sale of real estate.

Credit and Finance Business

Gross sales increased 2.4% year on year, due in part to higher external merchant fee. However, business profit decreased 18.7% year on year and operating profit decreased 19.1% year on year, mainly due to higher personnel expenses associated with organizational reforms, such as the hiring of specialist personnel for future growth, and higher facility expenses associated with the relocation of the Tokyo office.

Other

J. Front Design & Construction, which increased sales significantly due to the interior construction work of the main building of the Daimaru Shinsaibashi store, which opened in September, covered the sluggish performance of businesses such as Daimaru Kogyo. As a result, gross sales increased 9.6%, business profit increased 36.7% and operating profit increased 34.0%.

Outlook for Fiscal 2020

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 urgency. 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 at the announcement of the results for the first quarter of the fiscal year ending February 28, 2021, we forecast a decrease of ¥364 billion in consolidated gross sales for the risks of COVID-19. For consolidated totals, we expect to avoid business loss 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, Neuve A, etc. as of the first quarter of the fiscal year under review.

(Millions of yen, %)

FY ending Feb 28, 2021	H1		H2		Full year	
	Forecast	YoY % change	Forecast	YoY % change	Forecast	YoY % change
Revenue	140,000	(38.0)	192,000	(24.7)	332,000	(30.9)
Department Store Business	70,000	(47.0)	112,500	(14.6)	182,500	(30.8)
Parco Business	28,650	(34.4)	39,950	(41.7)	68,600	(38.9)
Real Estate Business	6,500	(26.3)	10,100	12.6	16,600	(6.7)
Credit and Finance Business	4,360	(16.1)	5,390	(2.3)	9,750	(9.0)
Other	45,200	(19.5)	46,600	(30.6)	91,800	(25.5)
Adjustments	(14,710)	-	(22,540)	-	(37,250)	-
Operating profit	(30,000)	-	0	-	(30,000)	-
Department Store Business	(25,800)	-	1,400	(80.1)	(24,400)	-
Parco Business	(5,300)	-	(800)	-	(6,100)	-
Real Estate Business	1,000	(82.5)	(300)	-	700	(89.6)
Credit and Finance Business	80	(92.7)	70	(91.5)	150	(92.1)
Other	420	(79.1)	540	(79.9)	960	(79.6)
Adjustments	(400)	-	(910)	-	(1,310)	-

*Forecasts as of June 29, 2020

Department Store Business

We believe this 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 Shinsaibashi 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 Shinsaibashi 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 Shinsaibashi 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, so 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 revamp our point program 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 Shinsaibashi 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 business, 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.