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# Results Presentation for Fiscal Year Ended February 29, 2016

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April 8, 2016

J. Front Retailing Co., Ltd.

YAMAMOTO Ryoichi, President



J. FRONT RETAILING

## Today's Agenda

- I . FY2015 Results
- II . FY2016 Forecast
- III . Initiatives toward Medium-Term Growth

# FY2015 Results

# FY2015 Consolidated Results

- ▶ Operating income grew by double digits, marking the 6<sup>th</sup> consecutive YoY increase and a record high since J. Front Retailing's inception
- ▶ Operating income / ordinary income / net income were above October forecast, driven by Department Store Business
- ▶ Annual per-share dividend increased ¥2 YoY on a post-share consolidation basis, marking the 5<sup>th</sup> consecutive year of increase

(Millions of yen, %)

Fiscal year ended Feb 29, 2016	Results	YoY		vs October forecast	
		Change	% change	Change	% change
Net sales	1,163,564	14,035	1.2	(16,436)	(1.4)
Gross profit	245,532	1,793	0.7	(2,268)	(0.9)
SGA	197,494	(4,078)	(2.0)	(3,306)	(1.6)
Operating income	48,038	5,871	13.9	1,038	2.2
Ordinary income	47,910	7,430	18.4	1,410	3.0
Net income	26,313	6,346	31.8	813	3.2
ROE (%)	6.9	1.5	—	0.2	—
Dividend per share (Yen)*	(Annual) 27	2	—	1	—

\*Calculated on a post-share consolidation basis

# FY2015 Segment Information

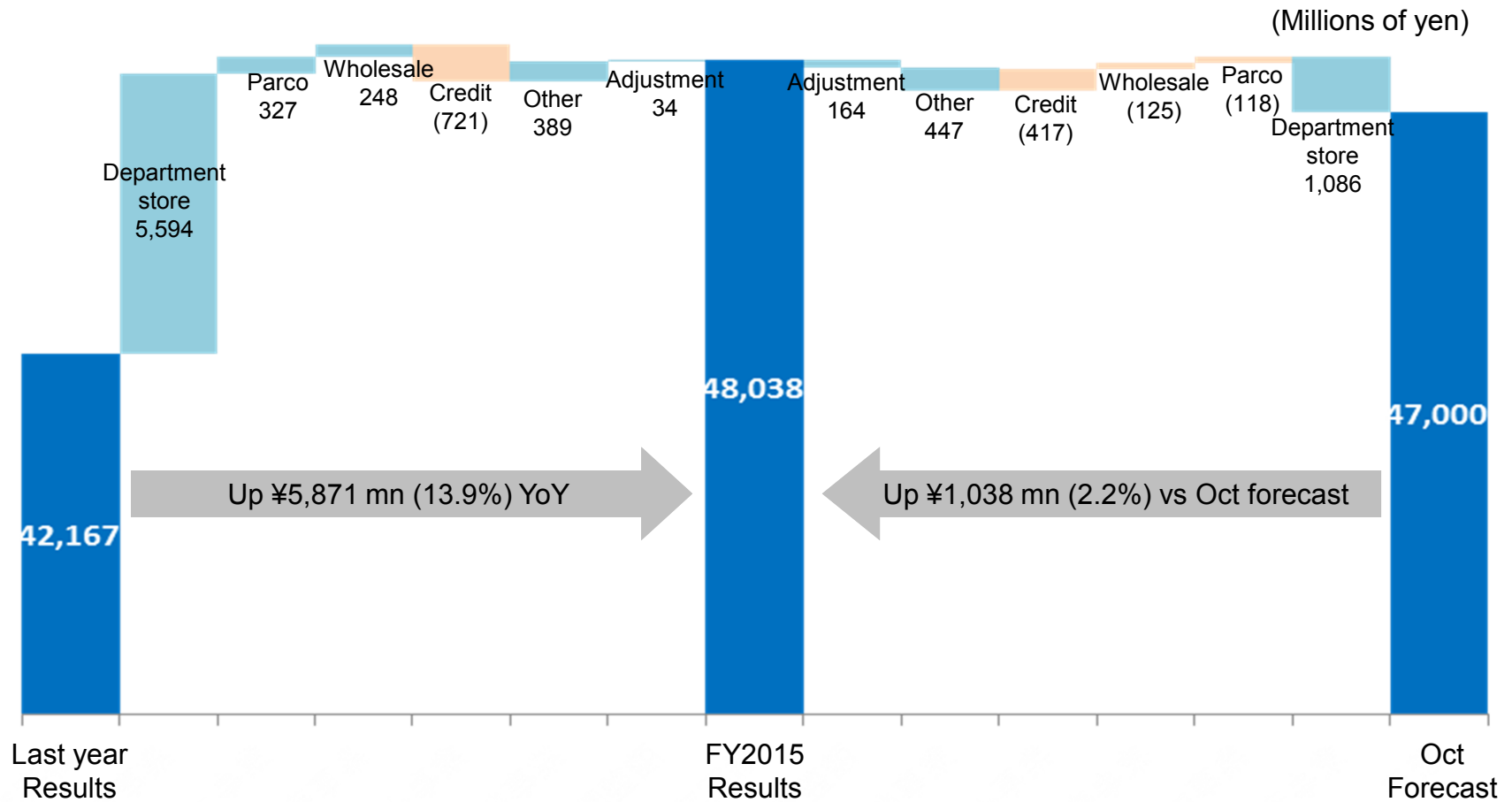
- ▶ Department Store Business significantly increased profits due to strong sales of urban stores and thorough management of ad and other costs
- ▶ Expansion of Fukuoka Parco and opening of Nagoya Zero Gate and Nagoya Midi contributed to Parco Business
- ▶ Wholesale Business increased profits by double digits, Other Businesses were driven by J. Front Design & Construction's strong performance of interior finish works

(Millions of yen, %)

Fiscal year ended Feb 29, 2016	Net sales				Operating income			
	Results	YoY		vs Oct forecast	Results	YoY		vs Oct forecast
		Change	% change	Change		Change	% change	Change
	Department Store	763,222	3,356	0.4	(5,978)	28,786	5,594	24.1
Parco	281,050	6,838	2.5	(7,450)	12,582	327	2.7	(118)
Wholesale	57,849	(1,522)	(2.6)	(5,351)	1,315	248	23.2	(125)
Credit	10,455	74	0.7	(245)	2,703	(721)	(21.1)	(417)
Other	104,739	7,441	7.6	3,739	2,807	389	16.1	447

# FY2015 Segment Information

FY2015 analysis of changes in consolidated operating income by segment



# FY2015 Daimaru Matsuzakaya Department Stores J. FRONT RETAILING

- ▶ Renovated key stores including Nagoya and Sapporo stores to build new department store model
- ▶ Sales increased 1.9% in 1Q to 3Q and decreased 1.8% in 4Q due to decreased sales area of Shinsaibashi store and warm winter
- ▶ Duty-free sales, as indicator of inbound tourist spending, increased 2.2-fold YoY to ¥33.8 bn

FY2015 Daimaru Matsuzakaya Department Stores sales of major stores (% change YoY)

Fiscal year ended Feb 29, 2016	1Q to 3Q	4Q	Full year
Daimaru Shinsaibashi	14.0	(7.3)	7.8
Daimaru Umeda	3.8	(2.0)	2.1
Daimaru Tokyo	4.0	5.0	4.3
Daimaru Kyoto	(0.5)	(0.3)	(0.5)
Daimaru Kobe	(0.7)	(2.1)	(1.1)
Daimaru Sapporo	2.8	0.8	2.2
Matsuzakaya Nagoya	(0.1)	(2.1)	(0.6)
Matsuzakaya Ueno	(4.5)	(2.7)	(4.0)
<b>Total all stores</b>	<b>1.9</b>	<b>(1.8)</b>	<b>0.9</b>

\*The sales area of Daimaru Shinsaibashi store has decreased by approx 40% from Dec 31, 2015 for the rebuilding of its main building.

# FY2015 Daimaru Matsuzakaya Department Stores J. FRONT RETAILING

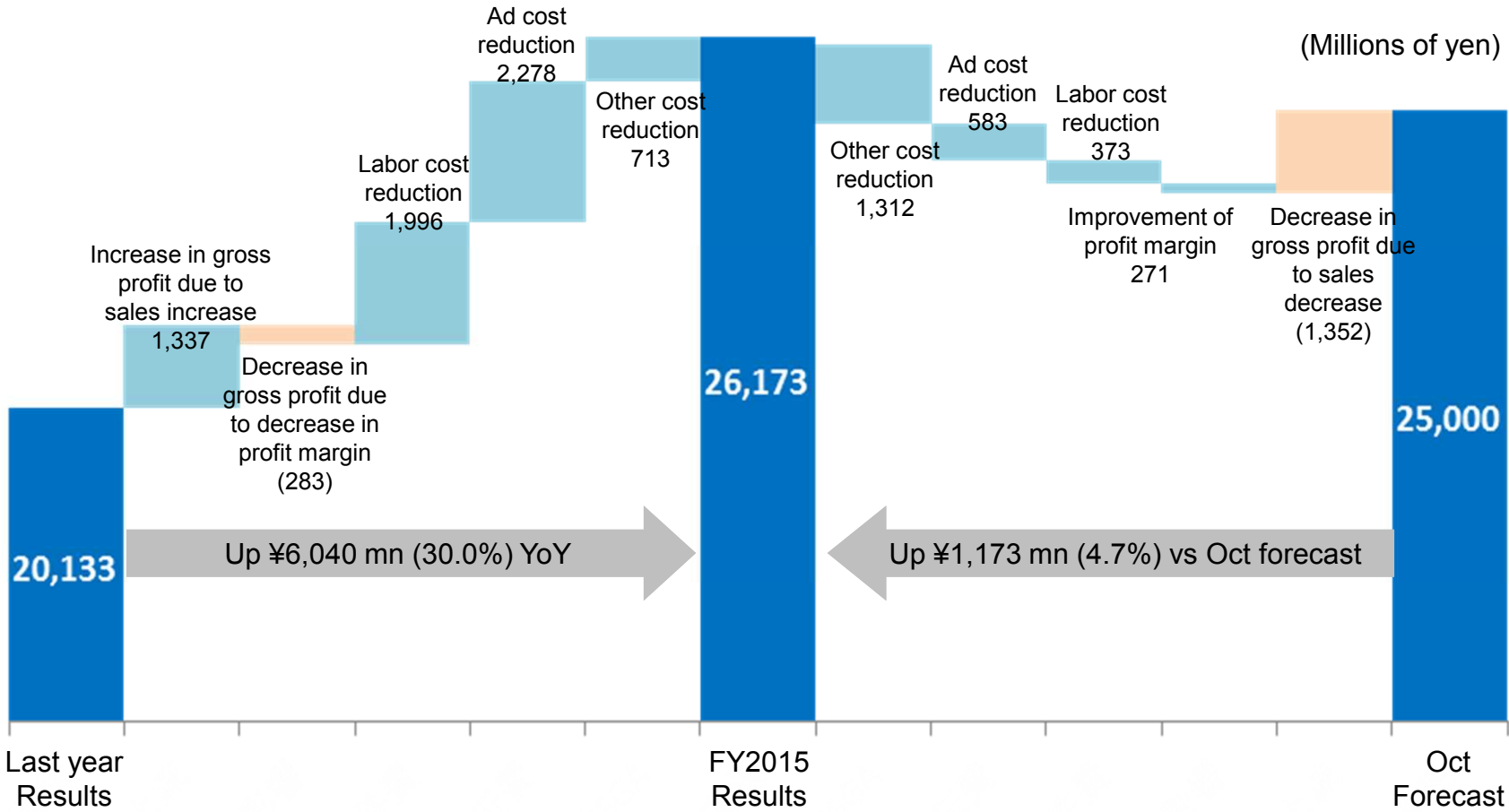
- ▶ Gross margin was down 0.18 points YoY in 1H but up 0.09 points in 2H
- ▶ In spite of increased sales, ad costs decreased ¥2.2 bn partly due to overhaul of loyalty point program
- ▶ Operating income increased 30% and ¥1.1 bn above Oct forecast due to thorough cost management

(Millions of yen, %)

Fiscal year ended Feb 29, 2016	Results	YoY		vs Oct forecast	
		Change	% change	Change	% change
Net sales	677,511	5,744	0.9	(5,889)	(0.9)
Gross margin (%)	23.53	(0.04)	—	0.04	—
Gross profit	159,406	1,054	0.7	(1,094)	(0.7)
SGA	133,232	(4,987)	(3.6)	(2,268)	(1.7)
Operating income	26,173	6,040	30.0	1,173	4.7
Ordinary income	24,474	6,073	33.0	1,274	5.5
Net income	10,747	(1,063)	(9.0)	2,647	32.7



FY2015 Daimaru Matsuzakaya Department Stores  
analysis of operating income by factor



# FY2015 Consolidated Results (B/S and CF)

- ▶ Equity was up ¥7.8 bn and equity ratio grew 0.7 points to 37.6%
- ▶ Interest-bearing debt increased ¥12.4 bn to ¥180.9 bn mainly due to acquisition of shares in Senshukai
- ▶ Operating cash flows decreased ¥7.8 bn mainly due to increase in income taxes paid
- ▶ Investing cash outflows increased ¥23.4 bn due to acquisition of shares in Senshukai and acquisition of fixed assets
- ▶ Financing cash outflows were ¥1 bn partly due to new issue of bonds

## <Balance sheet>

(Millions of yen)

Fiscal year ended Feb 29, 2016	Results	YoY Change
Total assets	1,019,146	651
Interest-bearing debt	180,922	12,464
Equity	383,699	7,813
Equity ratio (%)	37.6	0.7

## <Cash flows>

(Millions of yen)

Fiscal year ended Feb 29, 2016	Results	YoY Change
Operating cash flows	36,799	(7,851)
Investing cash flows	(39,741)	(23,469)
Financing cash flows	(1,041)	26,546

# FY2016 Forecast

# Recognition of Environment in FY2016

Greater uncertainty in the world economy /  
concern about slowdown in the domestic economy

Plunge in share prices at the start of the year

Sluggish growth in real wages / more frugal consumer mindset

Polarized income

Polarized consumption / polarized consumption of one person

Personal financial assets worth approx ¥1,700 trillion

Gaps among companies will widen depending on market responsiveness

# FY2016 Consolidated Forecast

- ▶ Must achieve consolidated operating income target of 50 bn for the final year of Medium-Term Business Plan
- ▶ Eye the possibility of ROE of 7.1% above the target of 5.8% for the final year of Medium-Term Business Plan
- ▶ Plan to pay annual dividend of ¥28 per share, up ¥1 YoY, marking the 6th consecutive year of increase

(Millions of yen, %)

Fiscal year ending Feb 28, 2017	1H forecast	YoY		Full year forecast	YoY	
		Change	% change		Change	% change
Net sales	570,500	(2,810)	(0.5)	1,175,000	11,436	1.0
Gross profit	120,200	(177)	(0.1)	247,400	1,868	0.8
SGA	98,400	(264)	(0.3)	197,400	(94)	(0.0)
Operating income	21,800	87	0.4	50,000	1,962	4.1
Ordinary income	20,000	(3,071)	(13.3)	48,000	90	0.2
Net income	13,400	(1,608)	(10.7)	28,000	1,687	6.4
ROE (%)	—	—	—	7.1	0.2	—
Dividend per share (Yen)	(End of 1H) 14	1	—	(Annual) 28	1	—

# FY2016 Segment Information

- ▶ Department Store Business is expected to increase sales mainly in flagship stores but factors in the effect of 40% decrease of sales area of Shinsaibashi store
- ▶ Opening of Sendai Parco and other stores will contribute to Parco Business in spite of temporary closing of Shibuya Parco from August
- ▶ Wholesale Business, Credit Business and Other Businesses are all expected to increase profits

(Millions of yen, %)

Fiscal year ending Feb 28, 2017	Net sales				Operating income			
	1H forecast	YoY change	Full year forecast	YoY change	1H forecast	YoY change	Full year forecast	YoY change
Department store	367,600	(1.6)	764,100	0.1	11,100	(8.6)	29,500	2.5
Parco	142,000	2.1	285,300	1.5	7,000	6.5	13,200	4.9
Wholesale	29,300	(7.9)	59,000	2.0	760	5.4	1,400	6.4
Credit	5,400	6.6	11,000	5.2	1,470	11.1	3,000	11.0
Other	50,800	2.3	104,000	(0.7)	1,540	45.2	3,300	17.6

# FY2016 Daimaru Matsuzakaya Department Stores J. FRONT RETAILING

- ▶ Slight increase in total sales of all stores due to renovation and strengthening of events in spite of 40% decrease in sales area of Shinsaibashi store
- ▶ Expect sales to grow 0.6% in 1H, 3.5% in 2H and 2.1% in full year excluding the effect of Shinsaibashi store
- ▶ Expect sales to be driven by flagship stores including Nagoya store whose phase III renovation will be completed and Tokyo and Sapporo stores

FY2016 Daimaru Matsuzakaya Department Stores sales forecast of major stores (% change YOY)

Fiscal year ending Feb 28, 2107	1H	2H	Full year
Daimaru Shinsaibashi	(17.3)	(9.1)	(13.3)
Daimaru Umeda	0.8	1.7	1.3
Daimaru Tokyo	3.4	5.4	4.4
Daimaru Kyoto	0.4	2.8	1.6
Daimaru Kobe	0.9	2.9	1.9
Daimaru Sapporo	0.5	3.9	2.3
Matsuzakaya Nagoya	0.4	5.6	3.0
Matsuzakaya Ueno	0.1	2.1	1.1
Total all stores	(1.9)	1.8	0.0
(Excluding Shinsaibashi)	0.6	3.5	2.1

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\*The sales area of Daimaru Shinsaibashi store has decreased approx 40% from Dec 31, 2015 for the rebuilding of its main building.

## Greater focus on affluent market

- ▶ Aim to acquire 14,600 new *gaisho* cardholders (13,881 in FY2015)
- ▶ Keihanshin area . . . Increase the active account ratio of new and existing customers by strengthening promotions such as events outside stores
- ▶ Tokyo area . . . Strongly promote customer acquisition with an eye to the future

FY2016 *Gaisho* sales target ¥160 bn (up 5.6% YoY)

## Greater focus on inbound tourism market

- ▶ Fix repeat customers ⇒ Issued Exclusive Card
- ▶ Expanded the adoption of WeChat payment, popular Chinese payment service  
⇒ Actively respond to diversifying payment methods

FY2016 Duty-free sales target ¥37 bn (up 9.3% YoY)



# FY2016 Daimaru Matsuzakaya Department Stores J. FRONT RETAILING

- ▶ YoY changes in gross margin are expected to be 0.00 pts in 1H and down 0.11 pts in 2H due to preopening expenses of Ginza store to be recorded as cost of sales
- ▶ Reduce total SGA ¥600 mn in spite of increases in retirement benefit expenses and preopening expenses of Ginza store
- ▶ Aim to increase operating income in spite of large effect of significant decrease in sales area of Shinsaibashi store

(Millions of yen, %)

Fiscal year ending Feb 28, 2017	1H forecast	YoY		Full year forecast	YoY	
		Change	% change		Change	% change
Net sales	326,200	(6,178)	(1.9)	677,700	189	0.0
Gross margin (%)	23.51	0.00	—	23.48	(0.05)	—
Gross profit	76,700	(1,441)	(1.8)	159,100	(306)	(0.2)
SGA	66,700	166	(0.2)	132,600	(632)	(0.5)
Operating income	10,000	(1,275)	(11.3)	26,500	327	1.2
Ordinary income	8,900	(1,901)	(17.6)	24,500	26	0.1
Net income	4,700	2,898	160.8	14,500	3,753	34.9

# FY2016 Consolidated Forecast (B/S and CF)

- ▶ Expect equity to increase ¥20.6 bn and equity ratio to increase 0.7% to 38.3%
- ▶ Expect interest-bearing debt to increase ¥14 bn to ¥195 mainly due to redevelopment
- ▶ Expect operating cash flows to increase ¥8.2 bn mainly due to profit increase and decrease in income taxes
- ▶ Expect investing cash outflows to increase ¥13.2 bn due to redevelopment of Ginza, Ueno, etc.
- ▶ Expect financing cash flows to increase ¥6 bn mainly due to increase in loans associated with the above

## <Balance sheet>

Fiscal year ending Feb 28, 2017	(Millions of yen)	
	Forecast	YoY change
Total assets	1,056,900	37,754
Interest-bearing debt	195,000	14,078
Equity	404,300	20,601
Equity ratio (%)	38.3	0.7

## <Cash flows>

Fiscal year ending Feb 28, 2017	(Millions of yen)	
	Forecast	YoY change
Operating cash flows	45,000	8,201
Investing cash flows	(53,000)	(13,259)
Financing cash flows	5,000	6,041

## Initiatives toward Medium-Term Growth

# Changes in Consumer Trends and Sales Floor Configuration of Department Stores

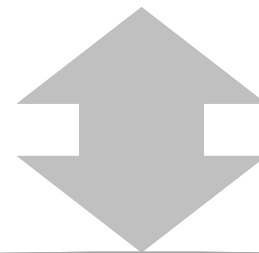
## Changes in customers

Ratio of “clothing and footwear” expenditure to consumption expenditure  
(1991) 7.3% ⇒ (2014) 4.1%

\*\*From the Family Income and Expenditure Survey of the Ministry of Internal Affairs and Communications

Increasing globalization and shift to casual styles of fashion

Changes in ways of self-expression / great changes in values



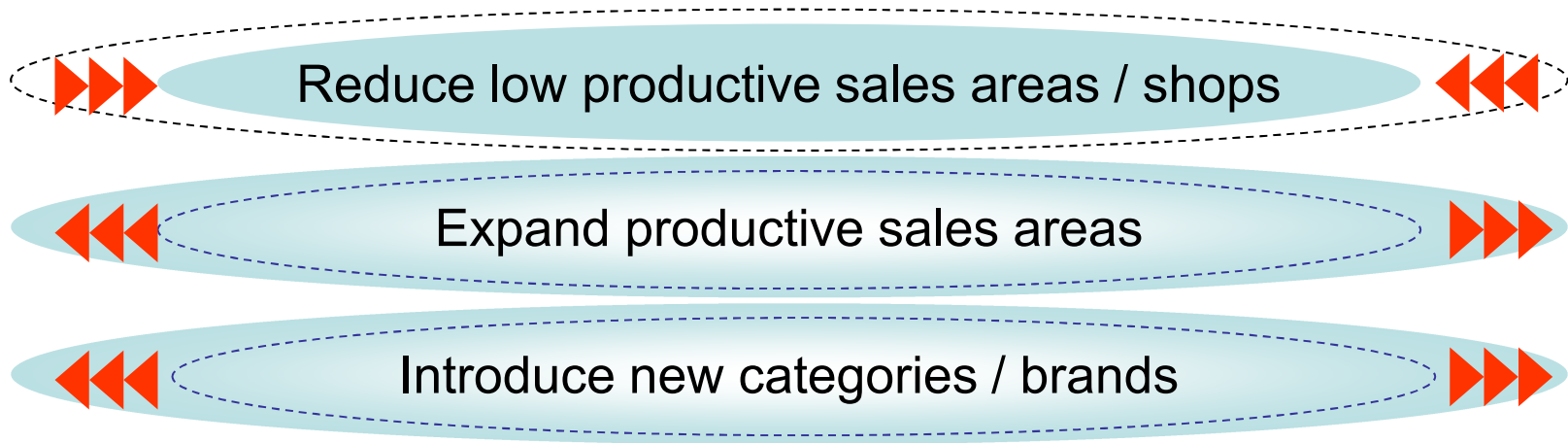
## Current status of department stores

Women’s clothing sales area in particular enlarged  
from around the bubble economy

Sales floor configuration insufficiently responds to changes in customers 19

## Overhaul sales floor configuration to adapt to market changes

Thoroughly scrutinize sales floor productivity in each store



Strengthen response to markets with growth potential

# Reopen Nagoya Store after Phase III Renovation

Massive renovation by increasing sales area 30% from spring 2015 to spring 2016



Reduce sales area 15% including women's clothing and homeware



Introduced Yodobashi Camera (Oct 2015) / Expand men's clothing and accessories (Apr 2016)



\*The photo is for illustrative purposes only.

## No. 1

### Expand the introduction of “accessible luxury”

- Relatively affordable luxury goods are future growth area
- Salon du Goût Branché opened on 2<sup>nd</sup> floor of Kyoto store last year ahead of other stores is performing well
- 2<sup>nd</sup> one opened in Shinsaibashi store in Mar and will be followed by other stores

## No. 2

### Develop mixed-category areas

- Area combining well-performing cosmetics with accessories  
⇒ Planned to open in Kyoto store
- Mature women’s fashion area with non-apparel items  
⇒ Planned to open in Tokyo store
- Launch initiatives to create new markets in individual stores from 2H FY2016

# Strengthen Original Merchandising

Shift the focus of strategy to “product development through alliance”

1<sup>st</sup> step

Rebuild Senshukai's Kcarat brand as “original fashion brand” planned and developed by Daimaru Matsuzakaya and Senshukai



Store

Umeda/Tokyo/Kyoto/Kobe/Sapporo

WEB

Start to offer online in late Apr

Centralize customer information of stores and website

Sales staff can operate tablets to make an optimal offer including items not on store shelves

Items not on store shelves can be delivered speedily using Senshukai's fulfillment



# Omnichannel Retailing

Promote initiatives to completely renew department store website

Use Senshukai's expertise and fulfillment

Fall 2016 1<sup>st</sup> renewal

Renew site design

Overhaul order processing flow

Improve user interface

Reduce delivery lead time



Expand product range including fashion, cosmetics, homeware and *depachika* food



Spring 2017 Grand opening  
(Integrate Click & Collect)



# Urban Dominant Strategy

Urban Dominant Strategy is \_\_\_\_\_

Business model to actively increase appeal of whole area with a store as its core and grow along local communities



Medium-term efforts to “increase asset value” and “monetize real estate”



\*The photo is for illustrative purposes only.

# Ginza 6-chome Redevelopment

- ▶ Build “world-class quality” commercial facilities in Japan’s most prestigious Ginza area
- ▶ Develop a large-scale complex with commercial facilities, offices, cultural facilities and a tourist hub
- ▶ Façade spans approx 115m along Chuo-dori, one of the world’s most prestigious fashion streets

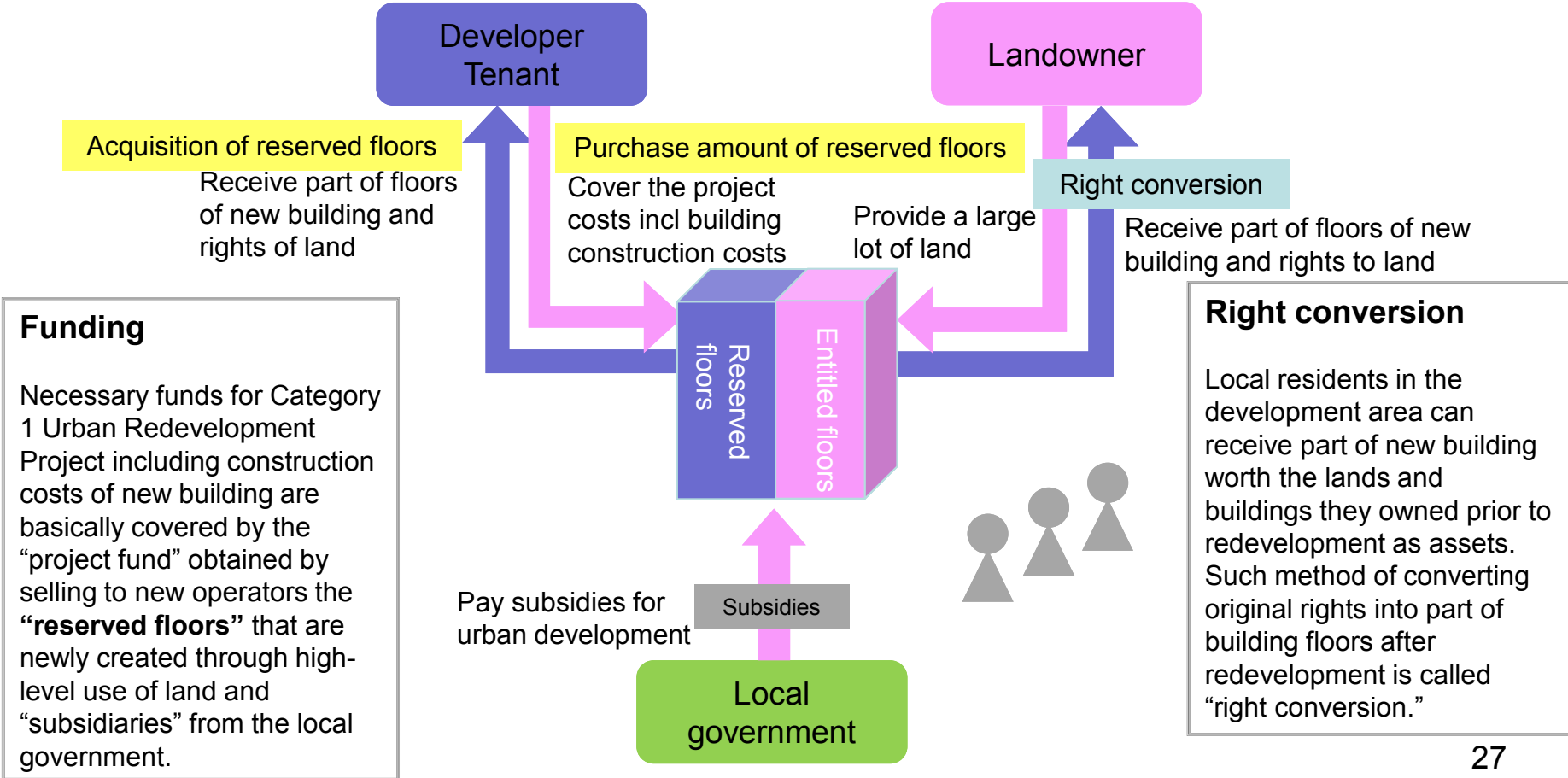


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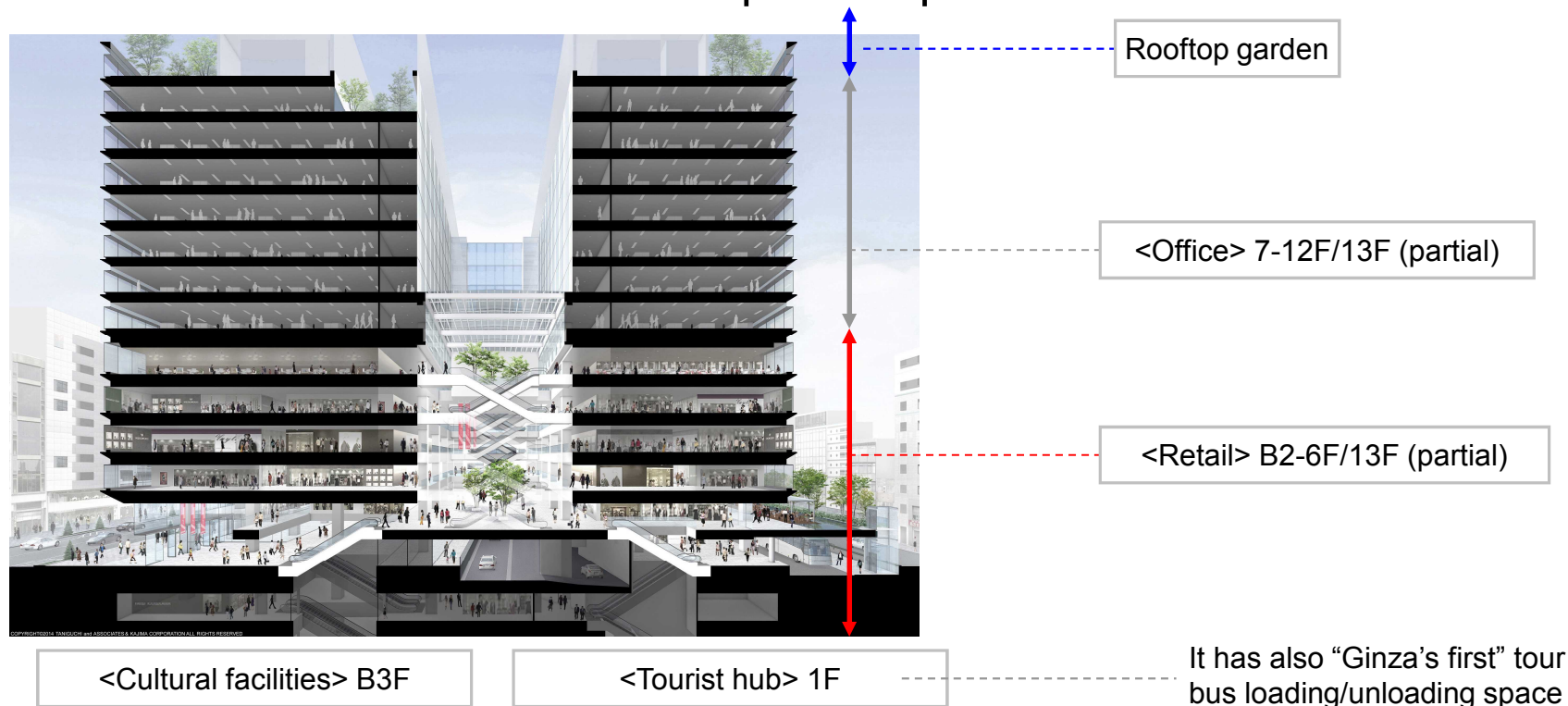
# Scheme of Ginza Redevelopment Project

**Urban Redevelopment Project**  
 The project is intended to develop buildings, building sites, public facilities, etc. in an integrated manner for rational high-level use of urban land. It is implemented according to the procedures required by law (Urban Development Act). It is classified into Category 1 (right conversion method) and Category 2 (land purchase method) and our project is Category 1 Urban Redevelopment Project.



# Ginza 6-chome Redevelopment

- ▶ Approx 240 tenants in Ginza's largest retail space as a core of redevelopment
- ▶ Operate all sales floors of approx 46,000m<sup>2</sup> with other retail space holders
- ▶ Invest approx ¥7 bn in interior work, etc. and plan to complete construction in Jan 2017 and open in Apr



Cross section from B1F to rooftop (subject to changes)

# Rebuilding of South Wing of Ueno Store

- ▶ Rebuild the south wing of Matsuzakaya Ueno store into a high-rise complex with Parco, cinema complex and offices
- ▶ Operate a large sports shop, a beauty shop and an outdoor shop around the store
- ▶ Build a business model to contribute to local revitalization and grow with local communities



\*The photo is for illustrative purposes only.

【Total floor area】 Approx 41,000 m<sup>2</sup>

【Construction】

B1F: Daimaru Matsuzakaya Department Stores

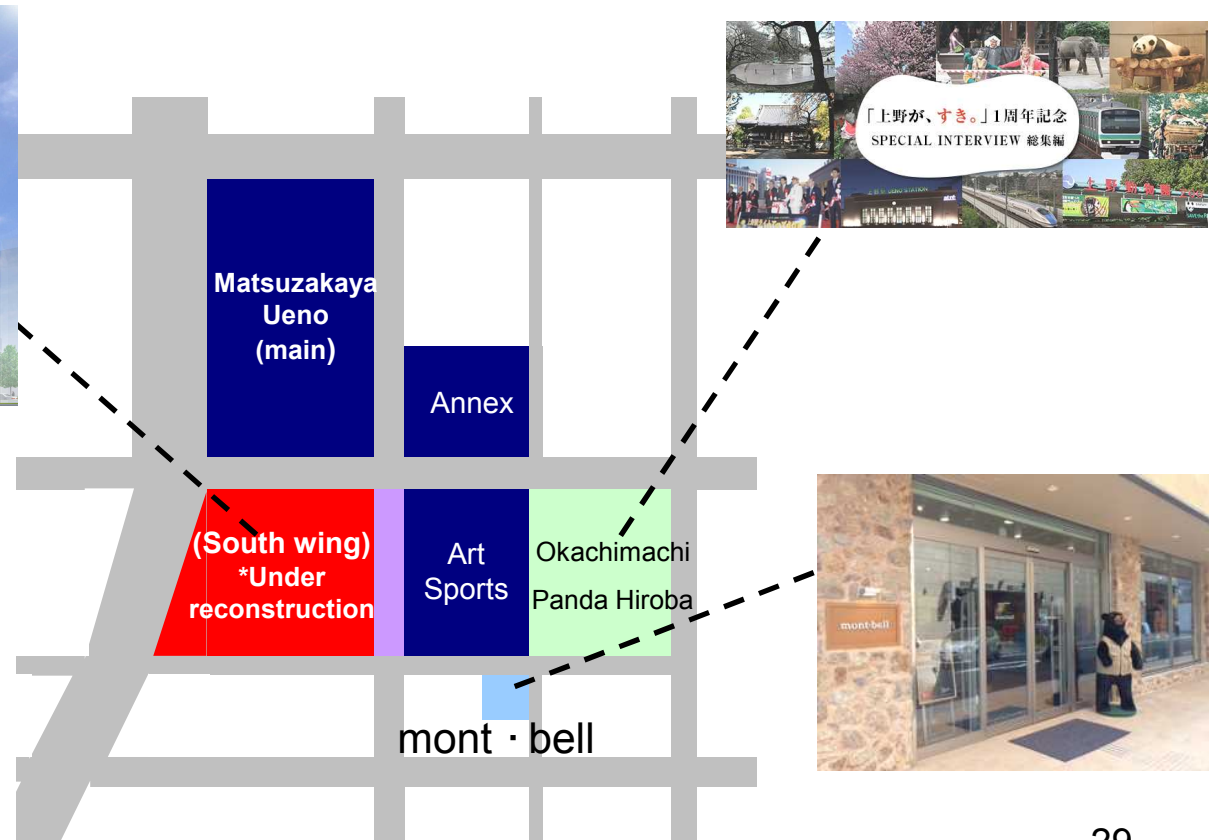
1-6F: Parco

7-10F: Cinema complex

12-22F: Offices

【Total project cost】 Approx ¥21.3 bn

(including cost of renovation-related work of main building of Matsuzakaya Ueno store)



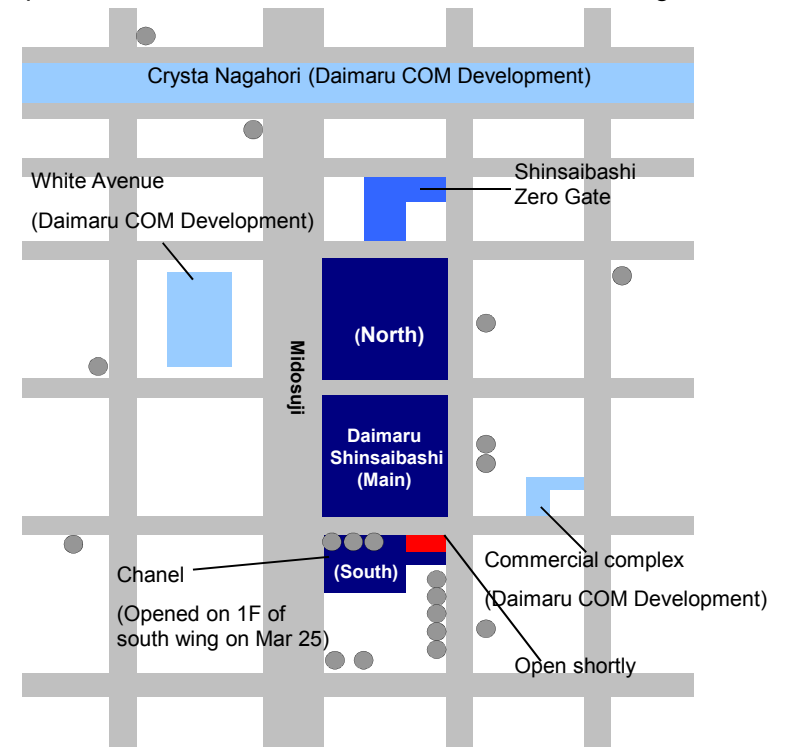
# Shinsaibashi Store Rebuilding Project

- ▶ Radically strengthen regional competitiveness by rebuilding main building of Daimaru Shinsaibashi store
- ▶ New main building will open with 30% increased sales area in fall 2019 as a full-scale department store
- ▶ Introduce large specialty shops and popular brands in north wing for stable rental revenues
- ▶ Complete connection between main building and north wing in spring 2021 after rebuilding main building. Invest approx ¥38 bn.



\*The photo is for illustrative purposes only.

<Map of Daimaru Shinsaibashi store and its surroundings>



\* ● denotes the stores operated by Shinsaibashi store.

# Shibuya Udagawa Area Development

- ▶ Tokyo Metropolitan Government decided an urban plan in Dec 2015 concerning Udagawa-cho 15 Development Project proposed by Parco Co., Ltd. and the project kicked into gear for concrete implementation.



<Overview>

Developer	Parco Co., Ltd.
Location	Udagawa-cho 15 and part of Udagawa-cho 14 Shibuya-ku, Tokyo
Intended purpose	Stores, offices, business incubation facilities, commercialization support facilities, cultural facilities (e.g. theaters), car parking, etc.
Land area	Approx 5,380 m <sup>2</sup>
Total floor area	Approx 65,000 m <sup>2</sup>
Number of floors	20 above ground / 3 below ground
Height	Approx 110 m
Planned construction period	March 2017 – September 2019

<Contribution to urban revitalization>

- 1) Enlivenment of area surrounding Shibuya station
  - Develop pedestrian network to enhance foot traffic and energize town
  - Enliven area through area management, cultivation of fashion and theater culture, and communication of trends
- 2) Implementation of local-issue initiatives, improvement of disaster response and reduction of environmental impact
  - Improve community delivery sorting area
  - Improve support capabilities for people unable to return home in the event of disaster
  - Take measures to reduce environmental impact

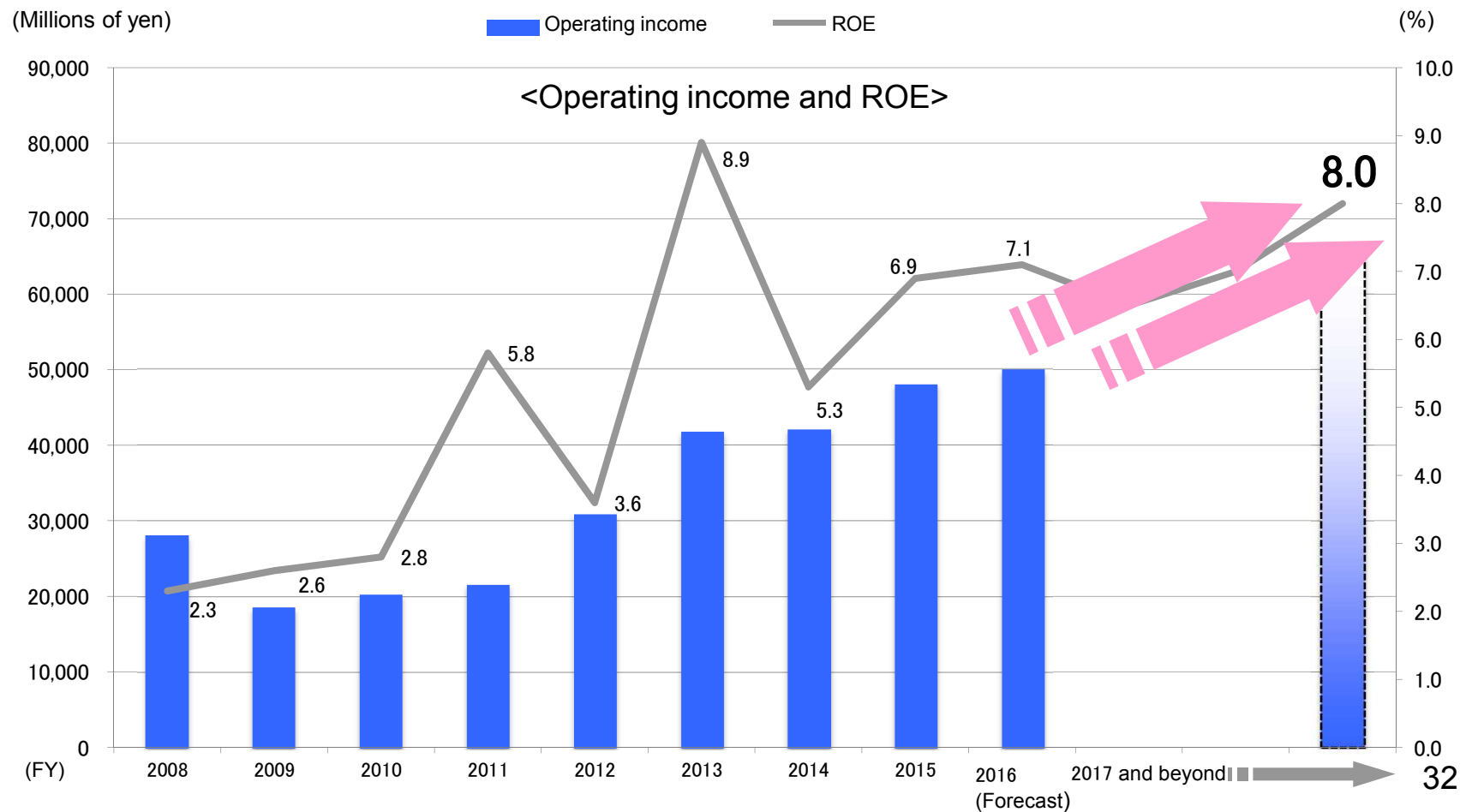
\*The photo is for illustrative purposes only.

\*From timely disclosure materials dated Jun 30, 2015

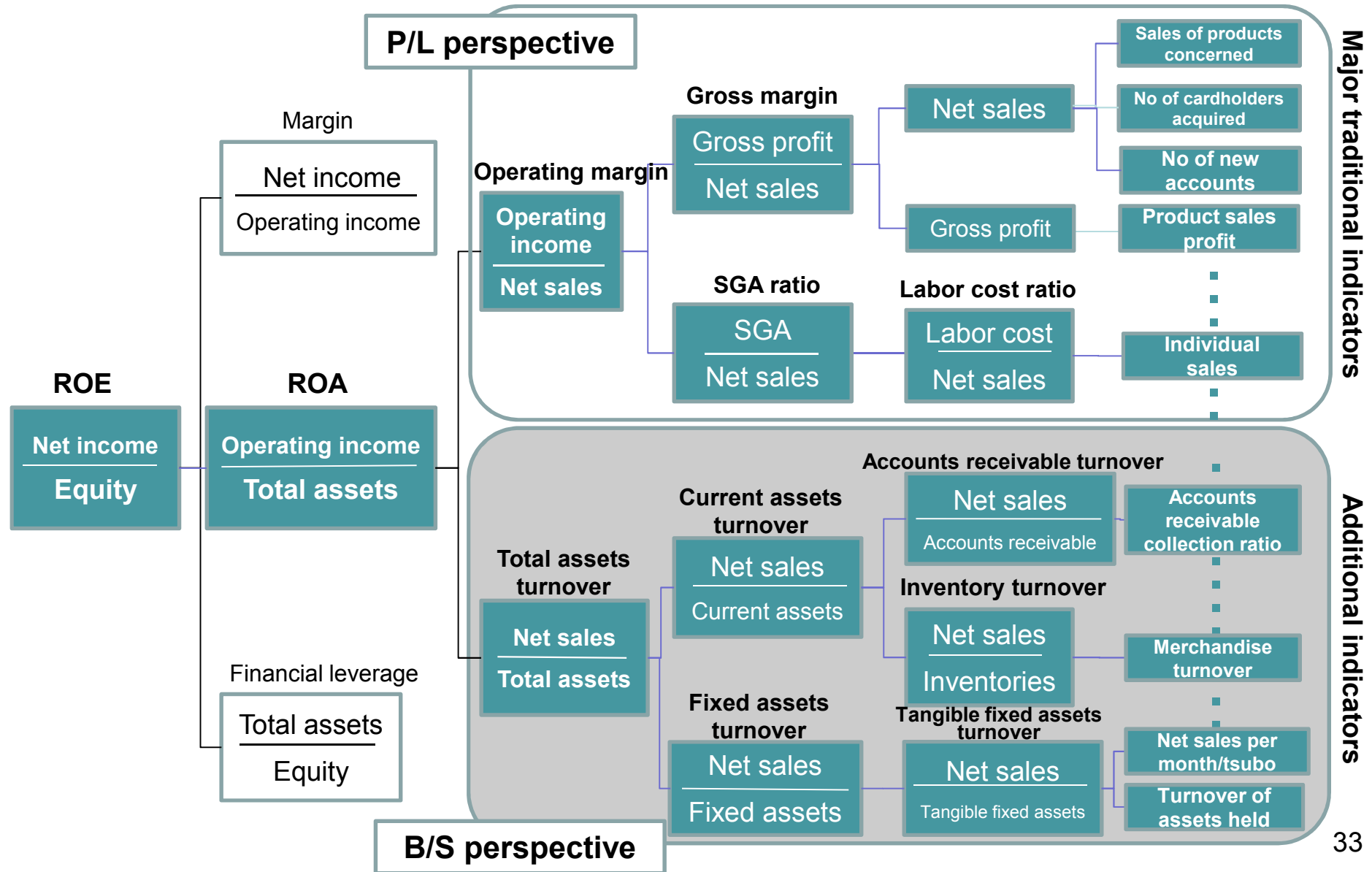


# Sustainable Growth toward ROE of 8%

- ▶ Need to reach ROE of 7.1% in FY2016 as milestone to achieve mid-term ROE target of 8%
- ▶ With top priority on profit growth, continue to improve ROE while investing toward growth



# Example of Store Indicators Adopting B/S Perspective J. FRONT RETAILING

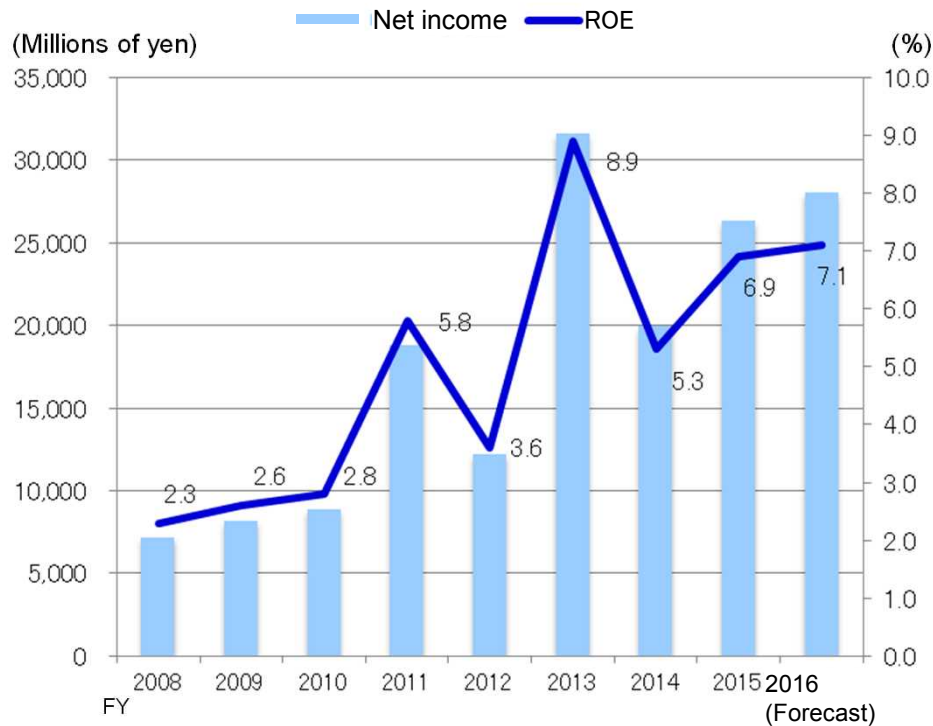


Major traditional indicators

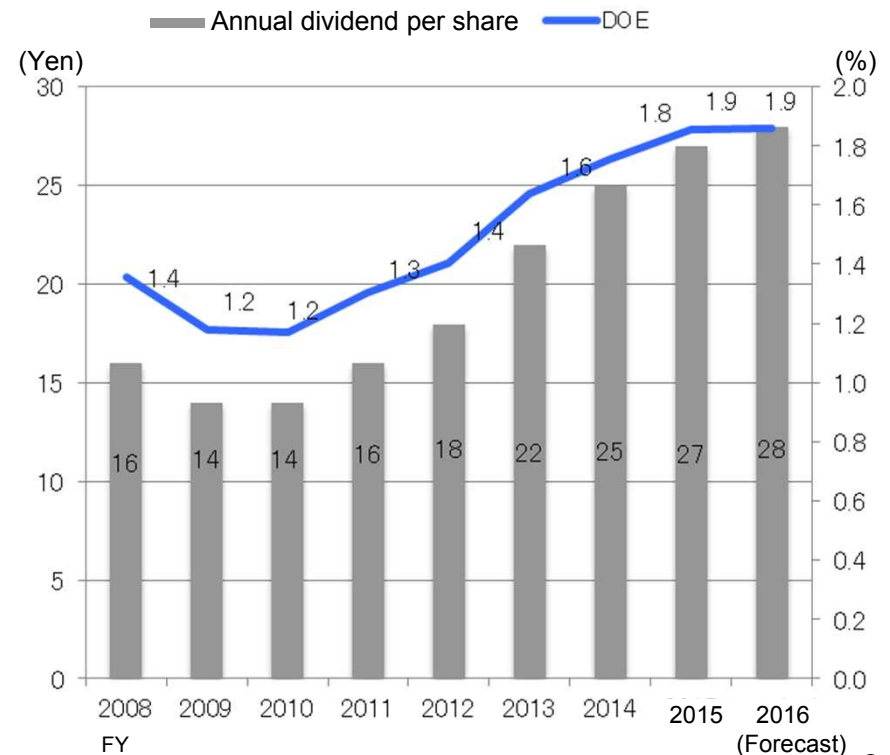
Additional indicators

- ▶ Basic policy is to appropriately return profits targeting dividend payout ratio of at least 30%
- ▶ Consider share buyback as appropriate to improve capital efficiency and flexibly implement capital policy
- ▶ Repurchased own shares of ¥5 bn in Apr to May 2015 and plan to increase annual dividend in FY2016 for 6 consecutive years

<Net income and ROE>



<Dividend\* and DOE>



\*Annual dividend per share is shown on a post-share consolidation basis.

## Published Corporate Governance Guidelines in Dec 2015

<3 points we focused on>

### Strengthen the operation of the Board of Directors based on third-party assessments

- Reviewed agenda standards from both qualitative and quantitative aspects to focus on muscular strategy discussions
- Outside members attended discussions on important matters including vision and medium-term plan from process stage

### Improve the function of Human Resources and Remuneration Committee and ensured its transparency

- Changed Human Resources and Remuneration Committee, which had been chaired by President, to be chaired by Outside Director
- Improved transparency and objectivity through discussions based on objective third-party data, etc.

### Hold Governance Committee meetings using knowledge of Outside Directors and Outside Audit & Supervisory Board Members

- Comprises 7 members including TACHIBANA FUKUSHIMA Sakie and OTA Yoshikatsu (Outside Directors) and TSURUTA Rokuro, ISHII Yasuo and NISHIKAWA Koichiro (Outside Audit & Supervisory Board Members) and Chairman and President

Initiatives to enhance corporate governance by strengthening governance have just started



Publish governance guidelines

Hold results presentations and meetings

Actively disclose information



Opportunities to deepen constructive dialogue with investors and analysts



“Output stage” to generate tangible results



Sustainable growth and improvement of corporate value

Website

<http://www.j-front-retailing.com>

**facebook**

<http://www.facebook.com/J.FrontRetailing>



**J. FRONT RETAILING**

Forward-looking statements in this document represent our assumptions based on information currently available to us and inherently involve potential risks, uncertainties and other factors. Therefore, actual results may differ materially from the results anticipated herein due to changes in various factors.