Trias Company Memo 2010-06-11

（7483 TSE1）DOSHISHA CO., LTD.
Summary of Business Results Meeting for Fiscal Year Ended March 31, 2010 and its Follow-Up Interview

On May 18, 2010, Trias Corporation attended the FY03/10 Business Results Meeting of DOSHISHA Corporation (hereinafter DOSHISHA or the Company), which was followed up later by an interview. The following is a summary of both the meeting, which included a Q&A session, and interview. The former was led by Masayuki Nomura, Representative Senior Managing Director, while the latter was conducted with Shinichi Takagaki, Director of Marketing and Investor Relations & Public Relations.

【Corporate Profile and Business Model】

DOSHISHA was founded in 1974 as a wholesaler of sundry goods for daily use. Since then, it has expanded its business field to include the development and sales of original products, from cabinets to home appliances and processed foods, while handling the wholesale, planning and sales of premier foreign brand products. The Company’s core strength lies in its proprietary marketing and product development capabilities, built up through strong ties to some 1,300 suppliers, of which the majority are based abroad, as well as to its diverse distribution channels which supply some 3,000 domestic clients. DOSHISHA’s profit growth strategy is based on developing latent needs through innovative solutions to provide products of niche markets that the major companies prefer not to enter. By providing customized products that meet specific consumer demand at low prices, the Company aims to generate ¥5 billion in annual sales at the retail level per division (or DIV, as DOSHISHA prefers to call it). When the DIV surpasses sales of ¥5 billion, it will be reconstituted into smaller units to mine even further new needs—a system that aims to develop 50 DIVs, each generating ¥5 billion. At the beginning of FY03/11, three new DIVs were launched, increasing the number to 20 DIVs in total.

Through its divisions, DOSHISHA is engaged in three business models: its Private Brand (PB), Premier Brands (or FB for Famous Brands), and Gifts, or what it terms NB Processing. The PB business model is the most profitable because the home-use cabinetry and appliances it sells are planned, developed and manufactured in-house. It concentrates mainly on lifestyle-related products in niche markets that are not only difficult for major manufacturers to exploit, but are also relatively free from major retailers, which are not focusing their own product development resources to tap them. Among the leading PB products are pre-assembled *Luminous* brand steel racks and design-oriented humidifiers, which are selling well due to their functionality, design and low prices. The FB business model leverages a supplier network developed over the years to provide such premier brand goods as wristwatches and handbags to specialty shops and discount electronics retailers on a stable basis and at lower prices than the competition. DOSHISHA has earned a reputation for premium quality from clients because it boasts a system that prevents the distribution of imitation products. The NB Processing model primarily offers gift packages of the national brands produced by major makers that it assorts in-house, as well as markets imported wines and food products. The sales growth rate of gift packages—which are theme-oriented (summer and winter goods, for example) and consist of products made by different national makers—is high due to the variation and low prices.

【FY03/10 Business Results Summary】

Consolidated sales for FY03/10 was ¥86.6 billion, an increase of 7.1% on a year-on-year basis. Operating income was ¥7.7 billion, a 53.6% y/y gain. Net sales were below the target forecast as of January 2010, but profits were better than the forecast as a result of improved gross margins, mainly in the PB business. [Trias Note: We believe a key determinant in the gross margin improvement has been due to the strong yen, given that 70% of the Company's purchases—which are dollar-based and with half bought in advance—are made abroad.] See Table 1 for net sales by business model. In the PB business, sales of home appliances and products, as well as audiovisual products, including aroma diffusers and mug bottles, performed well. For the FB business, while sales of wristwatches and other luxury goods struggled in the first half, sales of low-price casual handbags and functional cosmetics performed well. The NB Processing business also performed well, buoyed by a broader sales channel for original gift packages, as well as by sales from prize-winning wines, a low-cost beer alternative, sweet roasted chestnuts, Valentine chocolates and other goods. As a result of broadening its client base, the ratio of sales from new clients and from expanded retail floor space (such as setting up new food gift corners in home centers) to total sales was 5.1%. Nonconsolidated sales from the top three channels are as follows: ¥14 billion from general merchandising stores (or GMS, which recorded a y/y increase of 13%); ¥12.2 billion from home centers (up 14% y/y); and ¥9.3 billion from volume discount retailers (a gain of 3% y/y). As for other channels, sales from drug stores leaped by 69%, while catalog sales also soared by 57%. In contrast, sales to specialty retailers such as shoes and import goods were hit by poor first-half results, falling 22%. Sales to ¥100 shops also declined 7%.

Table 1: FY03/10 Net Sales by Business Model and Consolidated Earnings Summary

	FY3/09		FY3/10		
(¥Million)	Actual	Composition Ratio	Actual	Composition Ratio	y/y Change
Net Sales	80,898	100.0%	86,629	100.0%	7.1%
PB	35,726	44.2%	37,036	42.8%	3.7%
FB	22,946	28.4%	24,315	28.1%	6.0%
NB	18,611	23.0%	21,515	24.8%	15.6%
Others & Affiliated Companies	3,613	4.5%	3,762	4.3%	4.1%
Gross Profit	19,649	24.3%	22,233	25.7%	13.2%
SG&A	14,635	18.1%	14,532	16.8%	-0.7%
Operaitng Income	5,014	6.2%	7,701	8.9%	53.6%
Ordinary Income	5,131	6.3%	7,593	8.8%	48.0%
Net Income	2,558	3.2%	4,293	5.0%	67.8%

【FY03/11 Earnings Forecast】

The Company's earnings forecast for FY03/11 is ¥91 billion in consolidated net sales, a y/y increase of 5.0%, and ¥8 billion in operating income, a gain of 3.9% y/y. Because the forecast is the sum of conservatively based projections of each business model, DOSHISHA believes it will be relatively easy to achieve. Given that the ratio of products developed in-house is growing in all three business model lines, the Company has decided to revamp its previous segmentation of product lines and will, from this fiscal year, categorize them whether they are "Internally developed" or for "Wholesale", as well as a class termed "Others". In the future, DOSHISHA aims to capitalize on its manufacturing capabilities by expanding its lineup of products developed in-house, and step up the marketing of these high-profit original goods. For FY03/11, it projects sales growth of 6.9% from these internally developed goods. The three newly launched DIVs, which specialize in wristwatch development, apparel for children and lighting systems, are all development-type businesses. In terms of products, the Company is also expecting higher sales from design-oriented humidifiers, mug bottles, low-cost LED lights and wristwatches and handbags sold under its proprietary brand, *Rubin Rosa*—all of which have performed well since last year.

Table 2: Forecast of New Segment Net Sales and FY03/11 Consolidated Earnings

(¥Million)	FY3/10 Actual	FY3/11 Forecast 1H	2H	Full Year	y/y
Net sales	86,629	41,800	49,200	91,000	5.0%
Internally developed	42,267	20,600	24,600	45,200	6.9%
Wholesale	40,600	19,400	22,600	42,000	3.4%
NB Processing	19,816	10,300	10,600	20,900	5.5%
Famous Brand	20,785	9,100	12,000	21,100	1.5%
Others	3,762	1,800	2,000	3,800	1.0%
Gross Profit	22,233	10,600	12,700	23,300	4.8%
SG&A	14,532	7,500	7,800	15,300	5.3%
Operating Income	7,701	3,100	4,900	8,000	3.9%
Ordinary Income	7,593	3,100	4,900	8,000	5.4%
Net Income	4,293	1,800	2,850	4,650	8.3%

Note: FY03/11 forecasts announced at the business results meeting

【Strategy Based on Point of Sales and Sales Approach】

Last year, sales from the Company's channels to GMS and home centers were significantly higher—the result of DOSHISHA focusing the primary thrust of its marketing effort on ten of its largest clients from a client base of 3,000 firms. For example, it began selling lifestyle goods and food gift packages to major GMS outlets that had previously traded mostly in brand products. The Company believes the opportunity to secure greater retail floor space is ripe for further growth beyond this fiscal year. It also plans to push into foreign markets through its China subsidiary, as well as through distributor partnerships in China and South Korea.

DOSHISHA is adopting a variety of marketing methodologies that exploit the special characteristics of each product. It is assigning importance to the way the high value added products the Company has been focusing on recently are being sold. One example in which this has succeeded is the design-oriented humidifier, which it began selling in specialty stores such as Francfranc, thereby enhancing consumer recognition while retaining its premium value. DOSHISHA believes that by carefully making its products more recognizable, it can create new market opportunities. On the other hand, for products such as LED lights whose markets are expected to expand significantly in the future, it is resorting to a marketing strategy emphasizing low prices. Although its *ROBRO* Internet TV set is struggling because the market remains small, if the alliance between Sony Corporation and Google, as well as other companies, succeed in raising public recognition of such products, the Company believes it stands to benefit from their success.

【Q&A Session at Business Results Meeting】

Q1: What is the sales forecast for LED lights in FY03/11? DOSHISHA has previously stated that it would be more selective of the retailers it would supply.

A1: We will not be more selective. Insufficient production volume limited the Company to the type of retailers it could supply in the previous fiscal year. For this fiscal year, it plans to aggressively market the product without regard to retailer category.

Q2: Why did DOSHISHA's sales to volume discounters slump last term?

A2: That was because those discounters that sell premier brands were struggling at the time.

(This concludes our summary of the Business Results and Follow-up Interview)

【Reference】DOSHISHA CO., LTD. (Securities Code: 7483)

Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)		
No. of Shares Issued	Mar. 2010	18,687,818
No. of Treasury Stock	Mar. 2010	537,966
Market Value (¥million)	June 11, 2010	38,347
BPS (¥)	Mar. 2010	2,074.6
ROE (%) ※1	Mar. 2010	12.0
ROA (%) ※2	Mar. 2010	9.4
PER (times)	FY3/10 est.	8.0
PCFR(times) ※3	Mar. 2010	8.3
PBR (times)	Mar. 2010	1.0
Share Price (¥)	June 11, 2010	2,052
Unit Share (shares)	June 11, 2010	100
Average Daily Volume (shares) ※4	June 11, 2010	51,192

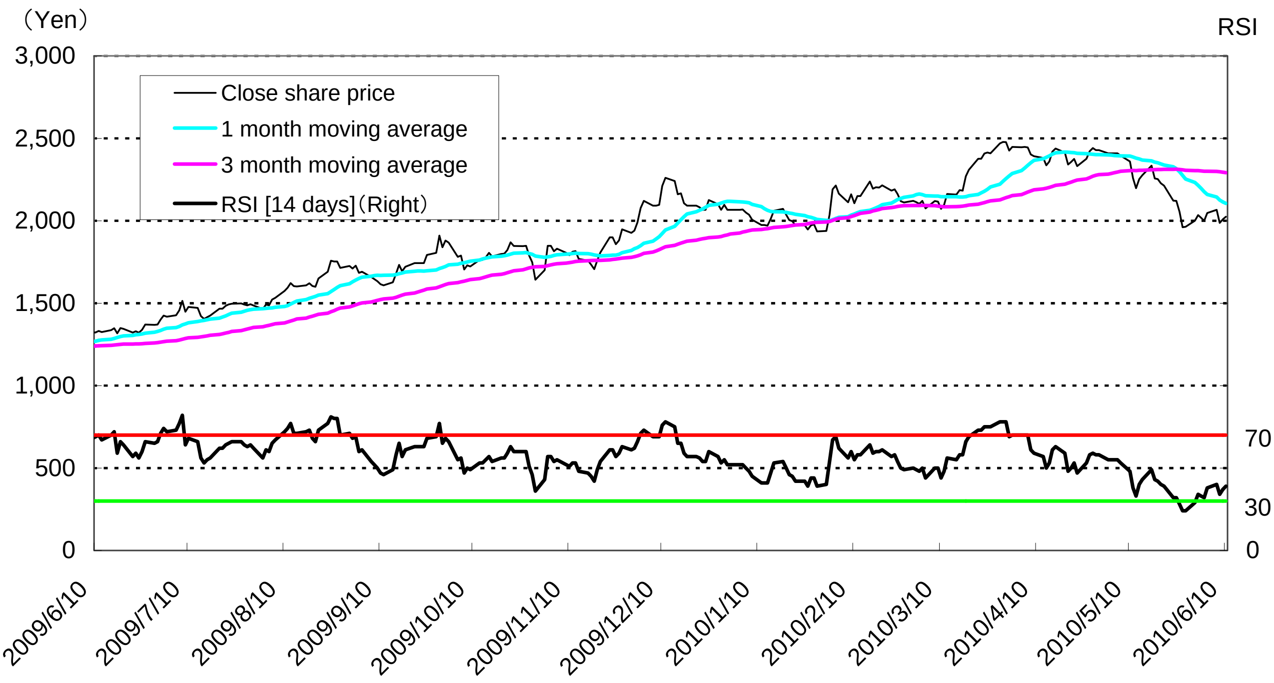
Key Financial Data (Consolidated)		
Total Assets (¥million)	Mar. 2010	48,746
Shareholders' Equity (¥million)	Mar. 2010	37,653
Interest-Bearing Debt (¥million)	Mar. 2010	2,188
Equity Ratio (%)	Mar. 2010	78.3
Ratio of Interest-Bearing Debt (%) ※5	Mar. 2010	5.8
Free Cash Flows (¥million) ※6	Mar. 2010	5,157

※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end
※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end
※3 PCFR=Maket Value÷(Current Net Income+Depreciation)
※4 Average Daily Volume=Average Daily Volume for the last 12 months
※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity
※6 Free Cash Flows=Operating CF+Investment CF

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY3/07	82,026	5,131	5,338	3,298	170.7	45.00
FY3/08	83,140	5,144	5,183	2,849	154.4	45.00
FY3/09	80,140	5,015	5,131	2,558	140.9	45.00
FY3/10	80,899	7,701	7,594	4,293	236.5	55.00
1H FY3/11 fcst.	41,800	3,100	3,100	1,800	99.2	22.50
FY3/11 fcst.	91,000	8,000	8,000	4,650	256.2	45.00

Note: FY3/11 forecast announced on May 7, 2010

Share Price Charts and RSI



Source: Prepared by Trias Corp. with Bloomberg L.P. data.
Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices.
In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.
RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days +averaged share price decline for N days) x100