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TSE 1st Section

DOSHISHA CORPORATION

Summary of Business Results for the Fiscal Year ended March 31, 2013

On May 16, DOSHISHA CORPORATION (hereinafter "DOSHISHA" or the "Company") held its Business Results Meeting for FY3/13. The following is a summary of the meeting.

Summary of FY3/13 Consolidated Business Results

As seen in Table 1, net sales and incomes decreased in FY3/13. Among the major factors for the decline was the blowback from the one-time demand of LCD TVs as a result of the transition from analog to digital TV broadcasting, sluggish retail sales caused by unstable, unseasonable weather, and an increase in costs triggered by rapid changes in the Company's operating environment—all of which exceeded projections. Consequently, following an inventory adjustment, the rapid depreciation of the yen, and a one-time increase in advertisement budget, gross profit fell by 4.8% YoY while SG&A expenses rose by 5.3% in the same period, resulting in a 23.7% YoY decrease in operating income.

【Table 1】 FY3/13 Consolidated Business Results Summary

Consolidated	FY3/12		FY3/13			
(¥ million)	Actual	Ratio to Net Sales	Forecast on Oct. 31	Actual	Ratio to Net Sales	YoY Chg
Net Sales	**102,619**	**100.0%**	**102,000**	**99,221**	**100.0%**	**-3.3%**
Product Development Model	54,602	53.2%	51,800	50,251	50.6%	-8.0%
Wholesale Model	45,597	44.4%	47,600	46,033	46.4%	1.0%
Others	2,419	2.4%	2,600	2,937	3.0%	21.4%
Gross Profit	25,354	24.7%	25,400	24,129	24.3%	-4.8%
SG&A Expenses	16,487	16.1%	17,200	17,368	17.5%	5.3%
Operating Income	**8,866**	**8.6%**	**8,200**	**6,761**	**6.8%**	**-23.7%**
Ordinary Income	**8,917**	**8.7%**	**8,300**	**7,395**	**7.5%**	**-17.1%**
Net Income	**5,001**	**4.9%**	**5,100**	**4,491**	**4.5%**	**-10.2%**

Note: Company financial data, complied by Trias Corporation

Trends by Business Segment

Product Development Model Business: ¥50,251 million (-8.0% YoY)

Given the ongoing blowback from the one-time demand generated by the transition to digital broadcasting, TV sales declined by some ¥5 billion YoY. In addition, with NB makers clearing inventory, it became difficult to maintain profitability in this line of business. In contrast, sales of LED lights, functional and stylish electric fans, and low-energy heaters, remained strong. Moreover, the business recorded higher sales in special-function shampoos (featuring a good price-to-function balance), hyaluronic acid essence cosmetics, diamond jewelry, Beaujolais Nouveau, campaign wines, edible decoration package series, and new-category offerings such as shoes, sandals, mug bottles and stainless tumblers.

Wholesale Model Business: ¥46,033 million (+1.0% YoY)

This business line performed well, posting sales growth in high unit price/high discount gifts—which was buoyed by successful special sales campaigns held at underutilized retailer floor space—as well as Buddhist ceremonial goods and reciprocal gift-giving products. Among premier brand products, handbags continued to post strong sales from the previous term. In addition, while initial sales of brand-name wristwatches appeared to slip below that posted in FY3/12, it managed to stage a solid recovery in the latter half of 2H FY3/13.

Others

As for net sales by sales channel, sales from discount consumer appliance stores and home centers declined by 19.1% and 13.4% YoY, respectively, due to the one-time demand blowback. However, sales from other channels—including drugstores, 100-yen shops and Internet-based marketing grew steadily, rising 25.7%, 10.3% and 9.1%, respectively.

Although merchandise and finished goods listed in the consolidated balance sheets increased by ¥1,155 million, this was a result of delivery of spring merchandise, and thus accumulated inventory declined on a YoY basis.

Consolidated Forecasts for FY3/14 and Key Initiatives

As Table 2 shows, the Company projects an increase in consolidated net sales and incomes in FY3/14, driven by the implementation of priority initiatives to accelerate the rollout of profit-oriented products and other strategic programs.

【Table 2】 FY3/14 Consolidated Business Forecasts

Consolidated (¥ million)	FY3/13 (Actual) 1H	2H	Full Year	FY3/14 (Forecast) 1H	2H	Full Year	YoY Chg
Net Sales	**46,984**	**52,237**	**99,221**	**50,500**	**56,500**	**107,000**	**7.8%**
Product Development Model	23,411	26,839	50,251	25,080	29,240	54,320	8.1%
Wholesale Model	22,368	23,664	46,033	23,940	26,050	49,990	8.6%
Others	1,204	1,733	2,937	1,480	1,210	2,690	-8.4%
Gross Profit	11,780	12,349	24,129	12,200	13,900	26,100	8.2%
SG&A Expenses	8,532	8,835	17,368	8,650	9,450	18,100	4.2%
Operating Income	**3,247**	**3,513**	**6,761**	**3,550**	**4,450**	**8,000**	**18.3%**
Ordinary Income	**3,370**	**4,025**	**7,395**	**3,550**	**4,450**	**8,000**	**8.2%**
Net Income	**2,043**	**2,448**	**4,491**	**2,200**	**2,700**	**4,900**	**9.1%**

Note: FY3/14 forecasts announced on May 16, 2013

Key Initiative 1

1. Accelerate development of profit-oriented products

[Responding to yen depreciation and consumption tax increase]

The cost of imported goods is increasing with the continued depreciation of the yen, a factor that defies cost management control. And while retailers are fully cognizant of its impact, they have been forced into a situation in which they cannot condone raising prices on these goods. This means DOSHISHA must restructure its product lineup in order to sustain profitability. Fortunately, new product development, product refinements, and product upgrades are what the Company excels in. It is now aiming to generate profit by maximizing its extensive knowledge base and core competences, and to accelerate the pace of new product development. We thus see a performance rebound occurring from 2H FY3/14 with the rollout of new products well on its way by that time.

[Decentralizing production to reduce China risk]

In light of the existing situation in China, there are valid concerns regarding rising raw material prices and the ability to secure a stable supply of products. In order to reduce the risks associated with China, the Company will be moving into Vietnam, Bangladesh, Thailand, Myanmar and other Asian countries to establish production sites.

2. Increase ratio of in-house development and new retail accounts

In an economic environment in which the only constant is change, it is imperative to develop products and private-brand goods that meet through specialized expertise the proprietary needs of major clients. DOSHISHA boasts a sales network consisting of some 3,500 companies, and it plans to reinforce ties to its major clients by working with them not only on a division level, but also on an entire-company basis.

3. Reforming earnings structure and reducing SG&A expenses

The Company aims to reduce costs by revamping its distribution system through such measures as developing an in-house product shipment regime and constructing external storage facilities on its own.

Key Initiative 2

1. Product Development Model Business

In order to differentiate itself from the competition and enhance competitiveness, the Company is aiming to enhance and expand this business line by organizing divisions along product categories in which it commands high market shares and related areas, enabling these units to focus on and specialize in these markets as growth drivers. By doing so, DOSHISHA believes it can achieve its goal of establishing a growth regime of 50 divisions, each generating ¥5 billion in sales. From FY3/13, a Marketing Project Team was established, a unit consisting of specialized staff that will identify new product categories to enter as well as assess and select the appropriate products to develop. This business line will also expand its handling of licensed brands from abroad, effectively developing synergy between these products and the diverse lineup of products unique to the Company that it already manufactures and sells.

2. Wholesale Model Business

DOSHISHA has enabled retailers to maximize floor space dedicated to special annual events—including midsummer and yearend gift giving periods, as well as Christmas sales—with proposals to promote local or regional foods such as ramen noodles from throughout Japan during downtime periods. These promotions are bearing fruit, and the Company aims to continue offering such promotions. It has also embarked on a new initiative, the parcel delivery of gifts; as a result, it can now deliver perishable delicatessen foods, including hams and fruits, directly to customers. While the parcel system can only handle single-item gifts at this time, the plan is to expand this to variety assortment gifts-—an area in which it excels—in the near future. As for brand-name products, DOSHISHA, given its past performance, is recognized for its strong share of sales in markets outside of department store and distributor sales. Companies are not only supplying new brand products as a result, other firms are negotiating with DOSHISHA to license their trademarks, and it is now aggressively moving to enter into partnerships to rollout additional brands.

Mid-Term Management Plan

Given the Company's rapidly evolving operating environment and its performance thus far, DOSHISHA is revising its mid-term management plan: it now expects consolidated net sales projected for FY3/16 to decline from ¥150 billion to ¥130 billion, while consolidated operating income slips from ¥13 billion to ¥11 billion. It remains committed to its ultimate goal of net sales of ¥250 billion generated through 50 divisions, but will achieve this through steady, less ostentatious progress rather than rapid, yet ultimately unstable leaps forward.

Q&A Session

Q1. Describe in greater detail plans to revamp your distribution system to pare costs.

A1. Up until now, deliveries of packages from warehouses to client-retailers were outsourced to an external parcel delivery firm on a single-item basis. We believe we can slash transportation costs by chartering delivery vans and sorting packages by region ourselves, and extending this service to our clients as well. While we currently have two warehouses, one in Osaka and another in Tokyo, we realized that our delivery methods were not entirely efficient. To improve efficiency, we are in the process of optimizing and standardizing the packages we ship. Of the ¥17.3 billion in SG&A expenses incurred in FY3/12, some 30% came from distribution costs. We plan to initiate our distribution reforms in 2H of this term.

Q2. You said that the product development and sales regime is to include component analysis functions for cosmetics. Does this mean you plan to make cosmetics?

A2. No, there are no plans to become a cosmetic maker. The crux of our profit-oriented product development strategy is to manufacture products that are in high demand and sell them quickly. Getting into cosmetics invites too many problems; you have to deal with the Pharmaceutical Affairs Act, and it demands a huge investment in work and cost. We acquired an analysis lab three years ago and used it as a base to launch our Health & Beauty Division. We turned a profit last year, but our only goal at this time is to focus on accelerating our product development process and sell products that are in demand.

Q3. You cited inventory adjustment and depreciating yen as causes of the gross margin decrease in FY3/12. Could you elaborate on this a bit?

A3. Our 3Q gross margin last term was 25.7% versus 24.7% this term; for the Q4, it was 21.9% versus 23.7%—a drop-off of 1.8%. This decline was due primarily because inventories for fall and winter items were cleared in Q4. Moreover, while we set aside a foreign exchange reserve for foreign procurements for both the 1H and 2H, there are certain products that need to be procured at the last minute, meaning these latter items are what were impacted by the rapid depreciation of the yen—and this is what is squeezing our gross profit margin. We are currently negotiating our procurement of fall and winter items, and we intend to incorporate a risk hedge to offset further forex volatility. As a result, we should see a recovery in our gross profit margin in this term.

Q4. Why did SG&A expenses increase despite the decline in revenues?

A4. Our SG&A expenses rose some ¥880 million over the full year. Among the primary factors for this were the rise in distribution and labor costs. Higher labor costs were caused by an increase in payroll, following the hiring of new university graduates and an increase in product development personnel. We also spent over ¥100 million for our advertising budget to produce and promote *Indefinie*, our special-function shampoo, on TV. Our ad budget is not expected to rise this term mainly because the commercial has already been produced and expenses will be limited mostly to air-time fees.

Q5. How did the main product for the Product Development Model Business perform in FY3/13, last term, and what are its performance prospects for FY3/14, this term?

A5. We believe that plummeting TV sales have bottomed out. Meanwhile, sales of LED lighting rose by 50% YoY in last term, and we project a 30% increase in this term as well. Sales of electric fans have also jumped by 35%, and the forecast calls for another 10% rise in this term. While sales of our lifestyle products declined in last term, we plan to increase sales in this term by expanding our product lineup in newly developed frying pans, home electronics and home goods.

Key Stock Indicators and Financial Data

No. of Shares Issued	Mar. 2013	37,375,636
No. of Treasury Stock	Mar. 2013	84,334
Market Value (¥mn)	Jun 17, 2013	52,027
BPS (¥)	Mar. 2013	1,319.41
ROE (%)	Mar. 2013	9.5
ROA (%)	Mar. 2013	7.5
PER (times)	FY3/14 fcst.	10.6
PCFR(times)	Mar. 2013	10.4
PBR (times)	Mar. 2013	1.1
Share Price (¥)	Jun 17, 2013	1,392
Unit Share (shs)	Jun 17, 2013	100
Average Daily Volume (shs)	Jun 17, 2013	104,321

The Company conducted a 2 for 1 stock split, effective on Arpil 1, 2013.

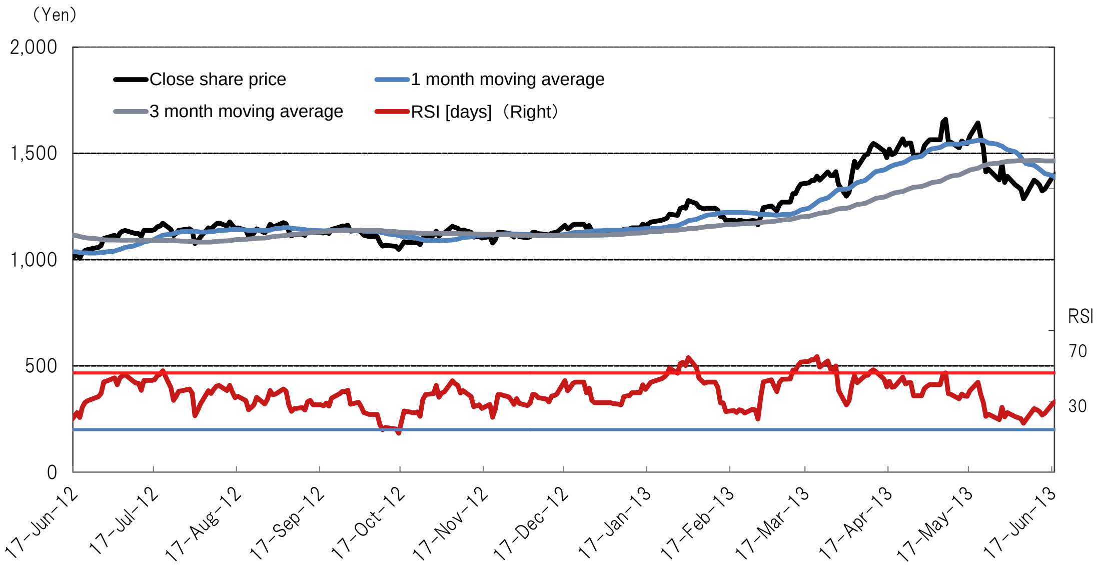
Total Assets (¥mn)	Mar. 2013	61,560
Shareholders' Equity (¥mn)	Mar. 2013	49,202
Interest-Bearing Debt (¥mn)	Mar. 2013	2,709
Equity Ratio (%)	Mar. 2013	79.9
Ratio of Interest-Bearing Debt (%)	Mar. 2013	5.5
Free Cash Flows (¥mn)	Mar. 2013	4,020

ROE=Current Net Income÷Average Shareholders' Equity of beginning of term and term end
ROA=Current Net Income÷Average Total Assets of beginning of term and term end
PCFR=Maket Value÷(Current Net Income+Depreciation)
Average Daily Volume=Ave. Daily Volume for the last 12 m/s
Ratio=Interest-Bearing Debts÷Shareholders' Equity
Free Cash Flows=Operating CF+Investment CF

Consolidated (¥million)	Net Sales	Operating	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
FY3/09	80,898	5,014	5,131	2,558	140.94	45.00
FY3/10	86,629	7,701	7,593	4,293	236.54	55.00
FY3/11	93,494	7,698	7,614	4,395	242.20	55.00
FY3/12	102,619	8,866	8,917	5,001	274.91	60.00
FY3/13	99,221	6,761	7,395	4,491	241.34	60.00
2Q FY3/14 fcst.	50,500	3,550	3,550	2,200	58.99	15.00
FY3/14 fcst.	107,000	8,000	8,000	4,900	131.40	30.00

Note: FY3/14 forecasts announced on May 16, 2013
*1 The calculation of dividend per share for the fiscal year ended March 31, 2013 is not retrospectively adjusted.

Share Price Charts and RSI



Source: Prepared by Trias Corp. with Bloomberg 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