

7483

DOSHISHA CORPORATION

TSE 1st
Section

Summary of Business Results for the Fiscal Year ended March 31, 2014

DOSHISHA CORPORATION (hereinafter DOSHISHA or the Company) conducted its FY3/14 analyst briefing on May 15. A summary of the meeting is provided below.

Summary of FY3/14 Consolidated Business Results

President and COO Masayuki Nomura initiated the meeting with a brief discussion of the Company's slogan "building a company that will not fail". Nomura assumed his post on April 1 and made assurances the Company will take further steps to enhance corporate value under his stewardship.

Business results for FY3/14 are provided in Table 1 below. Net sales expanded 6.4% YoY to a record ¥105.5 billion and were supported by a number of factors. Summer goods were strong owing to the prolonged heat wave while watches, bags, and other imported items benefited from heightened demand on improved economic conditions. Consumer purchases were also stimulated by the hike in consumption taxes.

【Table 1】 FY3/14 Consolidated Business Results Summary

Consolidated (¥million)	FY3/13		Forecast on Oct. 31	FY3/14		YoY Chg
	Actual	Ratio to Net Sales		Actual	Ratio to Net Sales	
Net Sales	99,221	100.0%	105,000	105,576	100.0%	6.4%
Product Development Model	51,569	52.0%	53,700	54,793	51.9%	6.3%
Wholesale Model	44,715	45.1%	47,860	47,220	44.7%	5.6%
Others	2,937	3.0%	3,440	3,562	3.4%	21.3%
Gross Profit	24,129	24.3%	24,900	24,460	23.2%	1.4%
SG&A Expenses	17,368	17.5%	17,600	17,176	16.3%	-1.1%
Operating Income	6,761	6.8%	7,300	7,284	6.9%	7.7%
Ordinary Income	7,395	7.5%	7,400	7,510	7.1%	1.6%
Net Income	4,491	4.5%	4,400	4,421	4.2%	-1.6%

Note: All tables and graphs compiled by Trias Corporation based on the Company's financial data

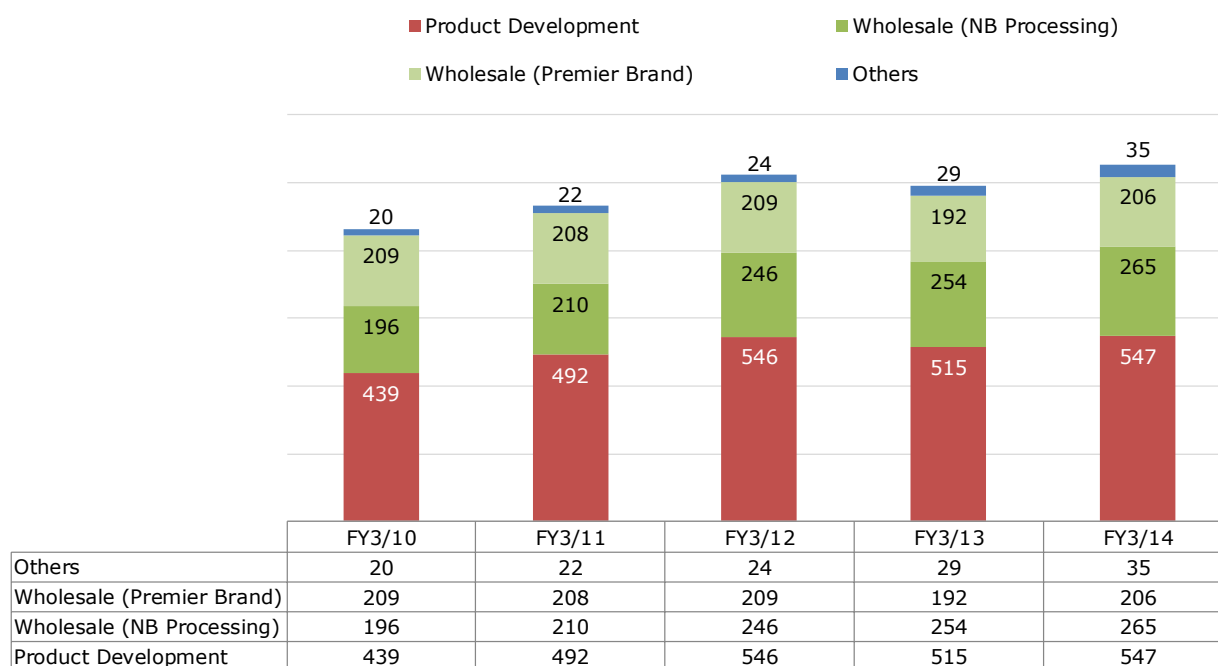
Profits for the Product Development Model area suffered as the weaker yen led to higher overseas procurement costs. Sales of autumn and winter goods were adversely affected by poor weather

conditions including the unusually long summer, and gross profit margin fell 1.1 percentage points. Nevertheless, gross profit climbed 1.4% YoY to ¥24.4 billion on the increase in net sales. Operating income expanded 7.7% to ¥7.2 billion as lower logistics-related costs led to a decline in SG&A expenses, and ordinary income increased 1.6% to ¥7.5 billion. However, valuation losses at subsidiaries and other extraordinary items totaling some ¥219 million weighed on net income, which fell 1.6% to ¥4.4 billion. Net sales cleared the Company's revised targets of last October 31, with a slight shortfall for the Wholesale Model Business offset by gains in the Product Development Model Business.

Trends by Business Segment

DOSHISHA has two major lines of business: the Product Development Model Business and the Wholesale Model Business. The Product Development Model Business consists of the design, production, and sale of the Company's original products, while the Wholesale Model Business concentrates on sourcing and marketing well-known domestic and overseas brands as well as select products of major Japanese makers. This segment relies on NB (National Brand) Processing to offer products for the traditional Japanese mid-and year-end gift giving seasons that are designed by combining well-known branded goods such as watches and handbags with products sourced from large-scale domestic makers.

● **【Graph 1】Trend of FY3/14 Sales by Business Model (¥100 million)**



This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion/information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility.

Product Development Model Business: ¥54,793 million (+6.3% YoY)

Sales of “Reasonable and High-quality” summer products including LED light bulbs, ceiling lights, stainless steel tumblers, DC fans, as well as steel racks were all firm. For A&V-related products, small and mid-sized TVs for use as second TVs in child rooms and other locations were strong, as were VHS players targeted at seniors. Multi-color steel racks used for furniture and storage also sold well. Standard and food-related products, however, suffered as yen weakness led to higher procurement costs. Apparel products were also soft, as sales momentum failed to take hold owing to the hot summer.

Wholesale Model Business: ¥47,220 million (+5.6% YoY)

NB Processing business for both popular brands and gifts led to sales gains for the segment. The main driver was the introduction this year of home delivery and event gifts targeting holidays such as Father’s Day and Mother’s Day. Premier Brand business moved well owing to the recovery of domestic economic conditions, which stimulated demand for luxury items.

Other and Affiliate Companies: ¥3,562 million (+21.3% YoY)

Sales Trends by Channel

All of the segment’s major operations reported higher sales. Electronic merchandisers benefited from strong demand for LED lighting, DC fans, and other household electronic products and branded goods were firm on the pick-up in economic activity. Branded products also moved well in discount stores, while double digit increases were reported by direct and internet marketing businesses.

FY3/15 Consolidated Business Forecasts and Key Initiatives

Financial forecasts for FY3/15 shown in Table 2 below assume implementation of the strategic initiatives discussed below. A commemorative dividend of ¥3 per share is also planned for payment with the ordinary half-year dividend of ¥15 per share, taking the total annual dividend payment to ¥36 per share.

● **【Table 2】 FY3/15 Consolidated Business Forecasts**

Consolidated (¥million)	FY3/14 (Actual)			FY3/15 (Forecasts)			
	1H	2H	Full Year	1H	2H	Full Year	YoY Chg
Net Sales	49,978	55,597	105,576	50,600	59,400	110,000	4.2%
Product Development Model	25,064	29,728	54,793	25,300	32,200	57,500	4.9%
Wholesale Model	23,081	24,139	47,220	23,100	25,400	48,500	2.7%
Others	1,832	1,729	3,562	2,200	1,800	4,000	12.3%
Gross Profit	11,657	12,803	24,460	12,150	13,950	26,100	6.7%
SG&A Expenses	8,634	8,541	17,176	8,550	9,050	17,600	2.5%
Operating Income	3,022	4,261	7,284	3,600	4,900	8,500	16.7%
Ordinary Income	3,078	4,431	7,510	3,600	4,900	8,500	13.2%
Net Income	1,780	2,640	4,421	2,200	3,000	5,200	17.6%

Note: FY3/15 forecasts announced on May 15, 2014

Strategic Initiatives for FY3/15

Product Strategy

① Further strengthen Niche NO.1 strategy

Develop and strengthen products to secure top share of niche markets that are difficult for manufacturers to enter, and compete on our own ideas and creativity. DOSHISHA has already established a leading position in the markets for steel racks, snow cone machines, and small-to-mid-sized TVs.

② Product development reflecting trends and customer needs

DOSHISHA has developed a popular line of hot and cold stainless steel tumblers and is designing a specialized tumbler for the fast-growing convenience store cafe market. The Company has typically relied on GMS and home center outlets and has been relatively weak with convenience stores, but will now be able to develop this new channel both directly and indirectly. In this way, the Company aims to further expand sales by capturing market trends through the launch of hit products.

③ Making products with “affordable quality/authentic taste”

DOSHISHA believes consumer trends over the past several years reflect preference for the concepts of “luxurious feel”, “authenticity”, and “better products”. During this period, it has developed products with a high sense of quality and authenticity at affordable prices that take full advantage of function and style. This summer, the Company has focused on the dessert theme by adding functionality to snow cone makers used by top chefs and have developed sweet makers and juice mixers that can readily produce high-quality cafe-style products at an affordable price.

④ Differentiation using in-house resources

DOSHISHA sources a variety of products from 1,500 manufacturers, has 20 marketing divisions handling a range of food, clothes, and household items, and more than 4,700 clients. The Company plans to utilize its considerable procurement and marketing abilities to differentiate its product offering by collaborating with famous brands and characters such as Hello Kitty, Edwin, and Coca Cola.

Sales Strategy


① Expand in-store share through proposing plans for the entire sales floor

DOSHISHA's strengths include its 4,700 client marketing infrastructure and the wide range of categories offered, but its products are still not able to fill an entire sales floor. To expand sales and profits further, the Company aims to increase the amount and share it has with each client by "strengthening OEM initiatives by utilizing its development abilities" and "not relying on single products, but making proposals that encompass the entire sales floor through related categories".

② Developing new markets and customers

DOSHISHA believes it is possible to "sell watches to a vegetable store". This simple sales policy is based on the idea that new products can be sold by crossing traditional industry selling lines. Actual examples include the sale of high-end branded goods through mass merchandisers, as well as selling gifts at home centers and public bathhouses. Each division in DOSHISHA carries out new product development and efforts are constantly made to roll-out successful products and categories throughout the Company.

Expense strategies

DOSHISHA continues to move ahead with review of its logistics infrastructure to boost group synergies as well as its "Cost Reduction Project". Restructuring of distribution activities has taken place against a dramatic increase in shipping costs for carriers driven by higher gasoline prices. The Company made cuts in its distribution-related subsidiaries and logistics infrastructure and set up new distribution centers to ensure shipping takes places from the most efficient location possible. Daily shipment volume has expanded by improving the rate of EOS (an inter-corporate online ordering system) direct orders. Efforts have also been made to aggregate shipment units, achieve better inter-departmental cooperation, and make better use of consolidated and charter flights by local shipping companies. As a result of these measures, SG&A expenses fell from 17.5% of net sales in FY3/13 to 16.3% in FY3/14. The Company plans to consolidate its outsourced warehouse service and reduce SG&A expenses to only 16% of sales during FY3/15. 

Key Financial Data (Consolidated)

No. of Shares Issued	Mar. 2014	37,375,636	Total Assets (¥mn)	Mar. 2014	64,975
No. of Treasury Stock	Mar. 2014	84,376	Shareholders' Equity (¥mn)	Mar. 2014	52,512
Market Value (¥mn)	June 16, 2014	63,800	Interest-Bearing Debt (¥mn)	Mar. 2014	2,703
BPS (¥)	Mar. 2014	1,319.41	Equity Ratio (%)	Mar. 2014	80.8
ROE (%)	Mar. 2014	8.7	Ratio of Interest-Bearing Debt (%)	Mar. 2014	5.1
ROA (%)	Mar. 2014	7.0	Free Cash Flows (¥mn)	Mar. 2014	3,776
PER (times)	FY3/15 fcst.	12.2	ROE=Current Net Income÷Average Shareholders' Equity		
PCFR(times)	Mar. 2014	12.9	ROA=Current Net Income÷Average Total Assets		
PBR (times)	Mar. 2014	1.3	PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	June 16, 2014	1,707	Average Daily Volume=Ave. Daily Volume for the last 12 m/s		
Unit Share (shs)	June 16, 2014	100	Interest-Bearing Debt Ratio=IBD÷Shareholders' Equity		
Average Daily Volume (shs)	June 16, 2014	71,749	Free Cash Flows=Operating CF+Investment CF		

Financial Results (Consolidated)

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
FY3/10	86,629	7,701	7,593	4,293	118.27	27.50
FY3/11	93,494	7,698	7,614	4,395	121.10	27.50
FY3/12	102,619	8,866	8,917	5,001	137.46	30.00
FY3/13	99,221	6,761	7,395	4,491	120.67	30.00
FY3/14	105,576	7,284	7,510	4,421	118.57	30.00
1H FY3/15 fcst.	50,600	3,600	3,600	2,200	59.00	18.00
FY3/15 fcst.	110,000	8,500	8,500	5,200	139.44	36.00

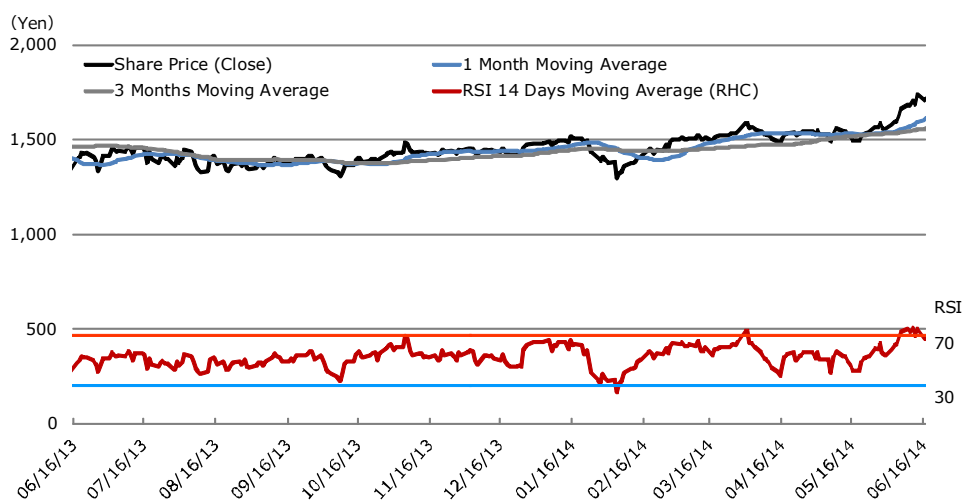
Note 1: FY3/15 forecasts announced on May 8, 2014

Note 2: The Company conducted a 2 for 1 split of common shares on April 1, 2013.

The calculations of "EPS" and "DPS" are based on the assumption that the 2 for 1 stock split was conducted at the beginning of FY3/10.

Note 3: The Company plans to pay a dividend of ¥18 per share for the 1H of FY3/15, consisting of the ordinary half-year dividend of ¥15 and an additional commemorative dividend of ¥3, taking the total annual dividend payment to ¥36 per share.

Stock 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. $RSI = \frac{\text{averaged share price appreciation for N days}}{\text{averaged share price appreciation for N days} + \text{averaged share price decline for N days}} \times 100$

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility.