

7483 **Doshisha**

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Aiming for further growth, guided by our slogan

“Doshisha –Ideas to Make Life Better”

Since Doshisha Corporation was founded in 1974, we have consistently worked to design, develop, manufacture, procure and sell household goods that help consumers lead richer lives. After marking the Company's 40th anniversary in October last year, we intend to continue increasing corporate value by staying true to our founding spirit of never losing our passion for what we do.

◆**Summary of FY3/15 Consolidated Results**

For the fiscal year ended March 31, 2015, consolidated financial results were as follows: net sales ¥103,647 million (down 1.8% year on year), gross profit ¥24,396 million (down 0.3%), selling, general and administrative expenses ¥17,853 million (up 3.9%), operating income ¥6,543 million (down 10.2%), ordinary income ¥7,114 million (down 5.3%), and net income ¥4,477 million (up 1.3%).

Sales were affected by a pullback in demand after the consumption tax hike and poor weather. Gross profit was supported by an improvement in the gross profit margin to 23.5%, up 0.3 percentage points year on year, reflecting the launch of new and updated products, negotiations to reduce purchasing costs and a review of low-margin products. However, selling, general and administration expenses increased 3.9% year on year due to increases of 5.7% for logistics costs and 3.2% for personnel expenses, putting pressure on operating income. Extraordinary gains lifted net income 1.3% year on year.

In terms of quarterly trends, earnings in the final quarter of the fiscal year are typically weak due to a low proportion of full-year sales. However, in fiscal 2014, we booked record fourth-quarter profits due to strong inbound demand and new OEM orders from major retailers for private label brand household electronics.

◆**FY3/15 Operating Results**

[Sales Trends by Business Model]

Sales declined 3.4% year on year to ¥50.8 billion in the Product Development Model Business and fell 1.1% year on year to ¥48.9 billion in the Wholesale Model Business.

< Product Development Business: ¥50.8 billion, down 3.4% year on year >

The Product Development Business reported firm sales of various products, including a high-spec “fluffy

snow cone” maker, an electric ice crusher for commercial use, mug bottles in a wide range of designs and colors – which are popular with inbound consumers, cordless upright vacuum cleaners, and convection oven toasters with healthy non-oil fryer functions. Also, under OEM contracts with retailers, the Product Development Business registered firm sales of private label brand LED ceiling lights and LED bulbs, which offer a good balance between price and quality. Christmas merchandise, where the segment has a leading share of the market, marine products such as inflatable rings, and all designer household goods supplied by the business saw solid sales. However, sales of TVs were weak due to a pullback in demand after the consumption tax hike, and poor weather affected sales of apparel.

< Wholesale Business: ¥48.9 billion, down 1.1% year on year >

In the Wholesale Business, the non-brand processing business, which is focused on gift merchandise, reported sales of ¥26.5 billion, flat year on year, while the premium brand business registered sales of ¥22.3 billion, down 2.3% year on year. The non-brand processing business saw strong sales of souvenirs such as green tea confectionary, supported by inbound demand. This complemented firm sales from the existing lineup of traditional mid-year and year-end assorted gift packs, individual food gifts and gifts for events throughout the year. In the premium brand business, a pullback in demand for some high-priced gifts was offset by sales growth driven by inbound demand.

[Sales Trends by Channel]

Sales to large electronics retailers rose a strong 25.5% year on year, supported by inbound demand, but sales in other major channels such as discount retailers, hardware stores and general merchandisers were poor due to weak consumer demand and the impact of unfavorable weather. Sales in the online / mail-order channel were steady, albeit small in scale.

[Consolidated Balance Sheet Summary]

Current assets rose ¥3,725 million year on year. This reflected an increase in accounts receivable – trade, reflecting sales growth in the final quarter, and an increase in foreign exchange contracts to mitigate the risk of cost fluctuations. Current liabilities increased ¥1,283 million year on year, mainly due to a rise in accrued consumption taxes related to the hike in consumption tax. Net assets increased ¥4,744 million year on year.

[Consolidated Cash Flow Summary]

Operating activities provided cash of ¥4,741 million, investing activities provided cash of ¥581 million and financing activities used cash of ¥4,914 million.

◆ Consolidated Forecasts for FY3/16

For the fiscal year ending March 31, 2016, we forecast net sales of ¥110.0 billion (up 6.1% year on year), operating income of ¥8.0 billion (up 22.3%), ordinary income of ¥8.0 billion (up 12.4%) and net income of ¥5.15 billion (up 15% year on year).

◆ Action Plan for FY3/16

Doshisha ran newspaper adverts in the *Nikkei Shimbun* in January and February 2015, under the tagline

“Doshisha – Ideas to Make Life Better,” which describes our strategic vision and action plan for the Group. The phrase is designed to express the motivation of all our employees and our desire to realize new ideas that change the status quo.

To realize this vision, our action plan is made up of two parts: Active Action, to make our ideas a reality, and Creative Action, to develop completely new ways of doing things. Specifically, with Active Action our goal is to realize ideas that excite and stimulate consumers, while Creative Action is about achieving the best possible performance by creating dynamic and completely new product concepts.

◆Initiatives for FY3/16

In order to achieve our vision, “Doshisha – Ideas to Make Life Better,” we will develop new categories and products from the perspective of consumers by adopting two new approaches – a product development business model with fabless manufacturer capabilities, and a wholesale business model with trading company capabilities. We also plan to boost earnings by leveraging two of our key strengths – a sales network of 4,800 companies, and the ability to handle all aspects of sales area design and development.

◆FY3/16 Product Strategy by Business Model

Working with 2,100 suppliers – one of our strengths as a company – we aim to rapidly develop new product ideas that are in tune with the latest consumer needs and trends. In FY3/16, our concrete plans for product categories and merchandise in each business model are as follows:

[Product Development Business]

- Boost competitiveness with distinctive products that offer more functions, new technologies and greater versatility
- Leverage our rapid product development capabilities to address market needs
- Capture potential demand in new markets (electrical appliances for active seniors and women)

In the Product Development Business, we plan to increase competitiveness by developing distinctive products that offer more functions, new technologies and greater versatility. Examples of these products include the seagull-inspired *kamome* metal fan, designed using applied biology, a filament-type LED bulb that emits light similar to an incandescent bulb, an LED bulb with reduced blue light output, which is kinder on the eyes, an insulated bottle to keep milk warm or cold, and a 4K PC monitor. Second, we will leverage our rapid product development capabilities to address market needs. Specifically, we have developed a cordless vacuum cleaner, building on our popular line of upright products, and created a new range of workwear under the *Everlast* sportswear brand. Third, we intend to step up our efforts to develop electrical appliances to tap potential demand in two markets: active seniors and women. In the active seniors market, we will launch exercise support shoes designed with input from experts in locomotive syndrome, and a slow-speed voice recorder that can reduce the speed of TV audio. In the electrical appliance market for women, we plan to roll out TVs and speakers in pastel colors and a dashboard recorder that allows users to take footage of themselves while driving.

[Wholesale Business]

- Upgrade our lineup of gift products based on our unique view of consumer needs
- Shift the focus of our gift merchandise from “things” to “value”
- Build a network of alliance partners to strengthen exclusive sales
- Reinforce sales promotion to develop the Doshisha brand

In the Wholesale Business, we will upgrade our lineup of assorted gift packs, drawing on our unique view of consumer needs. Specifically, we plan to address changes in consumer lifestyles, diets and habits to complement our existing approach of using heavily discounted gift products. Examples of these products include simple and convenient individual food gifts, such as *somen* packaged with gelee, premium Italian food gift sets, and products targeting inbound demand, such as green tea confectionary and regional confectionary specialties. Second, we will shift the focus of our gift merchandise from “things” to “value,” aiming to stand out in the market with lifestyle-focused products that have a sense of fun and style. Examples are gift packs containing home beer servers, snacks and *somen*, or *nagashi-somen* equipment and *somen*, or iced coffee and chilled glass tumblers. Third, we will build a network of alliance partners to strengthen sales based on exclusive distribution agreements. Through a tie-up with Itochu Corporation, we already have exclusive rights to sell the *Havaianas* and *Casabella* brands, and in FY3/16, we secured the sole distribution rights for the UK *FitFlop* brand of comfort footwear. Fourth, we will reinforce sales promotion to develop our proprietary Doshisha brand and grow our private labels into leading brands. To increase brand visibility, we have signed up three image ambassadors for our brands: actor Toru Nakamura for *Furbo design*, Tao Tsuchiya for *Rubin Rosa*, and Hayato Ichihara for *Police*. In sportswear brand *Kaepa*, martial arts fighter Masato and wife Shin Yazawa will lead our efforts to expand the customer base, starting with the 2015 collection.

◆FY3/16 Sales and Cost Strategies

[Sales Strategy]

- Step up efforts to capture inbound demand
- Promote and strengthen overseas sales
- Reinforce marketing by using SNS to quickly share the latest information

To capture inbound demand, we will target retail formats that are popular with overseas visitors to Japan – large electronic retailers, discount stores, drugstores and duty-free stores – and use our expertise in sales area design and development and systematic marketing to expand sales. We will also offer point-of-presence (POP) sales materials for inbound customers and use multi-lingual virtual customer support desks to support sales activities. Second, in overseas operations, we began sourcing European and North American-designed electrical appliances four years ago, but our goal in FY3/16 is to increase sales in China, South Korea and Southeast Asia. At the moment, we are sourcing various products to support our push into those markets. Third, we plan to roll out new initiatives in FY3/16 aimed at rapidly sharing the latest information with consumers through tablet device SNS apps. Our goal is to reinforce marketing by sharing news with them about hit products, the latest popular fashion ideas, retailers, and

sales area know-how. We also aim to boost the quality of our products and operations by learning from past mistakes and implementing remedial measures.

[Cost Strategy]

Continue to implement our project to reduce distribution costs

- Implement our distribution cost reduction project
- Optimize staffing by expanding sales support centers

Rising distribution costs are a concern. We plan to counter this risk by opening new logistics centers to enable more efficient distribution, as well as systematically consolidate and share shipments to help establish a highly profitable earnings structure. We also plan to optimize staff deployment by expanding our customer support center. We established a new support center at the head office in FY3/15, but we plan to expand it further in f FY3/16 to make sales operations more systematic and standardized.

◆ Shareholder Return Policy

Ensuring shareholders receive an appropriate level of returns is one of our key policies. We aim to pay progressive and stable dividends, while also ensuring the Company has sufficient internal reserves to pay bonuses to employees, reinforce the operating structure in response to changes in the operating environment, and support the Group's future development.

We are targeting a dividend payout ratio of 30%. Based on this policy and payout target, we paid a full-year dividend of ¥40 per share for FY3/15, comprising interim and year-end dividends of ¥15, plus two commemorative dividends of ¥5 per share. For FY3/16, we plan to pay a full-year dividend of ¥40 per share, an increase of ¥10 if the FY3/15 commemorative dividends are excluded.

◆ Question and Answer Session ◆

Q1: You are forecasting sales and profit growth in FY3/16. What factors do you see supporting growth?

A1: Sales have been on an upward trend since the final quarter of FY3/15, and we also expect inbound demand and the development of new overseas markets to drive growth. The impact of the hike to consumption tax should also drop out and reductions in distribution costs are likely to contribute to earnings.

Q2: What steps do you plan to take to protect your innovative product ideas from copycat products?

A2: Like most companies in the sector, we look at competitors' products to see how we can improve our own. That's why we have to create an organization that draws on the ideas of all our employees to ensure we are always one step ahead of rivals in product development.

Q3: What was the impact of your newspaper adverts?

A3: Doshisha is not that well known, despite being a listed company. The impact of the adverts is hard to quantify, but they clearly helped boost the motivation of our employees and business partners. The adverts also gave our employees' families more pride in the Doshisha name.

Q4: Who are your main competitors?

A4: We compete against other firms in individual product categories, but overall, I believe there is no single company that can compete with us in terms of the vast array of products we handle and our wide range of distribution channels.

(May 14, 2015)