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TSE 1st Section

DOSHISHA CORPORATION

Summary of Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2015

DOSHISHA CORPORATION (hereafter DOSHISHA or the Company) held an analyst meeting for its first-half (Apr-Sep; hereafter 1H) FY3/15 financial results on November 13. Following the meeting, We, Trias Corporation (hereafter Trias), conducted an interview with the Company, and are pleased to report a summary of the results and management views mentioned in the meeting and interview.

1H FY3/15 Consolidated Financial Results Summary

The 1H results fell short of the Company's forecasts, with net sales and ordinary income both decreased 2% YoY, due to after-effects of April sales tax hike and unfavorable summer weather. Meanwhile, the Company kept its full-year guidance on hold on the back of healthy order inflows it is enjoying recently and raised dividend per share to ¥20 from initially planned ¥18 for the 1H and to ¥40 from ¥36 for the full fiscal year ending March 31, 2015.

As the Table 1 shows, the 1H saw net sales of ¥48,767mn, or down 2.4% YoY, gross profit ¥11,747mn, up 0.8%, SG&A expenses ¥8,873mn, up 2.8%, operating income ¥2,873mn, down 4.9%, ordinary income ¥3,022mn, down 1.8%, and net income ¥1,988mn, up 11.7%.

Despite weaker sales from a year ago, with gross profit barely increasing, its margin to net sales markedly improved to 24.1% from 23.3% a year earlier, thanks to newly introduced and renewed products designed to absorb negative impacts form the weaker yen and the Company's reviews on unprofitable products. While operating income decreased year-on-year, hit by sharply increased logistics expenses and wage hikes, ordinary income fell only slightly thanks to foreign exchange gains posted in non-operating income/expenses account. The sharp increase in net income was helped by extraordinary income from a merge among overseas affiliates.

By business model, Product Development Model sales dropped 3.3% and Wholesale Model sales dipped 1.6% YoY. In the Product Development Model segment, TV sets and seasonal items fared poorly due respectively to weak demand post the sales tax hike and unfavorable weather conditions in the summer, although new category products were strong as they reflected consumer needs quickly. The Wholesale Model segment, on the other hand, was relatively steady despite weaker sales compared to a year ago. The NB Processing business secured a-year-ago sales level and the Premier Brand operation enjoyed exceptionally strong "inbound demand" from Japan visitors mainly from mainland China although the whole merchandize sales fell year-on-year.

SG&A expenses rose by ¥238mn YoY as logistics expenses soared by ¥165mn and personnel expenses rose ¥96mn mainly driven by implementation of employee stock options. The Company explains its efforts to reduce logistics expenses are yet halfway to its targets but progressing steadily. Its set-up of a logistics base in eastern Japan (Kashiwa City in Chiba Prefecture) has been gradually optimizing product distribution and bundled shipping and co-shipments among divisions seem to have shown visible effects.

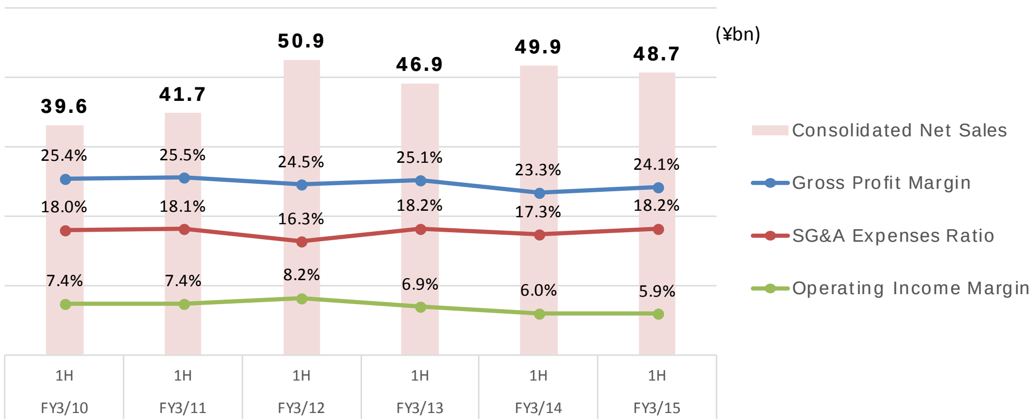
Non-operating balance was a positive ¥148mn, improving ¥93mn from a year ago thanks mainly to a gain on forward exchange contracts of ¥44mn brought by the weaker yen. Accordingly, ordinary income declined only slightly and net income jumped 11.7% YoY, bolstered by a ¥158mn gain on sales of overseas affiliate shares.

【Table 1】1H FY3/15 Consolidated Business Results Summary

Consolidated	1H FY3/14		1H FY3/15				1H FY3/15		
		Ratio to		Ratio to	YoY Changes		8-May	vs. actual	
(¥ million)	Actual	Net Sales	Actual	Net Sales	Amount	Ratio	Forecast	Amount	Ratio
Net Sales	**49,978**	**100.0%**	**48,767**	**100.0%**	**(1,211)**	**-2.4%**	**50,600**	**(1,832)**	**-3.6%**
Product Development	25,064	50.2%	24,225	49.7%	(838)	-3.3%	25,300	(1,074)	-4.2%
Wholesale	23,081	46.2%	22,712	46.6%	(369)	-1.6%	23,100	(387)	-1.7%
Others	1,832	3.7%	1,829	3.8%	(3)	-0.2%	2,200	(370)	-16.9%
Gross Profit	**11,657**	**23.3%**	**11,747**	**24.1%**	**90**	**0.8%**	**12,150**	**(402)**	**-3.3%**
SG&A Expenses	8,634	17.3%	8,873	18.2%	238	2.8%	8,550	323	3.8%
Logistics Expenses	2,703	5.4%	2,868	5.9%	165	6.1%	-	-	-
Personnel Expenses	3,683	7.4%	3,779	7.7%	96	2.6%	-	-	-
Others	2,579	4.5%	2,225	4.6%	(22)	-1.0%	-	-	-
Operating Income	**3,022**	**6.0%**	**2,873**	**5.9%**	**(148)**	**-4.9%**	**3,600**	**(726)**	**-20.2%**
Ordinary Income	**3,078**	**6.2%**	**3,022**	**6.2%**	**(56)**	**-1.8%**	**3,600**	**(577)**	**-16.0%**
Net Income	**1,780**	**3.6%**	**1,988**	**4.1%**	**207**	**11.7%**	**2,200**	**(211)**	**-9.6%**

Notes: 1H FY3/15 forecasts are based on the Company's initial guidance dated May 8, 2014.
All tables/graphs are prepared by Trias Corp. with the data disclosed by DOSHISHA CORPORATION.

【Graph 1】Trend of 1H Profit Margins



As for the balance sheet, total assets increased ¥3,205mn, with no particular items needed to make notes. Major factors include a ¥1,467mn rise in cash and deposits and a ¥1,309mn increase in inventories prepared for year-end demand. Compared to a year earlier, total assets rose ¥4,591mn.

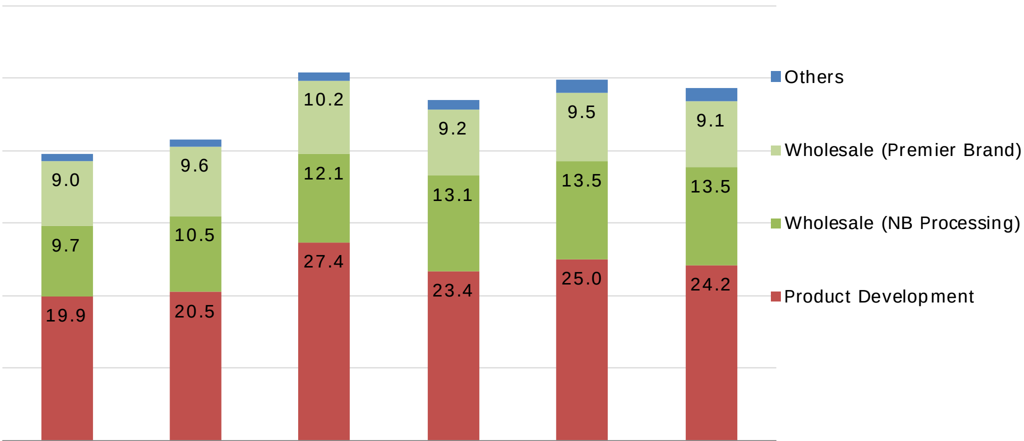
Free cash flows, supposedly prepared for future business strategies, increased to ¥2,914mn at end September from ¥1,551mn a year earlier and a rise in cash and cash equivalents during the 6 months expanded to ¥1,467mn from ¥1,013mn a year ago. As a result, cash and cash equivalents balance rose to ¥27,701mn at end September.

1H FY3/15 Sales Trends by Operating Segment (by Business Model/Distribution Channel)

Sales Trends by Business Model

As is shown in Graph 2, every business model, i.e. Product Development, Wholesale and Others, fell short of the Company's forecasts and decreased year-on-year. Sharply falling demand after the sales tax hike, unfavorable summer weather and, partially, shipment delays due to client reasons worked negatively. However, the Company does not seem worrying the situation very seriously as its sales did not fall as much as at other retailers in general in such adverse environments.

【Graph 2】 Trend of 1H Sales by Business Model



(¥bn)	1H FY3/10	1H FY3/11	1H FY3/12	1H FY3/13	1H FY3/14	1H FY3/15
Others	0.9	1.0	1.1	1.2	1.8	1.8
Wholesale (Premier Brand)	9.0	9.6	10.2	9.2	9.5	9.1
Wholesale (NB Processing)	9.7	10.5	12.1	13.1	13.5	13.5
Product Development	19.9	20.5	27.4	23.4	25.0	24.2

Trends in each major business model segment are as follows:

Product Development Model: ¥24,225mn, down 3.3% YoY

The Product Development Model segment designs, develops and markets original products created with DOSHISHA's own ideas and concepts, while basically outsourcing manufacture of products.

The 1H sales fell short of the Company's target of ¥25.3bn as slower recoveries in demand after the April tax hike prolonged disappointing TV sales, followed by weak sales in summer clothes and seasonal appliances due both to the earlier-than-usual rainy season and torrential rainfalls which hurt foot traffic. Meanwhile, among new categories, where the Company aims to satisfy customer needs precisely, thrift and in-house-dining boom among consumers worked generally favorable to the segment and sales were strong in such goods as "fluffy snow cone" maker, low-cost/high-quality LED lights, case goods including steel racks with many color variation and shoes.

Wholesale Model: ¥22,712mn, down 1.6% YoY

The Wholesale Model segment deals domestic/imported brands and other makers' products, with about 60% of the segment sales coming from NP Processing and the rest from Premier Brand.

NB Processing mainly covers the assortments of leading brand products such as foods, and DOSHISHA has a strong expertise cultivated through its close ties with leading food makers. These sales for the 1H were better than a year earlier, up 0.3% YoY though, despite challenging retail environments, thanks to particularly strong demand for assorted gifts for families, quick/convenient food gifts for personal dining and occasional gifts at time of yearly events including sport competition. By contrast, Premier Brand business, chiefly made up of watches and bags, dropped 4.2% YoY in sales, suffering from after-effects of the sales tax hike although so-called "inbound demand" rose significantly because of sharply increased Japan visitors.

Sales Trends by Distribution Channel

This 1H saw wide divergences among distribution channels, with inbound demand causing very obvious differences. Sales to electronics mass retailers, or DOSHISHA's major channels for watches, jumped 12.8% YoY and those to discount/drug stores fell only slightly, by 0.7%, both driven by inbound demand. "Others" channels were also solid, with sales totaling to up 1.6% YoY, thanks to 100 yen shops and on-line channels. Meanwhile, sales were disastrous at GMS (-19.7% YoY), super markets (-9.0% YoY) and DIYs (-8.0% YoY), all hit by adverse sales tax and weather effects.

FY3/15 Financial Forecasts and Trias's Focus

DOSHISHA kept its full-year forecasts on hold as is shown in the Table 2 despite the weaker 1H results. Given healthy order inflows since the start of the 2H, the Company aims to offset the 1H shortfall by focusing more on well-performing clients, including those benefitting from strong inbound demand.

Since late October, the yen has weakened quickly against the dollar compared to the end September rate (¥109.45/US$). However, the Company says forex impacts should be limited as it had already hedged ¥/US$ rates up to the 1H of the next fiscal year (FY3/16).

【Table 2】 Summary of FY3/15 Consolidated Forecast Revisions

Consolidated	FY3/14			FY3/15				[Reference]	
	Actual			Actual	October 31 Revised Forecasts			May 8 Initial Forecasts	
(¥ million)	1H	2H	Full-Year	1H	2H	Full-Year	YoY	2H	Full-Year
Net Sales	**49,978**	**55,597 0**	**105,576**	**48,767**	**61,232**	**110,000**	**4.2%**	**59,400**	**110,000**
Product Development	25,064	29,728 0	54,793	24,225	33,924	58,150	6.1%	32,200	57,500
Wholesale	23,081	24,139 0	47,220	22,712	25,387	48,100	1.9%	25,400	48,500
Others	1,832	1,729 0	3,562	1,829	1,920	3,750	5.3%	1,800	4,000
Gross Profit	**11,657**	**12,803 0**	**24,460**	**11,747**	**14,352**	**26,100**	**6.7%**	**13,950**	**26,100**
SG&A Expenses	8,634	8,541 0	17,176	8,873	8,726	17,600	2.5%	9,050	17,600
Operating Income	**3,022**	**4,261 0**	**7,284**	**2,873**	**5,626**	**8,500**	**16.7%**	**4,900**	**8,500**
Ordinary Income	**3,078**	**4,431 0**	**7,510**	**3,022**	**5,477**	**8,500**	**13.2%**	**4,900**	**8,500**
Ne Income	**1,780**	**2,640 0**	**4,421**	**1,988**	**3,211**	**5,200**	**17.6%**	**3,000**	**5,200**

Notes 2H and full-year forecasts for FY3/15 are the Company's guidance dated October 31, 2014.
Reference figures are based on the Company's initial forecasts dated May 8, 2014.

What We Focus On Upon DOSHISHA's 1H Results

After the analyst meeting and following interview, what Trias focuses on are following 5 points:

A) Product lines are stretching from "Spots" to "Categories"

B) Brand strategies are clearly inclining toward its own

C) Inbound demand is now becoming a new source of growth

D) The weaker yen is a challenge

E) Management are increasingly aware of the share price (from an equity investment point of view)

A) Product Lines Stretching from “Spots” to “Categories”: Integrated Shelf Space Promotion to Invite More Sales

DOSHISHA was until recently marketing products individually. As a result of its developing original goods and cultivating premier brands further, however, the number of items it sells increased sharply every year and has reached to some 20,000, allowing the Company to design and promote wider shelf space at retail stores. Offering a set of product categories by simulating shelf space layouts best suited for particular clients at its own showrooms, the firm is now able to aim for higher in-store market shares.

Typical examples of this effort are offerings to its large clients of shelf space and display ideas aiming to attract inbound demand. The fact that limits of tax-free items were lifted in October should also serve as a tail wind in developing win-win relationships between suppliers and mass retail chains. Sales potential to such large clients as electronics retailer Laox and discount store chain Don Quijote should be huge as DOSHISHA’s in-store shares are at low single-digit at those enjoying exploding inbound demand.

B) Brand strategies clearly inclining toward its own: From background to foreground

DOSHISHA’s name is unfortunately not known very widely. This is due to the Company’s stance in supplying to retailers without exposing the company name even for its original products developed from scratch. The Company is now changing the strategy, however, to market its own brands more aggressively as concepts of its products have been gaining supports from retail customers. Since February 2014, the Company has started presenting its corporate logo “DOSHISHA” on its original products, while having appointed a powerful actor, Mr. Toru Nakamura, for its male brand of *Furbo*, and an emerging actress, Ms. Tao Tuchiya, who will be featured in the next year’s NHK Morning Drama serials, to promote its female brand of *Rubin Rosa*; the both as poster characters.

This should increase direct exposure of the Company’s name and product brands to consumers at leading retail chain stores, most likely fostering client loyalties as well as recognition in the equity market.

DOSHISHA’s Original Goods Sold with the Company Name Brand

DOSHISHA CORPORATION

C) Inbound demand is a new source of growth: Sharply increasing Japan visitors adding sales

Sizable economic impacts from sharply increasing Japan visitors have been welcomed. Attracting Japan visitors is one of the important targets of the third arrow of the Abenomics. The current administration aims to double the number of Japan visitors, which exceeded 10 million tourists for the first time in 2013, to 20 million by 2020. In an effort to achieve this goal, it quickly launched a variety of promotion measures such as loosening restrictions over visa issues for tourist visiting from China and ASEAN countries, approving much more tax-free shops and lifting limits on tax-free items.

Adding to these public measures, the weaker yen and newly offered and added flight/cruiser services have been spurring increases in the number of Japan visitors to a record 9.74 million, or up 26% YoY, for the first 9 months of this year, according to the Japan National Tourist Organization estimates. Especially, Chinese tourists, who tend to spend most per head among Japan visitors, counted 1.79 million, or up 80% YoY.

As a result, leading mass retailers such as Laox and Don Quijote are enjoying big benefits, coming out on top against DOSHISHA's sales growth. The Company plans to respond aggressively to soaring inbound demand, taking this as a big opportunity. It is trying to grab more demand by accelerating product planning and developments which would satisfy Japan visitors' wants and producing whole shelf space for its mass retailer partners as well.

Should the government target realize by 2020, this would imply Japan visitors will have increased by about 10% every year. Adding DOSHISHA's own efforts to grow sales, it could invite even better outcomes. We roughly calculate (*) the beneficial impact at the Company as ¥1.0bn added by just two channels, electronics mass retailers and discount/drag stores, although it is almost impossible to figure out precise numbers.

Note*: Our calculation is only for a reference, assuming these two channels would have lost about 10% of sales, similarly to other channels, without inbound demand.

The impact for the full-year would be nearly 2% of ¥110bn sales forecast for FY3/15, if the 2H enjoys the same amount of ¥1.0bn in the 1H. Furthermore, the Company could enrich the benefit even more if potential clients currently suffering weak demand turn to DOSHISHA who has "solutions" for capturing inbound demand.

D) The weaker yen is a challenge: But already hedged up to 1H FY3/16

The yen's weakening is theoretically negative for a company which outsources manufacture of products and imports foreign premier brands. Roughly assuming its sales at ¥100bn and CoGS (cost of goods sold) ratio at 75%, imports value is some ¥25bn of CoGS of ¥75bn, or about $220mn at recent exchange rates. Calculated simply, a 10 yen move toward a weaker side against the dollar could cause a negative impact of ¥2.2bn on profits, a significant amount compared to the FY3/15 operating income forecast of ¥8.5bn.

DOSHISHA's countermeasures include, for a short-term, forex hedge and giving up low margin products and, for a longer term, product developments and renewals enabled to generate enough profits even under the depreciated yen. For the Company's 1H, the average ¥/US$ rate weakened by ¥6.75 to ¥102.45 from ¥95.70 a year ago in terms of the Tokyo interbank center spot rate, implying a negative impact of nearly ¥1.5bn. The Company's gross margin rate for the 1H, however, rather improved to 24.1% from 23.3% a year earlier when it also suffered the weak yen, thanks to aforementioned measures.

The Company in early October hedged the dollar amount which will be needed up to the 1H of the next fiscal year (FY3/16), preparing for the risk of further weakening of the yen in the 2H and beyond. This move effectively helped avoid forex risks which would otherwise hit the Company's profitability as the yen sharply weakened since end October.

DOSHISHA plans to spur longer-term measures such as developing new products and re-engineering existing line-ups adapted for the weaker yen as President Masayuki Nomura concerns "further weakening of the yen is a big challenge." As it usually takes about a year to develop new products, the Company should be just entering into a critical stage toward the 2H of FY3/16 when forex hedge will run out. DOSHISHA's profitability in the coming years should be depending on how sufficiently it can develop new products, in our view.

In this aspect, factors that could work positively include the Company's relatively high dependence on seasonal goods, which would enable smooth product transition without carrying low margin products too long and effective price hikes at the same time.

E) Management increasingly aware of the share price: Raising dividends for FY3/15

DOSHISHA revealed alongside the 1H results it would raise dividend per share to ¥20 for the 1H and ¥40 for the whole of FY3/15. These are increases of ¥2 and ¥4, respectively from the initial forecast and a significant addition of ¥10 from the full-year ¥30 for the previous fiscal year. Dividend yield based on a stock price of ¥1,687 on the November 28 close is calculated at 2.4% for this fiscal year.

This raise appears abrupt, given 1H incomes fell short and full-year forecasts were kept on hold, but we can see the Company becoming more willing to respect shareholder returns particularly after Mr. Masayuki Nomura took over the reign this April as President and CEO of the Company. To put it the other way around, the management must be increasingly conscious of its stock prices, in our view. This may not be irrelevant to the implementation of employee stock options as they are expected to become more aware of stock prices as well as the Company's profit growth.

For DOSHISHA with an equity ratio of 80%, it would be hard to raise return on equity (ROE) as much as Abe Administration touts. We view stock buybacks are more likely in the coming years, judging from recent changes we perceive from the management.

Summay of a Q&A Session at the Analyst Meeting

Q. Which firms are seen as strong competitors?

A. We see no firms directly competing with us. Within each relevant segment, however, rivals would include Iris Oyama and Yamazen in household/appliance related markets, Ueni Trading in premier brand goods and Itochu Shokuhin in gift assortments, each of which, however, is a single product trader or close to it, unlike DOSHISHA which deals wide variety of products. Our product categories are such vast that helps diversify business risks, which could be deemed as a key strength of our firm.

Q. How do you feel about the year-end shopping season just started?

A. Orders and shipments are not bad, just in line with our plans. This is why we kept our initial forecasts intact and we are confident to offset the 1H shortfall in the 2H. That said, however, we are slightly concerned about whether or not dissolution of Lower House and general election will take place as elections historically tended to lessen effects of sale leaflets.

Q. Would you elaborate on why SG&A expenses were overspent by ¥300mn?

A. Major items overspent were logistics and personnel expenses. Logistics expenses exceeded our budget by ¥165mn, hit by higher fuel prices and shortages in truck drivers. We admit our efforts to streamline logistics were yet on the way but, if nothing was done, these expenses would have increased by as much as ¥300mn in the 1H, hence we believe effects will become much more visible in the 2H. As for personnel expenses, major factor was an implementation cost of ¥57mn for employee stock options, which was not counted in the original budgets.

Key Financial Data and Stock Indicators

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
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.	48,767	2,873	3,022	1,988	53.32	20.00
FY3/15 fcst.	110,000	8,500	8,500	5,200	139.44	40.00

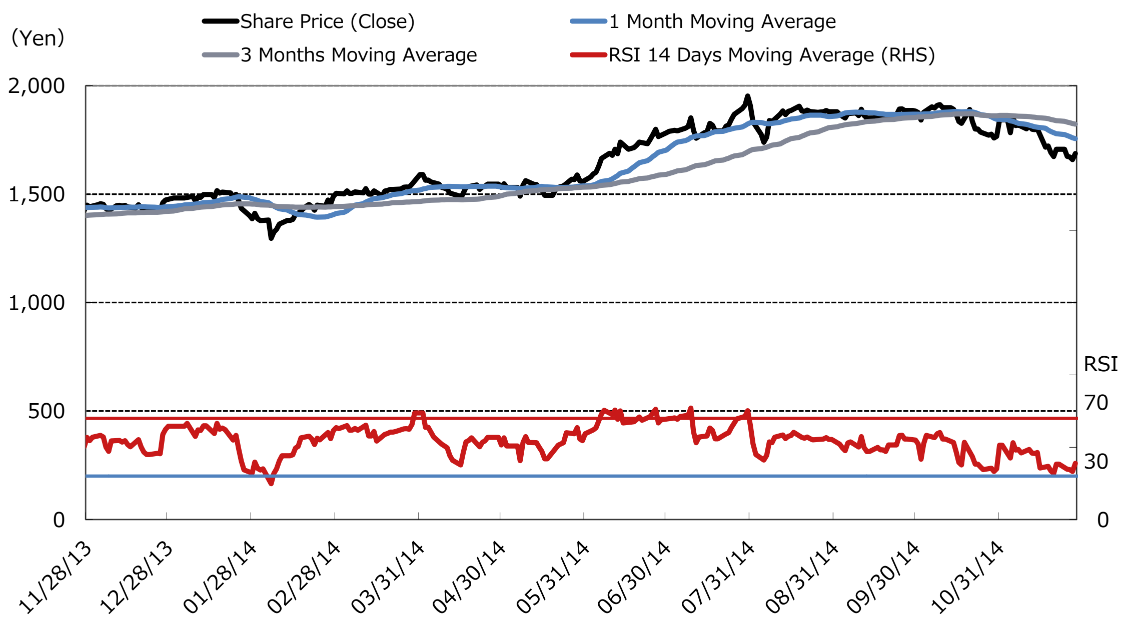
Note: FY3/15 forecast was announced by the Company on October 31, 2014.

No. of Shares Issued	1H FY3/15 end	37,375,636
No. of Treasury Stock	1H FY3/15 end	84,411
Market Value (¥mn)	Nov. 28, 2014	63,053
BPS (¥)	FY3/14 end	1,408.18
ROE (%)	FY3/14 end	8.7
ROA (%)	FY3/14 end	7.0
PER (times) FY3/15 fcst.	Nov. 28, 2014	12.1
PCFR (times) FY3/14 act.	Nov. 28, 2014	15.5
PBR (times) FY3/14 end	Nov. 28, 2014	1.2
Share Price (¥)	Nov. 28, 2014	1,687
Unit Share (shs)	Nov. 28, 2014	100
Average Daily Volume (shs)	Nov. 28, 2014	78,417

Total Assets (¥mn)	FY3/14 end	64,975
Shareholders' Equity (¥mn)	FY3/14 end	52,512
Interest-Bearing Debt (¥mn)	FY3/14 end	2,703
Equity Ratio (%)	FY3/14 end	80.8
Ratio of Interest-Bearing Debt (%)	FY3/14 end	5.1
Free Cash Flows (¥mn)	FY3/14	3,776

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

Share Price Charts and RSI (Nov. 28, 2013 ～ Nov. 28, 2014)



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