

June 2016

Doshisha Corporation
(Stock code: 7483)

Doshisha Corporation held a results briefing on May 18, 2016 for the fiscal year ended March 31, 2016 (FY3/16). In this report, we present a summary of the Company's consolidated results for FY3/16.

[Summary of FY3/16 Consolidated Results]

Doshisha reported higher sales and profits in FY3/16, with profits reaching a record-high (Figure 1). We achieved our forecasts announced at the start of the fiscal year and also our new forecasts revised up later during the fiscal year.

This mainly reflected continued strong sales from the first half of the year on the back of firm inbound demand. As a result, net sales reached a record-high of ¥110,843 million, up 6.9% year on year.

Gross profit rose 10.5% year on year to ¥26,962 million, supported by strong sales of new products in the Product Development Model Business. The gross margin improved 0.8 percentage points to 24.3%. In sales management, we took steps to increase efficiency, such as overhauling our logistics system. This supported an improvement in profitability, with operating income rising 33.5% year on year to ¥8,736 million, ordinary income increasing 25.4% to ¥8,921 million, and net income up 28.5% to ¥5,754 million.

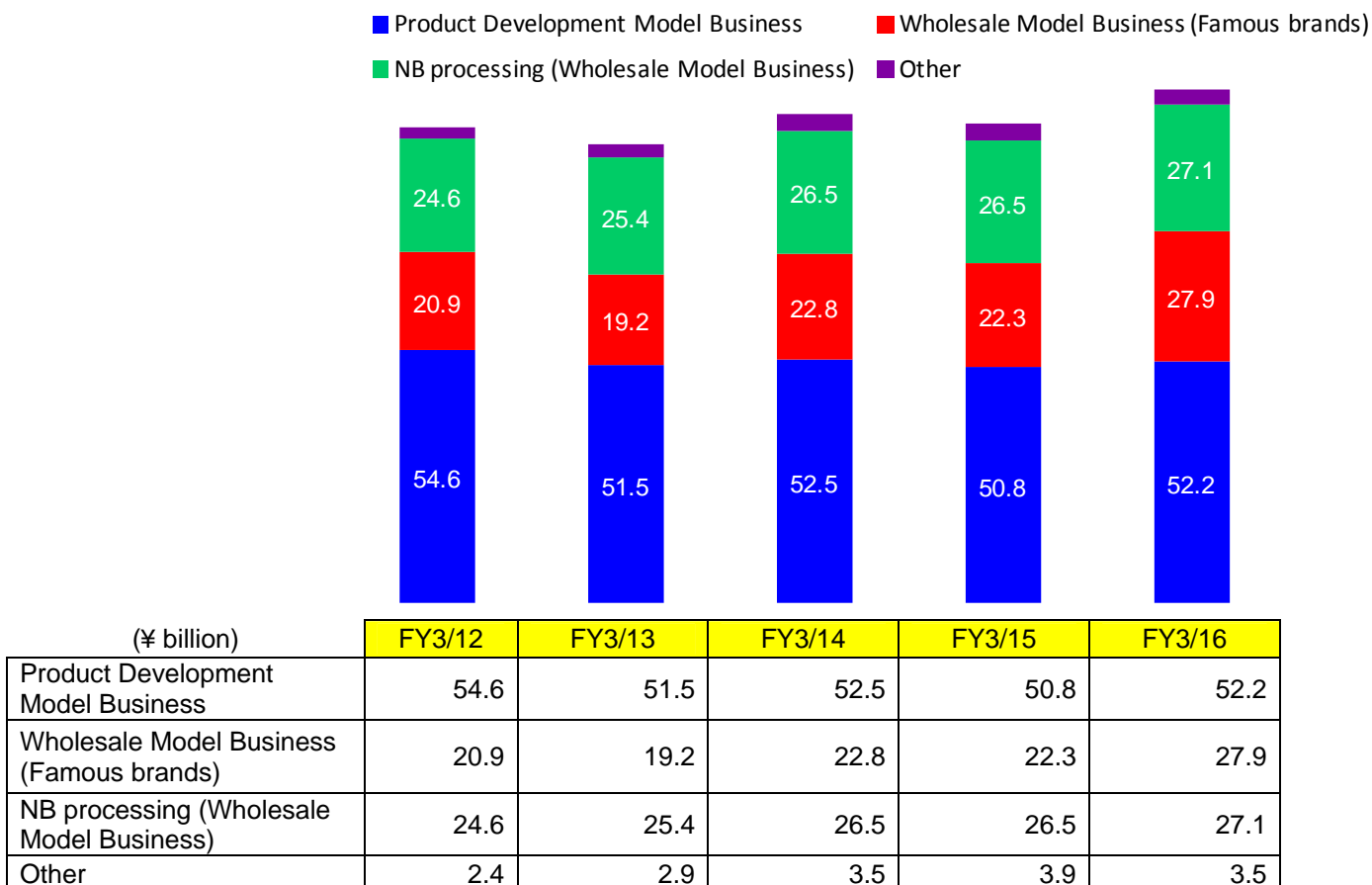
Figure 1: Summary of FY3/16 Consolidated Results

Consolidated (¥ million)	End of FY3/15		End of FY3/16		YoY		Reference		
	Actual	Composition ratio	Actual	Composition ratio	Change	Pct. change	1/29/16 forecast	Change	Pct. change
Net sales	103,647	100.0%	110,843	100.0%	7,196	6.9%	110,000	843	0.8%
Product Development Model Business	48,565	46.9%	52,210	47.1%	3,645	7.5%	54,450	(2,239)	-4.1%
Wholesale Model Business	48,905	47.2%	55,131	49.7%	6,226	12.7%	51,700	3,431	6.6%
Others	3,932	3.8%	3,501	3.2%	(431)	-11.0%	3,850	(348)	-9.1%
Gross profit	24,396	23.5%	26,962	24.3%	2,566	10.5%	26,500	462	1.7%
SG&A expenses	17,853	17.2%	18,226	16.4%	372	2.1%	18,200	26	0.1%
Operating income	6,543	6.3%	8,736	7.9%	2,193	33.5%	8,300	436	5.3%
Ordinary income	7,114	6.9%	8,921	8.0%	1,806	25.4%	8,700	221	2.5%
Net income	4,477	4.3%	5,754	5.2%	1,276	28.5%	5,500	254	4.6%

[FY3/16 Operating Results by Business Segment]

Our operations are largely divided into two business segments: the Product Development Model Business and the Wholesale Model Business. The Product Development Model Business plans, manufactures and sells original Doshisha products. The Wholesale Model Business is a comprehensive sales proposal business, mainly focused on selling and planning sales promotions for leading domestic and overseas brands and products sourced from major manufacturers in Japan. The product range in the Wholesale Model Business includes well-known luxury brand watches, bags and other items, traditional mid-year and year-end assorted gift packs arranged by Doshisha using merchandise sourced from leading domestic suppliers, and national brand (NB) processed products.

[Graph 1: Sales Trends by Business Model]



Product Development Model Business: ¥52,210 million, up 2.8% year on year

The Product Development Model Business reported firm sales of various high value-added products. In homewares, popular products included frying pans with one-year guarantees and our growing lineup of snow cone makers – which have captured the leading market share in Japan. In electrical appliances, our range of fans sold well, including *kamome* fans and foldaway fans that have featured heavily in the media. Our hybrid humidifier with a Cleverin LED also registered firm sales. Mug bottles were popular with inbound consumers, and in overseas sales there was strong demand for snow cone makers, fans, humidifiers and cosmetics-related merchandise such as haircare products, mainly from consumers in Asia. Other product categories that registered strong sales were storage and interior products, apparel, shoes, TVs and single-price merchandise. However, intensifying price competition led to weak sales in product categories where price is the main differentiator, such as standard-type LED lights and table wine retailing in the roughly ¥1,000 range. Although not shown in the Figure above, sales of new products were strong, driving profits 57.1% higher year on year.

Wholesale Model Business: ¥55,131 million, up 12.7% year on year

◆ Famous brands: ¥27,933 million, up 25.0% year on year

Sales of famous brands rose 25.0% year on year. Demand from inbound consumers drove sales of luxury watches sharply higher. In handbag-related sales, casual brands retailing in the ¥10,000 range proved popular, as did new products in licensed and developed brands, such as *U.S. POLO ASSN.* and *Furbo design*.

◆ NB processing: ¥27,198 million, up 2.4% year on year

In NB processing (gifts), sales of *somen* and other products were weak in the traditional mid-year gift season due to poor summer weather. However, sales were strong in the year-end gift season, reflecting efforts to develop fresh product ideas, such as healthy assortment gift sets, tie-ups with famous brands such as the Yokohama Royal Park Hotel, and gift sets containing fresh produce.

Other / Affiliated Companies: ¥3,501 million, down 11.0% year on year

[Sales Trends by Channel]

We registered strong sales to large electronics retailers, which sell our watches and handbags, and to discount stores, partly reflecting inbound demand.

[Consolidated Forecasts for FY3/17]

We forecast higher net sales and profits in the fiscal year ending March 31, 2017, based on the strategies described below. Please refer to Figure 2 for more details about our forecasts.

We plan to pay a full-year dividend of ¥50 per share after raising the interim dividend to ¥25 per share.

Figure 2: Consolidated Forecasts for FY3/17

Consolidated (¥ million)	FY3/16			FY3/17			YoY	
	1H	2H	Full year	1H	2H	Full year	Change	Pct. change
Net sales	52,603	58,240	110,843	56,700	63,300	120,000	9,156	8.3%
Product Development Model Business	23,765	28,445	52,210	26,600	32,200	58,800	6,589	12.6%
Wholesale Model Business	26,851	28,280	55,131	28,350	29,550	57,900	2,768	5.0%
Others	1,986	1,514	3,501	1,750	1,550	3,300	(201)	-5.7%
Gross profit	12,694	14,267	26,962	13,650	15,050	28,700	1,737	6.4%
SG&A expenses	9,016	9,209	18,226	9,500	9,700	19,200	973	5.3%
Operating income	3,678	5,058	8,736	4,150	5,350	9,500	763	8.7%
Ordinary income	3,800	5,120	8,921	4,150	5,350	9,500	578	6.5%
Net income	2,429	3,324	5,754	2,800	3,600	6,400	645	11.2%

[Changing Business Models (Figure 3)]

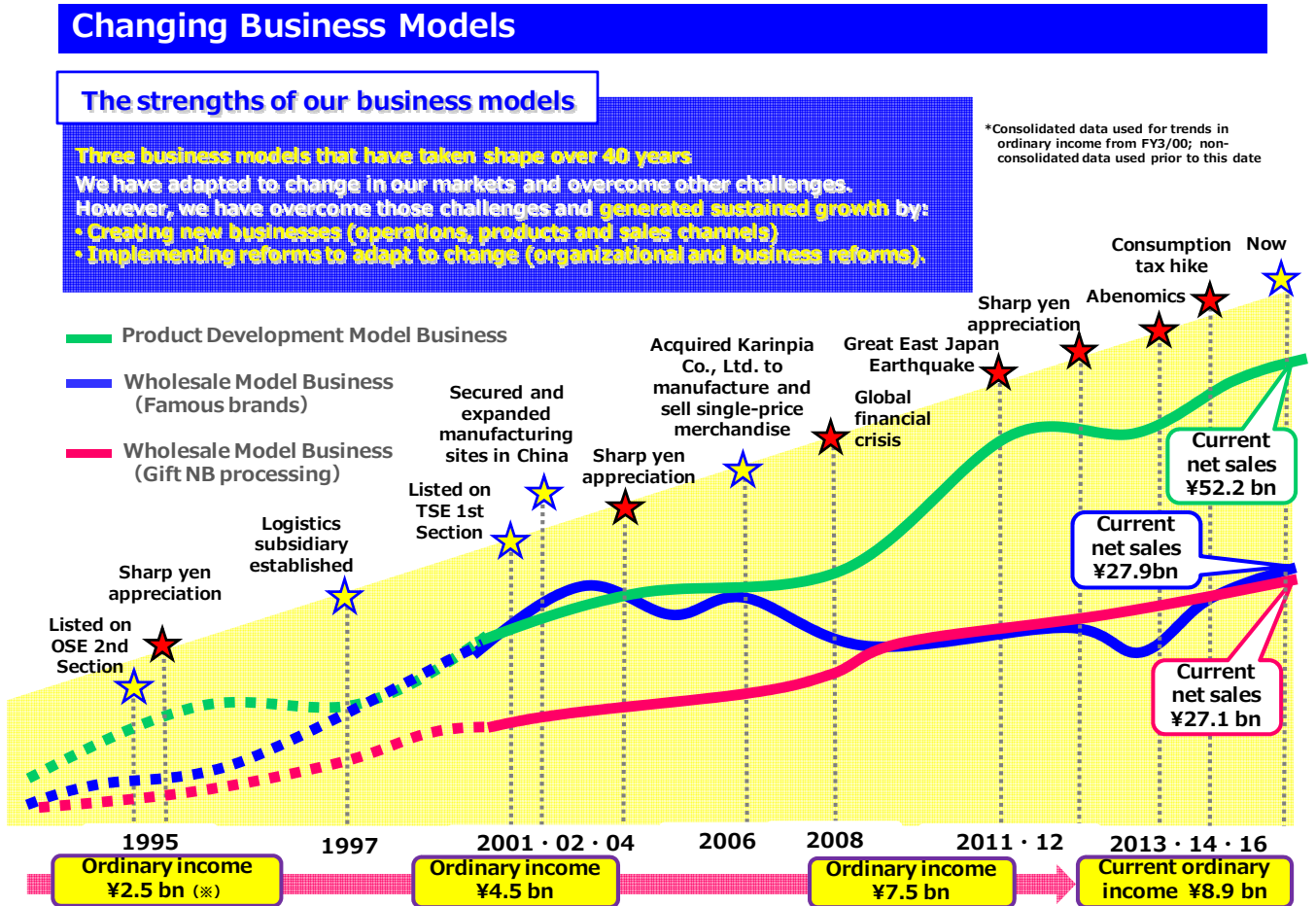
In this section, we look at our forecasts in the context of how growth drivers in each business model have changed over time. Using three business models that have taken shape over the past 40 years – Product Development Model Business, and famous brands and NB processing in the Wholesale Model Business – we have been able to adapt to change and risk in our operating environment. On many occasions, we have encountered setbacks such as the rapid appreciation of the yen, the hollowing out and realignment of retail formats, and economic downturns after the bubble era and the financial crisis triggered by the collapse of Lehman Brothers. However, each time, in the face of those challenges, we have launched businesses, developed new products and business partners, overhauled our organization and implemented business reforms, resulting in many years of sustained growth.

Earnings in our famous brand business, part of the Wholesale Model Business, are exposed to developments in the wider economy and changing fashions. However, we have reinforced our relationship with manufacturers to ensure we have access to stable supplies of popular branded products, helping to stabilize earnings. We have also grown earnings by handling the latest trending brands and by introducing our own private label brands. In gift merchandising, another part of the Wholesale Model Business, we have focused on developing a wide range of assorted gift sets from the perspective of consumers. This approach has helped us secure the leading market share in mid-year and year-end gift sets in Japan. In the Product Development Model Business, we have been promoting a Niche No.1 strategy in product development. We have also built an operating structure that is resilient to changes in foreign exchange rates by reducing product development times and changing our lineup of seasonal products and replacing merchandise more regularly.

This illustrates one of our strengths as a company – the ability to deliver sustained growth by generating synergies between three very different business models and their associated business groups.

Product retailing is another area where we have made progress. Starting in the 1990s, we have expanded our sales channels through a strategy of setting up sales areas for watches, jewelry and other luxury items in different retail formats that are popular with shoppers, such as large electronics retailers. As a result, today we supply a total of 4,800 companies with 300,000 stores in Japan and overseas. Aiming to build on this existing business, we plan to increase our share of in-store sales by developing mixed-category sales area ideas for retailers.

(Figure 3)



[Business Models and Partnerships Unique to Doshisha (Figure 4)]

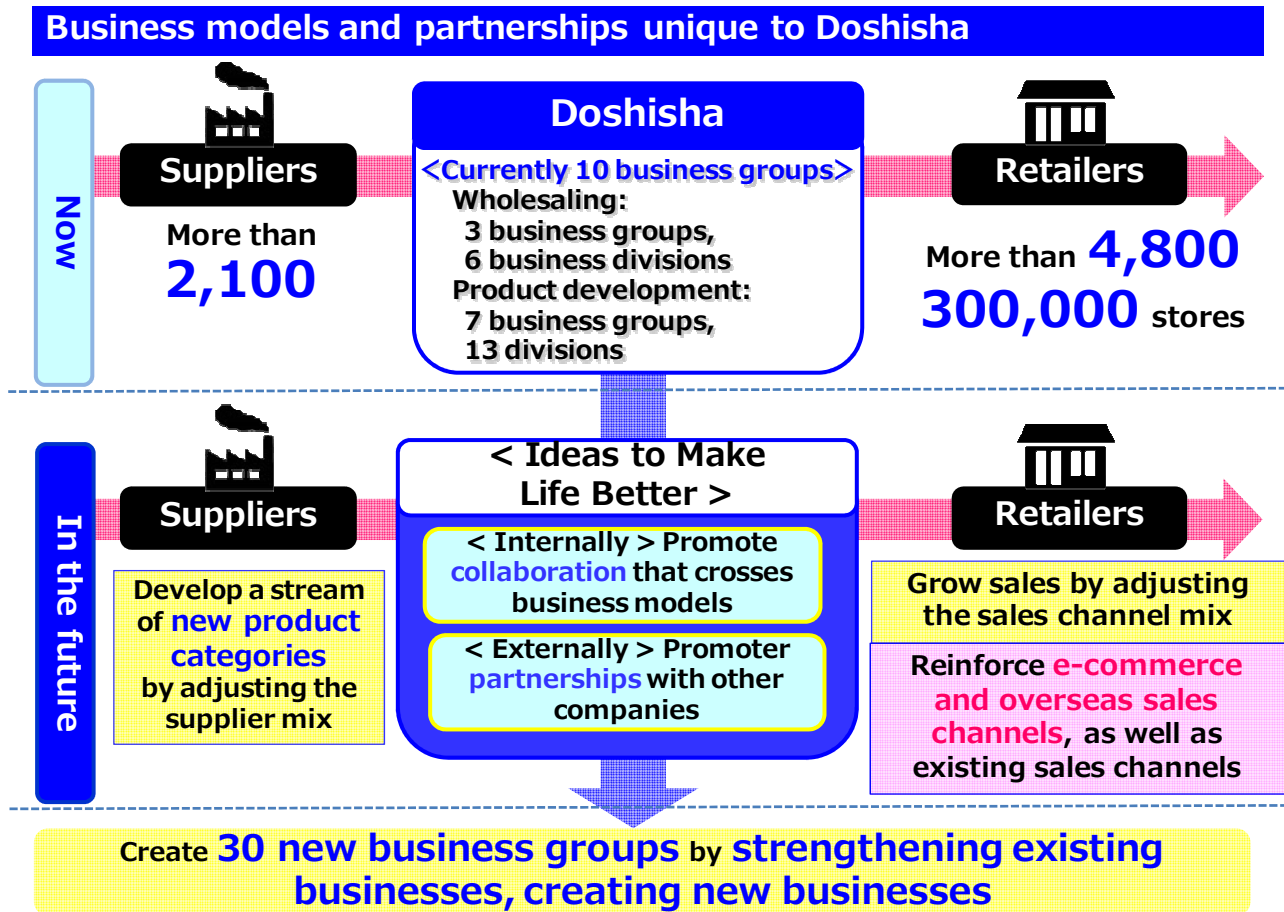
To drive sustained growth, we have to reinforce our business models, create new businesses and establish new business groups. Partnerships will have an important role to play in that process. We have already expanded our existing businesses and created new businesses through “internal partnerships” that combine and leverage the strengths of our three business models, enabling us to respond to change in the operating environment and create new added value.

One example of these internal partnerships is how we use our retailer base of 4,800 companies – one of Doshisha’s strengths – as part of our basic sales strategy. Usually, wholesalers find it very difficult to secure new supply contracts with retailers. The challenge becomes even harder if the wholesaler wants to supply products in a category that the retailer does not currently handle. Doshisha is different though. In one case, we secured a deal to supply mid-year and year-end gift sets to a chain of hardware stores that did not sell food products by offering a complete sales package covering everything from sales area development to promotion. We now sell a very high volume of gift sets through this channel. How did we manage to secure this deal to sell gift sets via hardware stores, and how did we work to boost sales volume through this retail format? The answers lie in our strengths as a company.

Initially, we started supplying market-leading steel rack products to the hardware company, and using that as an entry point, developed sales proposals for other product categories that were completely new in the hardware retail format. In other words, we used one of our 19 categories of clothing, food and homewares to significantly lower the barriers to entry for the remaining 18 categories, leading to growth in our share of in-store sales.

Leveraging our strengths in product and sales planning, we intend to extend this approach to partnerships with a range of other companies to complement our own technologies, capabilities and brands, helping us reinforce existing businesses, create new business groups, diversify risk and give us more options for business expansion in the future. Our goal is to create 30 new business groups to drive earnings growth.

(Figure 4)



[Business Strategy for FY3/17]

< Strategy to Strengthen Doshisha >

- ◆ Reinforce e-commerce and overseas sales; accurately target inbound demand

We see potential for sales growth and market growth in the e-commerce format and overseas sales channels. We have therefore positioned them as priority areas in our strategy to strengthen Doshisha. We have already launched an inter-business group project to boost sales in the e-commerce format, but we plan to step up our efforts in this area. Building on progress in FY3/16, we plan to continue developing overseas sales channels in FY3/17 using a company-wide sales structure led by a specialist team. This team will focus on Asia and North America. We have received a large number of inquiries from major firms in Asia recently, suggesting real potential for business expansion.

Although inbound demand is gradually changing in terms of products purchased and price points, we expect demand to remain strong. We aim to respond swiftly to these changes by leveraging our strengths – a broad lineup of products from single-price ¥100 merchandise to luxury watches, and the ability to rapidly develop and procure new products using our network of 2,100 suppliers. However, given the uncertain market outlook, we have not factored these two strategies into our forecasts for

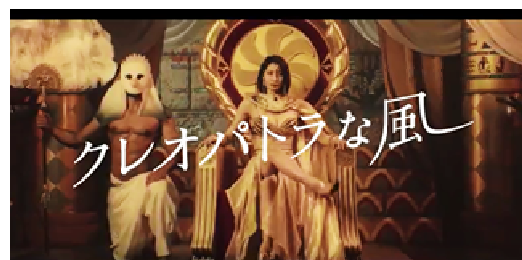
FY3/17, so any boost will be an added bonus.

◆ Step up sales promotion

Use the latest methods to create a multifaceted sales promotion strategy; step up marketing of Doshisha products from the perspective of the consumer

Starting in 2H FY3/16, we began implementing a company-wide promotion strategy to raise the visibility of the Doshisha brand. We are using a range of media, including online and social media, transport advertising, promotional events, TV and magazines. That in turn has led to an increase in the number of newspaper and magazine articles and TV programs featuring products developed by Doshisha. In FY3/17, we plan to add the latest market methods to our existing approach and step up sales promotion from the perspective of the consumer.

Specifically, we plan to use content marketing, focusing on new models in our range of *kamome* fans, which were developed through a tie-up with Nakashima Propeller Co., Ltd. We will use the internet to distribute effective promotional videos and launch an advertising poster campaign targeting key stations in the Tokyo metropolitan area, aiming to raise brand visibility and create a buzz around our products to stimulate demand.



kamome fan website (Japanese only)

<http://www.d-designing.com/kamomefan/r/>



Or scan the QR code to see the videos

kamome fan promotional videos (Japanese only)

<https://www.youtube.com/channel/UCqMZWv6OKVlytzYwi863PPw>

<https://www.youtube.com/watch?v=ew65v0HSv0I>

◆ Initiatives to reduce logistics costs

Building new logistics center in Kisarazu to cover Kanto area, creating proprietary dual-hub network

We are reinforcing our logistics system to support further growth and profits. Our aim is to create a proprietary dual-hub logistics network to reduce distribution costs and diversify risk. Our first center has been open for some time and is located in Sennan, Osaka. Our second center will be built in Kisarazu, Chiba Prefecture on a roughly 40,000m² plot acquired in January 2016. When finished, the logistics center will have total floor area of around 60,000m². We plan to open the Kisarazu logistics center in autumn 2017. By ending our reliance on third-party warehousing providers in the Kanto area, where distribution volume and costs are high, we will eliminate cash outflow for this service and reduce logistics costs by distributing products from the optimal location. The new center will also give us greater storage and shipment capacity, helping to diversify risk during natural disasters.

< Strategy for the Wholesale Business Model >

(Famous Brands)

◆ Step up efforts to promote and expand sales of private label brands and licensed brands

We plan to reinforce our brand business by nurturing private label brands and licensed brands. In private label brands, we are using celebrities to raise brand visibility. Actor Toru Nakamura is our ambassador for men's brand *Furbo design* and actress Nao Tsuchiya is our ambassador for women's brand *Rubin Rosa*. In licensed brands, we added two brands to our portfolio, *U.S. POLO ASSN.* and Italian ladies' bag brand *Giulietta Verona*. With the latter brand, we are taking a new approach, displaying *Giulietta Verona* products at exhibitions and fashion shows where we can appeal directly to consumers, and using Instagram and a wide range of other media to promote the brand. We have high hopes for the brand using this approach.



Giulietta Verona

Furbo design homepage (Japanese only)

<http://www.furbodesign.com/>

Rubin Rosa homepage (Japanese only)

<http://www.rubinrosa.com/>

Giulietta Verona homepage (Japanese only)

<http://www.giuliettaverona.jp/#>

Giulietta Verona Instagram page (Japanese only)

<https://www.instagram.com/explore/tags/giuliettaverona/>

Giulietta Verona Facebook page (Japanese only)

<https://www.facebook.com/giuliettaverona.jp/>

(National Brand Processing)

◆ Strengthen our lineup of casual gifts for the 20-30s age group, create a new culture of gift and present giving

Changing gift giving culture to spur growth in the market

In Japan, gift giving has been centered on mid-year and year-end traditional presents and gifts offered in reciprocation for a Buddhist celebration or ritual. Working with external partners, we are aiming to create a new culture of gift and present giving in Japan by changing when and how we give presents. We will offer two new types of gift in FY3/17. The first, developed with an external partner, is an assortment of local souvenirs from roadside stops across Japan. We believe there is significant demand for these local souvenirs as daily items, not just as tourist souvenirs, and they have typically only been available from roadside stops or at special sales events in department stores. By teaming up with a partner that has detailed knowledge of Japan's roadside stops and using our own gift design skills and distribution network, we can now deliver these local souvenirs to consumers all year round.

The second area is internet gift giving, which we plan to develop further in FY3/17. Again, we have teamed up with an external partner that has extensive expertise in networks. Our aim is to create easier ways of sending gifts, ultimately spurring a new culture of present and gift giving. Until now, people have needed the address of the gift recipient, but with our new system, users can use Line or other social media apps to send presents easily without knowing the address. The process is just as easy for the person receiving the gift, who can accept the present simply by clicking on an accept button in the app. This is designed to make the whole gift giving process easier for people in their 20s and 30s, who tend not to send traditional mid-year and year-end gifts. We plan to extend this system to mid-year and year-end gifts in order to generate new demand in existing present categories.

< Strategy for the Product Development Business Model >

◆ Using three Doshisha approaches to expand sales in popular product categories

Consumers in Japan have been focusing on price for some time. This trend became even more pronounced in FY3/16, partly due to the deflationary market environment. Despite this tendency, we know that simply competing on price is insufficient to attract buyers at a time many people already have more than enough possessions. In other words, we need to highlight all the value of each product and show how it offers value for money. Our approach is to “make products better, cheaper and more specialized,” using our manufacturing capabilities to spike the interest of consumers with groundbreaking products based on new value propositions.

To achieve that, we will leverage our manufacturing strengths, which are listed below, and three unique Doshisha approaches: niche strategy, rapid product development, and value for money. Based on that approach, we plan to launch a number of new and upgraded products in FY3/17, including a deodorizing LED light bulb, an electrical massage chair, small and mid-size 4K TVs, a new Taiwanese-style sweet snow cone maker, an upright vacuum cleaner, *kamome* fans, and a range of luminous steel racks for business users.

[Doshisha's manufacturing strengths]

Fables manufacturer capabilities, manufacturing spanning many categories, inventory management know-how, high-quality production and management framework, and business links to 4,800 retailers with 300,000 stores

Business performance forecasts, outlooks and business plans discussed in these materials are derived from assumptions based on projections of the future business climate at the time that these materials were released. A variety of uncertainties and other factors contained in these forecasts, as well as future changes in business operations and economic conditions, could cause actual results to differ materially from the forecasts found in these materials. Accordingly, no guarantee is offered regarding the Company's future business performance as projected in these materials.

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*Information in this press release is accurate as of the date of release

*Please be aware that content may be revised without warning.