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7483 **Doshisha**

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Sales and Profits Higher Year on Year

Profits rise strongly on sales growth driven by inbound demand and summer merchandise, improvements in cost efficiency

◆Summary of 1H FY3/16 Consolidated Results

In the first six months of FY3/16, we achieved our targets announced at the start of the fiscal year, with sales and profits both rising year on year. This mainly reflected firm inbound demand and strong sales of summer merchandise, as well as efforts to find cost savings in selling, general and administrative expenses.

For the period under review, Doshisha reported net sales of ¥52,603 million (up 7.9% year on year), gross profit of ¥12,694 million (up 8.1%), selling, general and administrative expenses of ¥9,016 million (up 1.6%), operating income of ¥3,678 million (up 28.0%), ordinary income of ¥3,800 million (up 25.7%) and net income of ¥2,429 million (up 22.2%). Net sales were a record for the first half of a fiscal year and the gross margin was 24.1%, the same as a year earlier. The ratio of selling, general and administrative expenses to net sales was 17.1%, down from 18.2% a year earlier, reflecting efforts to control distribution costs.

◆Summary of 1H FY3/16 Consolidated Results by Segment

Sales increased 3.2% year on year to ¥23.7 billion in the Product Development Model Business and rose 12.3% to ¥26.8 billion in the Wholesale Model Business. In the Wholesale Model Business, sales of famous brands were on par with sales in the non-brand processing business, supported by firm demand for branded merchandise. Sales in the Product Development Model Business fell short of our start-of-year forecast by 1.8%, but the Wholesale Model Business exceeded its target by 7.0%, helping overall sales to beat our forecast by 2.5%.

< Product Development Business: ¥23.7 billion, up 3.2% year on year >

In the Product Development Business a number of products recorded higher sales year on year, including snow cone makers, which have the leading market share, foldable DC fans, which have featured heavily in the media, high-end *kamome* metal fans, and casual sportswear. Mug bottles were popular with inbound consumers, and in overseas sales there was strong demand for haircare products, snow cone makers and humidifiers, mainly from consumers in Asia. Other product categories that registered higher sales were homewares, electrical appliances, interior storage products, shoes and merchandise priced at ¥100. However, sales of standard-type LED lights and table wine in the food product category declined due to intensifying price competition.

< Wholesale Model Business: ¥26.8 billion, up 12.3% year on year >

In the Wholesale Model Business, sales of famous brands rose 33.3% year on year to ¥13.4 billion. In famous brands, demand from inbound consumers supported higher sales of luxury watches. In handbag-related sales, casual brands proved popular, as well as new products in licensed and developed brands. In non-brand processing (gifts), sales declined 3.0% year on year to ¥13.4 billion, reflecting weak sales of *somen* due to poor summer weather. However, sales of souvenir gift packs for tourists visiting Japan were strong.

◆1H FY3/16 Sales Trends by Channel I,

Sales to large electronics retailers rose a strong 70.3% year on year, supported by inbound demand. However, sales to hardware stores and discount stores fell 2.2% and 13.8%, respectively, amid weak consumer demand and unfavorable weather. After a poor year in FY3/15, sales to supermarkets recovered, rising 9.2% year on year. There was also a rise of 3.5% in sales to general merchandisers. In other channels, sales rose 27.1% to watch and jewelry stores, 18.0% to ¥100 shops and 4.8% to online retailers.

◆1H FY3/16 Selling, general and administrative expenses

Selling, general and administrative expenses rose 1.6% year on year to ¥143 million, but the ratio of expenses to net sales improved 1.1 percentage points year on year to 17.1%, reflecting growth in net sales and efforts to control distribution costs. In FY3/14, the company started implementing a project to reduce distribution costs and this is now bearing fruit, with costs down 2.1% (¥59 million) compared with 1H FY3/15.

◆1H FY3/16 Consolidated Balance Sheet Summary

Current assets declined ¥62 million from the end of the previous fiscal year. This reflected a decrease in notes and accounts receivable – trade of ¥367 million, an increase in merchandise and finished goods of ¥1,205 million due to the procurement of autumn and winter merchandise in response to early orders, and a decrease in other current assets of ¥938 million. Current liabilities increased ¥579 million from the end of the previous fiscal year, mainly reflecting an increase in notes and accounts payable – trade of ¥1,066 million and a decrease in income taxes payable of ¥270 million. Total net assets declined ¥701 million. This was primarily due to an increase in net income of ¥2,429 million, a decline in dividends of surplus of ¥745 million, a decrease in purchase of treasury shares of ¥1,545 million, and a decline in deferred gains (losses) on hedges of ¥987 million.

◆1H FY3/16 Consolidated Cash Flow Summary

Operating activities provided net cash of ¥2,583 million, mainly reflecting income before income taxes and minority interests of ¥3,793 million, increase in notes and accounts payable – trade of ¥1,066 million, increase in inventories of ¥1,206 million, and decrease in income taxes paid of ¥1,534 million. Investing activities used net cash of ¥102 million, primarily reflecting cash used of ¥92 million for the purchase of property, plant and equipment. Financing activities used net cash of ¥2,419 million, mainly due to the purchase of treasury shares of ¥1,545 million and cash dividends paid of ¥745 million.

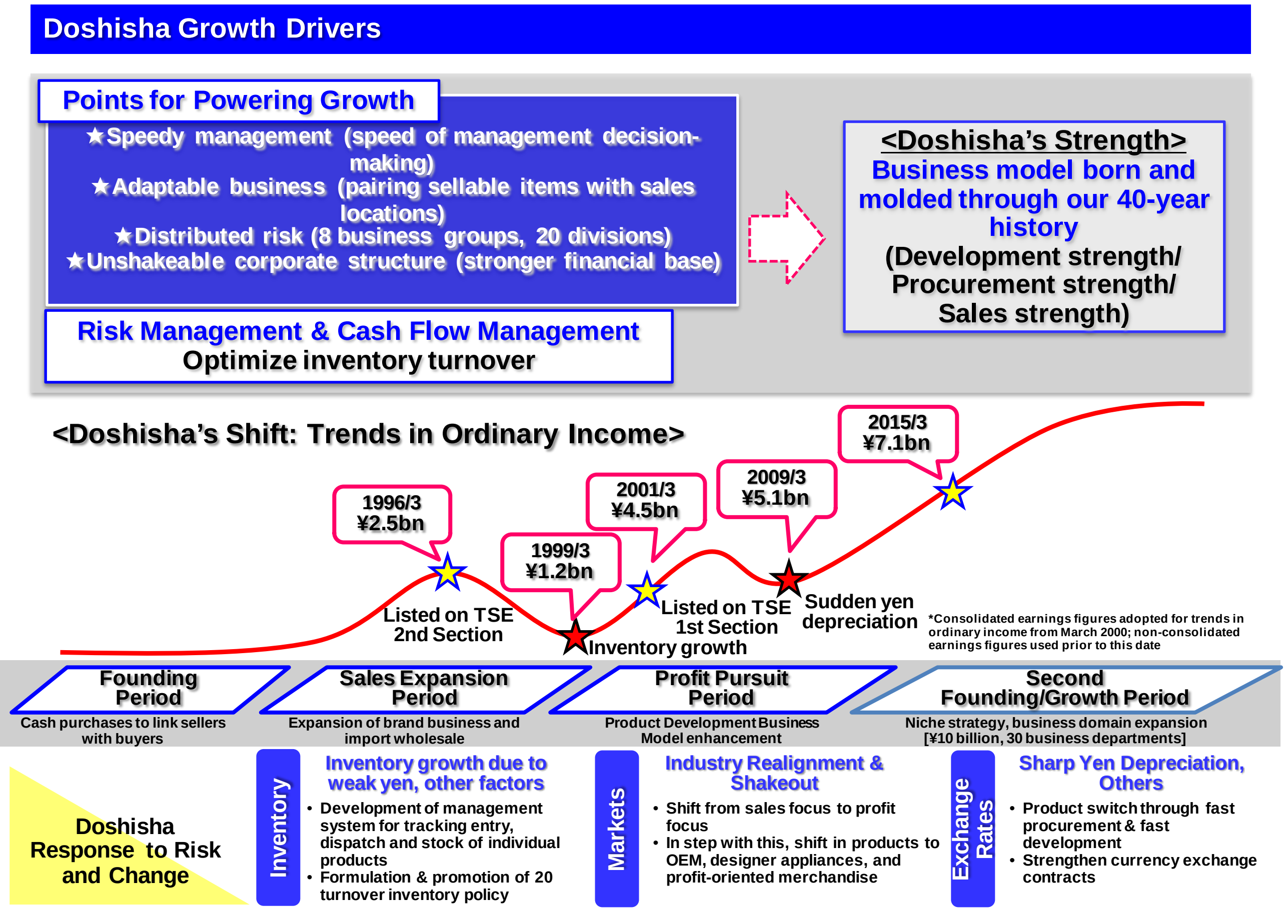
◆Consolidated Forecasts for FY3/16

Our full-year forecasts are unchanged from the figures released at the start of the fiscal year. We forecast net sales of ¥110.0 billion (up 6.1% year on year), gross profit of ¥26.45 billion (up 8.4%), selling, general and administrative expenses of ¥18.45 billion (up 3.3%), 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 15.0%).

◆Doshisha Growth Drivers

We are focusing on three key areas to drive growth: speedy management decision-making, an adaptable business approach to respond rapidly to changes in customer needs, and distributed risk through eight business groups and 20 divisions targeting specific business fields. These three areas are underpinned by our underlying corporate strengths, which we have built up and improved on over the last 40 years.

Looking at trends in ordinary income since the company was founded, profits have risen overall but there have been some bumps along the way. Reasons for this included excessive inventories and sharp yen depreciation, which had a negative impact on the company. Despite those challenges, Doshisha has continued to grow, and past experience has given us the expertise to tackle the same problems in the future, or even prevent them from happening again. Our growth drivers can be encapsulated in one phrase – risk



management and cash flow management – supported by a solid financial base born out of our corporate philosophy of creating an unshakeable corporate structure.

Institutional investors often ask us, “Who are Doshisha’s competitors?” We tell them that we compete with various other companies in specific product lines and categories but we have no overall single competitor. That's because, over the last 40 years since the company was founded, we have built a business model underpinned by product development and wholesale functions – our strength as a company – not simply because we have an extensive business portfolio focused on clothing, food and the home.

◆Strategy for 2H FY3/16

< Sales Strategy >

[Reinforce the inbound and overseas sales business]

< Product Strategy >

[Promote the Niche No.1 strategy], [Develop a new business model]

[Reinforce the inbound and overseas sales business]

Our strengths as a company mean we are well-placed in the inbound business. Based on our product development capabilities as a fabless manufacturer and our procurement capabilities as a trading company, we can plan and develop distinctive value-added products that address customer needs. We can also rapidly procure products through immediate cash settlement from 2,100 suppliers worldwide. Our ability to supply a wide range of products – from merchandise priced at ¥100 to luxury watches worth tens of millions of yen – is another Doshisha strength. Also, we do more than just sell products. We can provide comprehensive support for all stages of the retail process right through to sales area design and create. This means we are good at helping customers rapidly address new markets, such as inbound demand, as well as the fast-changing tastes of overseas visitors to Japan. We plan to leverage this capability to grow sales further.

In overseas operations, we started selling European- and North American-designed electrical appliances about four years ago. Last year, we expanded our sales channels in China and South Korea and extended our sales reach into Southeast Asia. Demand for “Made in Japan” products is strong in China, as well as in South Korea and Southeast Asia. This is driving strong sales of our beauty care and food products. Demand is also strong in those markets for highly functional Japanese-style products, even if they have “Made in China” labels. Examples include our authentic “fluffy snow cone” maker and designer mug bottles, which have been popular in Japan. Based on these strong-selling products in the inbound market, we aim to develop our product lineup further while carefully addressing the needs of overseas customers.

We are expanding our overseas business in other ways as well: in Vietnam, we are marketing our shampoo brand using bus wrap advertising; in Taiwan, we are holding in-store demonstration sales events based on themes such as ramen noodles, Hokkaido produce and green tea; and in South Korea we are running TV ads on shopping channels that clearly explain the functionality of products such as our frying pans and snow cone makers. By adapting the approaches we used in Japan market to local needs, we are steadily building an operating base to support further sales growth.

[Promote the Niche No.1 strategy]

We have five key strengths in manufacturing: fabless manufacturer capabilities, manufacturing spanning many categories, a responsible product development framework, a high-quality production and management framework, and 4,800 business partners. Our approach in manufacturing is to "make products better, cheaper and more specialized." In other words, we want to supply products that are highly attractive based on both price and value, and that also stand out in the market in terms of application, function and design. Our goal is to offer new value propositions that have an appealing narrative for consumers. As the domestic market becomes increasingly competitive, we will leverage our strengths and our unique approach to manufacturing in order to step up the development of market-leading products in niche markets where major manufacturers struggle to compete and large retailers cannot develop their own products. Doshisha is already the leading company in Japan in a number of market categories, including steel racks, snow cone makers, small and mid-size LCD TVs and Christmas merchandise.

[Develop a new business model]

Consumer needs are becoming increasingly diverse. Modern consumers want more than just convenience, comfort and quality. That means we have to create entirely new products incorporating highly innovative approaches and ideas. To address this challenge, we have to combine technologies from other industries with our manufacturing experience in many product categories to create new value and develop groundbreaking products – this means forming alliances with other companies and harnessing the power of open innovation.

One example of how this approach is paying off is our *kamome* metal fan, which was created by combining our fan products with the screw technology of Nakashima Propeller Co., Ltd. – the global market leader in marine propellers. We plan to step up this collaborative approach to product development in the second half of the fiscal year. Open innovation is another approach we are using. By combining our *kamome* fan with Cleverin technology developed by Taiko Pharmaceutical Co., Ltd. – better known for its Seirogan range of gastrointestinal medicine – we have created a hybrid humidifier with a Cleverin LED.

This new business model based on joint development with companies such as Nakashima Propeller and Taiko Pharmaceutical has only been a success because of our inherent strengths as a company – our sales platform of 4,800 distributors, sales area proposals incorporating sales and promotion support that helps retailers maximize product sell-through to consumers, and most importantly, a corporate culture that emphasizes innovative thinking in product planning and manufacturing. We plan to develop this approach further to help us rapidly create completely new value propositions.

◆Shareholder Return Policy

In line with our policy of paying ongoing and stable dividends, we plan to pay an interim dividend of ¥20 per share, the same as the interim dividend last year, which also included a commemorative dividend. For the second half of FY3/16, we are targeting a dividend payout ratio of 30% while also taking into account earnings performance. We intend to buy back shares as needed, depending on equity market conditions.

◆Question and Answer Session ◆

Q1: You have a large number of product development projects under way at any given time. What is the success rate for your projects and what steps do you take if they do not go to plan?

A1: We do not have a concrete figure for the success rate, but we achieve a high degree of accuracy in project planning. That's because, at the development stage, when we have a good idea what the final product will look like, we take test samples of the product to negotiation meetings with clients. If the product fails to sell, we immediately close out the product line, book impairment costs and sell all remaining stock. That means there are almost no inventories carried over to the next season.

Q2: There have been some indications recently that sales of luxury items are slowing at some retailers. What is the situation at wholesalers?

A2: At Doshisha, we haven't seen any signs of a slowdown in high-end products. However, there may be an impact on our business in the future, so we are monitoring shopping trends by inbound visitors on a daily basis. Even if shopping trends change, we are well-placed to develop new products that address those changes.

Q3: Doshisha employees appear to be upbeat and motivated. What management approach do you use to create that kind of culture?

A3: We don't use any particularly special approach. We simply give them the support they need to deliver the results that are expected of them. And we also help them to continue delivering those results over a sustained period.

Q4: Please tell us about your moves into overseas markets.

A4: We sell our humidifiers in Europe and North America through local partners who have been given responsibility for our business in those markets. We plan to increase the number of local partners if our overseas product range expands. In China, South Korea and Southeast Asia, we mainly sell mug bottles, haircare products and electrical appliances. We have appointed senior managers who lead the development of our business in those markets. We are rolling up our sleeves and working hard to expand our sales areas overseas.

(Tokyo, November 12, 2015)