http://www.doshisha.co.jp/

7483 **Doshisha**

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Reinforcing our businesses and operating base to establish an "ONLY 1" business model

◆ Summary of FY3/17 Consolidated Results

Doshisha reported lower sales and profits in FY3/17. Net sales declined 3.5% year on year to ¥107,015 million, gross profit fell 2.7% to ¥26,230 million and selling, general and administrative expenses rose 5.1% to ¥19,150 million. As a result, operating income declined 19.0% year on year to ¥7,080 million, ordinary income fell 20.2% to ¥7,122 million and net income declined 17.1% to ¥4,770 million.

Net sales declined due to two main factors: weaker sales volumes for TVs in the product development model business amid increased price competition with new manufacturers, and falling sales of luxury brand watches due to a continued pullback in inbound demand that started in FY3/15. The gross margin improved overall, supported by the successful development and launch of new retail ideas and merchandise, but gross profit declined due to the drop in net sales. Selling, general and administrative expenses increased, mainly reflecting a rise in third-party warehousing expenses caused by higher volumes in the gift business and an increase in advertising costs to raise product visibility and strengthen brands. That led to a decline in operating income, but we intend to continue investing in advertising in FY3/18, as spending in the previous fiscal year had a positive impact.

Consolidated (¥ million)	FY3/16		FY3/17		YoY		Reference		
	Actual	Composition ratio	Actual	Composition ratio	Change	Pct. Change	1/31/17 forecast	Change	Pct. Change
Net sales	110,843	100.0%	107,015	100.0%	(3,828)	-3.5%	106,000	1,015	1.0%
Product Development Model Business	51,161	46.2%	49,129	45.9%	(2,032)	-4.0%	50,200	(1,070)	-2.1%
Wholesale Model Business	56,180	50.7%	54,403	50.8%	(1,777)	-3.2%	52,700	1,703	3.2%
Others	3,501	3.2%	3,482	3.3%	(18)	-0.5%	3,100	382	12.3%
Gross profit	26,962	24.3%	26,230	24.5%	(732)	-2.7%	25,800	430	1.7%
SG&A expenses	18,226	16.4%	19,150	17.9%	923	5.1%	18,900	250	1.3%
Operating income	8,736	7.9%	7,080	6.6%	(1,656)	-19.0%	6,900	180	2.6%
Ordinary income	8,921	8.0%	7,122	6.7%	(1,798)	-20.2%	7,000	122	1.8%
Net income	5,754	5.2%	4,770	4.5%	(983)	-17.1%	4,600	170	3.7%
EPS (¥)	156.27	-	132.39	-	(23.88)	-15.3%	127.64	4.75	3.7%
DPS (¥)	45.00	-	50.00	-	5.00	11.1%	50.00	0.00	0.0%

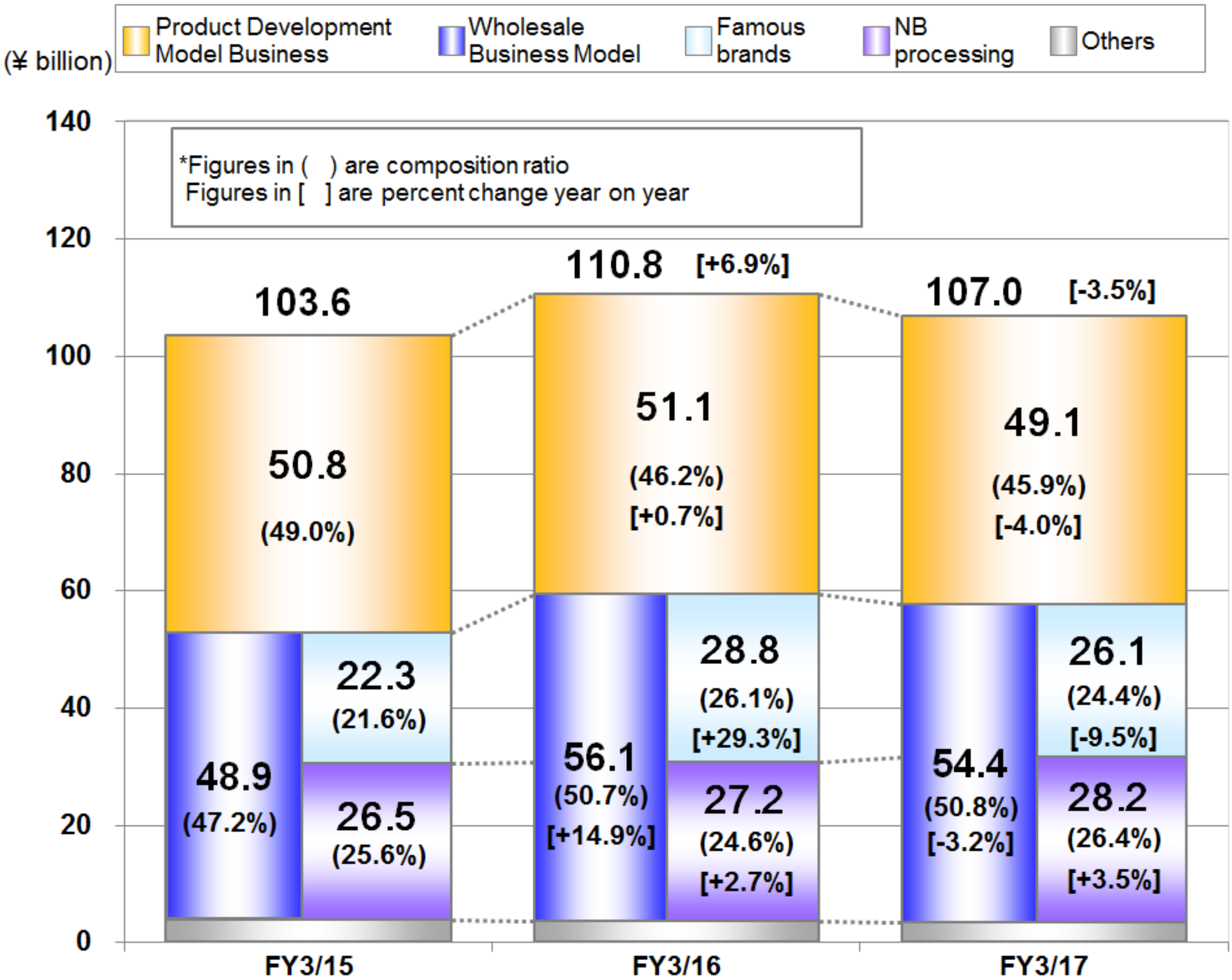
*Due to a change in internal management approach, some operations previously classified under the Product Development Model Business were transferred to the Wholesale Model Business from FY3/17.
Segment information for FY3/16 has been retroactively adjusted to reflect the change in business classification.

◆ FY3/17 Consolidated Results by Sales Channel

Sales to large electronics retailers were weak due to lower sales of TVs and luxury brand watches. There were also signs of a pullback in demand for luxury brand watches in the discount store channel, but sales were steady year on year, supported by strong sales of snow cone makers and other kitchen accessories, and by solid sales of summer consumer electronics. In the online channel, an area we are working to strengthen, sales rose strongly on the back of closer cooperation with leading online retailers.

◆ FY3/17 Consolidated 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.



<Product Development Model Business> ¥49,129 million, down 4.0% year on year

Sales of licensed brand products rose strongly, led by OEM products for *Kaepa*, our main licensed apparel brand, and other apparel brands such as *U.S. POLO ASSN*. Sales of shoes were also firm, supported by additional retail space in hardware stores and other new sales channels, which were initially opened up using our range of sandals. In other categories, such as snow cone makers and designer mug bottles, we expanded our range of merchandise, helping to drive sales growth. Our Taiwanese-style fluffy snow cone maker was picked up by a range of media outlets and received a prize from specialist product magazine DIME. The business segment also registered strong sales in categories such as apparel accessories for single-price retailers and event merchandise such as Halloween costumes. However, sales in this segment declined year on year, with sales in strong-performing categories insufficient to offset the slump in sales of TVs and winter consumer electronics.

<Wholesale Model Business> ¥54,403 million, down 3.2% year on year

・ **Famous brands: ¥26,154 million, down 9.5% year on year**

Sales of developed brands and licensed brands increased. The business also registered higher sales of products in the imported merchandise category, such as the UK *FitFlop* brand of comfort footwear. Itochu Corporation, our long-term strategic partner, has the exclusive import rights for *FitFlop* and we have secured the sole distribution rights for the Japanese market. However, sales of luxury brand watches declined year on year due to a pullback in inbound demand.

・ **NB processing: ¥28,248 million, up 3.5% year on year**

The business rolled out a number of new ideas and merchandise in NB processing, such as gift set tie-ups with famous stores, gift assortments containing local souvenirs from roadside stops across Japan, and gifts that can be ordered easily via email or social media. Those initiatives proved successful, leading to growth in the number of gift product partners and sales.

<Other / Affiliated Companies> ¥3,482 million, down 0.5% year on year

◆ Consolidated Forecasts for FY3/18

Consolidated (¥ million)	FY3/17			FY3/18			YoY	
	1H	2H	Full year	1H	2H	Full year	Change	Pct. Change
Net sales	50,921	56,093	107,015	52,500	57,500	110,000	2,984	2.8%
Product Development Model Business	23,490	25,639	49,129	25,500	28,950	54,450	5,320	10.8%
Wholesale Model Business	25,912	28,490	54,403	25,350	26,950	52,300	(2,103)	-3.9%
Others	1,519	1,962	3,482	1,650	1,600	3,250	(232)	-6.7%
Gross profit	13,023	13,207	26,230	13,550	14,250	27,800	1,569	6.0%
SG&A expenses	9,567	9,582	19,150	9,850	9,950	19,800	649	3.4%
Operating income	3,455	3,624	7,080	3,700	4,300	8,000	919	13.0%
Ordinary income	3,327	3,795	7,122	3,700	4,300	8,000	877	12.3%
Net income	2,211	2,559	4,770	2,450	2,900	5,350	579	12.1%

For the fiscal year ending March 31, 2018, we forecast net sales of ¥110.0 billion (up 2.8% year on year), gross profit of ¥27.8 billion (up 6.0%), selling, general and administrative expenses of ¥19.8 billion (up 3.4%), operating income of ¥8.0 billion (up 13.0%), ordinary income of ¥8.0 billion (up 12.3%), and net income of ¥5.35 billion (up 12.1%). By business segment, we forecast sales of ¥54,450 million (up 10.8% year on year) in the Product Development Model Business and ¥52,300 million (down 3.9%) in the Wholesale Model Business. In the Product Development Model Business, we aim to grow our share of in-store sales at distributors by implementing projects with online companies and by rolling out private brand (PB) products through specialist retailer and hardware store sales channels. In the Wholesale Model Business, we plan to accelerate growth by creating new markets for gift sets. In famous brands, we aim to increase sales by lowering the sales weighting for luxury brand watches while increasing sales weightings for mid-range, developed and licensed brands with high in-store turnover.

◆ Business Strategy for FY3/18

Our goal is establish an "ONLY 1" business model by securing a competitive advantage and generating sustained growth. We aim to do that by reinforcing our businesses and by strengthening our operating base to enhance the Group's earnings capabilities. We will implement the following initiatives.

Reinforce businesses

- **Use our dual approach to niche markets to strengthen product categories**

⇒ We aim to secure leading positions in niche market categories using a dual approach: identify and move into niche markets, and create new niche markets by adding unique value to narrow target categories and concepts, even in large existing markets. Using that approach, we aim to reinforce our Product Development Model Business by actively creating new products from both a market-in and product-out perspective.

- **Create and develop new growth markets**

⇒ In the gift business, Doshisha's mainstay business, the common view is that traditional mid-year and year-end gift-giving is a mature market. To expand our business and generate new growth in that environment, we are teaming up with external partners to create new markets. Two examples are our gift card business and farm experience gifts. The new gift card business combines our existing smartphone-based social media gift-giving system with a menu of experience gifts. The business also leverages our wide range of diverse sales channels and entails almost no inventory risk.

The gift card system allows people to send gifts whenever they feel like it, even if they do not know the recipient's address. Our aim is to increase Doshisha's share of the gift market by making it easier for consumers to purchase gifts. Farm experience gifts are part of our efforts to upgrade the existing gift catalog business. The gifts offer more than fresh farm produce and are designed to be fun for the giver and the recipient. Recipients receive access to a designated plot of land at a farm, which they can cultivate and harvest themselves using a simulation app on their

smartphones. Fresh produce from the plot is later delivered to the recipient with a personalized farm sign. We plan to expand our range of this type of experience gift to capture strong potential demand for year-round gift-giving for important events.

・ **Stepping up sales promotion, e-commerce and overseas sales⇒** We will continue to step up sales promotion and e-commerce, building on efforts in the previous fiscal year.

⇒ We will work to grow overseas sales channels by actively exhibiting in local trade shows.

・ **Create and build new businesses**

⇒ To establish our "ONLY 1" business model, we plan to diversify our business portfolio by creating new businesses. Specifically, we aim to generate synergies between existing businesses and build new businesses through open innovation and industry-academia partnerships.

(1) Moving into the funeral business – a new sector for Doshisha

⇒ We are moving into the funeral business as part of our investment in environmental, social and governance (ESG) fields. The number of deaths in Japan is rising as society ages. However, the number of crematoriums is declining, leading to a backlog in families waiting to cremate their loved ones. To help resolve that social issue, we plan to produce a new refrigeration device with patented technology that preserves the body while waiting for cremation. The device will be sold to distributors, undertakers and funeral halls. The patented technology, which uses a direct continuous heat absorption method, is highly regarded by customers, as the preservation process is better than existing approaches that use large amounts of dry ice or cold-storage facilities.

The new approach is also more environmentally friendly, as it does not require dry ice. That reduces carbon dioxide emissions, helping to alleviate global warming. Through the funeral business, Doshisha can therefore make a difference to society by supporting the deceased and their families, the funeral sector and the environment as a whole. We also see it as an opportunity to grow sales through synergies with our existing range of memorial gifts such as traditional presents given in return for funeral offerings.

(2) Initiatives to develop products through industry-academia partnerships

⇒ We are preparing to launch a new type of chocolate containing L8020, a lactic acid bacterium with antibacterial properties discovered by Professor Hiroki Nikawa of Hiroshima University Graduate School. We also plan to launch the chocolate in other markets across Asia.

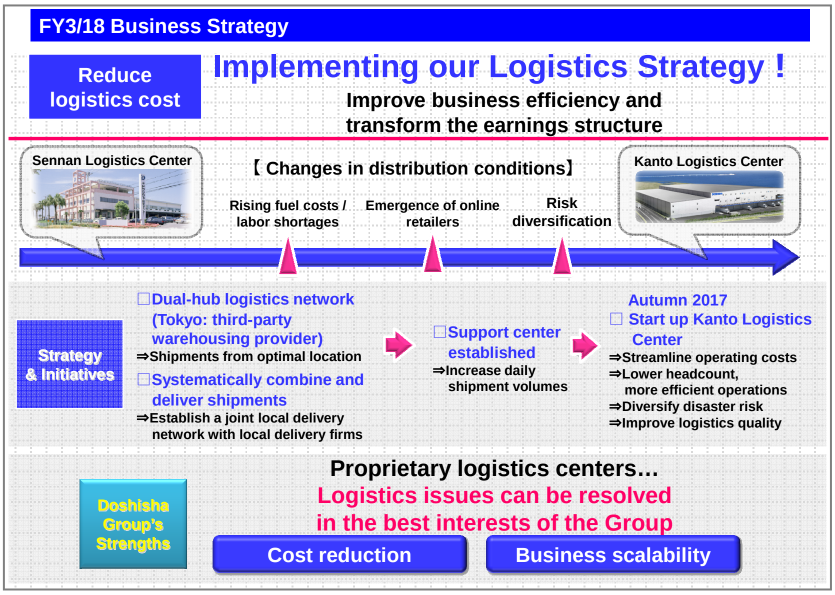
(3) Launching color contact lenses

⇒ We plan to start selling color contact lenses, which have become a fashion item for women. We will target fashion- and trend-conscious female office workers and students in the 16 to 25 age range. Yuuna Suzuki, a model contracted to the non-no fashion magazine, which is read by our target market, is our brand ambassador for the color contact lens range.

Strengthening our operating base to grow earnings

・ **Implementing our logistics strategy**

⇒ Faced with delivery price hikes by major transport companies and rising fees charged by third-party warehousing companies, we have been working to curb logistics costs and improve logistics efficiency. To address that issue, we have been gradually expanding our own logistics centers, promoting shipments from optimal locations, switching from major transport firms to local delivery companies in each area and building a shared distribution framework for Group businesses. We have also established a business support center to integrate all internal order management activities that were previously dispersed across business divisions. The center will standardize operations and boost efficiency by consolidating small-lot deliveries in single shipments, leading to lower costs. Our goal is to limit the impact of rising logistics prices on our operations. Also, we have invested heavily in our new Kanto Logistics Center, due to open in November this year. We will use the center to continue reducing logistics costs, cut the number of personnel involved in materials handling and mitigate risk to our operations in the event of a disaster. As our business expands, we will implement a logistics strategy in line with changes in the environment by reducing logistics costs through further efficiency gains and by upgrading the capabilities of our logistics infrastructure.



◆ FY3/18 Dividend Policy

We plan to pay a consistent and stable dividend based on a dividend payout ratio target of 30%. For FY3/17, we will pay a full-year dividend of ¥50.00 per share.

(Tokyo, May 18, 2017)