

7483 **Doshisha**

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**Long-term Vision:  
Create 30 business groups each worth ¥10 billion**

◆ **Summary of 1H FY3/17 Consolidated Results**

For the first half of fiscal 2016, ended September 30, 2016, consolidated results were as follows: net sales ¥50,921 million (down 3.2% year on year), gross profit ¥13,023 million (up 2.6%), selling, general and administrative expenses ¥9,567 million (up 6.1%), operating income ¥3,455 million (down 6.1%), ordinary income ¥3,327 million (down 12.5%), and net income ¥2,211 million (down 9.0%).

Sales declined due to a pullback in inbound demand for luxury brand watches and weaker sales of TVs. The gross margin remained high at 25.6%, supported by the development and launch of new retail concepts and merchandise. However, profits declined year on year due to an increase in selling, general and administrative expenses, reflecting higher third-party warehousing expenses and advertising costs.

Consolidated (¥ million)	End of 2Q FY3/16		End of 2Q FY3/17		YoY		Reference		
	Actual	Composition ratio	Actual	Composition ratio	Change	Pct. change	5/9/16 forecast	Change	Pct. Change
Netsales	52,603	100.0%	50,921	100.0%	(1,681)	-3.2%	56,700	(5,778)	-10.2%
Product Development Business Model	23,765	45.2%	23,826	46.8%	61	0.3%	26,600	(2,773)	-10.4%
Wholesale Business Model	26,851	51.0%	25,576	50.2%	(1,275)	-4.7%	28,350	(2,773)	-9.8%
Others	1,986	3.8%	1,519	3.0%	(467)	-23.5%	1,750	(230)	-13.2%
Gross profit	12,694	24.1%	13,023	25.6%	328	2.6%	13,650	(626)	-4.6%
SG&A expenses	9,016	17.1%	9,567	18.8%	550	6.1%	9,500	67	0.7%
Operating income	3,678	7.0%	3,455	6.8%	(222)	-6.1%	4,150	(694)	-16.7%
Ordinary income	3,800	7.2%	3,327	6.5%	(473)	-12.5%	4,150	(822)	-19.8%
Net income	2,429	4.6%	2,211	4.3%	(218)	-9.0%	2,800	(588)	-21.0%

## ◆2H FY3/17 Sales Trends by Channel

Sales to large electronic retailers were weak due to a drop in sales of TVs and luxury-brand watches, but sales were strong in the discount store, online and hardware store channels.

## ◆2H FY3/17 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 Doshisha original products. The Wholesale Model Business is a comprehensive sales proposal business, mainly focused on selling products sourced from leading domestic and overseas brands and major manufacturers in Japan. It also plans and develops related sales promotions. The product range in the Wholesale 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 processed products.

### < Product Development Model Business: ¥23,826 million, up 0.3% year on year >

Sales rose a modest 0.3% year on year to ¥23,826 million. Sales of TVs declined sharply, but that was offset by strong demand for other products, including Taiwanese-style snow cone makers, *kamome* fans, such as the heavily advertised Cleopatra model, massage chairs in the health appliances category, inflatable rings in the leisure category, and other merchandise such as Halloween costumes, clothing and shoes.

### < Wholesale Model Business: ¥25,576 million, down 4.7% year on year >

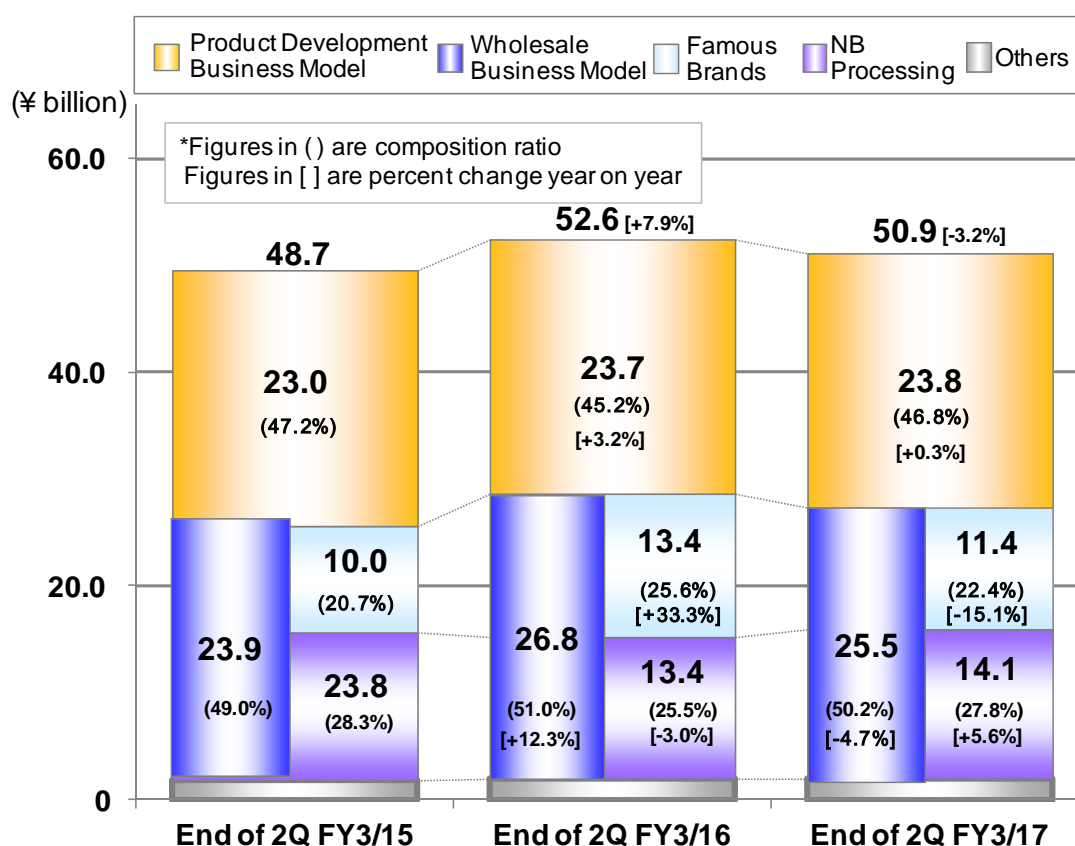
- Famous Brands: ¥11,419 million, down 15.1% year on year

Sales of luxury brand watches fell sharply due to changing trends in inbound demand, but the drop in sales overall was held to 15.1% due to firm demand for other products such as London-based shoe brand *Fitflop* and American umbrella brand *totes*.

- NB Processing: ¥14,156 million, up 5.6% year on year

Sales increased 5.6% year on year on the back of new retail ideas and merchandise, such as gift assortments of local souvenirs from roadside stops across Japan, and gifts that can be ordered via email or social media. Overall, sales in the Wholesale Model Business declined 4.7% year on year to ¥25,576 million.

### < Other / Affiliated Companies: ¥1,519 million, down 23.5% year on year >



### ◆ Consolidated Forecasts for FY3/17

In October 2016, we lowered our forecasts for the fiscal year ending March 31, 2017. We now forecast net sales of ¥114 billion, gross profit of ¥27.6 billion, selling, general and administrative expenses of ¥19.0 billion, operating income of ¥8.6 billion, ordinary income of ¥8.5 billion, and net income of ¥5.76 billion.

Consolidated (¥ million)	FY3/16			FY3/17			YoY		Vs. start-of-year forecast		
	1H	2H	Full year	1H	2H	Full year	Change	Pct. Change	Full year	Change	Pct. Change
Net sales	52,603	58,240	110,843	50,921	63,078	114,000	3,156	2.8%	120,000	(6,000)	-5.0%
Product Development Business Model	23,765	28,445	52,210	23,826	32,173	56,000	3,789	7.3%	58,800	(2,800)	-4.8%
Wholesale Business Model	26,851	28,280	55,131	25,576	29,473	55,050	(81)	-0.1%	57,900	(2,850)	-4.9%
Others	1,986	1,514	3,501	1,519	1,430	2,950	(551)	-15.7%	3,300	(350)	-10.6%
Gross profit	12,694	14,267	26,962	13,023	14,576	27,600	637	2.4%	28,700	(1,100)	-3.8%
SG&A expenses	9,016	9,209	18,226	9,567	9,432	19,000	773	4.2%	19,200	(200)	-1.0%
Operating income	3,678	5,058	8,736	3,455	5,144	8,600	(136)	-1.6%	9,500	(900)	-9.5%
Ordinary income	3,800	5,120	8,921	3,327	5,172	8,500	(421)	-4.7%	9,500	(1,000)	-10.5%
Net income	2,429	3,324	5,754	2,211	3,548	5,760	5	0.1%	6,400	(640)	-10.0%

## ◆Adaptable Risk Management – One of Doshisha’s Strengths

Doshisha’s strength as a company is underpinned by three factors: a business base that supports an unshakeable corporate structure, sales strategies that capture the leading position in niche markets, and a business portfolio anchored by three business models.

### < A business base that supports an unshakeable corporate structure >

We have learnt a great deal from past experiences and we now put particular emphasis on the following five areas:

#### Cash flow management

We have established internal systems to maximize working capital. Cash flow management is now embedded in our corporate culture.

#### High equity ratio

We believe a healthy level of cash reserves and a high equity ratio are vital to ensure the Company remains viable well into the future, especially in the event of natural disasters and other unexpected developments.

#### Rigorous credit control

Doshisha has business relationships with 4,800 companies with various business models across a broad range of sectors. To protect Doshisha from sales risk due to bankruptcy and other factors, we have created sales networks that are not dependent on a small number of distributors.

#### Flexible organization

We have transferred authority to give frontline divisions more freedom, and sales divisions have to achieve standalone profit targets. Business divisions that report losses for two consecutive six-month periods are wound up or integrated with other business divisions.

### < Sales strategies that capture the leading position in niche markets >

Consumers have access to any product they want and markets are overflowing with low-price merchandise. In that environment, companies are likely to struggle to generate profits simply by cutting prices. Our approach is to “make products better, cheaper and more specialized,” aiming to capture the leading position in niche markets by developing numerous unique products that offer new value and that spike the interest of consumers with appealing narratives.

### < A business portfolio anchored by three business models >

Doshisha has achieved growth by generating synergies between multiple business divisions across three different business models – the Product Development Model Business, and Famous Brands and NB Processing in the Wholesale Model Business. Those business groups do more than just complement each other – they also share various resources, helping to fuel the creation of new businesses.

Using the above approach, we have grown as a company by adapting to change in our markets while also dispersing risk and taking on challenges in new business fields and product categories.

## Doshisha's Strengths

Strengths unique to Doshisha that support an unshakeable corporate structure



### < Adaptable Risk Management >

- Cash flow management
- Rigorous credit control
- High equity ratio
- Flexible organization

### < Leading positions in niche markets >

## Business portfolio management (three business models)

### Product Development Model Business

Plans, develops, makes and sells niche lifestyle products for untapped needs not actively addressed by leading manufacturers and retailers



### Wholesale Model Business

#### NB Processing (gifts)

Creates assorted gift sets containing well-known national brand products and develops gift sales areas tied in with promotional campaigns



Assorted gift sets created from the standpoint of consumers.

Sales area proposals are used for various business formats, including hardware stores and large-scale public baths.



#### Famous Brands

Uses a reliable, independent procurement network to source famous overseas brands and provides comprehensive support for developing sales campaigns and sales areas



Can develop hybrid sales areas with a mix of brands and categories

### ◆Key Strategies for 2H FY3/17

We aim to reinforce our business by harnessing the strengths and resources of our three business models. Specifically, we will actively utilize the sales channels of our 4,800 business partners, one of Doshisha's business assets, enhance sales promotion, and implement initiatives to reduce logistics costs.

#### < Utilize the sales channels of 4,800 business partners – one of our business assets >

Our goal is to increase our share of in-store sales at distributors. Currently, all 19 of our business divisions involved in clothing, food and homewares conduct sales activities based on standalone profit targets. If one business division is successful in securing access to a new distributor, that helps to lower barriers to entry for the other 18 business divisions, helping to increase our overall share of in-store sales. In that way, encouraging cooperation between vertically divided teams has led to some notable successes. In one case, we secured a deal to supply mid-year gift sets to a chain of hardware stores thanks to an existing business relationship in storage furniture. We aim to step up cooperation further to ensure we fully utilize the sales channels of 4,800 distributors – one of Doshisha's business assets.

#### < Enhance sales promotion >

To avoid falling into the trap of selling products at the lowest possible price by simply passing them from

suppliers to distributors, we believe it is important to plan and develop distinctive, unique products. As part of that approach, we aim to enhance sales promotion in order to raise awareness of different product categories and build new brands. To increase the effectiveness of our sales promotion activities, we will actively roll out personalized campaigns aimed at individual consumers, as well as specific markets. We will develop campaigns that harness online channels such as Instagram, Facebook and Twitter and tie them in with TV, newspaper and magazine advertising and in-store demonstrations and events.

#### **< Initiatives to reduce logistics costs >**

We are currently building a second proprietary logistics center in Kisarazu, Chiba Prefecture. When the center opens in November next year, we will move to a twin-hub proprietary logistics network covering the Kansai and Kanto regions. We plan to use this network to boost efficiency, helping to curb rising logistics costs and disperse risk. The new logistics center is being built on a plot of land of roughly 40,000m<sup>2</sup>. When finished, it will have three levels and a total floor area of around 60,000m<sup>2</sup>. The total cost of the project is ¥7.6 billion, comprising ¥2.5 billion for the land and ¥5.1 billion for the building. The new facility will end our reliance on third-party warehousing providers in the Kanto area, where distribution volume and costs are high. That will stop the outflow of cash for logistics services and reduce shipping costs through the distribution of products from a more optimal location. The facility will also give us greater storage and shipping capacity, helping to diversify risk during natural disasters.

#### **◆Long-term Vision: Create 30 business groups each worth ¥10 billion**

Over the medium and long term, our strategy is to differentiate the Group's operations, promote business management that mitigates risk, give more independence to business divisions and implement initiatives that create more cohesive teams, with the ultimate goal of building a unique business model that is resilient to change and anchored by solid finances. To achieve that goal, we will need to increase the number of niche categories where we have the leading market share. Our organization is currently made up of 11 business groups and 19 business divisions. To boost profitability in each business division, we plan to continue increasing the number of business groups, which are a collection of business divisions, aiming to create an organization of 30 business groups each worth ¥10 billion.

As the first step in that process, we have to enhance and strengthen existing businesses and move into new business fields. To enhance and strengthen existing businesses, we will expand sales channels and increase our share of in-store business, as well as develop new product categories. At the same time, we plan to reinforce our logistics system to cut operating costs. In new business fields, our focus will be on building closer ties with external partners. We intend to explore all available options, including capital and business alliances. We also plan to actively step up cooperation with partners in areas such as overseas sales channels, which could help us expand sales of daily necessities, and in e-commerce, which is enhancing convenience for shoppers.

To build earnings streams for the future, we are currently developing our business in three key areas: new business models, new products and a new earnings structure. In those areas, we are asking our employees to come up with their own ideas and put them into action. Guided by our corporate slogan, "Doshisha –

Ideas to Make Life Better," we are encouraging them to be more proactive – to be leaders not followers – resulting in new products that excite consumers. We also want them to develop new and flexible approaches, enabling the Company to deliver the best possible performance in a changing operating environment. In other words, to realize our vision of 30 business groups each worth ¥10 billion, we need to cultivate the kind of employee who can create ideas that make life better. By building an organization distilled down to teams of those people, I am confident we will be able to develop unique business models that help us achieve our vision.

(Tokyo, November 15, 2016)