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7483 **Doshisha**

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Increase profits by improving gross margin

◆Summary of FY3/18 Consolidated Results

Consolidated (¥ million)	FY3/17		FY3/18		YoY		Reference		
	Actual	Composition ratio	Actual	Composition ratio	Change	Pct. Change	5/8/17 forecast	Change	Pct. Change
Net sales	107,015	100.0%	103,589	100.0%	(3,425)	-3.2%	110,000	(6,410)	-5.8%
Product Development Model Business	49,129	45.9%	49,958	48.2%	828	1.7%	54,450	(4,491)	-8.2%
Wholesale Model Business	54,403	50.8%	50,606	48.9%	(3,796)	-7.0%	52,300	(1,693)	-3.2%
Others	3,482	3.3%	3,024	2.9%	(457)	-13.1%	3,250	(225)	-6.9%
Gross profit	26,230	24.5%	27,281	26.3%	1,051	4.0%	27,800	(518)	-1.9%
SG&A expenses	19,150	17.9%	19,512	18.8%	362	1.9%	19,800	(287)	-1.5%
Operating income	7,080	6.6%	7,769	7.5%	689	9.7%	8,000	(230)	-2.9%
Ordinary income	7,122	6.7%	8,001	7.7%	878	12.3%	8,000	1	0.0%
Net income	4,770	4.5%	5,490	5.3%	719	15.1%	5,350	140	2.6%

Doshisha reported lower sales and higher profits in FY3/18. Consolidated results were as follows: net sales ¥103,589 million (down 3.2% year on year), gross profit ¥27,281 million (up 4.0%), selling, general and administrative expenses ¥19,512 million (up 1.9%), operating income ¥7,769 million (up 9.7%), ordinary income ¥8,001 million (up 12.3%), and net income ¥5,490 million (up 15.1%).

The main factors behind the decline in net sales were weaker sales in the Wholesale Model Business due to a drop in procurement of high-end brand products and lower sales of traditional mid-year and year-end gifts, and a slump in sales of TVs and LED lighting in the Product Development Model Business amid continued severe price competition.

Growth in profits was supported by lower procurement costs in the Product Development Model Business, which was the result of purchasing price negotiations with manufacturers. In addition, the Wholesale Model

Business rapidly adjusted its product lineup in response to declining sales, contributing to an improvement in the gross margin. As a result, operating income and ordinary income both increased year on year.

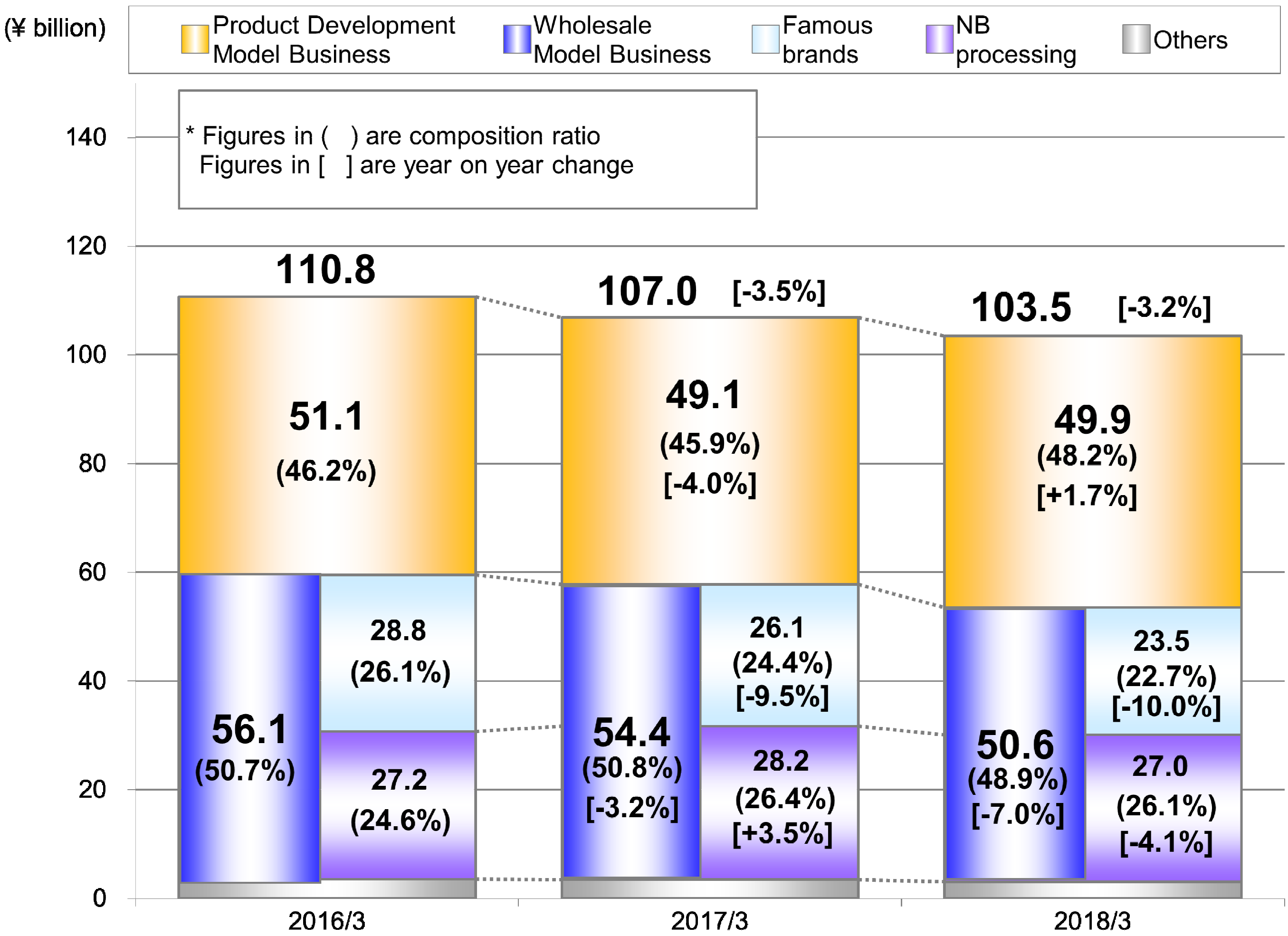
The gross margin was 26.3%, a record-high thanks to improvements in net sales, gross margins and selling, general and administrative expenses over the last ten years. However, the selling, general and administrative expenses ratio also hit a record-high of 18.8% (up 0.9 percentage point year on year).

◆FY3/18 Consolidated Results by Sales Channel

Sales to hardware stores showed signs of recovery, rising 1% year on year, while sales to discount stores increased 5%, supported by the launch of new private brand (PB) products. Sales to single-price retailers also grew, rising 16% year on year on the back of strong demand for general merchandise. However, in the online channel, an area we are reinforcing, sales declined 3% year on year, with weak demand for TVs and LED lighting cancelling out healthy sales of household goods, summer items, interior storage products and brand products. Similarly, sales to large electronics retailers declined 24% due to weak demand for TVs, LED lighting and luxury brand watches, while sales to specialist watch and clothing stores fell 12%.

◆FY3/18 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 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> ¥49,958 million, up 1.7% year on year

Kaepa, our main licensed apparel brand, registered strong sales, supported by effective sales display proposals tailored to large discount stores and hardware stores, which have become two new sales channels for the brand. Sales of interior storage products were also firm, mainly in the online channel, supported by strong demand for our market-leading steel storage racks, office chairs and general merchandise at tool and hardware stores. In addition, sales of single-price merchandise and summer goods (snow cone makers, *kamome* fans) rose strongly. Sales of TVs declined year on year due to the impact of intensifying price competition, but from 2H FY3/18 we implemented far-reaching reforms, including overhauling the business structure in TVs and renegotiating contracts with manufacturers. In LED lighting, sales of standard LED light bulbs and ceiling lights declined amid intense price competition, but there were signs of recovery on the back of firm in-store demand for new and unique products such as lighting designed for power cuts and LED ceiling lights with fans.

<Wholesale Model Business> ¥50,606 million, down 7.0% year on year

Sales of famous brands declined 10.0% year on year to ¥23.5 billion, reflecting a drop in procurement of luxury brand watches. However, the business recorded steady sales of private, licensed and tie-up brand watches, particularly mid-range products, and branded bags. Sales from NB processing declined 4.1% year on year to ¥27.0 billion. Although sales fell year on year, profitability improved due to a review of procurement methods, which was aimed at reducing discounted sales of leftover inventories at the end of selling seasons, particularly food gift products. Everyday items and toys registered healthy sales, especially on a spot sales basis. Sales of a stuffed animal cushion in the shape of Doshisha's character *Goroneko Summit* were also strong.

◆Our vision

We are aiming to "Create an unrivalled company worldwide." Doshisha supplies numerous products that have leading positions in a wide range of niche categories, from clothing and food to homewares. That collection of products means Doshisha is a hard company to define, but that also means we have no direct competitors. In that sense, Doshisha is an "ONLY 1" company. We cannot predict how society will change or what kind of products consumers will need in the future. That means we have to build a powerful organization that leverages our distinct strengths as a leader in niche categories and that allows us to easily change direction to take on new challenges.

Going forward, we will focus on developing four key strengths to realize our Medium- to Long-term Vision for Doshisha: a company with 30 business groups each capable of generating annual sales of ¥10 billion. Strength 1 – Networks: Business relationships with 4,800 companies operating a combined 300,000 stores, and links with 2,100 suppliers. Strength 2 – Business models: Three distinct business models based on in-house development, famous brand wholesaling and gift NB processing. Strength 3 – Uniqueness: Supply a wide choice of products ranging from ¥100 merchandise to luxury watches worth tens of millions of yen and operate a broad range of businesses providing lifestyle products in all areas related to clothing, food and homewares. Strength 4 – Organizational management: Authority transferred to business divisions and standalone profit performance at each division are closely linked to personnel evaluation systems.

◆Consolidated Forecasts for FY3/19

Consolidated (¥ million)	FY3/18			FY3/19			YoY	
	1H	2H	Full year	1H	2H	Full year	Change	Pct. Change
Net sales	50,426	53,163	103,589	52,500	57,500	110,000	6,410	6.2%
Product Development Model Business	23,935	26,023	49,958	24,950	28,250	53,200	3,241	6.5%
Wholesale Model Business	24,918	25,688	50,606	26,400	27,700	54,100	3,493	6.9%
Others	1,572	1,451	3,024	1,150	1,550	2,700	(324)	-10.7%
Gross profit	13,469	13,812	27,281	14,200	14,900	29,100	1,818	6.7%
SG&A expenses	9,700	9,811	19,512	10,300	10,400	20,700	1,187	6.1%
Operating income	3,769	4,000	7,769	3,900	4,500	8,400	630	8.1%
Ordinary income	3,882	4,118	8,001	3,900	4,600	8,500	498	6.2%
Net income	2,645	2,844	5,490	2,700	3,100	5,800	309	5.6%

Our outlook for the fiscal year ending March 31, 2019 is for higher sales and profits. We forecast net sales of ¥110.0 billion (up 6.2% year on year), gross profit of ¥29.1 billion (up 6.7%), selling, general and administrative expenses of ¥20.7 billion (up 6.1%), operating income of ¥8.4 billion (up 8.1%), ordinary income of ¥8.5 billion (up 6.2%), and net income of ¥5.8 billion (up 5.6%).By business segment, we forecast sales of ¥53.2 billion (up 6.5% year on year) in the Product Development Model Business and ¥54.1 billion (up 6.9%) in the Wholesale Model Business.

We aim to pay a consistent and stable dividend based on a dividend payout ratio of 30%. For FY3/18, we will pay a full-year dividend of ¥50.00 per share.

◆Topics for FY3/19

In FY3/18, we streamlined our TV business operating structure to reduce fixed costs and ended our exclusive TV distribution agreement with Orion Electric Co., Ltd. due to a mismatch in contract conditions. We have started working with other manufacturers and plan to launch the first-ever Doshisha brand TVs. We expect these moves to support an improvement in profitability in the TV business from FY3/19.
The funeral business (supplying refrigeration systems to preserve bodies prior to cremation), established in FY3/18, aims to help tackle the backlog of families waiting to cremate their loved ones, which is likely to become an increasingly serious social issue due to the rising number of deaths in Japan. More than 2,000 of our systems have already been installed.

◆Question and Answer Session◆

Q: Net sales have been declining for some time but you forecast sales will recover in FY3/19 with growth of 6.2%. What is the basis for that outlook?

A: Our forecasts are formulated on a bottom-up basis reflecting figures collated from our 11 business groups, rather than a top-down approach decided by management.
We forecast a recovery in some business divisions that struggled in FY3/18, while general merchandise, homewares and other divisions, which are seeing growth in sales, plan to launch new products in FY3/19. Given those factors, we think our net sales target of ¥110 billion is well within reach.

Q: Electronically recorded monetary claims are increasing. Why is that?

A: That mainly reflects a shift from the use of notes to electronic records and a change from cash receivables to notes by business partners that owe accounts receivable.
The total for cash receivables and notes receivables is largely unchanged.

Q: What is Doshisha's share of the domestic TV market on a volume basis?

A: Our current share is roughly 3%, but we aim to increase that to around 5% in FY3/19.

Q: What is your outlook for inbound demand?

A: Three years ago we experienced an unprecedented spike in inbound demand, mainly for watches. In a single year, sales increased ¥5 billion, but demand slumped the following year. Demand from visitors to Japan is shifting from luxury items and home electronics to cosmetics and everyday items, and to spending on travel itself. We have no plans to specifically target inbound demand, but any increase in demand from overseas visitors will be a welcome boost.

(May 17, 2018, Tokyo)