

7483 **Doshisha**

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Increase profits by improving gross profit margin

◆ Summary of 1H FY3/18 Consolidated Results

Consolidated (¥ million)	End of 2Q FY3/17		End of 2Q FY3/18		YoY		Reference		
	Actual	Composition ratio	Actual	Composition ratio	Change	Pct. Change	5/8/17 forecast	Change	Pct. Change
Net sales	50,921	100.0%	50,426	100.0%	(495)	-1.0%	52,500	(2,073)	-3.9%
Product Development Model Business	23,490	46.1%	23,935	47.5%	444	1.9%	25,500	(1,564)	-6.1%
Wholesale Model Business	25,912	50.9%	24,918	49.4%	(993)	-3.8%	25,350	(431)	-1.7%
Others	1,519	3.0%	1,572	3.1%	53	3.5%	1,650	(77)	-4.7%
Gross profit	13,023	25.6%	13,469	26.7%	446	3.4%	13,550	(80)	-0.6%
SG&A expenses	9,567	18.8%	9,700	19.2%	132	1.4%	9,850	(149)	-1.5%
Operating income	3,455	6.8%	3,769	7.5%	313	9.1%	3,700	69	1.9%
Ordinary income	3,327	6.5%	3,882	7.7%	555	16.7%	3,700	182	4.9%
Net income	2,211	4.3%	2,645	5.2%	434	19.6%	2,450	195	8.0%

* From 4Q FY3/17, a portion of net sales that had been classified and measured under the Product Development Model Business has been transferred to the Wholesale Model Business, in accordance with changes to the internal management method. Segment information disclosed for the end of 1H FY3/17 was prepared based on the measurement method following the change.

For the first half of FY3/18, Doshisha reported consolidated results as follows: net sales of ¥50,426 million (down 1.0% year on year); gross profit of ¥13,469 million (up 3.4%); selling, general and administrative expenses of ¥9,700 million (up 1.4%); operating income of ¥3,769 million (up 9.1%); ordinary income of ¥3,882 million (up 16.7%); and, net income of ¥2,645 million (up 19.6%).

The main factors in the decline in net sales were sluggish sales of high-end brand products in the Wholesale Model Business and a slump in sales of TVs and LED lighting in the Product Development Model Business. The increase in profits was primarily due to lower purchase costs resulting from purchase

price negotiations with manufacturers. The reductions in cost exceeded an increase in selling, general and administrative expenses, resulting in growth in both operating income and ordinary income.

The gross profit margin was 26.7%, which was the highest in the past 10 years on a half-year basis. However, the selling, general and administrative expenses ratio was also at a record high of 19.2%, due to an increase in logistics and sales promotion expenses.

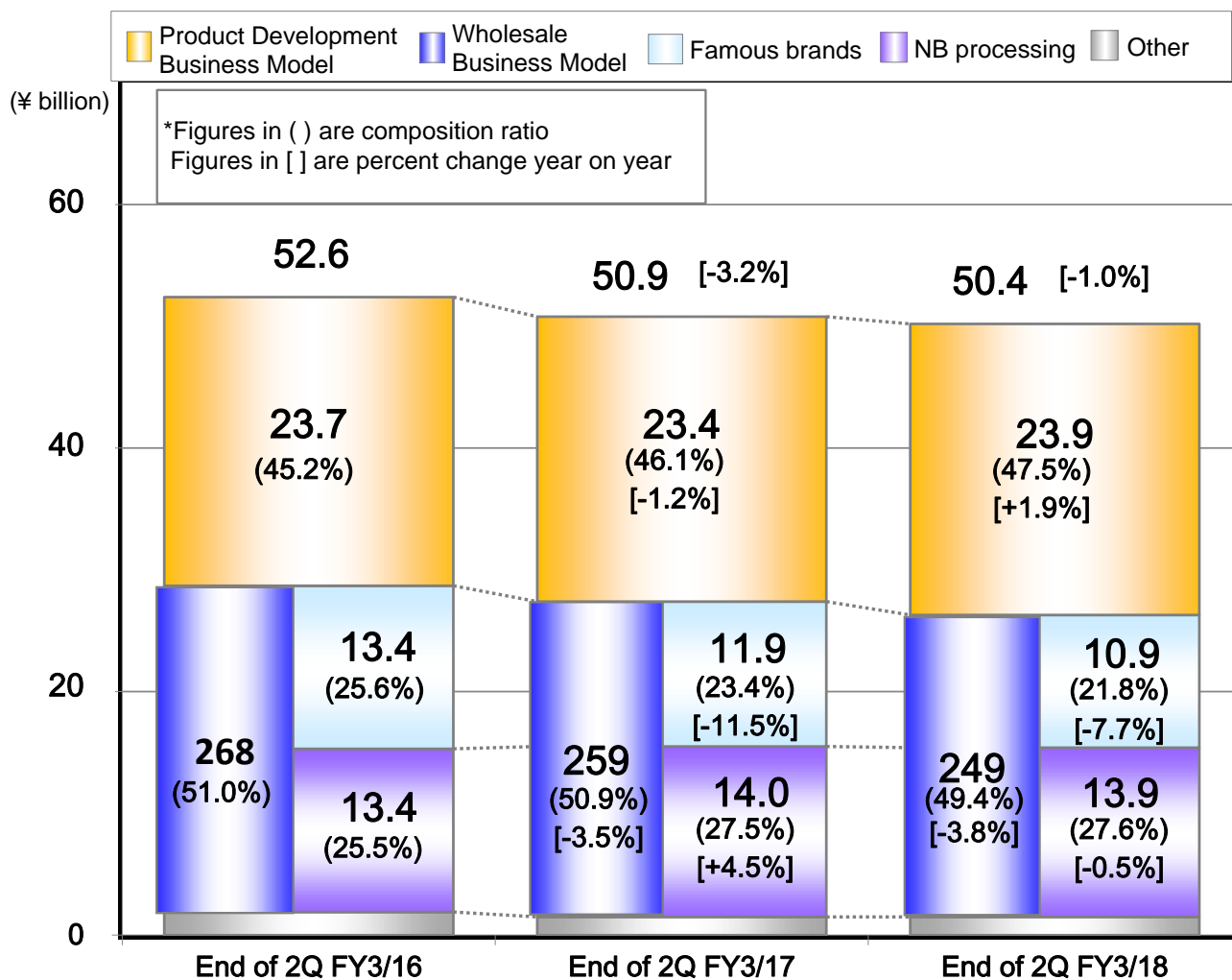
◆1H FY3/18 Net Sales by Channel

Sales grew in the discount store and hardware store channels due to the spread of in-house developed products. The online channel saw an increase in sales of household goods, summer goods, interior storage products, and brand products; however, sales were only 4% higher year on year due to a decrease in sales of TVs and LED lighting. Sales to large electronics retailers decreased due to lower sales of luxury brand watches and TVs.

◆1H FY3/18 Overview by 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, which is primarily 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.



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<Product Development Model Business> Net sales: ¥23,935 million, up 1.9% year on year

Interior storage products performed strongly and OEM products for our business partners were successful. In shoes, sales of licensed and private brand products grew significantly as a result of sales area proposals adapted to suit various business formats and stores. Sales of other products also grew, including snow cone makers, which enjoy the top share in the market, and *kamome* fans, which won the Good Design Award for two consecutive years, as well as outdoor goods and accessories, although TV and LED lighting sales were weak.

<Wholesale Model Business> Net sales: ¥24,918 million, down 3.8% year on year

• Famous brands

Sales of mid-price-range and casual line brand products through specialist retailer and online channels were favorable. Sales of brand accessories also grew, while sales of luxury brand watches declined.

•NB processing

Sales were strong for daily necessities, a stuffed animal cushion in the shape of Doshisha's character *Goroneko Summit*, and congratulatory and condolence gifts, while sales of mid-year gift packs declined slightly from the previous fiscal year.

<Other / Affiliated Companies> Net sales: ¥1,572 million, up 3.5% year on year

◆ 1H FY3/18 Topics

Business Strategy Review for 1H FY3/18



Continue to strengthen **sales promotion!**

Held the “Doshisha Fair” for the media!

New product announcement
and company information
session!

Attended by
approx. 50
companies



Featured on numerous
online news sites

Kanto Logistics
Center opened in
Nov. 2017



Further cultivation of
niche product planning!

Creation of a fall-and-winter
sweets market



Launched a baked sweet potato maker
to follow our summer snow cone maker

Launch of new businesses!

☐ Color contact lenses



Brand ambassador
Yuuna Suzuki

☐ Funeral business



In the Sankei Shimbun
on Jan. 18, 2017

☐ Launch of a new type of chocolate
containing L8020, developed through
an industry-academia partnership

L8020

chocolate



乳酪菌
エキス入り

広島大学 歯学部が発見した
口内環境を整える乳酪菌

チョコレート×L8020 乳酪菌エキス

☐ Gift card
business

We are actively strengthening sales promotion, and during this fiscal year we have been working to build relationships with the media with the aim of efficiently raising our product visibility. In September, we held the Doshisha Fair, an event for the media where we announced our products to roughly 50 companies in attendance. Reports were posted on numerous online news sites, which led to more opportunities for exposure through TV shows and magazines, and for our products to be picked up by YouTubers.

The Kanto Logistics Center opened in November, and began receiving product shipments with a view toward starting full-scale operations the following year.

Doshisha, which has established the basic strategy of achieving leading positions in niche markets, aims to expand profits by constantly creating new niche markets. The baked sweet potato maker launched in

September caused a stir when it appeared in the online news under the headline, “there’s a limit even to niche,” and has already sold out for the current fiscal year.

We have started four new businesses with a view toward establishing an “ONLY 1” business model. Introduction of the gift card business in major GMS and discount stores is proceeding steadily. Sales of color contact lenses in discount stores began in November. Regarding products developed through industrial-academia partnerships containing the L8020 lactic acid bacterium that prevents tooth decay, we have decided to introduce tablets as a follow-up to our chocolate products. The refrigeration device manufactured and sold by the funeral business is increasingly being adopted. This device is highly regarded for its technology, which replaces the use of dry ice for body preservation, and for the cost savings and reduced environmental burden it offers.

◆ Consolidated Forecasts and Business Strategy 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	50,426	59,573	110,000	2,984	2.8%
Product Development Model Business	23,490	25,639	49,129	23,935	30,514	54,450	5,320	10.8%
Wholesale Model Business	25,912	28,490	54,403	24,918	27,381	52,300	(2,103)	-3.9%
Others	1,519	1,962	3,482	1,572	1,677	3,250	(232)	-6.7%
Gross profit	13,023	13,207	26,230	13,469	14,330	27,800	1,569	6.0%
SG&A expenses	9,567	9,582	19,150	9,700	10,099	19,800	649	3.4%
Operating income	3,455	3,624	7,080	3,769	4,230	8,000	919	13.0%
Ordinary income	3,327	3,795	7,122	3,882	4,117	8,000	877	12.3%
Net income	2,211	2,559	4,770	2,645	2,704	5,350	579	12.1%

* From 4Q FY3/17, a portion of net sales that had been classified and measured under the Product Development Model Business has been transferred to the Wholesale Model Business, in accordance with changes to the internal management method. Segment information disclosed for the end of 1H FY3/17 was prepared based on the measurement method following the change.

There has been no change in the FY3/18 forecasts announced at the beginning of the fiscal year. We forecast increases in sales and profits: 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 net 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.

For FY3/18, we plan to pay a full-year dividend of ¥50 per share, comprising an interim dividend of ¥25 and a year-end dividend of ¥25.

◆ Strategies by Segment for 2H FY3/18

<Wholesale Model Business>

· Famous brands

Since the first half of FY3/18, we have been undertaking the structural reinforcement of our businesses by overhauling our product composition to include more exclusive distribution brands and private brand products, which generate higher profits. Having a wide variety of brands allows us to propose brand portfolios to fit the characteristics of each business format or store, and to refresh sales areas according to each season or event. In addition, we will take advantage of digital marketing to communicate directly with consumers, thereby increasing brand visibility, attracting customers to stores, and promoting purchasing.

· NB processing

We will enhance our annual plans for standard products, such as souvenirs for tourists and gifts for homecoming or visits, in addition to our existing mid-year and year-end gift packs. We are also entering the market for traditional New Year's food, said to be worth approximately ¥60.0 billion, which has been driven by the shift toward nuclear families and smaller households in recent years, along with a demand for faster meal preparation and a preference for eating at home. We consider this to be a promising area, due to its strong affinity with the catalog sales platform and sales area proposals that we have developed for mid-year and year-end gift packs.

<Product Development Model Business>

In a joint project with Radio Osaka (OBC), we have been working together with listeners to develop a mug bottle for seniors. Advance sales were held at an event organized by OBC on November 23, which attracted 100,000 people. Since then, we have been pursuing sales expansion through ambassadors appointed from each region, as we move ahead with this groundbreaking initiative that involves consumers in manufacturing and product sales.

Furthermore, in the second half of FY3/18, we will launch sales of garden decoration goods. Doshisha has many standard seasonal products, such as snow cone makers, fans, and heaters, and holds the top market share for Christmas decorations, in particular. We proposed a year-round retail space for garden decorations under the "gardening" rubric, and sales have been strong, especially for hardware stores. Securing retail space for these products as a year-round standard throughout both the winter and summer seasons is a significant achievement, and we aim to expand our in-store share through more such projects in the future.

<Sales Promotion Planning>

Even amid the rise of online sales, the existing brick-and-mortar retail industry still represents a large market. In order to boost sales to that market, we will further step up in-store sales, taking "connection" as our key word in sales promotion planning. By drawing on our communication abilities, along with our ability

to increase our brand visibility, attract customers to stores, and promote in-store sales, we create fun-filled retail spaces that offer the kind of entertainment that is not available online. We aim to build win-win relationships based on sales promotion rooted in real stores, as well as projects that connect to consumers through word-of-mouth and internet culture.

<E-commerce Initiatives and Overseas Sales>

We will continue to focus efforts on e-commerce initiatives and overseas sales. In the e-commerce format, we have launched a project with a view toward expanding transactions with Amazon, which we position as a high-priority business partner. In addition, our new transactions with ZOZOTOWN are performing steadily in categories such as watches, bags, and sandals. The official online sales website for Luminous storage and interior goods operated by Doshisha has grown at a pace of over 130% year on year.

Overseas sales in FY3/18 are progressing at a pace already surpassing full-year results for the previous fiscal year, thanks to execution of a purchase agreement with a major e-commerce company and preparations for transactions with local dealers. We are actively participating in overseas trade shows as one of our strategies to accelerate overseas sales growth in the future. Recently, we participated in the Hong Kong Gifts & Premium Fair, Hong Kong Electronics Fair, THAIFEX (Thailand), CES (Las Vegas, US), and the Canton Fair (China). We will also strengthen sales promotion planning that reflects the regional characteristics of each country. We will propose sales area design and sales promotion plans by adapting successful cases from Japan, such as in-store demonstrations and street campaigns, to suit local culture and customs, and promote businesses that create added value so that Japanese culture takes root in local regions.

◆ Question and Answer Session ◆

Q1: What was the reason for building the Kanto Logistics Center?

A1: First of all, warehousing costs have been soaring in recent years. Having our own warehouse will eliminate that cash outflow. Secondly, we can also reduce delivery costs by consolidating our warehouses, which had been spread throughout the country.

Q2: How do you select products for overseas sales?

A2: In one case, we export products in response to inquiries from overseas customers who want to carry specific products. Otherwise, when we sense a possibility, such as in areas that share common ground with Japan, we make an approach by exhibiting in trade shows in that country or region.

(Tokyo, November 16, 2017)