Results Briefing Summary

Record-high gross profit margin, but profits drop on weaker sales and higher logistics costs

◆ Summary of FY3/19 Consolidated Results

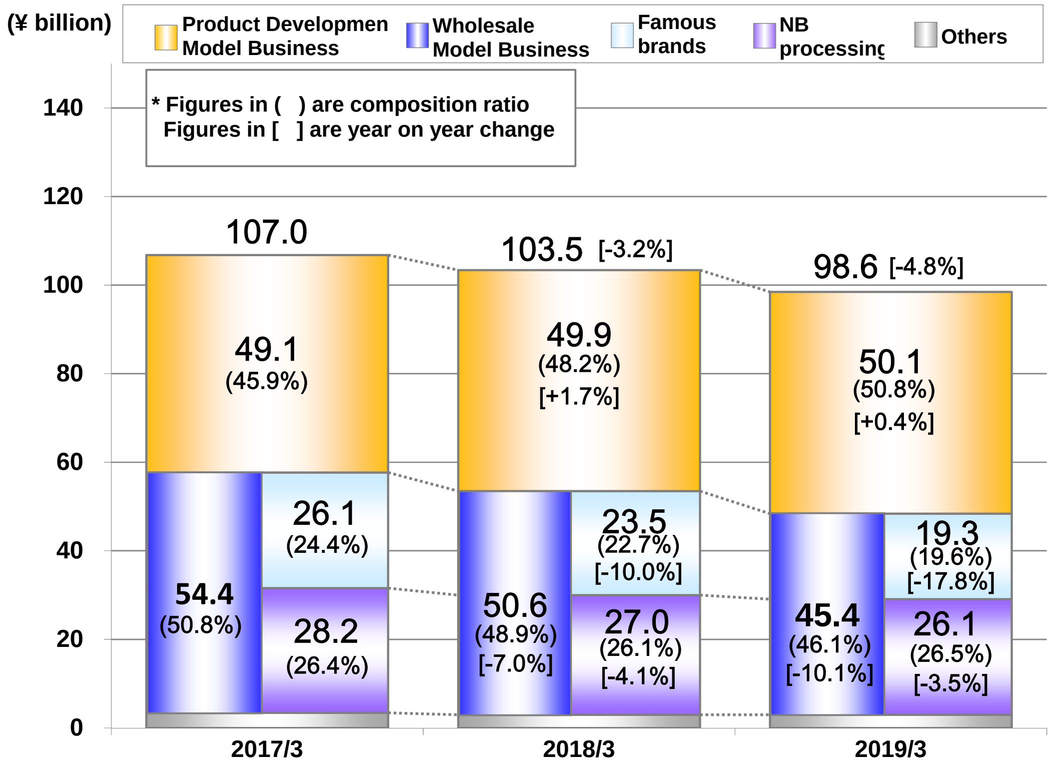
Consolidated (¥ million)	FY3/18		FY3/19		YoY		Reference		
	Actual	Composition ratio	Actual	Composition ratio	Change	Pct. Change	10/31/18 forecast	Change	Pct. Change
Net sales	103,589	100.0%	98,668	100.0%	(4,921)	-4.8%	104,000	(5,331)	-5.1%
Product Development Model Business	49,958	48.2%	50,161	50.8%	203	0.4%	52,000	(1,838)	-3.5%
Wholesale Model Business	50,606	48.9%	45,474	46.1%	(5,132)	-10.1%	48,900	(3,425)	-7.0%
Others	3,024	2.9%	3,032	3.1%	8	0.3%	3,100	(68)	-2.2%
Gross profit	27,281	26.3%	26,160	26.5%	(1,121)	-4.1%	28,000	(1,839)	-6.6%
SG&A expenses	19,512	18.8%	20,598	20.9%	1,086	5.6%	21,100	(501)	-2.4%
Operating income	7,769	7.5%	5,561	5.6%	(2,207)	-28.4%	6,900	(1,338)	-19.4%
Ordinary income	8,001	7.7%	6,065	6.1%	(1,935)	-24.2%	7,000	(934)	-13.4%
Net income	5,490	5.3%	4,263	4.3%	(1,227)	-22.4%	4,650	(386)	-8.3%

Compared with FY3/19 forecasts revised on October 31, 2018, sales in the Product Development Model Business were ¥1,838 million lower than projected (3.5% below forecast), mainly reflecting poor sales of in-house brand TVs. In the Wholesale Model Business, the segment's famous brands business was affected by an adjustment in procurement volumes by a major retailer in the first half of the year, which led to a sharp drop in the supply of certain luxury brand products, a key element of the segment's sales plan in the second half of the year. In response, the business increased sales of mid-range brands, but that was insufficient to offset the shortfall in famous brands. In the segment's national brand (NB) gift processing business, sales of gift sets declined year on year. That was mainly due to an increase in retail prices for gift sets to reflect higher delivery costs, and a record-low catch of crabs, the ingredient for canned crab, the main item in gifts sets. As a result, sales in the Wholesale Model Business were ¥3,425 million lower than projected (7.0% below forecast). In addition, operations in both business segments were affected by a typhoon that made landfall in September, the peak period for shipments of autumn and winter products. Our proprietary logistics center in Sennan, Osaka took a direct hit from the storm, which also prevented products from passing through Kansai Airport and the ports of Osaka and Kobe. The disruption to supply chains had a negative impact on sales.

Operating income and other profit line items fell short of forecasts due to an increase in distribution costs. That reflected higher transportation expenses and an increase in costs to tackle some operational issues related to the startup of the Kanto Logistics Center.

◆ Summary of FY3/19 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 former plans, manufactures and sells original Doshisha products, while the latter is a comprehensive sales proposal business and mainly focuses on selling and planning sales promotions for leading domestic and overseas brands and products 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 gift assortments filled with items carefully selected from leading domestic suppliers, and NB processed products.



◆ FY3/19 Consolidated Results by Sales Channel

Sales in the hardware store channel fell by 3% year on year. In the discount store retailer channel, strong sales of homewares were insufficient to offset weaker sales of TVs and famous brands, which account for a high share of sales in the discount retailer channel. As a result, sales declined by 3% year on year. Sales increased by 2% in the online channel, supported by efforts with e-commerce retailers to grow sales. Sales to single-price retailers increased by 20% year on year on the back of strong growth in accessories and general merchandise. Sales to general merchandisers declined by 18%. While demand for household goods and summer merchandise was strong, weak sales of mid-year gifts and famous brands had a negative impact. In addition, sales to large electronics retailers and watch and clothing specialty stores declined by 23% year on year amid weaker demand for luxury brand watches.

◆ Consolidated Forecasts for FY3/20

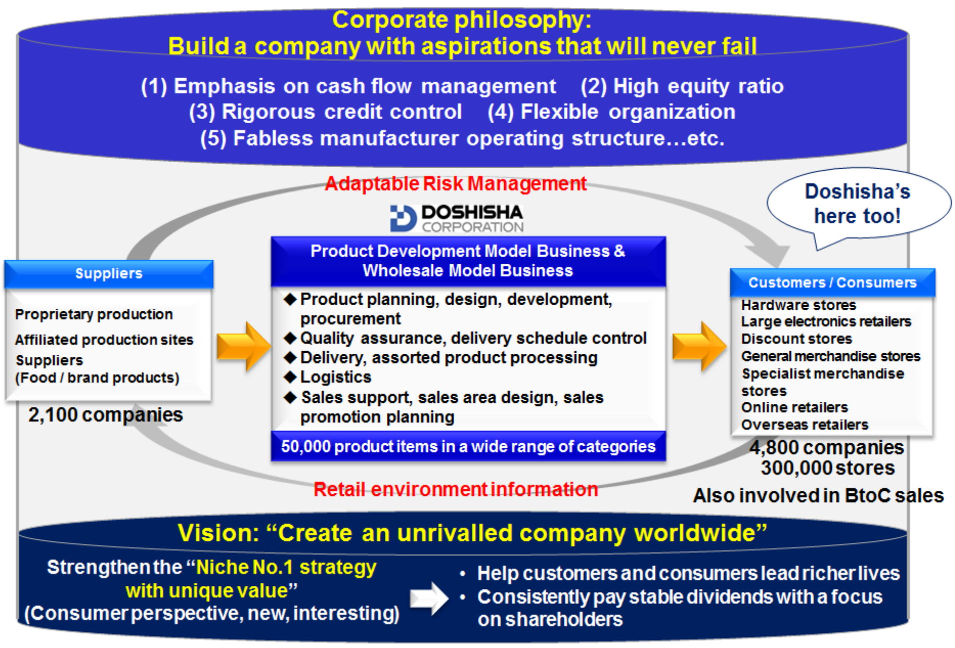
Consolidated (¥ million)	FY3/19			FY3/20			YoY	
	1H	2H	Full year	1H	2H	Full year	Change	Pct. Change
Net sales	48,477	50,190	98,668	50,000	53,000	103,000	4,331	4.4%
Product Development Model Business	24,580	25,581	50,161	25,150	27,750	52,900	2,738	5.5%
Wholesale Model Business	22,388	23,085	45,474	22,700	23,000	45,700	225	0.5%
Others	1,508	1,524	3,032	2,150	2,250	4,400	1,367	45.1%
Gross profit	13,268	12,891	26,160	13,900	14,400	28,300	2,139	8.2%
SG&A expenses	10,510	10,088	20,598	10,800	10,800	21,600	1,001	4.9%
Operating income	2,758	2,803	5,561	3,100	3,600	6,700	1,138	20.5%
Ordinary income	2,845	3,219	6,065	3,100	3,700	6,800	734	12.1%
Net income	1,861	2,402	4,263	2,150	2,500	4,650	386	9.1%

We expect both sales and profits to increase in FY3/20. We forecast net sales of ¥103.0 billion (+4.4% on a year-on-year basis), gross profit of ¥28.3 billion (+8.2%), selling, general and administrative expenses of ¥21.6 billion (+4.9%), operating income of ¥6.7 billion (+20.5%), ordinary income of ¥6.8 billion (+12.1%) and net income of ¥4.65 billion (+9.1%). By business segment, we forecast sales of ¥52.9 billion (+5.5% year on year) in the Product Development Model Business and ¥45.7 billion (+0.5%) in the Wholesale Model Business.

◆ Doshisha's Value Creation Cycle (Ability to Generate Profits)

Our strengths are our business base, which supports our efforts to build a company with aspirations that will never fail, and three business models on which our business portfolio is built.

Together, these strengths support adaptable risk management, which allows us to adapt to changes in the market while spreading risk and constantly taking on new business challenges.



We also have powerful business assets: the sales channels of 4,800 business partners in various industries and sectors and more than 2,100 suppliers with proprietary and third-party factories supplying a wide range of products. Backed by our product planning capabilities, we constantly keep a close eye on retail environments and play a central role in handling business flow. We are involved in all parts of the retail process, from product planning, development, procurement and sales area design to sales support and after-sales services. As our product portfolio covers a wide range of different categories, we supply numerous different products in clothing, food and homewares, with more than 50,000 SKUs handled by our operations each year and products ranging in price from ¥100 merchandise to luxury watches.

Our vision to "create an unrivalled company worldwide" guides all our efforts. Predicting changes in the operating environment and anticipating what consumers want is likely to become even more difficult in the future. That uncertain outlook means we need to develop our business with more emphasis on creating new product concepts and ideas by asking ourselves three key questions – what do consumers want, what is "new" and what is "interesting"? We also have to secure the No.1 position in the businesses and fields that we target, no matter how small the market is and without leaning too much on either the clothing, food or homewares categories. Our presence in such a wide range of product categories may make it hard to accurately define our business, but it also means we have no direct competitors. That approach will help us to "create an unrivalled company worldwide." Through that process, we will strive to increase Doshisha's corporate value by helping consumers lead richer lives and by becoming a more appealing company to all our stakeholders.

◆ Business Strategy for FY3/20

<Product Development Model Business>

We aim to step up development of products with unique value, focusing on the following three themes: (1) Target niche markets: capture demand in niche markets ignored by major companies. Examples include snow cone makers and steel storage racks. We aim to increase our sales areas to accommodate a broad range of products, from price-competitive products to high value-added models with good functionality and design and appealing narratives that arouse the interest of consumers; (2) Transform niche markets into market segments: gain leading positions in large markets by focusing on narrow product categories and concepts. One example is the stainless steel bottle market. Previously, high-performance bottles were the main category in the market and major manufacturers had a dominant position. However, we created a niche category of stainless steel bottles aimed at women by developing products based on a design concept with a unique world-view. Another example is baked sweet potato makers, a new product category born out of segmentation in the hot plate market; (3) Create niche products: develop products aimed at niche markets such as ceiling circulators, developed as a new type of product that combines two functions – a fan for air circulation and LED ceiling lights. This product was designed in reponse to unmet consumer needs and will make life more comfortable and enjoyable for consumers.

<Wholesale Model Business: Famous Brands>

Leveraging our strengths in procurement, we handle a very large number of brands across a wide price range, from well-known names to up-and-coming labels. With this portfolio, we aim to expand our sales further by supplying the right brands to the right sales areas and retail stores. We will offer a comprehensive sales support platform to retailers, from sales area and promotional support based on our brand portfolio to digital marketing strategies designed to influence consumer buying behaviour.

<Wholesale Model Business: NB gift processing>

In NB gift processing, we supply gift assortments for the mid-year and year-end gift market. We source NB products individually and arrange them into various gift sets at our own warehouses based on specific themes and concepts that appeal to consumers. Going forward, we aim to increase market share by using more accurate marketing strategies and by strengthening cooperation with retailers and NB manufacturers. We also plan to expand our gift set lineup to cover events all year round, such as Mothers and Fathers Day and family reunions, to create a broader market for occasions other than the traditional mid-year and year-end gift-giving seasons. In addition, we will work with technology startups and local industries to actively develop new product ideas, applying new IT-based marketing approaches with regional characteristics.

<Companywide Strategy: Logistics Reforms – Bring logistics in-house and increase efficiency to transform the earnings structure>

We expect distribution costs to rise even further in FY3/20 due to a labor shortage in the transportation sector. In response to surging costs, we will use our dual-hub proprietary logistics network more proactively to implement a number of measures: reduce warehouse storage fees by switching from third-party providers to our own logistics centers; cut outsourcing costs by using in-house assets for product shipment and processing work; and reduce transportation costs by sharing and combining shipments instead of distributing individual products from optimal locations.

<Companywide Strategy: Branding – Reinforce branding based on our "Doshisha's here too!" message>

Based on the "Doshisha's here too!" message, we will run a promotional campaign to reinforce our corporate brand.

We renewed our corporate website in April this year. The design concept of the new website is to promote ongoing communication with consumers through our products. Consumers are surrounded by products that make everyday life more fun, interesting and comfortable, often without even noticing those products. We aim to provide that kind of environment and build closer relationships with consumers to increase corporate value.

<Companywide Strategy: Enhance manufacturing capabilities – Orion to join Doshisha Group>

We established Orion Co., Ltd. in December 2018 to take over the professional services (PS) business acquired from Orion Electric Co., Ltd., which owns the ORION TV brand. Orion's main business is providing PS for solution design, circuit board design and software development as part of product development. Leveraging those strengths in product development and technology, Orion and Doshisha will work together to develop new technologies and reinforce quality assurance. We also aim to grow sales of TVs, as the acquisition will again allow us to use the ORION brand.

◆ FY3/20 Dividend Policy

We aim to pay a consistent and stable dividend based on a apayout ratio target of 30%. For FY3/20, we plan to pay a full-year dividend of ¥50 per share.

(May 29, 2019, Tokyo)