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7483 **Doshisha**

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Overhauling the business portfolio to support sustainable growth

◆Summary of 1H FY3/19 Consolidated Results

Consolidated (¥ million)	End of 2Q FY3/18		End of 2Q FY3/19		YoY		Reference		
	Actual	Composition ratio	Actual	Composition ratio	Change	Pct. Change	5/7/18 forecast	Change	Pct. Change
Net sales	50,426	100.0%	48,477	100.0%	(1,948)	-3.9%	52,500	(4,022)	-7.7%
Product Development Model Business	23,935	47.5%	24,580	50.7%	645	2.7%	24,950	(369)	-1.5%
Wholesale Model Business	24,918	49.4%	22,388	46.2%	(2,529)	-10.2%	26,400	(4,011)	-15.2%
Others	1,572	3.1%	1,508	3.1%	(64)	-4.1%	1,150	358	31.1%
Gross profit	13,469	26.7%	13,268	27.4%	(201)	-1.5%	14,200	(931)	-6.6%
SG&A expenses	9,700	19.2%	10,510	21.7%	810	8.4%	10,300	210	2.0%
Operating income	3,769	7.5%	2,758	5.7%	(1,011)	-26.8%	3,900	(1,141)	-29.3%
Ordinary income	3,882	7.7%	2,845	5.9%	(1,036)	-26.7%	3,900	(1,054)	-27.0%
Net income	2,645	5.2%	1,861	3.8%	(784)	-29.7%	2,700	(838)	-31.1%

For the first half of FY3/19, Doshisha reported consolidated results as follows: net sales of ¥48,477 million (down 3.9% year on year), gross profit of ¥13,268 million (down 1.5%), selling, general and administrative expenses of ¥10,510 million (up 8.4%), operating income of ¥2,758 million (down 26.8%), ordinary income of ¥2,845 million (down 26.7%), and net income of ¥1,861 million (down 29.7%).

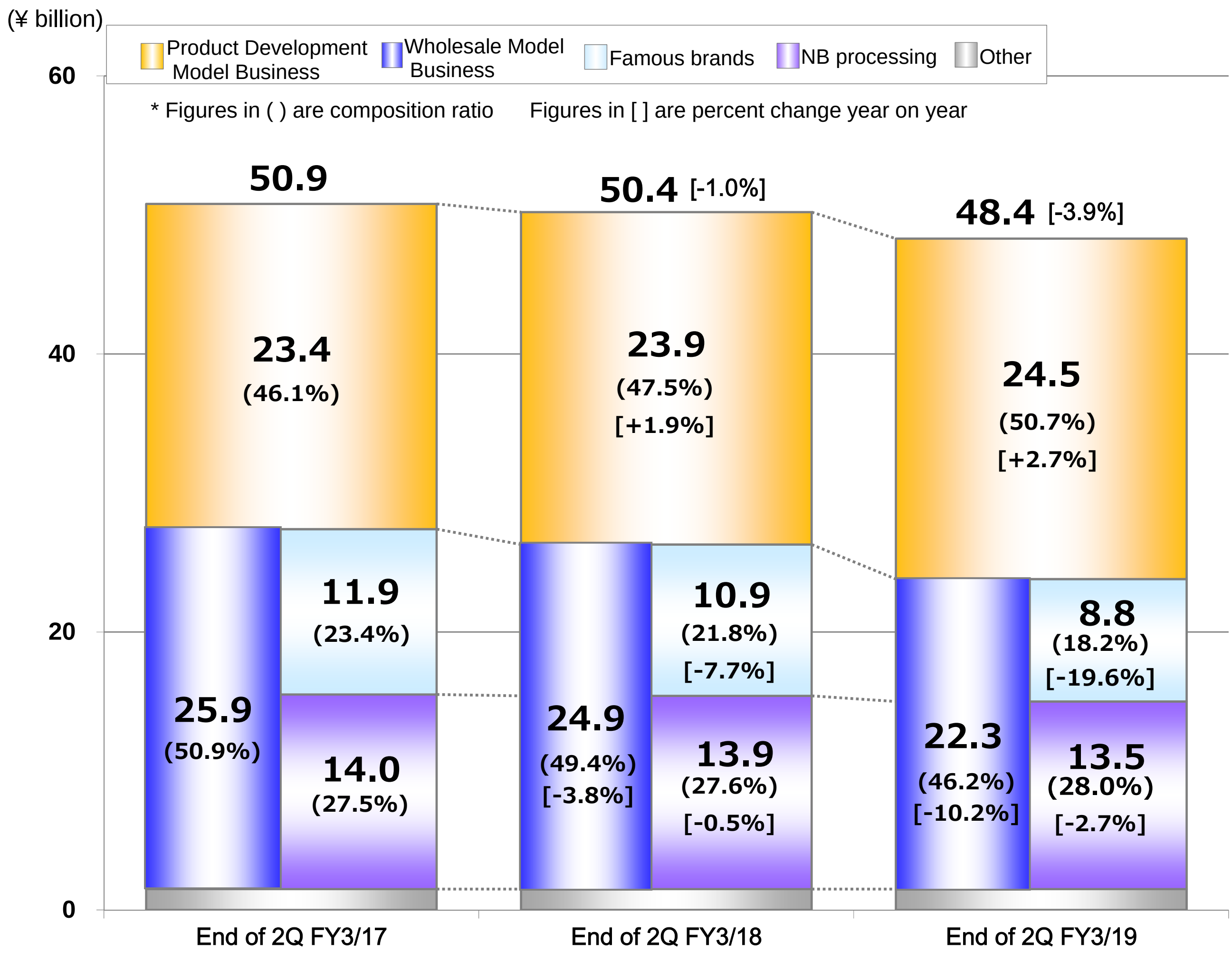
Compared with start-of-year forecasts, sales in the Product Development Model Business were ¥369 million lower than projected (1.5% below forecast), with sales of in-house brand TVs, launched at the end of FY3/18, falling short of TV sales in the same period of the previous fiscal year. Sales in the Wholesale Model Business were ¥4,011 million lower than projected (15.2% below forecast). There were several reasons for the shortfall in the Wholesale Model Business. In the segment's famous brands business, a major retailer adjusted procurement volumes in the first quarter, and in the second quarter the business faced a sharp drop in the supply of brand products, which are a key element of the segment's sales plan. In the segment's national brand (NB) processing business, sales volume for mid-year gift sets declined due to a record-low catch of crabs, the ingredient for canned crab, which is the main item in mid-year gifts sets. In addition, operations in both businesses were affected by a typhoon that made landfall in September. One of Doshisha's proprietary logistics centers took a direct hit from the typhoon, forcing a halt to operations for three days due to a power cut. Even after power was restored, warehouse capacity utilization declined because of damage caused by the typhoon. Moreover, the typhoon prevented imports from passing through Kansai Airport and other entry points, causing disruption to supply chains during the peak shipment period for autumn and winter products, which also had a negative impact on sales.

The gross profit margin was 27.4%, the highest on record, reflecting price negotiations with manufacturers and an increase in the sales weighting for products developed in-house. Selling, general and administrative expenses increased ¥810 million year on year and the selling, general and administrative expenses ratio was 21.7%. Following the start of in-house operation of logistics centers, third-party outsourcing costs previously booked under logistics costs are now included in personnel expenses and third-party warehousing usage fees are now included in depreciation (other selling, general and administrative expenses).

Price increases by distribution companies also had an impact on selling, general and administrative expenses. As part of efforts to address that issue, we continue to move logistics operations in-house, but the projected decline in costs has not yet materialized due to disruption during the start-up phase of the Kanto Logistics Center. As a result, the transfer of operations from third-party warehousing providers has been delayed and we are placing priority on ensuring shipments reach our business partners, which is leading to an increase in operating costs. Going forward, we aim to reduce costs by consolidating deliveries, using optimal locations for distribution, and reviewing packaging methods. We will also make use of the Kanto Logistics Center, deliver products to customers' distribution centers and start shipments earlier in the day.

◆Summary of 1H 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 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.



* 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.

◆1H FY3/19 Consolidated Results by Sales Channel

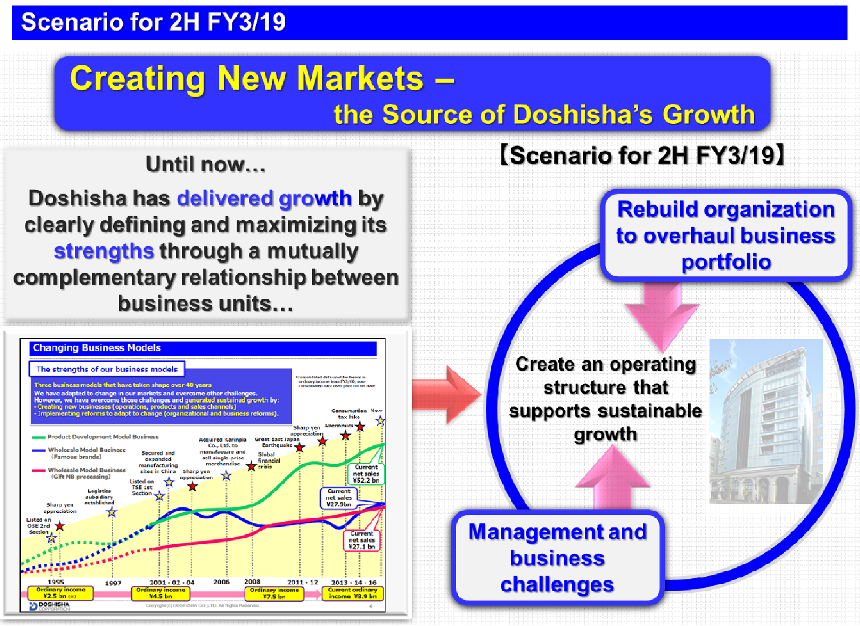
Sales in the hardware store channel were steady compared with the same period in the previous fiscal year, with sales of summer merchandise and homewares helping to offset weak sales of TVs. In the online channel, sales increased 5% year on year, supported by efforts with e-commerce retailers to grow sales. Sales to single-price retailers increased 34% year on year. However, sales in the discount store retailer channel, which accounts for a high share of Doshisha's famous brand sales, declined 8%, and sales to large electronics retailers dropped 22%. Sales to general merchandisers fell 20% year on year. While sales of household goods and summer merchandise were strong, weak demand for mid-year gifts impacted sales.

◆Consolidated Forecasts for FY3/19

Consolidated (¥ million)	FY3/18			FY3/19			YoY		Vs. start-of-year forecasts		
	1H	2H	Full year	1H	2H	Full year	Change	Pct. Change	Full year	Change	Pct. Change
Net sales	50,426	53,163	103,589	48,477	55,522	104,000	410	0.4%	110,000	(6,000)	-5.5%
Product Development Model Business	23,935	26,023	49,958	24,580	27,419	52,000	2,041	4.1%	53,200	(1,200)	-2.3%
Wholesale Model Business	24,918	25,688	50,606	22,388	26,511	48,900	(1,706)	-3.4%	54,100	(5,200)	-9.6%
Others	1,572	1,451	3,024	1,508	1,591	3,100	75	2.5%	2,700	400	14.8%
Gross profit	13,469	13,812	27,281	13,268	14,731	28,000	718	2.6%	29,100	(1,100)	-3.8%
SG&A expenses	9,700	9,811	19,512	10,510	10,589	21,100	1,587	8.1%	20,700	400	1.9%
Operating income	3,769	4,000	7,769	2,758	4,141	6,900	(869)	-11.2%	8,400	(1,500)	-17.9%
Ordinary income	3,882	4,118	8,001	2,845	4,154	7,000	(1,001)	-12.5%	8,500	(1,500)	-17.6%
Net income	2,645	2,844	5,490	1,861	2,788	4,650	(840)	-15.3%	5,800	(1,150)	-19.8%

In light of 1H FY3/19 results, the Company has revised its consolidated forecasts for FY3/19, which were disclosed on October 31. Details are as follows. We now forecast net sales of ¥104.0 billion (+0.4% year on year), down from ¥110.0 billion previously, gross profit of ¥28.0 billion (+2.6%), down from ¥29.1 billion, selling, general and administrative expenses of ¥21.1 billion (+8.1%), up from ¥20.7 billion, operating income of ¥6.9 billion (-11.2%), down from ¥8.4 billion, ordinary income of ¥7.0 billion (-12.5%), down from ¥8.5 billion, and net income of ¥4.65 billion (-15.3%), down from ¥5.8 billion. By business segment, we forecast sales of ¥52.0 billion (+4.1% year on year) in the Product Development Model Business, down from ¥53.2 billion previously, and ¥48.9 billion (-3.4%) in the Wholesale Model Business, down from ¥54.1 billion.

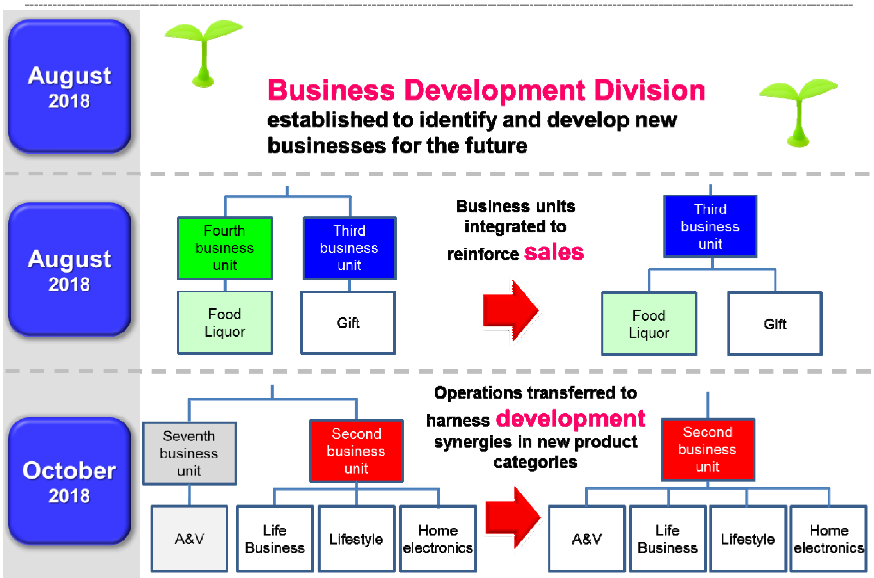
◆ Scenario for 2H FY3/19



Business portfolio management, which is a key part of our corporate philosophy – Never lose our passion for what we do – is the driving force behind Doshisha's growth. Portfolio management involves integrating business units to improve sales synergies and splitting business units to focus on specialist product categories while expanding the product lineup. Reorganizing our portfolio using that approach creates new markets, which drives Doshisha's growth. In the second half of FY3/19, we plan to review the business portfolio and rebuild our organization to create an operating structure that supports sustainable growth.

We have classified the businesses in our portfolio into three types: "maintain and reinforce", "transform," and "consider for renewal." The "maintain and reinforce" category includes the Product Development Model Business, businesses that contribute to society, e-commerce and overseas sales. In the Product Development Model Business, we have clarified overlapping roles and simplified complex decision-making processes in order to speed up product development. In businesses that contribute to society, we have launched sales of refrigeration systems to preserve bodies prior to cremation. The systems are designed to help tackle the backlog of families waiting to cremate their loved ones. We forecast the business will become profitable in FY3/20. Our systems are being installed at funeral homes, but we are also stepping up efforts to sell the systems to hospitals, where they are likely to play a useful role in hospital autopsies. The "transform" category includes the famous brands business and the gift business in the Wholesale Model Business and the food products business in the Product Development Model Business. The "consider for renewal" category covers audio & video (A&V)-related businesses. We are already implementing measures to scale back our A&V businesses and stem the increase in selling, general and administrative expenses. However, we are also looking into developing new products to increase earnings and using synergies with other business units to reduce operating costs further.

Changes to the business portfolio organization



Also, we established a Business Development Division in August 2018 to identify and develop new businesses. We have already launched multiple joint projects with other companies, but this specialist division will be more nimble, allowing us to move into new business fields and build new business models more rapidly. At the same time, we have realigned our operating structure, reducing the number of business units from seven to five. To improve business efficiency and increase sales, food and alcoholic beverages have been transferred from the fourth business unit to the third business unit, which have the same sales channels.

In addition, the seventh business unit, which was responsible for all A&V-related businesses, has been abolished. A&V operations have been transferred to the second business unit, which has developed a large number of in-house niche products. The second business unit will harness its product planning capabilities to develop new TV products.

◆Strategy for 2H FY3/19

Based on the theme "Strengthen & Evolve," we will implement our business strategy for each business model, reinforce e-commerce operations and overseas sales, create new businesses and strengthen our logistics strategy. In e-commerce, we plan to increase the number of products that are only available online. In overseas sales, we will actively exhibit our products at trade shows. In November, we exhibited at the China International Import Expo in Shanghai. We are also rolling out sales promotions tailored to each region, including street marketing campaigns and demonstration sales events.

With our business strategy for the Product Development Model Business, we will step up development and branding to offer products with value unique to Doshisha, based on our Niche No. 1 strategy and product branding capabilities. In the Wholesale Model Business, our business strategy for famous brands will involve using digital marketing and our strengths in product sourcing to enhance Doshisha's ability to handle all aspects of sales, from stimulating buying behaviour to sourcing and sales area support, including marketing. In NB gift processing, our strategy is to increase market share in mid-year and year-end gifts, while also stepping up efforts in year-round gifts. In year-round gifts, we have teamed up with an IT venture firm to launch gift sales via smartphones. Users can customize product settings, creating a wider choice of products such as catalog gifts, reciprocal wedding gifts and gifts for company shareholders, as well as conventional presents gifted between consumers.

◆FY3/19 Dividend Policy

Doshisha aims to pay a consistent and stable dividend based on a dividend payout ratio of 30%. For FY3/19, we plan to pay a full-year dividend of ¥50.00 per share.

(November 14, 2018, Tokyo)