Sanyei Corporation

8119 TSE JASDAQ

13-Jul.-16

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Achieved record high profits from the growth in sales of brand imports and the OEM supply

Sanyei Corporation <8119> (hereafter, also "the Company") is a long established trading company approaching the 70th anniversary of its establishment that handles brand products with high value-added. It develops its businesses through its 9 domestic affiliates and 20 overseas bases, which undertake a variety of functions, from manufacturing and wholesales through to retail sales. By segment, it has three business pillars; the Furniture and Houseware Business (50% of net sales), the Fashion Accessories Business (29% of net sales), and the Home Appliance Business (13% of net sales). By business model, its businesses are divided into the OEM business and the brand business. In the OEM business, it leverages its strength of possessing a global manufacturing network to provide products to clients such as Ryohin Keikaku Co., Ltd. <7453> (MUJI). For brand sales, its strength is in brand management and it is responsible for each stage, from procurement through to retail direct sales and after-sales services, and it concentrates on its large number of European brands, including Birkenstock (sandals) and Kipling (bags).

In FY3/16, net sales were ¥49,415mn (up 11.2% y-o-y) and operating profit was ¥2,361mn (up 202.6%), which were its highest net sales in the last 30 fiscal periods and the second highest in its history, and it also achieved record high profits. Net sales trended strongly in the three mainstay segments, while by region, sales particularly grew in Japan. In terms of the factors behind the increased profits, in addition to the effects of the higher sales, the improvements to the gross profit margin and to the SG&A expenses ratio also contributed. The results forecast for FY3/17 are for decreases in both sales and profits, of net sales of ¥49,000mn (down 0.8%) and operating profit of ¥1,800mn (down 23.8%). But when taking a long-term perspective, these forecasts are in the context of the previous fiscal year's net sales being the highest in the last 20 years and recurring profit being the third highest ever, so the high levels of the previous fiscal year will be maintained.

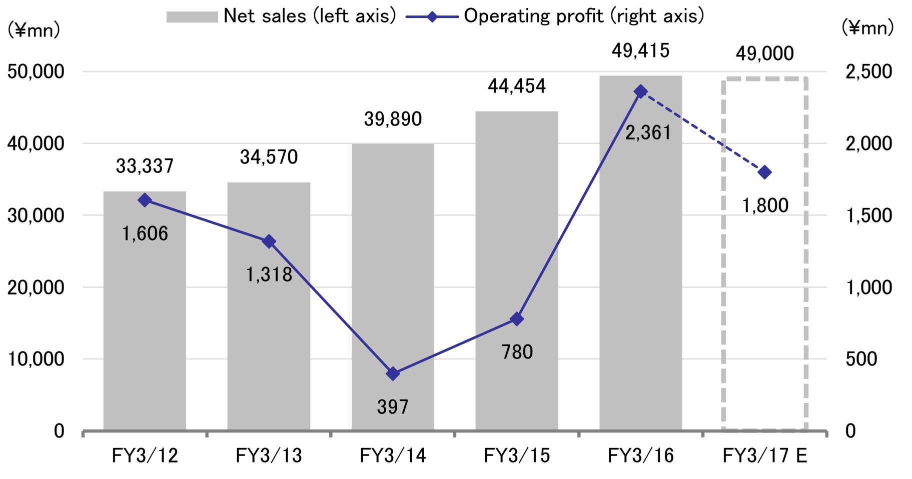
As its medium- to long-term direction, the Company is striving to "Stably secure profit by expanding the brand business." The latest topics include the launch of the MULTI CHEF brand, which are commercial-use cooking appliances. It is utilizing its unique knowledge and expertise that it has accumulated over the many years it has been involved in the import and sales of the famous food processor brand Cuisinart to develop products that combine the latest drive technologies with traditional cutting technologies, and it will sell them for commercial use, such as to restaurants and nursing-care facilities.

The Company's ROE is 13.7% (FY3/16), which as at the leading level within the 10 listed import trading companies and brand retail companies, showing the height of its management efficiency. In FY3/16, the annual dividend per share was ¥160 (including a special dividend of ¥60), while the forecast for FY3/17 is for an annual dividend of ¥120.

Check Point

- In FY3/16, the Company achieved the second highest net sales in its history and its highest ever profits
- The FY3/17 results are not expected to reach the level of the previous fiscal year, but will still maintain the high level
- Is aiming to strengthen its revenue base by expanding the scale of the brand business. The main topic in FY3/17 is the launch of the MULTI CHEF brand of commercial-use cooking appliances

Full fiscal year results trends



Results trends

The second highest net sales in its history and highest ever profits

(1) FY3/16 full fiscal year results trends

In the FY3/16 full fiscal year, net sales were ¥49,415mn (up 11.2% y-o-y), operating profit was ¥2,361mn (up 202.6%), recurring profit was ¥2,423mn (up 137.9%), and profit attributable to owners of parent was ¥1,435mn (up 147.3%), for major increases in sales and profits. This was the first time in 30 fiscal periods that net sales had exceeded ¥45,000mn and the second highest in the Company's history. The main reason for these results was the strong performance of each of the 3 mainstay segments, while by region, sales especially grew in Japan (increased to approximately ¥4,100mn). The growth in profits was also remarkable, and the Company achieved record highs for each profit item. In addition to the increase in sales, the main factors behind the record high profits were the improvement in the gross profit margin (up 2.2 percentage points) and the reduction in the SG&A expenses ratio (down 0.8 of a percentage point). Specifically, the higher sales from the overseas subsidiaries, including Sanfat Electric Manufacturing Company Limited, contributed to the increase in profits, while domestically, the increase from Birkenstock also particularly contributed. By segment, the main 3 business segment each achieved higher profits, up ¥914mn in the Furniture and Houseware Business, up ¥545mn in the Fashion Accessories Business, and up ¥366mn in the Home Appliance Business. By customer, OEM sales to Ryohin Keikaku grew to ¥17,737mn (up 17.9%), which had a positive effect on all the segments' results.

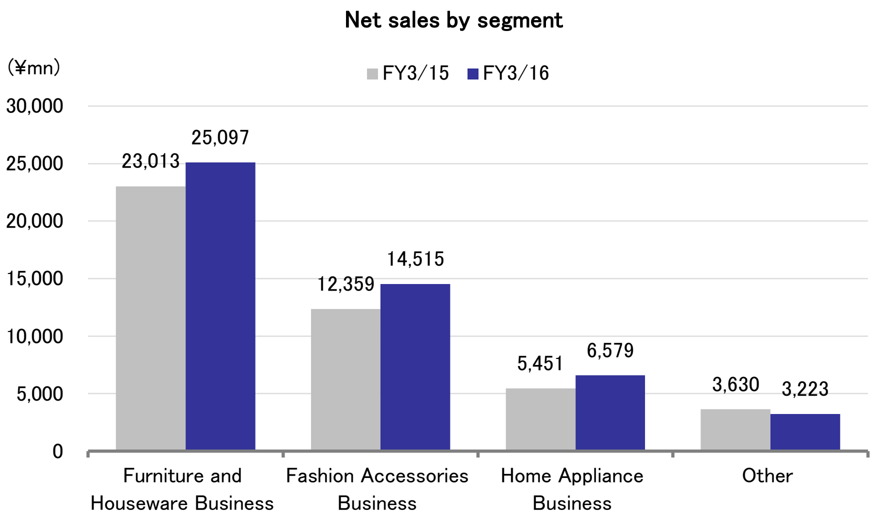
FY3/16 full fiscal year results (consolidated)

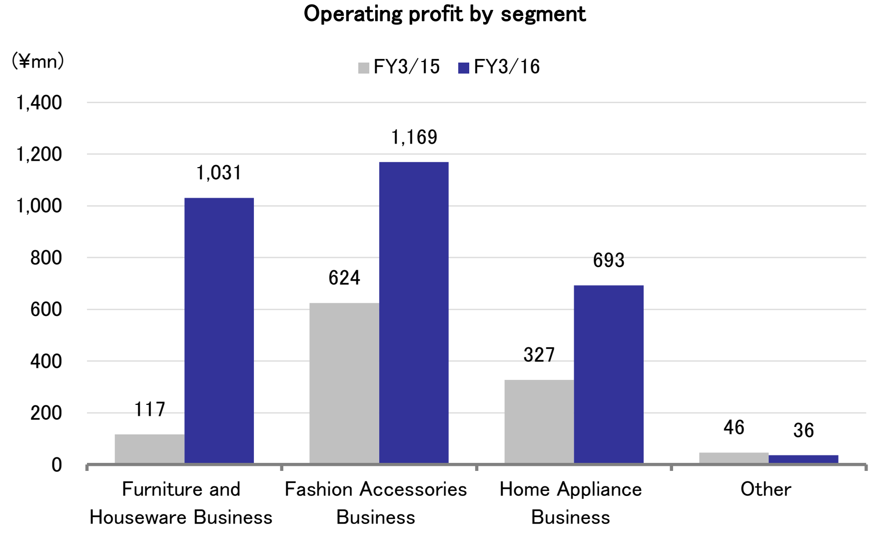
(¥mn)

	FY3/15		FY3/16				
	Result	% of sales	Company targets (adjusted)	Result	% of sales	y-o-y	vs. target
Net sales	44,454	100.0%	49,000	49,415	100.0%	11.2%	0.8%
Cost of sales	33,796	76.0%	-	36,485	73.8%	8.0%	-
Gross profit	10,657	23.9%	-	12,929	26.1%	21.3%	-
SG&A expenses	9,877	22.2%	-	10,568	21.4%	6.9%	-
Operating profit	780	1.7%	2,200	2,361	4.7%	202.6%	7.3%
Recurring profit	1,018	2.2%	2,300	2,423	4.9%	137.9%	5.4%
Profit attributable to the parent company	580	1.3%	1,400	1,435	2.9%	147.3%	2.6%

Source; prepared by FISCO from Company materials

■ Results trends





Declines in sales and profits are forecast, but results will still be at a high level

(2) FY3/17 forecasts

The FY3/17 results forecasts are for net sales to decline slightly to ¥49,000mn (down 0.8% y-o-y), with the reduction from the OEM business being covered by the brand business. Profits are also expected to decline, with operating profit of ¥1,800mn (down 23.8%), recurring profit of ¥1,800mn (down 25.7%), and net profit attributable to the owners of the parent company of ¥1,300mn (down 9.4%). Although the forecasts are for declines in sales and profits, on taking a long-term perspective, we see that these forecasts are in the context of the previous fiscal year's net sales being the highest in the last 20 years and recurring profit being the third highest ever, and also in the context of the impact of the strong yen. So they can be highly evaluated on the point that a high level will be maintained even in this situation. The full fiscal year results outlook assumes exchange rates of ¥110 to the U.S. dollar and ¥125 to the euro.

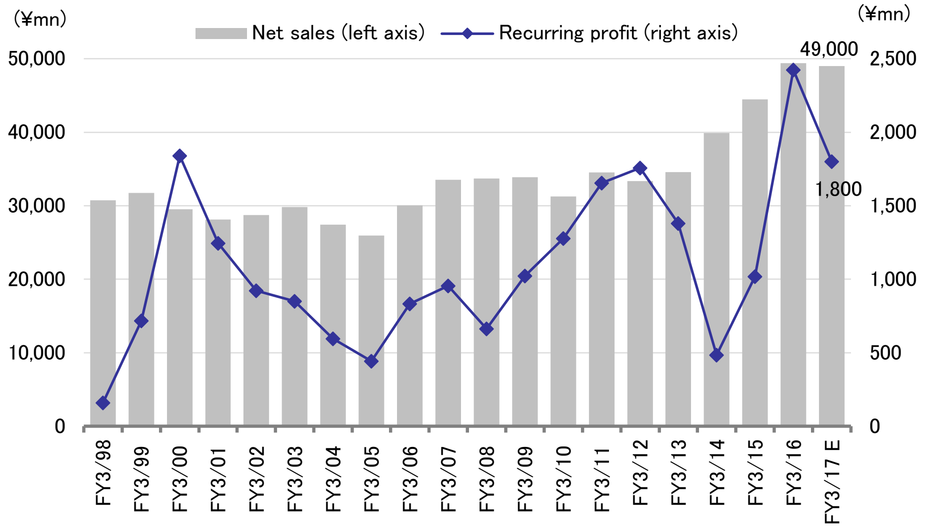
FY3/17 full fiscal year results forecast

(¥mn)

	FY3/16	FY3/17 forecast			
	Full fiscal year	1H	2H	Full fiscal year	y-o-y
Net sales	49,415	22,000	27,000	49,000	-0.8%
SG&A expenses	10,568	-	-	11,700	-
Operating profit	2,361	500	1,300	1,800	-23.8%
Recurring profit	2,423	500	1,300	1,800	-25.7%
Profit attributable to owners of parent	1,435	350	950	1,300	-9.4%

Source: The Company's financial results briefing materials and financial results summary

Full fiscal year results trends



Growth strategy

Further expanding the brand business and strengthening the revenue base

(1) Medium- to long-term direction

As its medium- to long-term direction, the Company's targets include the following: 1) to achieve net sales of ¥50bn, 2) to secure a stable revenue base in the brand business and to further expand the content of the OEM business, 3) to increase overseas transactions and to convert to a structure that is not susceptible to changes to the market environment and to exchange rates, 4) to diversify the procurement destinations (open-up the Southeast Asia procurement market), and 5) to achieve ROE of 15%.

(2) Securing stable revenue by expanding the brand business

In 2012, the Company reorganized its organization into by product category in order to strengthen expertise in the brand business, and currently it has a system of 4 business departments. Subsequently, the brand business net sales have consistently followed an upward trajectory, rising from ¥8.36bn (FY3/12) to ¥12.51bn (FY3/16). The growth of the Fashion Accessories segment has been especially noticeable, and the contribution of Birkenstock has been significant. Incidentally, the reason why Birkenstock net sales are set to fall in FY3/17 is from the withdrawal from the wholesale business as the policy of the brand head office. In terms of the addition of new brands, in FY3/12 the Company started handling the WMF brand, and then in 2013 the Kipling brand and the Silit brand. In FY3/17, it will launch the MULTI CHEF brand of commercial-use cooking appliances. The basis for the expansion into new brands is the acquisition of rights for general agencies, but Kipling was acquired as a business transfer, and going forward, the Company is on the lookout for M&As if they will enable it to acquire excellent brands.

Expansion of the brand business

(unit: ¥100mn, stores)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17 forecast
The brand business total net sales	83.6	87.9	95.6	106.6	125.1	130.0
The Furniture and Houseware Business	2.8	5.4	7.8	9.5	10.2	-
The Fashion Accessories Business	51.2	50.7	64.4	68.9	85.7	-
Birkenstock*	49.4	49.4	49.9	52.1	67.1	62.0
The Home Appliance Business	20.9	23.5	15.2	20.8	22.9	-
Number of directly-managed brand stores (as of the end of May)	-	-	66	73	82	-
Topics	Started handling the WMF brand	Started handling the Kipling brand and the Silit brand	The Vitantonio My Bottle Blender was a major hit	Brand business net sales exceed ¥10bn for the first	End of Birkenstock wholesale operations	Launch of the MULTI CHEF brand

Source: the Company's financial results briefing materials, Company information
*December results

(3) The Launch of the MULTI CHEF brand of commercial-use cooking appliances

The Company has a history through its Group companies of being involved from 1985 to 2013 in the import and sales of Cuisinart products, which is a famous brand of food processors. The MULTI CHEF brand of food processors and blenders that were launched this year are packed with the knowledge and expertise that the Company has accumulated up until now. These products employ a unique "magnet gear"(patent pending) that does not place an excessive load on the motor and gears, which can be the cause of expensive repairs, and also utilize "the blade of Seki" and "Tsubame Sanjo" technologies, which are traditional Japanese technologies that affect the cutting performance. It has already started marketing and sales of this brand to customers such as restaurants, hotels, hospitals, and nursing care facilities, and expects it to grow in the future.

Initiative to expand the brand business (launch of the new brand)

Source; Company materials

Financial position and ROE

A sound financial position

The Company's financial position at the end of FY3/16 was sound. The balance of total assets increased ¥2,326mn compared to the end of the previous fiscal year to ¥23,047mn. This was mainly due to increases in cash and deposits of ¥1,434mn, notes and accounts receivable of ¥490mn, and merchandise and finished goods of ¥360mn, and the higher sales were a factor.

Liabilities increased ¥1.327bn compared to the end of the previous fiscal year to ¥11.993bn, as although short-term debt declined ¥1.007bn, this was exceeded by the increases in accounts payable and taxes payable, and also from the recording of an allowance for fire-related losses.

In the stability-related management indicators, both the current ratio (166.9%) and the equity ratio (47.5%) are favorable, and there are no concerns with regards to stability.

Consolidated balance sheet, management indicators

(¥mn)

	FY3/15	FY3/16	Change
Current assets	15,115	17,007	1,891
(cash and deposits)	2,032	3,466	1,434
(notes and accounts receivable)	6,074	6,565	490
(merchandise and finished products)	5,656	6,017	360
Fixed assets	5,605	6,040	435
Total assets	20,721	23,047	2,326
Current liabilities	8,749	10,186	1,437
(short-term debt)	4,607	3,600	-1,007
Fixed liabilities	1,917	1,807	-109
Total liabilities	10,666	11,993	1,327
Net assets total	10,055	11,054	998
Total liabilities and net assets	20,721	23,047	2,326
<Stability>			
Current ratio (current assets ÷ current liabilities)	172.8%	166.9%	-
Equity ratio (shareholders' equity ÷ total assets)	48.0%	47.5%	-

Source: the Company's financial results summary

High management efficiency even among import trading companies and brand retailers

In the FY3/16 results, the Company's ROE (return on equity, net profit/shareholders' equity) was 13.7%. This is the leading value among the recent results of the 10 listed companies that are similar to the Company, of trading companies importing household goods, furniture, and fashion accessories, and retailers with a strength in brands, and it shows the height of its management efficiency. The Company prioritizes ROE as a management indicator and its medium-term target for it is 15%.

Comparison of ROE
(import trading companies, brand retailers)

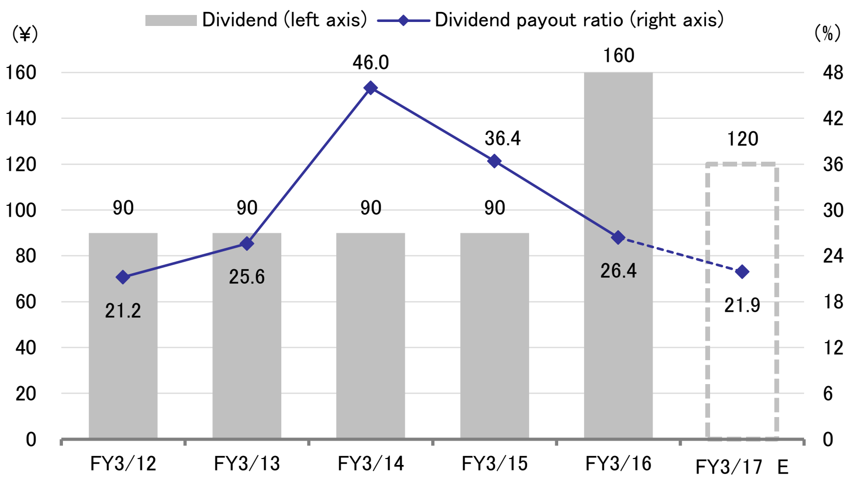
Source: analysis by FISCO based on each company's results information; comparison is based on the recent full fiscal year results

Shareholder returns policy

Dividend is forecast to increase to an annual ¥120 against the backdrop of the high profits

The Company's policy is to stably and continuously pay dividends while retaining the internal reserves necessary to strengthen its corporate structure. The FY3/16 dividend per share was ¥50 in 1H and ¥110 (ordinary dividend of ¥50 + special dividend of ¥60) in 2H, for an annual dividend of ¥160. In FY3/17, the forecast is for the ordinary dividend portion to increase in the region of ¥10, to ¥60 in both 1H and 2H, for an annual dividend of ¥120.

Dividend and dividend payout ratio



[Supplementary information]

Company profile

Responsible for a wide range of operations in the supply chain, from manufacturing through to retail sales

(1) Company history

The Company was established in Osaka in 1946 as an exporter of accessories. Today, it handles lifestyle-related goods in general and is widely involved in operations in the supply chain, from manufacturing and importing and exporting, through to wholesale and retail sales. It has grown to be a multi-functional trading company with 9 domestic affiliates, 20 overseas bases, and 82 domestic, directly-managed retail stores. Its individuality is clear on the point of its handling of high value-added products, such as its import into Japan of differentiated European brands and its OEM procurement for customers that are very selective about the products they want, as typified by Ryohin Keikaku.

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Furniture and houseware contribute significantly to sales and fashion accessories contribute significantly to profits

(2) Business overview

The Company's businesses are divided into the Furniture and Houseware Business, the Fashion Accessories Business, the Home Appliance Business, and the Other Business. The Furniture and Houseware Business mainly involves the procurement of OEM goods to major companies domestically and overseas. In FY3/15, it contributed 50.8% of the Company's total sales and 43.6% of the operating profit. The Fashion Accessories Business entails the import and sales of brand products to which it has sales rights, such as Birkenstock (sandals) and Kipling (bags), and also an OEM business for domestic and overseas customers. Net sales from this segment constitute 29.4% of total sales, so their scale is relatively small, but in contrast this business provides 49.5% of the operating profit and it has a high profit margin. The Home Appliance Business is both an OEM products procurement business and a brand business, with the main brands handled being Vitantonio (cooking appliances) and Mod's Hair (beauty appliances). This business contributes significantly to both sales and profits (13.3% of net sales and 29.2% of operating profit). The Other Business segment mainly handles pet-related merchandise.

Business descriptions and percentages

Business segment	Descriptions of the main businesses	Percentages of profits	Percentages of operating profit
Furniture and Houseware Business	OEM for Ryohin Keikaku and WMF (kitchen goods manufacturer)	50.8%	43.6%
Fashion Accessories Business	Birkenstock (sandals) and Kipling (bags) and OEM for domestic and overseas retail stores, etc.	29.4%	49.5%
Home Appliance Business	Vitantonio (cooking appliances) and Mod's Hair (beauty appliances), and OEM for domestic and overseas manufacturers and retail stores	13.3%	29.3%
Other	Pet merchandise, pets, etc.	6.5%	1.5%
*Adjusted amount	-	-	-23.9%

Source; Company materials

Converting to a business structure not susceptible to the impact of exchange rates

(3) Business environment and business model

In general, trading companies involved in imports and exports cannot avoid the impact of exchange rates on their results. In several years in the past (FY3/06 to FY3/14), the Company's profits also tended to increase when the yen strengthened and decrease when it weakened. This was because the percentage of domestic sales of imported goods in the Company's business as a whole was high. Conversely, in FY3/15 and in the context of the continuing weak yen, it was able to cover for its struggling domestic business by securing an increase in profits from the growth of its overseas business. In FY3/16, even though the period of the weak yen became prolonged, its domestic business still grew and it is estimated that in addition to strengthening overseas transactions, it has furthered strengthened its business structure so it is not susceptible to the impact of exchange rate fluctuations.

In the Company's business model, the OEM procurement business (74% of net sales; hereafter, the OEM business) can be clearly distinguished from the brand sales business (25% of net sales, hereafter, the brand business). In the OEM business, its strength is its manufacturing network in Asia, which it has advanced into since the 1950s (it has 20 bases in Asia, 12 of which are in China). Net sales to its biggest client, Ryohin Keikaku, were ¥17,737mn in FY3/16. The brand business started from it uncovering excellent brands from Europe that focused on the essential qualities of their respective products. Another of the Company's strengths is that while being a trading company, it also develops a retail (directly-managed stores and e-commerce) business and provides after-sales services that it manages itself.

The largest brand is Birkenstock (FY12/15 net sales of approximately ¥6.7 billion), which is managed by the subsidiary Benexy Corporation. It is a brand for sandals and comfort shoes with superior functions and beauty, has a tradition of more than 240 years in Germany, and is supported by an enthusiastic fan base despite a price range of around ¥10,000. The products are sold via the 58 directly-managed stores and e-commerce, and the Company has enhanced the after-sales services it manages itself for products that are often used by customers for a long time. For the future, it is considering utilizing its network of directly-managed stores to handle various other brand products with a high affinity to this brand. Kipling (bags) is a brand of nylon bags that was created in Belgium in 1987, and together with the Kipling monkey (its mascot), it is famous throughout the world as a playful, casual brand. The Company develops this business via 13 directly-managed stores (including the Omotesando and Ginza stores, as well as several outlet stores). Vitantonio (cooking appliances) is the Company's original brand, and its products are mainly manufactured at its own plants in China. Since the past, this brand has been well-known for its waffle makers, while in 2013 its one cup blender, My Bottle Blender, was a major hit. In 2015, it attracted attention for its yogurt maker and popcorn maker. A characteristic of the Company's brand business is that its involvement is not limited to marketing and retail, as it is also involved from the manufacturing stage through to after-sales service, increasing the value-added for customers.

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