# Sanyei Corporation

## 8119

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# Summary

## Reduced forecasts for FY3/19 to net sales of ¥44.0bn and ordinary income of ¥0.85bn
## Forecasts were impacted by sales declines in Europe and North America and price increases at subsidiary BENEXY
## Established new plant for furniture and interior goods in Malaysia

Sanyei Corporation <8119> is a trading company specializing in high-value-added products with a history of over 70 years. It carries a full range of consumer lifestyle products and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. It has 19 overseas locations and 84 domestic directly managed retail stores. The Company stands out in terms of its coverage of products with high added value, including the introduction of differentiated European brands to Japan and OEM supply of unique products to customers, such as Ryohin Keikaku Co., Ltd. <7453>, which operates MUJI. It has three main business segments – Furniture and Houseware Business (49.0% of overall sales), Fashion Accessories Business (33.2%), and Home Appliance Business (13.2%).

**1. Business description**

The Furniture and Houseware Business is the Company's largest business segment. In this segment, OEM business represents a very large percentage of segment sales at about 93%, and growth has been driven by expansion in business at major customers, such as Ryohin Keikaku (MUJI). Sales increased from ¥17,007mn in FY3/13 to ¥27,431mn in FY3/17. Recently, sales have decreased due to the non-recurrence of spot orders by a major European customer, shrinkage of sales to a US volume retailer and other impacts, but the OEM business should remain the core component. The Company's own MINT e-commerce brand is a fast-growing brand. The Company started handling Villeroy & Boch as a new housewares brand in October 2017. This is a traditional German tableware brand coming up on its 270th year in business. The Company took over the sales business for Villeroy & Boch—a business that possesses sales channels to department stores, specialty shops, hotels and restaurants. It has taken time for the Villeroy & Boch brand to contribute to business performance because the Company has been implementing measures upfront to reshape the brand portfolio, reduce costs and tackle other priorities. However, the Company remains determined to steadily nurture Villeroy & Boch into a core brand in the housewares business.

The brand business is highly profitable and has a substantial presence in the Fashion Accessories Business, representing about 57% of segment sales. The largest brand the Company handles is BIRKENSTOCK, which is managed by subsidiary BENEXY CORPORATION. BIRKENSTOCK makes sandals and comfort shoes with excellent functional beauty and has a tradition of more than 240 years in Germany. It is supported by an enthusiastic fan base even with a price range of about ¥10,000. The products are sold via 62 directly managed stores and e-commerce. The Company offers after-sales services because many customers use the products for lengthy periods. Sales and profits have recently declined due to the impact of the boom in BIRKENSTOCK footwear settling down, and the brand's policy to raise prices globally. Kipling is a brand of nylon bags that originated in Belgium in 1987, and together with the Kipling monkey keychain (its mascot), it is famous throughout the world as a playful, casual brand. The brand operates this business via 12 directly managed stores and at about 60 major department stores across Japan. Business has performed favorably owing to the development of new sales channels in FY3/19.

### 2. Results trends

The Company reported lower sales and profits in 1H FY3/19. Net sales decreased 4.3% YoY to ¥20,842mn and operating profit decreased 96.2% YoY to ¥29mn. Ordinary profit declined 87.4% YoY to ¥107mn. The Company posted a loss attributable to owners of parent of ¥12mn, compared with profit of ¥487mn in 1H FY3/18. One major factor behind the lower sales and profits was a sharp decrease in sales of housewares for Europe and North America in the OEM business, which accounts for about 70% of net sales. A closer look at these sales shows that trading with Europe was impacted by a client company's loss of a tender for a major project for promotion merchandise. In trading with North America, a client volume retailer saw e-commerce enterprises such as Amazon (Amazon.com <AMZM>) make inroads into its market. In response, sales to this retailer were curtailed because of diminishing profitability for the Company. Other factors behind the lower profits were lower sales and smaller profit margins at subsidiary BENEXY. Turning to BIRKENSTOCK, the Company's core brand, the boom in this brand that began in North America a few years ago has subsided. In addition, price increases in the Japanese market that were implemented as part of BIRKENSTOCK's global pricing policy pushed down product sales, and combined with the impacts of higher costs and expenses, led to a decrease in profits.

The Company has reduced its forecasts for FY3/19 and now expects to post lower sales and profits for the fiscal year. The Company is forecasting a decrease of 1.6% YoY in net sales to ¥44,000mn, a decrease of 49.5% YoY in operating profit to ¥850mn, a decline of 53.6% YoY in ordinary profit to ¥850mn and a decrease of 52.0% YoY in profit attributable to owners of parent to ¥400mn. The net sales forecast has been revised down to a level on par with the previous fiscal year. The negative impact of the drop in sales in markets in Europe and North America recorded in 1H FY3/19 is expected to be offset by increases in revenue in the Fashion Accessories Business and Home Appliance Business. In the Fashion Accessories Business, a strong performance is expected in the OEM business for Japanese and foreign clients and in the Kipling business, in which the Company has successfully developed new sales channels. In the Home Appliance Business, the OEM business is expected to drive higher sales. The Company has sharply reduced its operating profit forecast from the initial forecast. The segment that will likely experience the largest drop in profits from the previous fiscal year is the Furniture and Houseware Business, which is forecast to post a ¥556mn decrease in operating profit. This projected decrease reflects sluggish sales in the European and North American markets, plus upfront investment to establish a furniture plant in Malaysia. Although the decrease in profits in the Fashion Accessories Business is small, this segment is expected to be heavily impacted by a drop in sales and increased costs due to the settling down of the boom in BIRKENSTOCK brand and the price increases for BIRKENSTOCK products. Overall, sales have declined due to deterioration in the external environment in the European and the North American markets. However, with firm trends in market conditions and customers in Japan, the deviation from the revised forecasts is expected to be small.

### 3. Growth strategy and topics

The Company has established a plant to manufacture furniture and interior goods in Malaysia, in order to enhance the furniture business, one of its core operations. It plans to start operating the plant from the beginning of 2019. The Company has furniture customers in Japan and other parts of the world. To deliver a standard of quality that satisfies the requests of its customers and to meet their deadlines, the Company has accumulated expertise by maintaining an active presence on the manufacturing floor on a daily basis. The Company has decided to begin internally operating its own furniture and interior goods plant in order to enhance its development capabilities and responsiveness to customers. The Company believes that this move will further harness its expertise and propel it onto the next stage of business development. Incidentally, the Company has built up a lot of experience in plant management through the operation of a home appliances plant in Guangdong Province, China over the past 30 years. The Company plans to invest about ¥0.5bn in the new plant in Malaysia and is forecasting sales of around ¥2.0bn in several years.

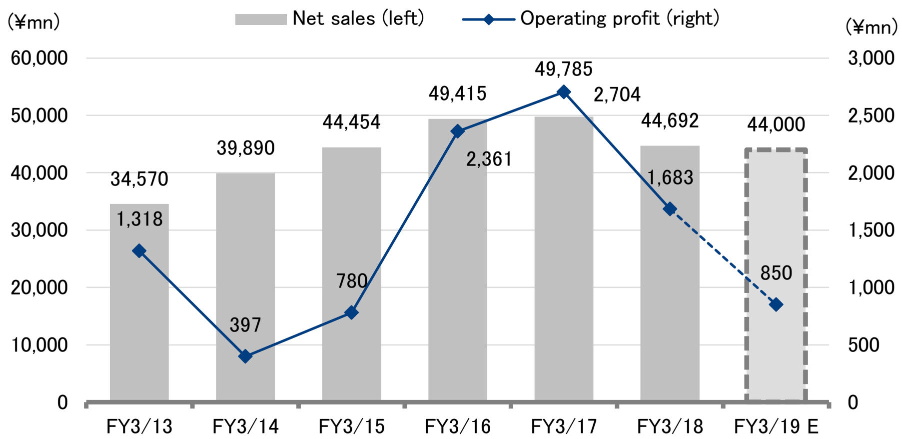
### 4. Shareholder return policy

The Company has adopted a policy that targets a roughly 30% dividend payout ratio, taking into consideration the need to implement stable, continuous dividends along with securing internal reserves to lay a stronger business foundation. The interim dividend for 1H FY3/19 was set at ¥60 per share, the same as in 1H FY3/18, and the year-end dividend is forecast at ¥100 per share (the same as the end of FY3/18). The Company is thus forecasting an annual dividend of ¥160 per share. The dividend payout ratio will be high at 93.8%, because the annual dividend will be maintained at ¥160 per share, unchanged from the previous fiscal year, despite the reduced profit forecast. The Company has raised or sustained the dividend for 21 consecutive years. As a trading company in the wholesaling sector, the Company's operating results can be volatile at times. In this environment, we highly commend management's commitment to maintaining stable shareholder returns even during a downturn in operating results.

## Key Points

- Primarily OEM business for major Japanese and foreign clients in the mainstay Furniture and Houseware Business. Villeroy & Boch, which the company started to handle in 2017, is still under the investment term. In the Fashion Accessories Business, the Kipling brand is performing favorably.
- Forecasts for FY3/19 were reduced to net sales of ¥44.0bn and ordinary profit of ¥0.85bn. Forecasts were impacted by a drop in sales in Europe and North America, and price increases at subsidiary BENEXY. Upfront investments were made in a new plant in Malaysia.
- Established a new plant for furniture and interior goods in Malaysia. Strong prospects for products such as the electric toothbrush ION-Sei featuring patented technology and the KERBHOLZ brand of watches.

Full-year results trends




Source: Prepared by FISCO from the Company's financial results

# Company profile

## A multi-functional trading company specializing in high-value-added products based on the concept of "bringing fabulous products from the world to the world"

### 1. Company profile and history

Established in Osaka in 1946 as an exporter of accessories, the Company has a history of more than 70 years. Today, it carries a full range of consumer lifestyle products and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. It has grown to be a multi-functional trading company with 19 overseas locations and 84 domestic directly managed retail stores. The Company stands out in terms of its coverage of products with high added value, including the introduction of differentiated European brands to Japan and OEM supply of unique products to clients, such as Ryohin Keikaku (MUJI). The Company is a global enterprise that manufactures products at overseas sites and sells them in overseas markets, based on the concept of "bringing fabulous products from the world to the world."

### 2. Business composition

The Company operates under the following business segments – Furniture and Houseware Business, Fashion Accessories Business, Home Appliance Business, and Others. The Furniture and Houseware Business mainly procures OEM products for major Japanese and foreign companies, with the proprietary e-commerce brand MINT also gaining momentum. This segment provided 49.0% of overall sales and 57.5% of operating profit in 1H FY3/19. The Fashion Accessories Business covers import sales of brand products with sales rights, such as BIRKENSTOCK (sandals) and Kipling (bags), and domestic and overseas OEM business. It contributed 33.2% of sales and 49.9% of operating profit. The Home Appliance Business handles OEM product procurement and brand business. Major brands are Vitantonio (cooking appliances) and mod's hair (beauty appliances). This segment generated 13.2% of sales. The Others segment handles pet goods and other items and was at 4.6% of sale.

Business description and percentages (1H FY3/19)

| Business segment | Descriptions of the main businesses | Percentages of net sales | Percentages of operating profit |
|---|---|---|---|
| Furniture and Houseware Business | OEM for Ryohin Keikaku (MUJI) and WMF (kitchen goods manufacturer) | 49.0% | 57.5% |
| Fashion Accessories Business | BIRKENSTOCK (sandals) and Kipling (bags) and OEM for domestic and overseas retail stores, etc. | 33.2% | 49.9% |
| Home Appliance Business | Vitantonio (cooking appliances) and mod's hair (beauty appliances), and OEM for domestic and overseas manufacturers and retail stores | 13.2% | -5.8% |
| Other | Pet merchandise, pets, etc. | 4.6% | -1.6% |

Source: Prepared by FISCO from the Company's financial results
*Adjusted amount

The Company has two business models: brand business and OEM business. The brand business mainly promotes wholesale and retail activity in Japan for overseas brands and the Company's own brands. It has a generally higher profitability than the OEM business because it carries excellent brands with strong histories that have not yet been introduced in Japan. The Company aims to expand the brand business from 28.7% of total sales in 1H FY3/19 to about 40% in future years. The OEM business provides various procurement services, such as review of product specifications for products that meet the needs of client companies, plant selection, price negotiation and production schedule adjustment, production management, and export/import and logistics. The Company has strengths in the manufacturing network in Asia built through overseas initiatives over many years and production management by its own staff. The OEM business contributes 71.3% (1H FY3/19) of net sales. Historically, the Company has developed its brand business using the knowledge and experience of overseas business it cultivated in the OEM business, and currently there are synergistic effects in various aspects.

**Business model content and composition**

| | Descriptions of the main businesses | Percentages of net sales |
|---|---|---|
| Brand business | Wholesale and retail activity for overseas brands and proprietary brands | 28.7% |
| OEM business | Provide procurement services such as review of product specifications for products that meet the needs of client companies, plant selection, price negotiation and production schedule adjustment, production management, and export/import and logistics | 71.3% |

Source: Prepared by FISCO from the Company's results briefing materials

# Business overview

## Primarily OEM business for major Japanese and foreign clients in the mainstay Furniture and Houseware Business. Villeroy & Boch, which the company started to handle in 2017, is still under the investment term. In the Fashion Accessories Business, the Kipling brand is performing favorably.

### 1. Trends in the Furniture and Houseware Business

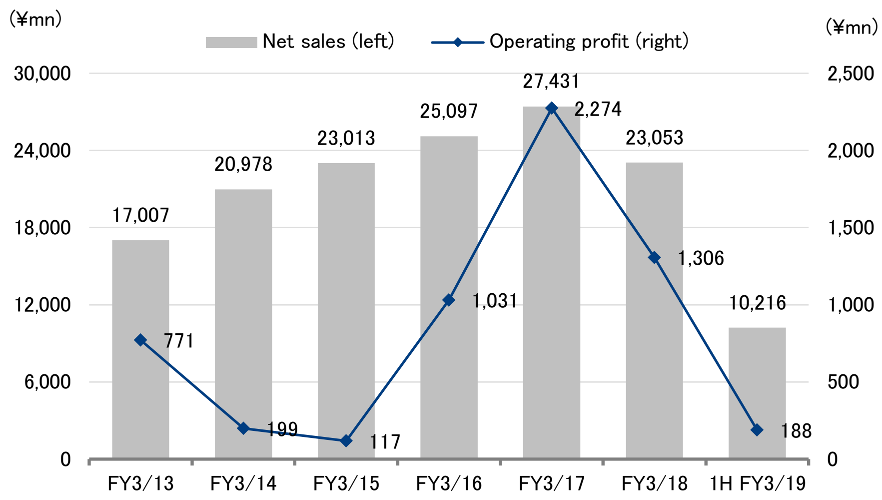
The Furniture and Houseware Business is the Company's largest business segment. In this segment, the OEM business represents a very large percentage of segment sales at about 93%, and growth has been driven by expansion in business at major clients, such as Ryohin Keikaku (MUJI). Sales increased from ¥17,007mn in FY3/13 to ¥27,431mn in FY3/17. Recently, sales have decreased due to the non-recurrence of spot orders by a major European customer, shrinkage of sales to a US volume retailer and other impacts, but the OEM business should remain the core component.

The Company's own MINT e-commerce brand is a fast-growing brand sold via the Company's shopping sites on, Rakuten and Yahoo! and posted a vibrant 1.5-fold increase YoY in FY3/18 sales, albeit at a relatively small scale. At the same timing as expiration of exclusive import agent contracts with two brands (WMF and Silit) in the Furniture and Houseware Business, the Company started handling Villeroy & Boch as a new housewares brand in October 2017. This is a traditional German brand coming up on its 270th year in business. The Company took over the sales business for Villeroy & Boch in Japan—a business that possesses sales channels to department stores, specialty shops, hotels and restaurants. It has taken time for the Villeroy & Boch brand to contribute to business performance because the Company has been implementing measures upfront to reshape the brand portfolio, reduce costs and tackle other priorities. However, the Company remains determined to steadily nurture Villeroy & Boch into a core brand in the housewares business.

Villeroy & Boch


Source: Prepared by FISCO from the Company's materials

Trend in the Furniture and Houseware Business




Source: Prepared by FISCO from the Company's results briefing materials

### 2. Trends in the Fashion Accessories Business

The brand business has a substantial presence of around 57% in the Fashion Accessories Business and exhibits high profitability.

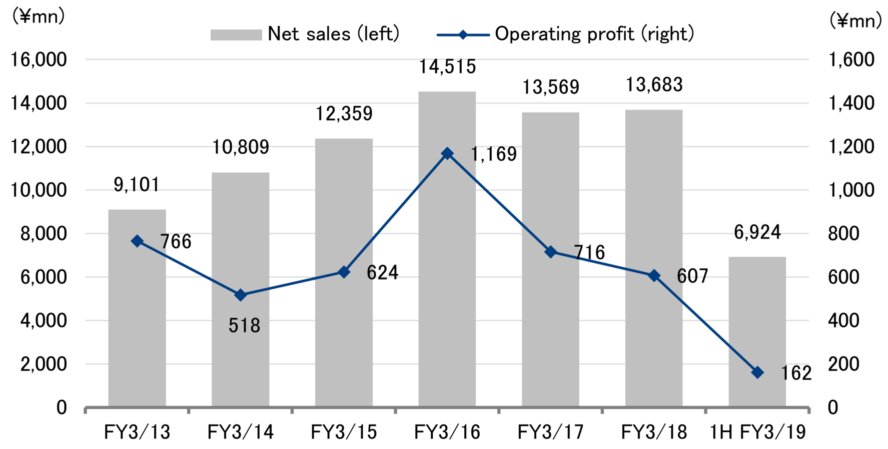
The largest brand is BIRKENSTOCK. The retail business for BIRKENSTOCK is managed by the subsidiary BENEXY. BIRKENSTOCK provides sandals and comfort shoes with excellent functional beauty and has a tradition of more than 240 years in Germany. It is supported by an enthusiastic fan base even with a price range of ¥10,000. The products are sold via the 62 directly managed stores and e-commerce. The Company offers after-sales services because many customers use the products for lengthy periods. The directly managed stores are opened in shopping centers capable of attracting large numbers of customers. Sales and profits have recently declined due to the impact of the boom in BIRKENSTOCK footwear settling down, and the brand's policy to raise prices globally.

Kipling 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 brand operates this business via 12 directly managed stores (including the Ginza store and outlet stores) and at about 60 major department stores across Japan. Business has performed favorably owing to the development of new sales channels in FY3/19.

Kipling


Source: Prepared by FISCO from the Company's materials

Trends in the Fashion Accessories Business




Source: Prepared by FISCO from the Company's results briefing materials

# Results trends

## Sales and profits declined in 1H FY3/19. Results were impacted by a weak performance by the OEM business in Europe and North America and a policy to increase prices at subsidiary BENEXY.

**1. 1H FY3/19 results**

Looking at the consolidated results for 1H FY3/19, the Company reported declines in sales and profits, with net sales of ¥20,842mn, down 4.3% YoY, operating profit of ¥29mn, down 96.2%, ordinary profit of ¥107mn, down 87.4%, and loss attributable to owners of parent of ¥12mn,compared with profit of ¥487mn in 1H FY3/18.

One major reason for the decrease in net sales was a sharp decrease in sales of housewares for Europe and North America in the OEM business, which accounts for about 70% of net sales. A closer look at these sales shows that trading with Europe was impacted by a client company’s loss of a tender for a major project for promotion merchandise. In trading with North America, a client volume retailer saw e-commerce enterprises such as Amazon make inroads into its market. In response, the Company had no choice but to curtail sales to this retailer because of diminishing profitability.

The following were the three major reasons for the sharp decline in profits:

(1) Loss of order for trading in Europe in the housewares business (OEM) and deterioration in trading profitability in North America

(2) Lower sales and smaller profit margins at subsidiary BENEXY (main brand is BIRKENSTOCK)

(3) Increased expenses due to the deployment of a new core enterprise system (SAP)

The boom in the main BIRKENSTOCK brand that began in North America a few years ago has subsided, and the brand continues to be impacted. In addition, price increases in the Japanese market that were implemented as part of BIRKENSTOCK's global pricing policy pushed down product sales, and combined with the impacts of higher costs and expenses, led to a decrease in profits.

**1H FY3/19 results (consolidated)**

(¥mn)

| | 1H FY3/18 | | 1H FY3/19 | | | | |
|---|---|---|---|---|---|---|---|
| | Result | % of sales | Initial forecast | Result | % of sales | YoY | vs. forecast |
| Net sales | 21,771 | 100.0% | 21,500 | 20,842 | 100.0% | -4.3% | -3.1% |
| Cost of sales | 15,411 | 70.8% | - | 15,133 | 72.6% | -1.8% | - |
| Gross profit | 6,360 | 29.2% | - | 5,709 | 27.4% | -10.2% | - |
| SG&A expenses | 5,579 | 25.6% | - | 5,679 | 27.3% | 1.8% | - |
| Operating profit | 780 | 3.6% | 100 | 29 | 0.1% | -96.2% | -70.6% |
| Ordinary profit | 854 | 3.9% | 100 | 107 | 0.5% | -87.4% | 7.4% |
| Profit attributable to owners of parent | 487 | 2.2% | 10 | -12 | -0.1% | - | - |

Source: Prepared by FISCO from the Company's financial results

## Highly sound financial position with a 55.5% equity ratio

### 2. Financial position and management indicators

There was a decrease in assets on the balance sheet. Total assets declined by ¥2,891mn from the end of FY3/18 to ¥22,828mn as of September 30, 2018. Current assets decreased by ¥2,796mn to ¥15,480mn. The main components were decreases of ¥2,529mn in cash and deposits and ¥832mn in notes and accounts receivable-trade. Fixed assets remained mostly unchanged, edging down by ¥95mn from the end of FY3/18.

Liabilities decreased by ¥2,245mn to ¥10,036mn. Current liabilities decreased by ¥1,304mn. The main components were decreases of ¥1,100mn in short-term debt and ¥386mn in notes and accounts payable-trade. Net assets decreased ¥646mn to ¥12,791mn. Net assets were impacted by decreases in retained earnings and valuation difference on available-for-sale securities, as well as share buybacks.

In terms of management indicators, the current ratio stood at 176.6% (compared with 181.5% at the end of FY3/18) and an equity ratio of 55.5% (compared with 51.8% at the end of FY3/18), indicating a highly sound financial position.

Consolidated balance sheet and management indicators

(¥mn)

| | March 31, 2018 | September 30, 2018 | Change |
|---|---|---|---|
| Current assets | 18,277 | 15,480 | -2,796 |
| Cash and deposits | 4,630 | 2,101 | -2,529 |
| Notes and accounts receivable - trade | 6,615 | 5,783 | -832 |
| Merchandise and finished products | 6,013 | 6,555 | 541 |
| Fixed assets | 7,442 | 7,347 | -95 |
| Total assets | 25,719 | 22,828 | -2,891 |
| Current liabilities | 10,072 | 8,767 | -1,304 |
| Notes and accounts payable – trade | 2,267 | 1,881 | -386 |
| Short-term debt | 4,600 | 3,500 | -1,100 |
| Fixed liabilities | 2,209 | 1,268 | -940 |
| Total liabilities | 12,282 | 10,036 | -2,245 |
| Net assets | 13,437 | 12,791 | -646 |
| Total liabilities and net assets | 25,719 | 22,828 | -2,891 |
| <Stability> | | | |
| Current ratio (current assets ÷ current liabilities) | 181.5% | 176.6% | - |
| Equity ratio (shareholders' equity ÷ total assets) | 51.8% | 55.5% | - |

Source: Prepared by FISCO from the Company's financial results

# Outlook

## Forecasts for FY3/19 were reduced to net sales of ¥44.0bn and ordinary profit of ¥0.85bn. Forecasts were impacted by a drop in sales in Europe and North America, and price increases at subsidiary BENEXY. Upfront investments were made in a new plant in Malaysia.

The Company has reduced its forecasts for FY3/19 and now expects to post lower sales and profits for the fiscal year. The Company is forecasting a decrease of 1.6% YoY in net sales to ¥44,000mn, a decrease of 49.5% YoY in operating profit to ¥850mn, a decline of 53.6% YoY in ordinary profit to ¥850mn and a decrease of 52.0% YoY in profit attributable to owners of parent to ¥400mn.

The net sales forecast has been revised down to a level on par with the previous fiscal year. The negative impact of the drop in sales in markets in Europe and North America recorded in 1H FY3/19 is expected to be offset by increases in revenue in the Fashion Accessories Business and Home Appliance Business. In the Fashion Accessories Business, a strong performance is expected in the OEM business for Japanese and foreign customers and in the Kipling business, in which the Company has successfully developed new sales channels. In the Home Appliance Business, the OEM business is expected to drive higher sales.

The Company has sharply reduced its operating profit forecast from the initial forecast. The segment that will likely experience the largest drop in profits from the previous fiscal year is the Furniture and Houseware Business, which is forecast to post a ¥556mn decrease in operating profit. This projected decrease reflects sluggish sales in the European and North American markets, plus upfront investments to establish a furniture plant in Malaysia. Although the decrease in profits in the Fashion Accessories Business is small, this segment is expected to be heavily impacted by a drop in sales and increased costs due to the settling down of the boom in the BIRKENSTOCK footwear and the price increases for BIRKENSTOCK products. Profits are expected to remain mostly unchanged as increased profits in the OEM business in the Home Appliances Business are offset by decreased profits in the brand business. As initially planned, the Company will incur expenses of about ¥100mn in connection with the deployment of a new core enterprise system (SAP), which is being undertaken as an investment in back office operations.

Overall, sales have declined due to deterioration in the external environment in the European and the North American markets. However, with firm trends in market conditions and customers in Japan, the deviation from the revised forecasts is expected to be small.

Forecast for FY3/19

(¥mn)

| | FY3/18 | | FY3/19 | | | |
|---|---|---|---|---|---|---|
| | Result | % of sales | Forecast | % of sales | YoY | YoY (%) |
| Net sales | 44,692 | 100.0% | 44,000 | 100.0% | -692 | -1.6% |
| Operating profit | 1,683 | 3.8% | 850 | 1.9% | -833 | -49.5% |
| Ordinary profit | 1,832 | 4.1% | 850 | 1.9% | -982 | -53.6% |
| Profit attributable to owners of parent | 832 | 1.9% | 400 | 0.9% | -432 | -52.0% |

Source: Prepared by FISCO from the Company's financial results

# Growth Strategy and Topics

## Established a new plant for furniture and interior goods in Malaysia. Strong prospects for products such as the electric toothbrush ION-Sei featuring patented technology and the KERBHOLZ brand of watches.

### 1. Established a new plant for furniture and interior goods in Malaysia

The Company has established a plant to manufacture furniture and interior goods in Malaysia, in order to enhance the furniture business, one of its core operations. It plans to start operating the plant from the beginning of 2019. The Company has furniture customers in Japan and other parts of the world. To deliver a standard of quality that satisfies the requests of its customers and to meet their deadlines, the Company has accumulated expertise by maintaining an active presence on the manufacturing floor on a daily basis. The Company has decided to begin internally operating its own furniture and interior goods plant in order to enhance its development capabilities and responsiveness to customers. The Company believes that this move will further harness its expertise and propel it onto the next stage of business development. Incidentally, the Company has built up a lot of experience in plant management through the operation of a home appliances plant in Guangdong Province, China over the past 30 years. The Company plans to invest about ¥0.5bn in the new plant in Malaysia and is forecasting sales of around ¥2.0bn in several years.

**Outline of the new furniture and interior goods plant in Malaysia**

| | |
|---|---|
| Location | Outskirts of Kuala Lumpur, Malaysia |
| Scheduled start of operation | Early 2019 |
| Building area | Approx. 4,000 m2 |
| Purpose | To further harness expertise in furniture manufacturing accumulated over the years and enhance the development capabilities and responsiveness to customers needed to reach the next stage of business development |
| Investment | Planned amount of approx. ¥0.5bn |
| Sales forecast | Sales of ¥2.0bn in several years |
| Other details | Aim to achieve profitability in three years, and fully recover investment in five years |

Source: Prepared by FISCO from press releases

### 2. Started sales of electric toothbrush ION-Sei featuring patented technology

The Company has commenced a new business expansion initiative in Europe. It launched the “ION-Sei” brand of home appliances for personal care featuring patented technologies. In August 2018, the Company began sales of the first ION-Sei product–an electric toothbrush—in the Germany and UK markets. In the OEM business, the Company supplies products that are marketed under customers’ brands. In this business, the Company had previously manufactured electric toothbrushes for customers at its plant in Guangdong Province, China. The Company is now embarking on a new original design manufacturer (ODM) business, which encompasses a full range of integrated operations from product design and development to manufacturing. The patented technology featured in the new electric toothbrush was jointly developed with SHIKEN CORPORATION. When ultraviolet radiation from an LED light is incident upon a titanium oxide rod built into the electric toothbrush, the rod releases negatively charged electrons. The negatively charged electrons have the effect of removing plaque from teeth. A German designer developed the electric toothbrush’s functional and user-friendly product design. The brand name ION-Sei is a combination of the word “ION,” which refers to the new product’s innovative technology based on ions, and “Sei,” a word that has a unique Japanese ring and evokes the concepts of “nature” and “health” through the Japanese kanji characters for “cleanliness” and “life.” Going forward, this product offers strong prospects for gaining ground in the European market.

**ION-Sei**

ION-Sei featuring patented technology was displayed at one of Germany’s largest product exhibitions


| | |
|---|---|
| ION-Sei | An electric toothbrush that went on sale in the UK and Germany in summer 2018<br>Features: Negatively charged electrons act to suppress the growth of oral bacteria through the photocatalytic effect of ultraviolet radiation and titanium oxide. |

Source: The Company's results briefing materials

### 3. Increasing the number of stores carrying the new brand KERBHOLZ

The Company began handling products in Japan from KERBHOLZ, a German brand of watches, in June 2018. KERBHOLZ, which was founded in 2012, sells watches that use wood and other natural materials. Its products are sold at over 350 stores in 10 countries worldwide. The brand stands out for its emphasis on the environment, including the use of carefully selected natural materials and contribution of 10% of profits to resource conservation projects. It also offers simple but fashionable forms and has received the GERMAN DESIGN AWARD, a highly respected award in Germany, for two straight years and numerous other awards. The Company intends to broaden sales channels to watch shops, multi-brand (select) shops, and lifestyle shops and utilize SNS to raise brand recognition in the Japanese market. The Company has been steadily increasing the number of stores carrying the KERBHOLZ brand. Sales began at nine new stores in November 2018.

KERBHOLZ

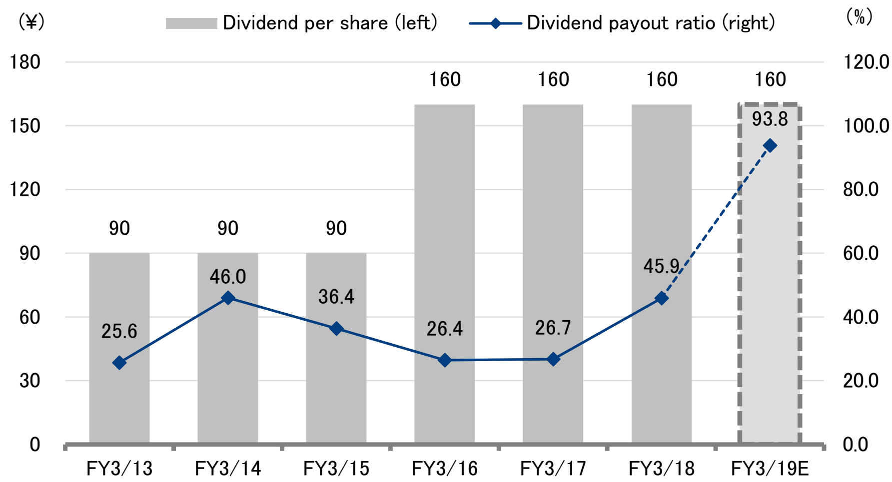

Source: The Company's results briefing materials

# Shareholder return policy

## Forecasting an annual dividend of ¥160 per share for FY3/19 as before, raising or sustaining the dividend for 21 consecutive years, making an attractive stable dividend

The Company has adopted a policy that targets a roughly 30% dividend payout ratio, taking into consideration the need to implement stable, continuous dividends along with securing internal reserves to lay a stronger business foundation. The interim dividend for 1H FY3/19 was set at ¥60 per share, the same as in 1H FY3/18, and the year-end dividend is forecast at ¥100 per share (the same as the end of FY3/18). The Company is thus forecasting an annual dividend of ¥160 per share. The dividend payout ratio will be high at 93.8%, because the annual dividend will be maintained at ¥160 per share, unchanged from the previous fiscal year, despite the reduced profit forecast. The Company has raised or sustained the dividend for 21 consecutive years. As a trading company in the whole-saling sector, the Company's operating results can be volatile at times. In this environment, we highly commend management's commitment to maintaining stable shareholder returns even during a downturn in operating results.

Dividend per share and dividend payout ratio




Note: The FY3/16 dividend included a ¥60 special dividend. The FY3/17 dividend contained a ¥40 dividend commemorating the 70th anniversary.
Source: Prepared by FISCO from the Company's financial results

FISCO

## Disclaimer