

GLOBERIDE, Inc.7990 Tokyo Stock Exchange
First Section

10-Jan.-17

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Fumiya Mizuno

■ “Lifetime Sports Company” known for the DAIWA global brand

Globeride <7990> (hereafter, also “the Company”) became the global leader in fishing product sales (under the DAIWA global brand) in 1976. It has consistently led the industry since then with numerous innovations, revolutionary products based on unique technologies, and new proposals for fishing lifestyle. DAIWA is a universally known presence in the fishing world. Globeride also sells products for golf, tennis, and cycling sports worldwide. It generated 70% of sales in Japan and 30% from other countries in FY3/16 and has steadily solidified positions in the Americas, Europe, and Asia and Oceania. Growth in sales to Asia has stood out recently. Globeride manufactures almost all of its products, besides some luxury items, in China, Vietnam, Thailand, and other overseas sites. Sales ratios by products are fishing, the main business, at 82.6%, golf at 7.4%, and tennis and cycling sports at 9.6%.

The Company renamed itself from Daiwa Seiko Corporation to Globeride on 1 October, 2009. It continues to use the DAIWA brand for fishing products and is steadily growing this business. Income fluctuates with trends in economic activity because the Company sells products for hobbies. However, Globeride possesses a strong brand presence, and a key point is the extent to which it can expand in areas besides fishing products. Globeride hopes to stimulate the global market by developing innovative new products that create market opportunities.

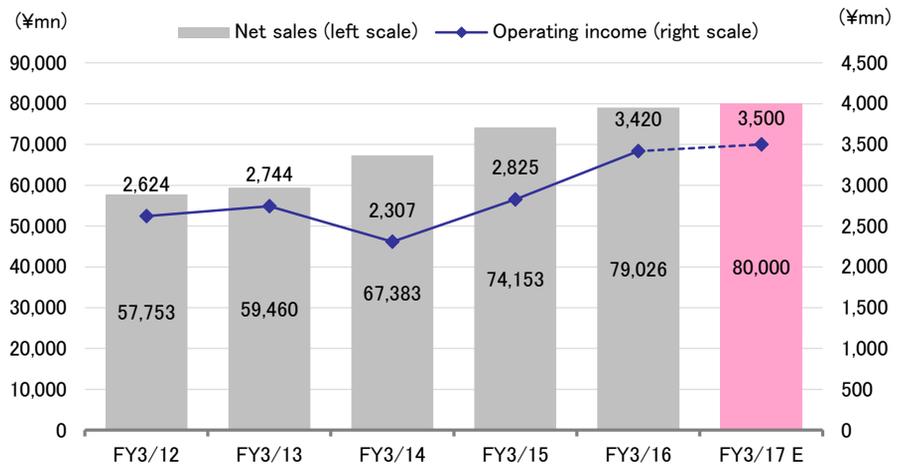
Globeride is making smooth progress in implementation of its medium-term business plan that lasts through FY3/17. The plan targets ¥80,000mn in net sales, ¥3,000mn in operating income, and a ¥50 annual dividend per share, and operating income already reached the target in FY3/16. Globeride expects to attain the dividend goal in the final fiscal year. While sales stalled for many years, the Company should be on the verge of returning to the past all-time high from FY3/1993 of ¥80,652mn in FY3/17.

For shareholder returns, Globeride moved the dividend payout ratio into the 30% range at 31.2% in FY3/16, and it plans an effective 11% dividend hike in FY3/17. It has also adopted a shareholder gift program that is helping to expand the number of shareholders. We have a favorable view of the Company’s proactive shareholder returns while striking a balance with retained earnings to fund R&D and capital investments needed to create innovative products.

■ Check Point

- Posted higher sales and operating income and net income increased beyond target levels in FY3/16
- Likely to deliver higher operating income and come close to all-time high for net sales in FY3/17
- Steadily raises the dividend each year and is planning an effective 11.1% YoY increase to ¥50 in FY3/17

Trends in Net Sales and Operating Income



■ Business Content and History

Started as a manufacturer of fishing reels for export, DAIWA brand captured the hearts of fishing fans

The Company established in 1955. It was initially named Matsui Manufacturing and mainly manufactured fishing reels for export. It established Daiwa Seiko Corporation in Yamatocho, Nakano, Tokyo in 1958, built a plant for reel production at the site of the current headquarters in 1960, and also moved the headquarters two years later. It launched overseas operations with the establishment of Daiwa Corporation in Los Angeles, US in 1966. The Company revised its company name in Japanese (still Daiwa Seiko in English) in 1969 and listed shares on the Second Section of the Tokyo Stock Exchange market in 1970. It switched to the First Section in 1976.

The Company began as a specialty manufacturer of fishing products, but started to diversify by adding golf products in Japan in 1972. It moved into tennis products in 1980 and cycling sports products in 1990. It adopted a new name as Globeride in 2009.

The Company has a corporate motto of “being a lifetime sports company that enriches life,” and its main fishing business is a universally known presence in the fishing world. The brand is very highly regarded, and the Company has captured the hearts of fishing fans by steadily advancing the concept of fishing goods by consistently delivering innovative products to the market. The DAIWA brand mark receives robust consumer support as a symbol of “challenge, originality, and innovative.” Support for the DAIWA brand is extensive not only in Japan, but also worldwide.

DAIWA Brand Mark



In fishing products, the Company proposed an out-spool mechanism for reels ahead of the industry, and this created the template of the modern spinning reel. The Company focuses on more than just reels, rods, and other core products and offers an extensive line-up of related products including lures, strings, and other small items. It also handles cooler boxes and rain gear and is a comprehensive supplier of fishing-related items. In Japan, the Company covers from large chain stores to local specialty shops and “DAIWA fishing goods” is a familiar sign. Much of product supply goes through direct sales to retailers, and this format keeps the Company in touch with consumer needs. The Company actively pursues a variety of measures to expand the market, including cooperation in the TV production of “The Fishing,” the most popular fishing program, and the well-known “Fishing Fool’s Diary” movie series (seen in reruns on TV).

Globeride has five sales locations in Japan – Sapporo, Toyama, Tokyo, Osaka, and Fukuoka. Outside of Japan, it operates Daiwa Corporation in the US and has sales offices in the UK, France, Germany, Italy, Australia, China, Hong Kong, South Korea, Taiwan, Singapore, and Malaysia. The Company manufactures most of the products at overseas sites, including Thailand, China, and Vietnam.

DAIWA



In the golf business, meanwhile, the Company delivers two popular brands – ONOFF that proposes products for refined golfing with reliable quality and FOURTEEN known for superior golf philosophy and excellent performance. Globeride does not strive aggressively for higher sales in this business and instead focuses on selling high-end products and services to customers with emphasis on brands by building membership organizations and conducting a fitting service that provides clubs best suited to individual customers. It also has contracts with professions such as Shingo Katayama, Ryuji Imada, Ji-hee Lee, and Akane Iijima. Activities by these top professionals attest to the excellent reliability of club performance and enhance the brand image. The Company sells products under the PRINCE brand for tennis and other racquet sports and under the FOCUS, CORRATEC, and BOTTECCHIA brands for cycling sports.



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ONOFF



FOURTEEN



PRINCE





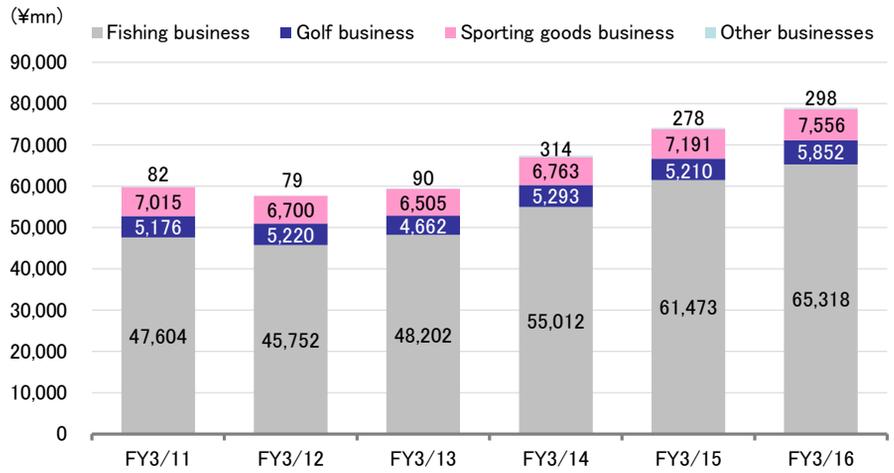
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FOCUS



Trends in Net Sales by Business



Source: prepared by FISCO from Company materials

History

1955	Started manufacturing fishing reels (mainly for export) (Company name: Matsui Manufacturing)
1958	Established Daiwa Seiko Corporation in Nakano, Tokyo
1960	Built a reel manufacturing plant where the headquarters is currently located
1962	Started domestic reel sales and moved headquarters to the current location
1964	Built a rod manufacturing plant
1966	Established Daiwa Corporation in Los Angeles, US
1969	Changed the Company name in Japanese
1970	Built the Hiroshima and Tochigi plants as domestic manufacturing sites (consolidated at the headquarters in 2000) Listed shares on the Second Section of the Tokyo Stock Exchange
1971	Established Daiwa Seiko (Taiwan) Co., Ltd. in Kaohsiung, Taiwan (liquidated in 2007) Established Daiwa Golf Inc. at the current location (absorbed by headquarters in 1995)
1972	Started domestic sales of gold products
1973	Established Daiwa Whitehall Pty. Limited in Sydney, Australia (now Daiwa (Australia) Pty. Ltd.)
1976	Listed shares on the First Section of the Tokyo Stock Exchange
1977	Established Daiwa Sports Limited in Wishaw, Scotland, UK
1980	Acquired Fishing Nakamura Inc. (now, World Sports Co., Ltd.), a Fukuoka-based fishing goods retailer, as a subsidiary Entered the tennis business Established Nasu Daiwa Corporation to manufacture and sell fishing goods in Kurobane, Nasu, Tochigi
1984	Established Daiwa France S.A. (now, Daiwa France S.A.S.) in Rouen, France
1985	Acquired Ooyagi Shoten Inc. (now, World Sports Co., Ltd.), a Tokyo-based fishing goods retailers, as a subsidiary Established Daiwa Sogo Services Corporation (now Desco Inc.), which handles welfare services, at the current location
1990	Established Daiwa-Cormoran Sportartikel Vertrieb GmbH in the suburbs of Munich, Germany Entered the cycling sports business
1995	Established Daiwa Seiko (Thailand) Co., Ltd. in Bangkok, Thailand
2002	Established Daiwa Seiko Limited in Taichung, Taiwan
2004	Established Daiwa Seiko (Hong Kong) Co., Ltd. in Hong Kong
2005	Established Daiwa Seiko (South Korea) Co., Ltd. in the suburbs of Seoul (Korea). Acquired Casting Limited., a Tokyo-based fishing goods retailers, as a subsidiary Established Zhongshan Daiwa Sporting Goods Limited in China Established Daiwa Vietnam Limited in Da Nang, Vietnam
2008	Acquired Windsor Corporation, a Kanagawa-based sports goods retailer, as a subsidiary Acquired Fourteen Co., Ltd., a Gunma-based company which manufactures and sells golf clubs, as a subsidiary Spun off the fishing goods after-service business and established Sports Life Planets, Inc.
2009	Changed the Company name to Globberide, Inc. Retained DAIWA as the brand name for the fishing business
2012	Established Singapore Daiwa Pte. Ltd. in Singapore
2013	Established Dongguan Daiwa Sporting Goods Limited in China Acquired Daiwa Logistics Services Inc. (now, LOGISPO.Inc), a Tokyo-based warehouse logistics firm, as a subsidiary
2014	Established Daiwa Italy S.r.l in Italy
2016	Established Daiwa Sports (M) SDN.BHD. in Malaysia

Source: Company website

■ Business Trends

Posted higher sales and operating income in 1H FY3/17

(1) Review of 1H FY3/17 results

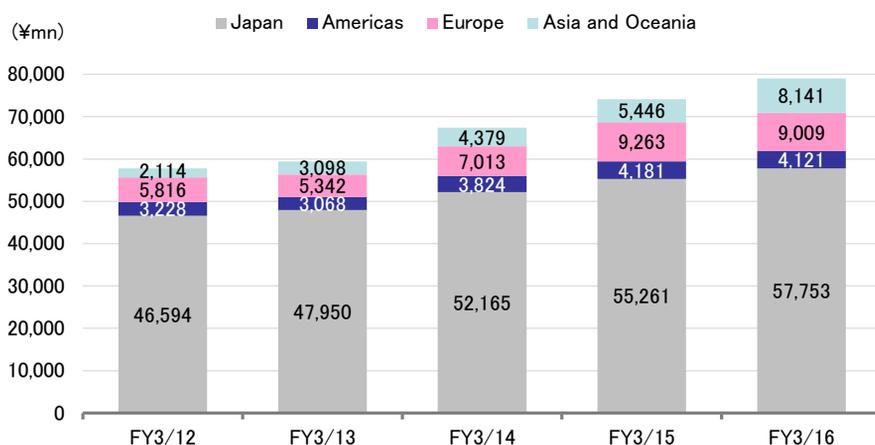
Globberide reported 1H FY3/17 results on November 8 with ¥42,274mn in net sales (up 2.1% YoY), ¥3,251mn in operating income (up 1.6%), ¥2,587mn in ordinary income (down 15.7%), and ¥2,281mn in net income attributable to owners of the parent (up 28.6%). While net sales and operating income were healthy, ordinary income slipped.

Consumption sentiment remains weak in Japan, and this creates a difficult environment for Globberide's products that are not daily essentials. However, the Company has been steadily increasing sales in fishing, golf, and racquet sports by delivering innovative products that capture the interest of people who enjoy these sports.

Using fishing as an example, while Japan's fishing goods market as a whole was sluggish, the Company's products broadened support among consumers as seen in sales growth that outpaced the market. Sales increased at a solid pace despite inclement weather. Golf product sales dropped by about 8% YoY in 1H, despite upbeat inquiries for ONOFF and other flagship brands, owing to postponement of FOURTEEN new product rollout to 2H. Racquet sports sales slowed due to exhaustion of the tennis boom on the "Nishikori effect" and shrinkage of inbound business.

In other countries, however, both fishing and golf businesses performed well. Overseas strength offset a decline in domestic results in the golf business. The fishing business was robust in the US and China, where Globberide reinforced marketing activities. While yen appreciation reduced the value of overseas sales, we estimate that overall sales, which were up by just over 3% YoY, climbed by about 14% excluding the forex impact.

Trends in Sales by Regions

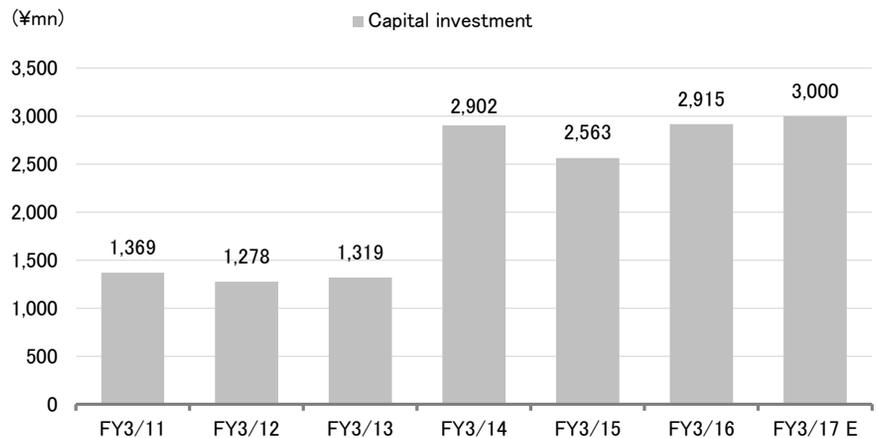


Source: prepared by FISCO from Company materials

In terms of profits, raw material expenses and other costs dropped thanks to strengthening of the yen during the period. Yet the stronger yen undercut non-operating income and the Company recorded a ¥315mn forex loss through 1H. The ¥197mn in lawsuit costs booked under non-operating expenses had an impact too. However, we think the lawsuit costs reflect a forward-looking stance because they stem from a proactive approach to patent violations and other issues.

Globberide allocated ¥2,915mn to capital investments in FY3/16, on par with the previous two years. It invested about ¥1,200-1,300mn annually through FY3/13, but has been implementing capital investments more aggressively in the three latest years due to its expansion of fishing-related production capacity with the aim of reaching the medium-term business plan's sales goal of ¥80,000mn in FY3/17, the final year.

Trends in Capital Investment



Source: prepared by FISCO from Company website

Expects a further rise in operating income and nearly all-time high for net sales in FY3/17

(2) Outlook for FY3/17

The FY3/17 outlook calls for ¥80,000mn in sales (up 1.2% YoY), ¥3,500mn in operating income (up 2.3%), ¥2,300mn in ordinary income (down 20.3%), and ¥2,100mn in net income attributable to owners of the parent (up 26.5%). Globeride expects a further increase in operating income and close to the all-time high level for net sales of ¥80,652mn. It made downward revision to its full year forecast at the 1H announcement mainly to factor in the stronger yen. Yet the forecast might move upward again owing to the subsequent rapid yen depreciation.

The Company intends to pursue sales growth in the mainstay fishing goods business at a faster pace than the market in Japan by continuing to release innovative products. Its plan focuses on drawing customers to retail stores by aggressively stimulating the market through events, sales promotions, and other efforts.

Outside of Japan, meanwhile, yen appreciation is a concern, but Globeride is looking for further expansion, mainly in the Asia and Oceania region, just as in FY3/16.

In the golf business, the Company aims to steadily increase sales by carefully nurturing brands and providing high-end products and services to “fan” customers.

The Company plans to continue increasing prior investment expense, though it expects a rise in operating income with sales and cost reduction offsetting the expense. It assumes about ¥3,000mn in capital investments for the year.

On the financial front, however, interest-bearing debt increased in the past three years because of ramp-up in capital investments. Inventories are growing along with rising sales. Globeride wants to reinforce equity to lift the equity ratio further from the current 26.7% level. Yet we do not see any issues with the current financial position from the standpoint of repayment capacity if the Company generates profits as planned.



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Past Results and Forecasts

	(¥mn)			
	FY3/14	FY3/15	FY3/16	FY3/17 (E)
Net sales	67,383	74,153	79,026	80,000
YoY	13.3%	10.0%	6.6%	1.2%
Operating income	2,307	2,825	3,420	3,500
YoY	-15.9%	22.5%	21.1%	2.3%
Ordinary income	1,750	2,918	2,885	2,300
YoY	-28.5%	66.7%	-1.1%	-20.3%
Net income attributable to owners of the parent	2,880	1,603	1,659	2,100
YoY	44.5%	-44.3%	3.5%	26.5%
EPS (¥)	25.05	13.94	144.39	182.76
Dividend (¥)	3.50	4.00	45.00	50.00

Note: Conducted a reverse stock split of 10 shares to one share on October 1, 2015; post-split EPS and dividend from FY3/16

Source: prepared by FISCO from Company financial results summary

■ Outlook and Strategy

Capable of attaining the current medium-term business plan’s goal of ¥80bn in net sales

(1) Medium-term business plan

Globeride is currently carrying out a medium-term business plan that lasts through FY3/17. Its final-year goals are ¥80,000mn in consolidated net sales (up 18% vs. FY3/14), ¥3,000mn in consolidated operating income (up 30%), and a dividend of ¥50 per share (essentially up ¥15). The Company already reached the operating income goal in FY3/16 and expects to attain the net sales and dividend targets too.

The plan outlined three measures - pursuing supply capacity for products with market advantages, stimulating and improving the domestic market, and taking actions in overseas markets. Globeride should continue these efforts in the future too. The final fiscal year of the next medium-term business plan, if it uses the same length, will be FY3/20, the Tokyo Olympics and Paralympics year. We expect a reasonably healthy environment given the prospect of heightened sports excitement in Japan.

While the domestic market is likely to pick up, we think overseas business will remain the primary source of growth opportunity. Income levels should be rising in Asia, and these gains are likely to broaden demand for luxury products. We forecast continuation of a growth trajectory over the next three years thanks to this addition to market development room.

The Company is currently formulating the specific sales goal, and we believe it is likely to target consolidated net sales in the range of ¥90,000mn to ¥100,000mn.

While the Company aims to expand the top line mainly in fishing goods, it is also considering broader peripheral business scope and reviewing new investments to accomplish this. Management intends to look at M&A deals as a method.

Plans to develop the market by steadily launching innovative products that cannot be produced by rivals

(2) Fishing product business

Aging is affecting the fishing population in Japan, and the overall trend is moving downward. This environment raises concern about the future similar to other consumption goods.

Globeride is addressing the situation by proposing a different type of fishing than in the past and hopes to increase sales by creating a new market. We think Globeride is capable of pursuing this strategy because of its strength of steadily launching innovative products that cannot be produced by rivals.



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DAIWA's waterproofing and durability technologies



The Company also conducts activities to raise awareness among young people, such as the Daiwa Young Fishing Club (D.Y.F.C.) started 40 years ago, and takes an aggressive stance to market development.



Yet overseas markets are the primary opportunity for driving future growth. Asia, which is already exhibiting robust growth, offers clear potential.

For example, strong demand for the Company's high-end products exists in China from the segment with large incomes even though these items cost a few times more than normal prices. The fishing style is also changing from simple fishing, mainly for crucian carp and koi carp, to fishing using lures and reels. Inquiries for high-end products handled by Globberide are likely to strengthen as income levels climb in Southeast Asia and other regions.

US and European markets have matured and largely fluctuate with trends in economic activity, but Globberide still has substantially room to expand its share. The Company plans to use a strategy of acquiring share by bolstering the line-up of products that meet regional characteristics.

Differentiating itself from rivals and nurturing brands in the golf business

(3) Golf products business

While Globberide aims to increase its global market share in fishing business, it is not trying to compete for volume with Dunlop, Bridgestone Corporation <5108>, and other firms in the golf business. Instead it utilizes a strategy of calibration to its position in the industry.

The Company seeks differentiation from other manufacturers and provides high-end products and services to customers who are fans of these products with emphasis on nurturing ONOFF, FOURTEEN, and other brands. The ONOFF brand has built a membership organization and enhanced services for brand customers. It promotes measures that boost customer satisfaction. FOURTEEN follows a strategy of supplying the “best fourteen clubs” to golfers in order to accumulate sales.

ONOFF



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Racquet sports business promotes a brand strategy unique to Japan

(4) Racquet sports business

Globeride utilizes a strategy that nurtures a brand in the tennis business too, similar to golf products. It serves as the sales agency for PRINCE in Japan. PRINCE triggered a boom with “oversized racquets” and fueled a revolution in the tennis playing style in the 1970s. This brand has continued to deliver innovations in racquet technology and actively engages in product creation and promotions that propose an enjoyable tennis life for adults both on and off the court.



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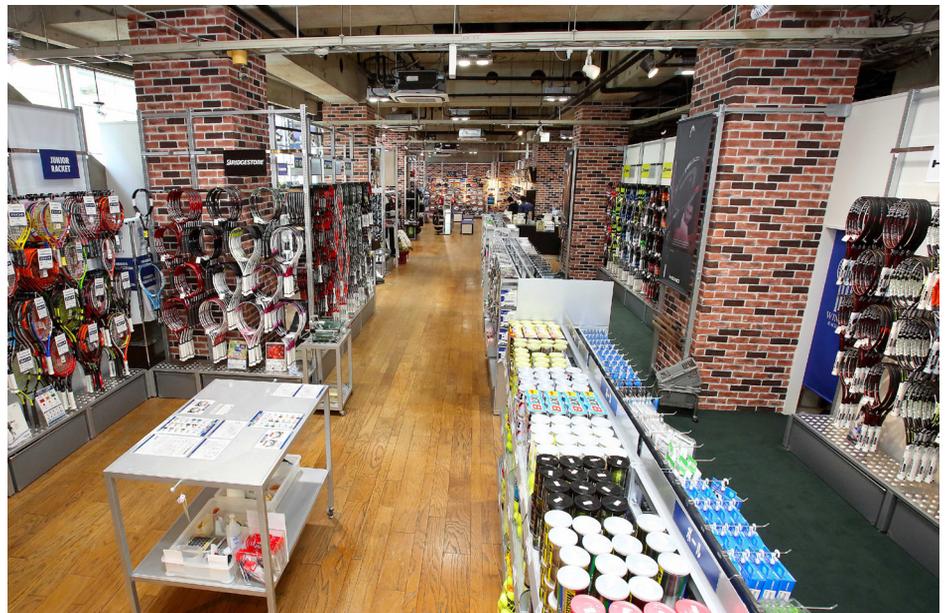
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Enjoying adult tennis life off the court



Windsor Corporation, a subsidiary running a retail business, is a well-known specialty racquet shop in Japan. It has a broad range of sales connections that extends from students to adults and also other racquet sport players, mainly in the Kanto area, and aims to expand sales going forward.

Windsor Racquet Shop - Shibuya



■ Shareholder Returns

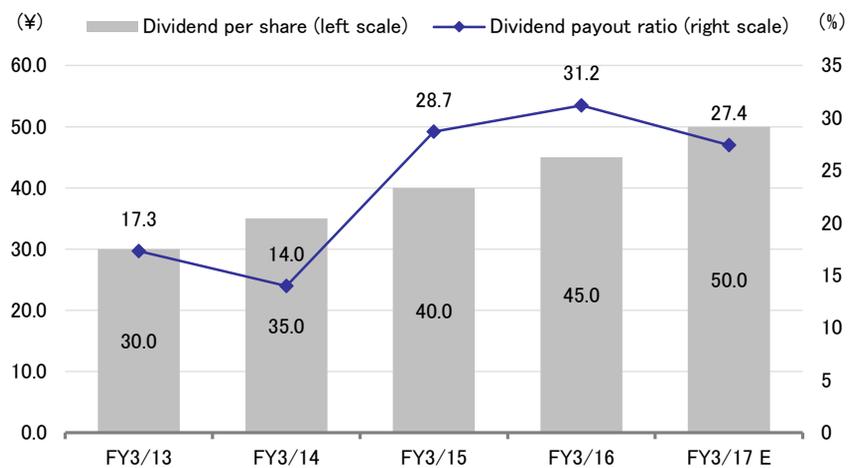
Steadily increasing the dividend each fiscal year and likely to pay a ¥50 dividend in FY3/17 for an effective increase of 11.1% YoY

Globeride plans to pay an annual dividend of ¥50 per share in FY3/17. The FY3/16 dividend was unusual at ¥27 for the year (essentially ¥45) because of the reverse stock split from 10 ordinary shares to one share conducted on October 1, 2015. The FY3/17 target hence works out to an effective increase of 15 or 11.1%.

Globeride pays shareholder returns while striking a balance with retained earnings that reflects enthusiastic R&D and capital investments to develop innovative products. However, it has adhered to a positive stance toward shareholder returns with steady dividend increases each fiscal year even in recent years of ramped-up capital investments. Dividend payout moved into the 30% range at 31.2% in FY3/16.

Additionally, the Company has adopted a shareholder gift program that distributes original QUO cards based on the number of shares owned and the years of ownership. It explains that this program contributed to an increase in shareholders of roughly 10%.

Trends in Dividends and Dividend Payout Ratio



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