COMPANY RESEARCH AND ANALYSIS REPORT

Sanyei Corporation

8119

TSE JASDAQ

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Summary

Operating profit increased in FY2020. In FY2021-1Q, operating profit declined significantly due to the impacts of the COVID-19 pandemic. E-commerce brands MINT and the unique cooking appliance brand Vitantonio enjoyed growth, supported by demand from stay-at-home consumption

Sanyei Corporation <8119> is a multifunctional 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 18 overseas locations and about 80 directly managed domestic 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. In terms of its business model, OEM products represent about 70% of sales. It has three main business segments—Furniture and Houseware Business (44.9% of overall sales at FY2020), Fashion Accessories Business (35.2%), and Home Appliance Business (14.6%).

1. Business description

(1) FY2020 consolidated results

At FY2020, consolidated net sales declined 3.0% year on year (YoY) to ¥41,217mn, operating profit increased by 74.9% YoY to ¥1,315mn, ordinary profit increased 62.2% YoY to ¥1,342mn, and profit attributable to owners of parent declined 2.0% YoY to ¥191mn. The Company achieved an increase in operating profit despite the slight decline in net sales. Net sales declined overall due to the fact that, in the OEM business, there was a large decrease in sales in the Furniture and Houseware Business, despite an increase in the Fashion Accessories Business. Also, in the brand business, net sales declined in the Fashion Accessories Business, but as a result of the increase in sales in the Furniture and Houseware Business and Home Appliance Business, overall net sales in the brand business increased. As a result of these factors, overall net sales declined slightly. Operating profit increased due to the increase in gross profit along with progress in reducing SG&A expenses. The main reason for the decline in profit attributable to owners of parent was the posting of an extraordinary loss of ¥289mn. In light of the downturn in the business environment caused by the COVID-19 pandemic and other factors, the Company reviewed future recoverability, resulting in additional impairment losses for non-current assets of retail stores expected to see a deterioration in profitability. At FISCO, we applaud this effort by the Company to quickly factor in risks and maintain a highly credible balance sheet.

(2) FY2021-1Q consolidated results

Looking at the consolidated results, net sales declined 33.1% YoY to ¥6,625mn, operating loss was ¥479mn (versus operating profit of ¥83mn in the same period in the previous year), ordinary loss was ¥440mn (versus ordinary profit of ¥119mn), and loss attributable to owners of parent was ¥512mn (versus a profit of ¥70mn). Net sales in the OEM business were impacted by the global decline in demand due to the COVID-19 pandemic. In the brand business, net sales declined due to the fact that brick-and-mortar stores could not open in some commercial facilities and others had to operate with shorter opening hours, as the government asked people to refrain from going out and people did not feel like going out amid the pandemic. The operating loss was due to the fact the decline in gross profit (down 28.5% YoY) caused by the decline in sales exceeded the reduction in SG&A expenses (down 8.4%).

(3) FY2021 consolidated results (forecast)

For its FY2021 full-year consolidated results, the Company forecasts a decline in both sales and profits, with net sales of ¥31,000mn (decrease of 24.8% YoY), operating loss of ¥1,500mn, ordinary loss of ¥1,500mn, and loss attributable to owners of parent of ¥1,600mn. The forecast for net sales is more than 20% below the previous fiscal year, based on the results through June 2020 as well as the status of orders received and sales in the first half of July 2020. The forecast for a large decline in sales is based on the fact that no improvement in purchasing sentiment among consumers has been observed yet. 1Q net sales were 21.4% of the full-year forecast (24.0% at FY2020 1Q), and the Company expects to make up for the slight delay in 1Q in the subsequent three quarters. In terms of profits, the Company will work on key strategies going forward, including making the supply chain more advanced, strengthening e-commerce, consistent branding, and promoting low-cost operations. However, the impact of the decline in net sales was larger than anticipated, exceeding the Company's forecasts for significant declines in each profit line. The Company is forecasting an operating loss of ¥900mn in 1H, and an operating loss of ¥600mn in 2H (October 2020–March 2021), so it's looking for a modest recovery in 2H.

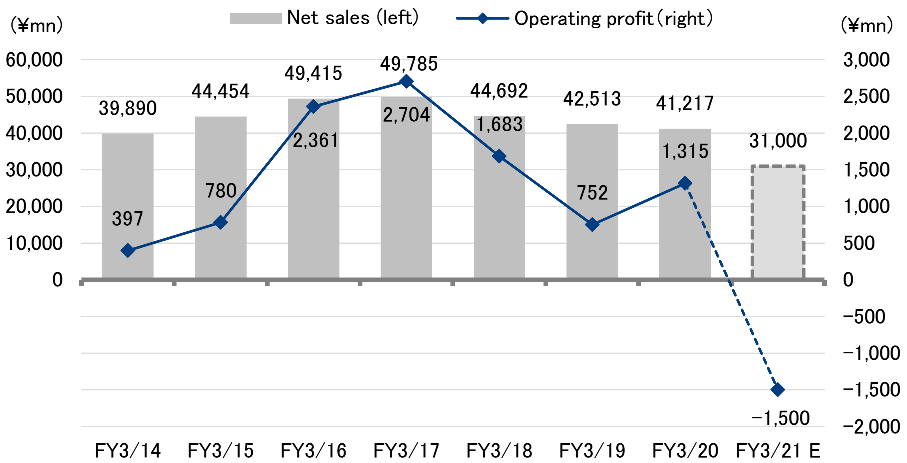
2. Topics

The Company has included the environment as a key theme in its management vision, and is promoting the Our EARTH Project as a part of this theme. Up until now, the Company has been supplying materials that allow customers to reduce their environmental load, manufacturing products using such materials, and selling such products to consumers of sustainable brands, alongside other efforts. In June 2020, the Company added three brands to this project, and launched sales in earnest. These three brands are AIRPAQ, a German bag brand which makes products by up-cycling automobile airbags, GOT BAG, a German bag brand that recycles marine plastic waste (PET bottles), and Pure Waste, a Finnish clothing brand that recycles cotton scraps produced in the clothing manufacturing process and uses them to make products.

Key Points

- Having set its mind to be a 100-year company, the Company has a corporate philosophy of "Zuien" (The Buddhist concept of 'Zuien' in its simplest form means 'connection.') Based on the theme of "health and environment," the Company is a multifunctional trading company that manufactures and sells "lifestyle products that enhance health and enrich life." The Company's three main businesses are the Furniture and Houseware Business, Fashion Accessories Business, and Home Appliance Business
- In FY2020, the Company posted an increase in operating profit, owing to the success in the revision of their client portfolio. The Company also posted an impairment loss (extraordinary loss) taking the future impacts of the COVID-19 pandemic into consideration
- The Company is forecasting net sales to decline by more than 20% YoY in FY2021. Despite some increase in demand due to people staying at home more, the Company expects the recovery in purchasing sentiment to take more time to emerge under the impact of the COVID-19 pandemic
- Bolstering the repair business for BIRKENSTOCK and other brands' products. Started carrying three sustainable and ethical European brands 2020

Full-year results trends



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

Company profile

Having set its mind to be a 100-year company, the Company has a corporate philosophy of "Zuien (connection)." Based on the theme of "health and environment," the Company is a multifunctional trading company that manufactures and sells "lifestyle products that enhance health and enrich life"

1. Company profile and history

Established as an exporter of accessories in Osaka in 1946 shortly after World War II, 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 multifunctional trading company with 18 overseas locations and about 80 directly managed domestic 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 the Japanese and overseas markets, based on the concept of offering "lifestyle products that enhance health and enrich life."

At the start of 2020, the Company took a fresh look at its corporate philosophy and management vision, turning back to its origins and aiming to be a 100-year company. The new corporate philosophy is “Zuien (connection).” The founder of the Company previously emphasized this idea. This corporate philosophy places the highest value on ties between people, both in work and in life. The Company also revised its management vision. The new management vision is “Sanyei Corporation offers truly superior goods for living. Based on the theme of ‘Health and Environment,’ we create healthy and rich lifestyles.” Health and the environment had previously been areas of focus, thus there has been no change to the Company’s commitment to providing high-quality products and services. Based on the fact that “lifestyle products that enhance health and enrich life” is included in the explanation of the management vision, we feel it is a message that is simple and easy for stakeholders to understand.

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 its proprietary e-commerce brands also gaining momentum. This segment provided 44.9% of overall sales and 47.8% of operating profit in FY2020 over the full fiscal year. The Fashion Accessories Business covers import sales of brand products with sales rights, such as BIRKENSTOCK (shoes and sandals) and Kipling (bags), and domestic and overseas OEM business. It contributed 35.2% of overall sales and 26.5% 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 14.6% of overall sales and 24.5% of operating profit. The Others segment operates pet stores and other businesses, and accounted for 5.3% of overall sales.

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 30.5% of overall sales in FY2020 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 69.5% (FY2020) of overall 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 overview

Primary businesses are the OEM business for major Japanese and overseas clients in the mainstay Furniture and Houseware Business and BIRKENSTOCK and other brands in the Fashion Accessories Business

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 90%, and growth has been driven by expansion in business at major clients, such as Ryohin Keikaku (MUJI). Sales increased from ¥17,007mn in FY2013 to ¥27,431mn in FY2017. Recently, the Company has faced a period of adjustment due to the non-recurrence of spot orders by a major European customer, shrinkage of sales to a US volume retailer and other impacts. However, profits recovered significantly in FY2020, as the Company successfully reviewed its client portfolio. The Furniture and Houseware Business should remain the core component.

Showing remarkable growth are the Company's own e-commerce brands, MINT and so on. It sells over 1,000 items on Rakuten and Yahoo!, and its items include good-quality beds, mattresses and antique-style furniture, and interior goods at reasonable prices that meet the needs of consumers. The tailwind provided by stay-at-home consumption amid the COVID-19 pandemic caused sales to approximately double YoY. In March 2019, the Company's own furniture and interior goods plant in Malaysia (approximately 4,000 m^2) started full-scale operations. In addition to manufacturing OEM or the Company's own brand products, it intends to utilize it as a development base for ODM proposals.

2. Trends in the Fashion Accessories Business

The brand business has a substantial presence of around 50% in the Fashion Accessories Business and exhibits high profitability.

The largest brand the Company handles is BIRKENSTOCK, which provides sandals and comfort shoes with excellent functional beauty and has a legacy of more than 240 years in Germany. It is supported by a deep-rooted fan base even with a price range of ¥10,000. The products are sold via the more than 60 directly managed stores and e-commerce. The Company offers its own after-sales services because many customers use the products for lengthy periods. The directly managed stores are opened in shopping centers and major department stores 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, along with the impact of the global normalization of sales prices. The Company is enhancing measures for recovery.

The retail business for BIRKENSTOCK is managed by the subsidiary BENEXY, with net sales equivalent to about 14% of net sales for the Company as a whole. It is currently working to close unprofitable stores and is enhancing the sales capabilities of its staff and salespeople, while moving to improve employee treatment. Given that withdrawing from active store leases can generate penalties, and for other reasons, the scrap-and-build approach will take time, and the effects may not be seen for another few years.

3. Trends in the Home Appliance Business

In the Home Appliance Business, the OEM business provides around 60% of sales and the brand business approximately 40%.

In the OEM business, the Chinese subsidiary SANFAT ELECTRIC MANUFACTURING (DONGGUAN) CO., LTD. and the Hong Kong subsidiary SANFAT ELECTRIC MANUFACTURING COMPANY LIMITED manufacture and sell home appliances. In the brand business, the Company manufactures and sells the Vitantonio brand of cooking appliances, the mod's hair brand of beauty appliances, and the MULTI CHEF brand of professional quality cookware. In terms of the corporate structure, in January 2020, subsidiaries mh ENTERPRISE CO., LTD. and S.C. TECHNO CO., LTD. merged, resulting in the establishment of ZELIC Corporation. Overall, both net sales and operating profit are solid in this segment.

One brand that has recently been performing well is the Vitantonio brand of cooking appliances related to stay-at-home consumption amid the COVID-19 pandemic. Hot sandwich makers and cordless portable bottle blenders have been selling especially well. This is a very popular and unique brand that offers people products that allow them to make hot sandwiches at home (hot sandwich makers) as well as create their own original drinks (cordless portable bottle blenders). ION-Sei, the high-performance ultrasonic toothbrush, has been selling in Europe (UK and Germany), and sales of this product were launched in the US in August 2020. The global roll-out is making progress.

Results trends

Operating profit increased at FY2020, owing to the successful revision of the client portfolio. The Company also posted an impairment loss (extraordinary loss) factoring in the future impacts of the COVID-19 pandemic

1. FY2020 results

The Company posted a slight decline in net sales but an increase in operating profit. Consolidated net sales fell 3.0% YoY to ¥41,217mn, operating profit increased by 74.9% YoY to ¥1,315mn, ordinary profit increased 62.2% YoY to ¥1,342mn, while profit attributable to owners of parent declined 2.0% YoY to ¥191mn.

Net sales declined YoY by a small 3.0%. In the OEM business, there was an increase in sales in the Fashion Accessories Business, but overall sales declined due to the significant drop in sales of housewares to Europe and the US in the Furniture and Houseware Business. Also, in the brand business, in the Fashion Accessories Business, sales of BIRKENSTOCK and Kipling declined, but sales increased in both the Furniture and Houseware Business and Home Appliance Business, resulting in an overall increase in sales. Meanwhile, sales of furniture and interior goods by the growing MINT brand of online shops grew, as did sales of beauty appliances and cooking appliances handled in the Home Appliance Business. Effects of the COVID-19 pandemic began to surface around February, but its full impact emerged after the start of FY2021.

Regarding operating profit, the gross profit margin increased by 1.2 percentage points in conjunction with the review of the Company's client portfolio. As a result, in addition to the increase in gross profit, the Company made progress in reducing SG&A expenses, leading to an increase in operating profit. By business segment, there was a significant increase in profit in the Furniture and Houseware Business. The decline in profit attributable to owners of parent was largely due to the extraordinary loss of ¥289mn. In light of the downturn in the business environment caused by the COVID-19 pandemic and other factors, the Company reviewed future recoverability, resulting in additional impairment losses for non-current assets of retail stores expected to see a deterioration in profitability. At FISCO, we applaud this effort by the Company to quickly factor in risks and maintain a highly credible balance sheet.

FY2020 results (consolidated)

(¥mn)

	FY2019		FY2020		
	Results	% of sales	Results	% of sales	YoY
Net sales	42,513	100.0%	41,217	100.0%	-3.0%
Cost of sales	30,384	71.5%	28,973	70.3%	-4.6%
Gross profit	12,128	28.5%	12,244	29.7%	1.0%
SG&A expenses	11,376	26.8%	10,928	26.5%	-3.9%
Operating profit	752	1.8%	1,315	3.2%	74.9%
Ordinary profit	827	1.9%	1,342	3.3%	62.2%
Profit attributable to owners of parent	195	0.5%	191	0.5%	-2.0%

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

FY2021-1Q profit declined significantly due to the impacts of the COVID-19 pandemic. Sales of certain products were strong due to stay-at-home demand, including products from online furniture and interior goods stores and beauty appliances

2. FY2021-1Q results

Due primarily to the impacts of the COVID-19 pandemic, the Company was unable to avoid a decline in both net sales and profit at the 1Q. Net sales declined 33.1% YoY to ¥6,625mn, operating loss was ¥479mn (versus operating profit of ¥83mn in the same period in the previous year), ordinary loss was ¥440mn (versus ordinary profit of ¥119mn), and loss attributable to owners of parent was ¥512mn (versus a profit of ¥70mn).

Regarding net sales, in the OEM business, net sales were impacted by the global decline in demand caused by the COVID-19 pandemic. In the brand business, net sales declined due to the fact that brick-and-mortar stores could not open in some commercial facilities and others had to operate with shorter opening hours, as the government asked people to refrain from going out and people did not feel like going out amid the pandemic. Looking at each segment, in the Furniture and Houseware Business, stay-at-home demand resulted in a doubling of sales for MINT, the online furniture and interior goods store, but the impact of the COVID-19 pandemic resulted in a slowdown of shipments to both domestic and overseas clients in the OEM business. As a result, overall net sales declined 27.8% YoY. In the Fashion Accessories Business, there was a decline in sales of travel products in the OEM business, while the brand business, which operates stores including BIRKENSTOCK, was also significantly impacted. Consequently, net sales declined 43.4% YoY. In the Home Appliance Business, sales of beauty appliances and cooking appliances were strong, but the slowdown of shipments in the OEM business resulted in an overall 36.1% decline in net sales.

Regarding operating profit, the Company posted an operating loss due to the fact that the decline in gross profit (down 28.5% YoY) caused by the decline in sales exceeded the reduction in SG&A expenses (down 8.4%). The first quarter (April–June) is a quarter with a high degree of seasonality, including new lifestyle products and spring/summer products, so the impact of the COVID-19 pandemic resulted in a loss of sales, a very adverse start to the fiscal year.

FY2021-1Q results (consolidated)

(¥mn)

	FY2020 1Q		FY2021-1Q		
	Results	% of sales	Results	% of sales	YoY
Net sales	9,901	100.0%	6,625	100.0%	-33.1%
Cost of sales	7,141	72.1%	4,653	70.2%	-34.8%
Gross profit	2,759	27.9%	1,972	29.8%	-28.5%
SG&A expenses	2,676	27.0%	2,452	37.0%	-8.4%
Operating profit	83	0.8%	-479	-7.2%	-
Ordinary profit	119	1.2%	-440	-6.6%	-
Profit attributable to owners of parent	70	0.7%	-512	-7.7%	-

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

The equity ratio is 52.9%. The Company has maintained financial soundness amid the headwinds

3. Financial condition and management indicators

As of June 30, 2020, total assets amounted to ¥20,637mn, a decrease of ¥1,556mn from March 31, 2020. Of this, current assets declined ¥1,853mn to ¥14,707mn. The main factors were a ¥1,370mn decline in notes and accounts receivable and a ¥1,072mn decline in cash and deposits. Non-current assets increased ¥296mn to ¥5,929mn. The main factor was the ¥246mn increase in investments and other assets.

Total liabilities decline ¥1,159mn to ¥9,616mn. Of this, current liabilities declined ¥1,313mn, with the main factor being the ¥1,236mn decline in notes and accounts payable. There were no major changes in non-current liabilities. Interest-bearing debt amounted to ¥5,520mn, with the interest-bearing debt ratio under control at 50.6%. Total net assets declined ¥397mn to ¥11,020mn. The main factors were the ¥195mn increase in valuation difference on available-for-sale securities, which was offset by a ¥512mn decline in retained earnings.

Regarding management indicators as of June 30, 2020, the current ratio was 262.7%, while the equity ratio was 52.9%. These indicate a high level of financial security. The business environment is adverse due to the impacts of the COVID-19 pandemic, but the Company has capital accumulated from before, so it has maintained its financial soundness.

Consolidated balance sheet and financial indicators

(¥mn)

	March 31, 2019	March 31, 2020	June 30, 2020	Change*
Current assets	18,341	16,561	14,707	-1,853
(Cash and deposits)	4,773	5,075	4,002	-1,072
(Notes and accounts receivable)	5,722	3,849	2,478	-1,370
(Merchandise and finished goods)	6,678	6,852	7,472	619
Non-current assets	6,890	5,632	5,929	296
Total assets	25,231	22,193	20,637	-1,556
Current liabilities	11,655	6,913	5,599	-1,313
(Short-term borrowings)	5,510	1,908	2,320	411
Non-current liabilities	1,107	3,862	4,017	154
Total liabilities	12,763	10,775	9,616	-1,159
Total net assets	12,468	11,417	11,020	-397
Total liabilities and net assets	25,231	22,193	20,637	-1,556
<Soundness>				
Current ratio (Current assets / Current liabilities)	157.4%	239.5%	262.7%	-
Equity ratio (Equity / Total assets)	48.9%	51.0%	52.9%	-

* Change from March 31, 2020 to June 30, 2020
Source: Prepared by FISCO from the Company's financial results

Outlook

FY2021 annual annual net sales are expected to decline by more than 20% YoY. Despite some support from stay-at-home demand, the recovery in consumers' purchasing sentiment will likely take time due to the COVID-19 pandemic

FY2021 full-year consolidated results, the Company forecasts net sales of ¥31,000mn (decrease of 24.8% YoY), operating loss of ¥1,500mn, ordinary loss of ¥1,500mn, and loss attributable to owners of parent of ¥1,600mn.

The forecast for net sales is more than 20% below the previous fiscal year, based on the results through June 2020 as well as the status of orders received and sales in the first half of July 2020. The forecast for a large decline in sales is based on the fact that no improvement in purchasing sentiment among consumers has been observed yet, despite the fact that stores have reopened under normal business hours following the lifting of restrictions such as the closing of stores and shortened opening hours in conjunction with the emergency declaration issued in June. Net sales in FY2021-1Q were 21.4% of the full-year forecast (24.0% in FY2020 1Q), and the Company expects to make up for the slight decline in 1Q in the subsequent three quarters. The Company is forecasting the FY2021-2Q progress rate to be 45.2% (versus 50.8% in FY2020 2Q), and expects the impacts of the COVID-19 pandemic to continue through the entire fiscal first half. The tendency of consumers to refrain from going out will hinder the recovery of the brand business, which has more than 80 stores mainly in commercial retail facilities, but an impact is unavoidable even in the OEM business, as many of the Company's client companies are retailers. In addition, although there are some product categories for which stay-at-home demand is providing a tailwind, the slowdown is expected to continue for the Company's mainstay items, including bags, shoes, and travel products.

In terms of profits, the Company will work on key strategies going forward, including making the supply chain more advanced, strengthening e-commerce, consistent branding, and promoting low-cost operations. However, the impact of the decline in net sales will be significant declines in each profit line. The Company is forecasting an operating loss of ¥900mn in 1H, and an operating loss of ¥600mn in 2H (October 2020–March 2021), which indicates it's looking for a modest recovery in 2H.

Annual forecast for FY2021

(¥mn)

	FY2020		FY2021				
	Results	Composition	Forecast	Composition	Change	YoY (%)	Progress rate for 1Q
Net sales	41,217	100.0%	31,000	100.0%	-10,217	-24.8%	21.4%
Operating profit	1,315	3.2%	-1,500	-4.8%	-2,815	-	-
Ordinary profit	1,342	3.3%	-1,500	-4.8%	-2,842	-	-
Profit attributable to owners of parent	191	0.5%	-1,600	-5.2%	-1,791	-	-

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

Growth Strategy and Topics

Bolstering the repair business for BIRKENSTOCK and other brands' footwear products. Started carrying three sustainable and ethical European brands

1. Bolstering the repair business for BIRKENSTOCK and other brands' footwear products

In May 2020, the Company reopened the Shinjuku store for German footwear brand BIRKENSTOCK as a new concept shop. The Company will continue to display a wide lineup as before. In addition, for the first time in Japan, a repair specialist "meister" is stationed on a full-time basis in the new "Meister Room" on the second floor. In this Meister Room, the Company will provide services such as quality repairs, replacements of metal fittings, and advice, so that customers can use one pair of shoes for a long period of time. The Company provides training to meisters possessing skills to diagnose footwear issues and repair them, as well as offers a certification system. Currently, in addition to the meisters working in the new Meister Room in the Shinjuku store, more than 10 meisters are working in the Company's own repair workshop.

The Company has also been engaged in the BIRKENSTOCK product repair business for many years. Due to the recent increase in consumers' awareness of the environment and their high affinity for the repair business, the repair workshop was relocated with an eye towards expanding the business. Within the repair business, cleaning is an area of particular growth, and demand doubled from 2018 to 2019. In 2016, utilizing the know-how attained from working with BIRKENSTOCK, the Company started repairing other companies' footwear brands. With the relocation of the workshop, the Company's strategy is to more aggressively grow this business of repairing other companies' footwear brands. The new workshop is located in Kashiwa City, Chiba Prefecture, and has a building site area of approximately 269.9 m^2.

All of these efforts are aimed at creating a sustainable society that aligns with the Company's management vision, and they will also help to improve the Company's brand value.

2. Advancing the Our EARTH Project. Started handling three sustainable and ethical European brands

The Company has included the environment as a key theme in its management vision, and is promoting the Our EARTH Project as a part of this theme. Up until now, the Company has been supplying materials that allow customers to reduce their environmental load, manufacturing products using such materials, and selling such products to consumers of sustainable brands, alongside other efforts. One example of this is selling the German watch brand KERBHOLZ which uses wood and other natural materials in its products. The Company began handling KERBHOLZ products in 2018.

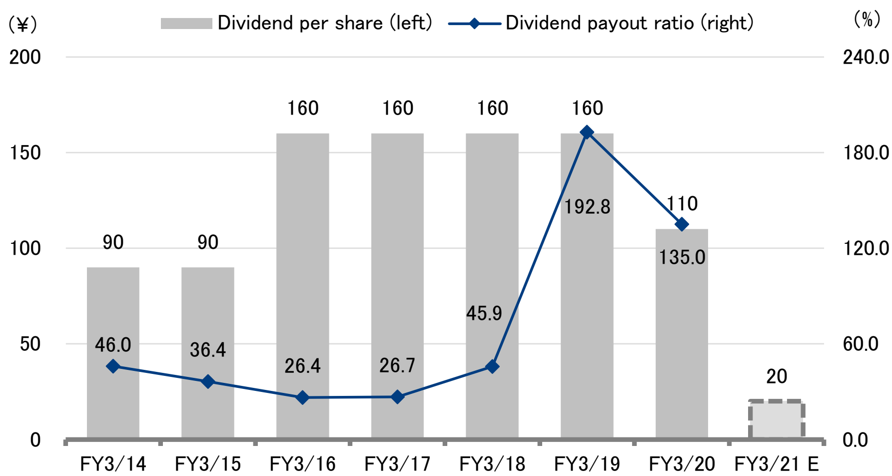
In June 2020, the Company added three brands to this project, and launched sales in earnest. These three brands are AIRPAQ, a German bag brand which makes products by up-cycling automobile airbags, GOT BAG, a German bag brand that recycles marine plastic waste (PET bottles), and Pure Waste, a Finnish clothing brand that recycles cotton scraps produced in the clothing manufacturing process and uses them to make products. All are European sustainable brands that were launched with the aim of reducing environmental impact. In addition, as a B2B materials provision business, the Company handles a large number of Pure Waste recycled cotton fabrics and other environmental materials to meet the growing need for environmentally friendly materials. In terms of services, in addition to OEM production of sustainable products, the Company has started a service that allows clients to apply original prints to T-shirts and eco-bags, and the Company supports the efforts of companies and organizational events that promote the SDGs.

Shareholder return policy

Expecting an annual dividend of ¥20 in FY2021 despite the forecast of a net loss due to the COVID-19 pandemic

The Company positions the appropriate return of profits to shareholders as one of its priority issues for management. Regarding the dividend, the Company has revised its policy of targeting a roughly 30% dividend payout ratio, and will determine the dividend amount based on a comprehensive judgment of future results trends and funding demand, along with other considerations. The Company will endeavor to enhance its financial position through retained earnings and strengthen its management base, in preparation for future business development and unforeseen circumstances. Also, based on the Company's new corporate philosophy of "Zuien (connection)," its policy is to continuously pay dividends to the extent that it can, so that shareholders can hold their shares for a long period of time with a sense of security. For FY2020, the annual dividend was ¥110 (¥60 in 1H and ¥50 in 2H), with a dividend payout ratio of 135.0%. In FY2021, the Company is forecasting a net loss due to the COVID-19 pandemic, but is still expecting to pay an annual dividend of ¥20.

Dividend per share and dividend payout ratio



Note: The FY2016 dividend included a ¥60 special dividend. The FY2017 dividend contained a ¥40 dividend commemorating the 70th anniversary
Source: Prepared by FISCO from the Company's financial results

FISCO

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