

COMPANY RESEARCH AND ANALYSIS REPORT

GLOBERIDE, Inc.

7990

Tokyo Stock Exchange Prime Market

15-Jul.-2022

FISCO Ltd. Analyst

Hideo Kakuta



FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

Posted record high earnings for FY3/22. Sales and profit grew in all four global regions as outdoor sports and leisure markets remain strong. Announced New Mid-term Business Plan 2025 that aggressively accelerates overseas markets

1. Company summary

GLOBERIDE, Inc. <7990> (hereafter, also “the Company”) is the world’s largest comprehensive supplier of fishing products. It has manufacturing sites in Japan and overseas (Asia, the UK) and operates in four major regions, including the Americas, Europe, and Asia-Oceania. The Company focuses on sports and leisure business as its scope and is currently promoting business in four areas—fishing, golf, racquet sports, and cycle sports. In the fishing business, where it is the global leader as a comprehensive supplier of fishing products, “DAIWA” brand is widely known in the market. The Company also stands out in having refined and uniquely positioned brands in the other three areas.

2. Performance trends

In the FY3/22 consolidated results, sales and profits increased significantly with net sales of ¥120,684mn (up 20.3% YoY), operating profit of ¥12,349mn (up 66.7% YoY), ordinary profit of ¥12,997mn (up 81.9% YoY), and profit attributable to owners of parent of ¥9,567mn (up 99.4% YoY). In the outdoor sports and leisure products industry to which the Company belongs, the Company achieved favorable results particularly in its mainstay fishing business, underpinned by the notion that outdoor sports and leisure match the times as lifestyle diversification accelerated due to the spread of COVID-19. In overseas markets, all regions posted substantial sales and profit growth. The Company increased its presence in Asia-Oceania where earnings growth was particularly impressive.

The company announced FY3/23 consolidated forecasts of net sales of ¥129,000mn (up 6.9% YoY), operating profit of ¥11,900mn (down 3.6%), ordinary profit of ¥11,900mn (down 8.4%), and profit attributable to owners of parent of ¥8,500mn (down 11.2%). The Company expects strong sales despite an uncertain market environment amid concerns such as an economic downturn from COVID-19 and international affairs. However, it forecasts a slight decrease in profit from higher purchasing costs amid surging global raw material prices and yen depreciation. The fishing business market is being underpinned by the notion that it matches the times, and remains strong. Once the increase in customer numbers from COVID-19 settles, the Company expects to see upgrade demand for outdoor sports and leisure products, meaning higher average customer spend. However, it also forecasts higher purchasing costs from surging global raw material prices and yen depreciation. The Company’s fishing business manufactures products in multiple countries such as Japan, Vietnam, Thailand and China, and it appears that some of these countries are starting to see the impact of higher purchasing costs. Parts shortages have become apparent in the cycle sports business. The impact of foreign currency (yen depreciation) is mitigated somewhat by the Company’s domestic production output, but will need to be watched as each one-yen depreciation results in a roughly ¥40mn decrease of operating profit. Earnings forecasts for the current fiscal year are formulated based on the 2H FY3/22 business environment continuing and assuming seasonality factors of a normal year. At FISCO, we believe the business plan is reasonable, and expect the Company to hit its targets provided there is no great change in the external environment.

Summary

3. Growth strategy and key issues

The Company had been pursuing its Mid-term Business Plan 2023, but having already achieved its third-year target in the first year (FY3/22), it announced its New Mid-term Business Plan 2025 in May 2022. The New Mid-term Business Plan 2025 ends in FY3/26, by which it targets consolidated net sales of ¥150,000mn (up 24.3% from FY3/22), consolidated operating profit of ¥14,500mn (up 17.9%), and a dividend of ¥90 (up ¥40). Whereas the Company is the global leader as a comprehensive supplier of fishing products, it has higher market share in Japan, as overseas market share is still in the single digits. This may suggest that it has significant potential for growth in the world's largest market North America, and in Asia-Oceania where there is a potential for major growth. The Company will formulate and implement strategies for each of its four global markets to penetrate overseas markets. In the US market, it aims to further boost market share in the world's largest market by introducing superior products including its private brand (PB) products centering on its mainstay bass fishing products that meet the needs of retail chains that are dominant in each region. In the mature Europe market, the Company aims to bolster its products in the mass-market segment, and increase market share in eastern Europe. In the expected growth market of Asia-Oceania, the Company seeks earnings growth by launching tailored products into the market.

4. Shareholder returns

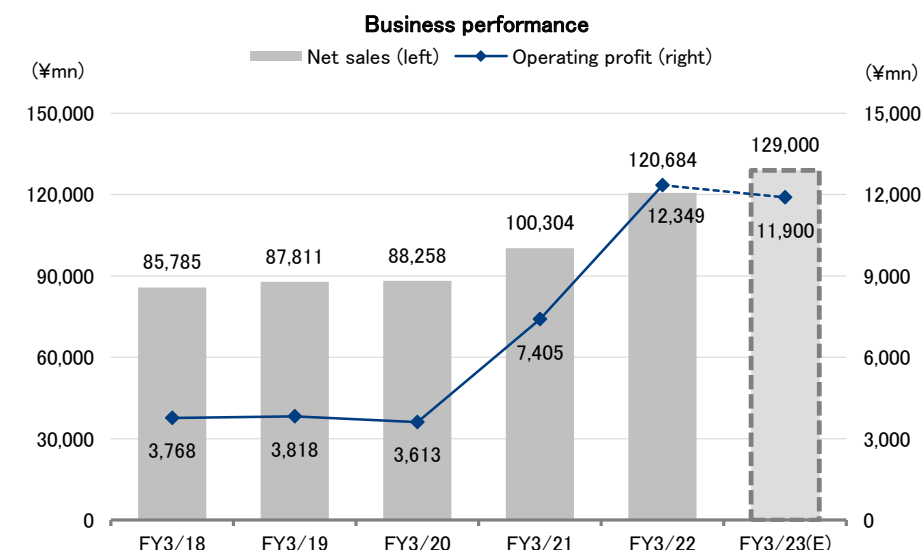
The Company pays dividends and offers a benefits program to shareholders under its shareholder returns policy. Under its basic policy of providing consistent dividends on an ongoing basis, the Company distributes profits in a manner that factors in its consolidated results and future business outlook. In the past five years since the reverse stock split, dividends have increased every year from the annual dividend of ¥25.0* in FY3/17. Looking even further back, dividends have increased for 11 consecutive years. FY3/22 annual dividends were up ¥15.0 to ¥50.0 per share (¥20.0 at the end of 2Q and ¥30.0 at fiscal year-end), and the dividend payout ratio was 12.0%. For FY3/23, based on a favorable forecast, the Company has set its sights on raising dividends by ¥10.0 to ¥60.0 per share (¥30.0 at the end of 2Q and ¥30.0 at fiscal year-end) and achieving a dividend payout ratio of 16.2%.

| * This figure has been retroactively adjusted to reflect stock split performed on October 1, 2021. The same applies hereinafter. |

Key Points

- Posted record high earnings for FY3/22. Sales and profit grew in all four global regions as outdoor sports and leisure markets remain strong
- Announced New Mid-term Business Plan 2025 that aggressively develops overseas markets
- Hikes dividends for 11th consecutive year. Plans to increase FY3/23 annual dividend by ¥10.0 YoY to ¥60.0

Summary



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

Company summary

The world's largest comprehensive supplier of fishing products. In addition to its mainstay fishing business, the Company has expanded businesses into golf, racquet sports, and cycle sports

1. Renamed from Daiwa Seiko Corporation to GLOBERIDE in 2009

The Company is the world's largest comprehensive supplier of fishing products. It has manufacturing sites in Japan and overseas (Asia, the UK) and operates in four major regions, including the Americas, Europe, and Asia-Oceania. It also manufactures and sells (including exports) golf clubs and conducts import sales of products for racquet sports, such as tennis, and cycle sports in the domestic market.

The Company was established in 1955 as Matsui Manufacturing and mainly manufactured fishing reels for export. It established Daiwa Seiko Corporation in Yamato-cho, Nakano Ward, Tokyo in July 1958, taking its first step toward today's format. It built a factory for reel production at the site of the current headquarters in 1960, and also moved the headquarters to this location in 1962. It launched a rod manufacturing factory at the same location in 1964. This consolidation of the headquarters function and manufacturing factory for important items at one site established a foundation as a comprehensive supplier of fishing products.

The Company actively pursued overseas operations from early on, particularly since it targeted the export market from the founding stage. It established Daiwa Corporation in Los Angeles, US, in 1966 and then proceeded to steadily add overseas subsidiaries, including Taiwan, Australia, the UK, France, and Asian countries. As of the end of May 2022, it has 19 overseas local entities.

Company summary

While the Company's core business is the fishing business, its founding area, it also expanded into the golf business in 1972, the tennis business in 1980 (which is now referred to as the racquet sports business) and the cycle sports business in 1991. Today each of these four businesses possesses a leading brand and a clear presence.

The Company revised its name to Daiwa Seiko Corporation in 1969. While this took hold broadly along with "DAIWA" fishing brand, the Company renamed itself as GLOBERIDE in October 2009, its 50th year in business, as an expression of powerful resolve to evolve into a global company and a desire to contribute to people around the world who love sports and nature as "A Lifetime Sports Company" that supports enjoyment of our planet with the five human senses and valuable experiences.

The Company listed its shares on the Second Section of the Tokyo Stock Exchange ("TSE") in October 1970 and switched to the First Section in January 1976. It moved to the Prime Section following the TSE category reclassification in April 2022.

Focusing on the "DAIWA" Brand has boosted the Company to become the world's largest comprehensive fishing supplier, the Company is now enhancing their unique style to golf, racquet sports business

2. Business summary

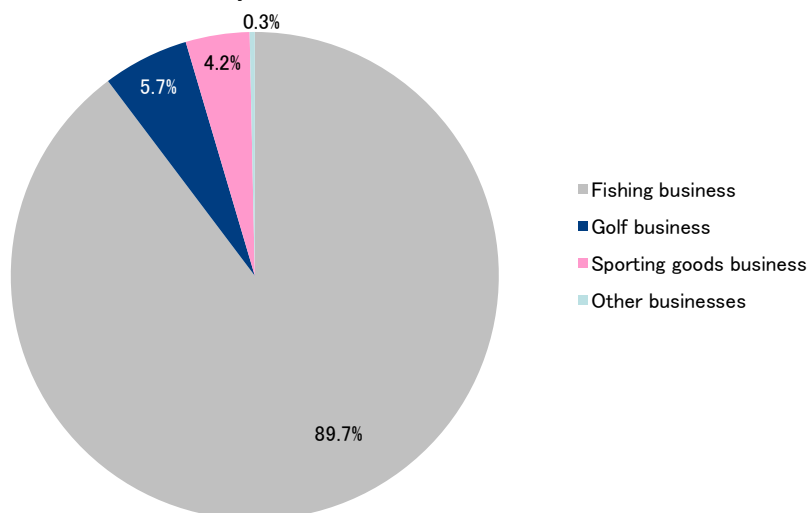
(1) Four main businesses

The Company focuses on sports and leisure business as its scope and is currently promoting business in four areas - fishing, golf, racquet sports, and cycle sports. In the fishing business, where it holds the top global position as a comprehensive supplier of fishing products, "DAIWA" brand is widely known in the market. The Company also stands out for having refined and uniquely positioned brands in the other three areas with "ONOFF" and "FOURTEEN" in the golf business, "Prince" in the racquet sports business, and "corrtec" in the cycle sports business.

Looking at the sales breakdown by business in FY3/22, the fishing business accounted for 89.7%, the golf business for 5.7%, the sporting goods business (including sales of products for racquet sports and cycle sports) for 4.2%, and other business for 0.3%. Each business has recorded earnings growth, supported as activities that match the times.

Company summary

Sales breakdown by business areas (based on FY3/22 results)



Source: Prepared by FISCO from the Company's website

Below is a review of the Company's business by the main business areas.

a) Fishing business

The Company's core business holds the top global position as a comprehensive supplier of fishing products. With "DAIWA" brand and a "Feel Alive." slogan, the Company aims to expand its products for the fast-growing lure fishing and broadly cover target fish species from around the world. The Company's product line-up has a broad scope that extends from reels and rods to apparel (fishing oriented items), cooler boxes, and various specialty smaller items.

In technology, an important differentiating factor, the Company promotes "DAIWA Technology" that offers unique water resistance and dustproof features in reels, rods, and other fishing products and constantly pursues innovative technologies for various parts. By deploying these technologies in products, the Company strives to lead the fishing gear industry worldwide.

Company summary

A domestic fishing market encompassing all age groups

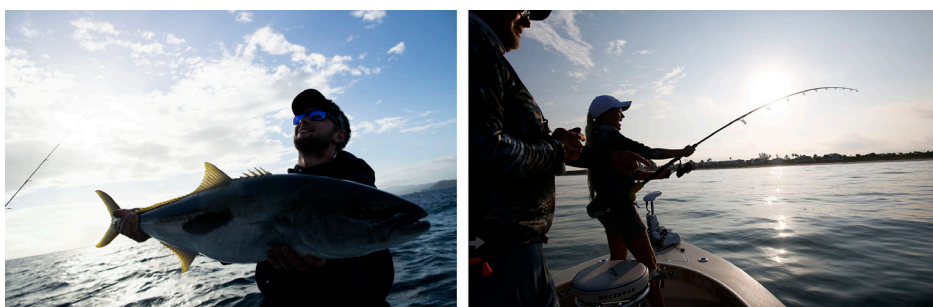


Source: Materials supplied by the Company

The market for fishing products is very narrowly segmented by types of fishing and target fish species and has many small-scale businesses entering into this broad range of market segments. This means that it is highly separated in terms of market segmentation and related participants. Furthermore, there are some cases in which large companies participate in certain markets (such as Toray Industries, Inc. <3402> and KUREHA CORPORATION <4023> in fishing lines), along with fishing product companies. Within this context, the Company holds the top global position as a comprehensive supplier of fishing products with a line-up of wide-ranging and diverse products.

In manufacturing, the Company makes reels and rods at the Tokyo factory (headquarters factory) and subsidiary Nasu Daiwa Corporation in Japan. Overseas, the Company has established a global product supply framework encompassing the UK, Thailand, and Vietnam and is furthermore strengthening the production framework primarily in Vietnam to diversify the risk of being concentrated in specific regions.

“DAIWA” brand is also popular in Europe and the US



Source: Materials supplied by the Company

Company summary

b) Golf business

In the golf business, the Company established Daiwa Golf K.K. in 1971, initiating production and sales of golf products (it conducted an absorption merger of Daiwa Golf in 1995). Thereafter, it acquired Fourteen Inc., which manufactures and sells golf clubs, as a subsidiary in 2008. The Company currently has four brands – “ONOFF,” “DAIWA GIII,” “RODDIO” (manufacturing and sales by subsidiary Sports Life Planets Inc.) and “FOURTEEN” (manufacturing and sales by subsidiary Fourteen).

“ONOFF,” the core brand in the golf business, promotes a concept of “refined adult golf.” The Company operates “CLUB ONOFF,” a membership club, to offer a premium atmosphere that is suited to the concept of “refined adult golf” and strives to further enhance service content.

ONOFF



Source: Materials supplied by the Company

“FOURTEEN” is a brand that focuses on golf club performance with a concept of delivering the “best 14 clubs to every golfer,” selecting its name from the number of golf clubs in a set.

FOURTEEN



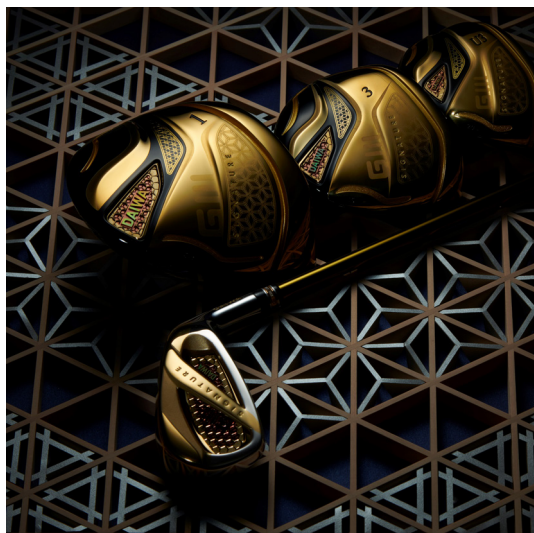
Source: Materials supplied by the Company

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DAIWA GILI



Source: Materials supplied by the Company

RODDIO



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Company summary

c) Racquet sports business

The Company started the racquet sports business in 1980. It supplies “Prince” brand products to the domestic market for the various racquet sports (tennis, badminton, squash, etc.) as the exclusive import agent in Japan.

“Prince” is a brand founded in Princeton, New Jersey (US) in 1970. It has attracted support from many fans around the world as a preferred choice of numerous top players with a robust track record over the years. It leverages innovative technology and refined brand strength to go beyond just racquets and broaden the line-up to tennis wear and other sports apparel products.

Prince



Source: Materials supplied by the Company

Company summary

d) Cycle sports business

The Company entered the cycle sports business in 1991. It conducts import sales of sports bicycles and related products and currently operates three brands of sports bicycles with Germany-based “corrateg” and “FOCUS” and Italy-based “BOTTECCHIA” and handles, seats, tires, and other items under “WTB,” “iTM,” and other brands.

“corrateg” bicycle brand has a track record in both road and MTB racing and is also a pioneer of the particularly fast growing eBike. It has been manufacturing and selling products since the emergence of the eBike in Europe and enjoys support from many users. This brand has been sustaining growth as a leading German bicycle thanks to rigorous testing in an area with many trails that differ considerably.

“FOCUS” brand, which was established in 1992, comes under Derby Cycle Holding GmbH, Germany’s largest bicycle company. Having attained an abundance of accomplishments in bicycle racing, the brand has served professional athletes and teams ever since it was first established. As such, the brand has gained the support of many sports bike enthusiasts given that “FOCUS” supplies cutting-edge machines equipped with the most advanced technologies and equipment, underpinned by the notion that “FOCUS” develops bicycles capable of winning in the racing world.

“BOTTECCHIA,” which was founded in 1926, obtained its brand name from legendary racer Ottavio Bottecchia. It is a famous popular brand in European road racing with a long history in the fiercely competitive bicycle industry and a dazzling track record that includes past victories in the Grand Tours, which are the three largest bicycle races in the world.

eBike encountering growing popularity in Japan



Source: Materials supplied by the Company

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Company summary

(2) Overseas activities

Since the Company had its roots as a manufacturer of fishing reels for export, it has actively developed overseas operations, beginning with entry into the US market in 1966. Its Group currently consists of the parent company and 29 subsidiaries located in Japan and other countries. The sales from overseas business account for 37.7% of net sales in FY3/22. The average sales growth rate over the past four years (FY3/19-FY3/22) is 7.8% in Japan and 17.8% overseas, showing that growth is higher overseas.

In overseas operations, the Company engages in fishing and golf businesses with original brands. The golf business, however, only appears to have a small amount of sales. FISCO hence thinks it is reasonable to analyze the Company's overseas business as almost entirely fishing products.

History of overseas initiatives

October 1966	Established Daiwa Corporation in Los Angeles, USA (currently a consolidated subsidiary)
February 1971	Established Taiwan Daiwa Co., Ltd. in Kaohsiung, Taiwan (liquidated in December 2007)
February 1973	Established Daiwa Whitehall Pty. Limited in Sydney, Australia (renamed Daiwa (Australia) Pty. Ltd. in July 1981) (currently a consolidated subsidiary)
July 1977	Established Daiwa Sports Limited in Wishaw, Scotland, UK (currently a consolidated subsidiary)
October 1984	Established Daiwa France S.A. (renamed Daiwa France S.A.S. in June 2004) in Rouen, France (currently a consolidated subsidiary)
April 1990	Established Daiwa-Cormoran Sportartikel-Vertrieb GmbH in Grobenzell, Germany as a joint venture with Cormoran (purchased additional shares to acquire the company as a wholly owned subsidiary in November 2009) (currently a consolidated subsidiary)
June 1995	Established Daiwa Seiko (Thailand) Co., Ltd. in Bangkok, Thailand (currently a consolidated subsidiary)
February 2002	Established Daiwa FT Enterprise Co., Limited in Taichung, Taiwan (currently a consolidated subsidiary)
January 2004	Established Daiwa (Hong Kong) Co., Ltd. in Hong Kong (currently a consolidated subsidiary)
April 2005	Established Daiwa Seiko (South Korea) Co., Ltd. in Korea (renamed Daiwa Korea Co., Ltd. in April 2011) (currently a consolidated subsidiary)
September 2005	Established Daiwa Vietnam Limited in Da Nang, Vietnam (currently a consolidated subsidiary) and established Zhongshan Daiwa Sporting Goods Limited in Guangdong, China (currently a consolidated subsidiary)
November 2010	Established Asia Daiwa (Hong Kong) Co., Ltd. in Hong Kong (currently a consolidated subsidiary)
September 2012	Established Singapore Daiwa Pte. Ltd. in Singapore (currently a consolidated subsidiary)
February 2013	Established Dongguan Daiwa Sporting Goods Limited in Guangdong, China (currently a consolidated subsidiary)
April 2014	Established Daiwa Italy S.r.l. in Milan, Italy as a joint venture with Fassa (acquired all shares in March 2016) (currently a consolidated subsidiary)
March 2016	Established Daiwa Sports (M) SDN.BHD. in Malaysia (currently a consolidated subsidiary)
November 2018	Established Daiwa Casting (Guangzhou) Trading Co., Ltd. in Guangdong, China (currently a consolidated subsidiary)
January 2019	Established <<000>> Daiwa Rus in Russia (currently a consolidated subsidiary)

Source: Prepared by FISCO from the Company's securities report

The Company's fishing business has local entities that handle sales in the Americas (California, US), Europe (the UK, France, Germany, Italy, and Russia), and Asia-Oceania (Taiwan, Australia, Hong Kong, Korea, China, Singapore, Malaysia, and Thailand) and implements sales strategies that address wide-ranging and diverse market trends in regions around the world such as Eastern Europe and South America, and strives to expand sales of handled products.

The Company also manufactures products for the fishing business in other countries. It currently makes products in Thailand, China (two companies), Vietnam, and the UK and ships them to Japan and markets around the world.

Performance trends

Posted record high earnings for FY3/22. Sales and profit grew in all four global regions as outdoor sports and leisure markets remain strong

1. Overview of FY3/22 results

In the FY3/22 consolidated results, sales and profits increased significantly with net sales of ¥120,684mn (up 20.3% YoY), operating profit of ¥12,349mn (up 66.7% YoY), ordinary profit of ¥12,997mn (up 81.9% YoY), and profit attributable to owners of parent of ¥9,567mn (up 99.4% YoY). In the outdoor sports and leisure products industry to which the Company belongs, the Company achieved favorable results, particularly in its mainstay fishing business, in all four global regions, underpinned by the notion that outdoor sports and leisure products match the times as lifestyle diversification accelerated due to the spread of COVID-19.

Overview of FY3/22 results

	FY3/21		FY3/22		
	Results	% of sales	Results	% of sales	Change (%)
Net sales	100,304	100.0%	120,684	100.0%	20.3%
Gross profit	36,578	36.5%	45,712	37.9%	25.0%
SG&A	29,172	29.1%	33,363	27.6%	14.4%
Operating profit	7,405	7.4%	12,349	10.2%	66.7%
Ordinary profit	7,145	7.1%	12,997	10.8%	81.9%
Profit attributable to owners of parent	4,797	4.8%	9,567	7.9%	99.4%

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

(1) Trends by region

a) Japan

In Japan, the Company posted net sales of ¥82,544mn (up 14.5% YoY) and segment profit of ¥8,812mn (up 48.2%). The market remained strong despite COVID-19. The impact of production delays and logistics confusion on the supply side were mitigated by the Company revising production plans and other measures. The launch of products aligned with diverse market needs, among other things, helped the Company record double-digit sales and a large profit increase.

b) Americas

In the Americas, the Company posted net sales of ¥10,129mn (up 26.3% YoY) and segment profit of ¥194mn (up 15.5%). Consumer spending recovered as COVID-19 restrictions were eased. Strong sales of new products aligned with local-specific needs helped sales growth. Profits were squeezed by constraints on international logistics and spiraling costs, but increased sales offset these negative aspects, resulting in a profit increase.

c) Europe

In Europe, the Company posted net sales of ¥13,553mn (up 28.0% YoY) and segment profit of ¥1,071mn (up 81.1%). Amid the economic recovery as COVID-19 restrictions were eased, the Company's new products aligned with location-specific needs of each region were well received, helping the Company record double-digit sales and a large profit increase.

Performance trends

d) Asia-Oceania

In the Asia-Oceania region, the Company posted net sales of ¥42,770mn (up 36.7% YoY) and segment profit of ¥5,003mn (up 83.2%). The overall market was strong despite some variation by country depending on the COVID-19 situation there. The launch of new products and aggressive sales promotions saw large sales and profit increases. Earnings growth in the Asia-Oceania region was striking even compared to other overseas markets, with the Company boosting its presence there.

FY3/22 financial results by regional segment

	FY3/21		FY3/22		
	Results	% of sales	Results	% of sales	Change (%)
Net sales	100,304	100.0%	120,684	100.0%	20.3%
Japan	72,090	59.1%	82,544	55.4%	14.5%
Americas	8,021	6.6%	10,129	6.8%	26.3%
Europe	10,590	8.7%	13,553	9.1%	28.0%
Asia-Oceania	31,295	25.7%	42,770	28.7%	36.7%
Adjustments	-21,692	-	-28,314	-	-

	FY3/21		FY3/22		
	Results	Profit margin	Results	Profit margin	Change (%)
Operating profit	7,405	7.4%	12,349	10.2%	66.8%
Japan	5,947	8.2%	8,812	10.7%	48.2%
Americas	168	2.1%	194	1.9%	15.5%
Europe	591	5.6%	1,071	7.9%	81.1%
Asia-Oceania	2,730	8.7%	5,003	11.7%	83.2%
Adjustments	-2,032	-	-2,732	-	-

Note: profit margin is based on Company-wide

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

(2) Financial standing

As of the end of FY3/22, total assets increased by ¥12,952mn from the end of the previous fiscal year to ¥90,682mn, largely as a result of increased inventories from higher sales, and a rise in property, plant and equipment from capital investment. Total liabilities increased ¥3,052mn to ¥53,204mn due to higher accounts payable and other factors. Total net assets improved ¥9,900mn to ¥37,478mn, mainly due to the recording of profit attributable to owners of parent. The Company maintains a sound financial position with an equity ratio of 41.1% (35.3% at the end of FY3/21).

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Performance trends

Consolidated balance sheets

	FY3/19	FY3/20	FY3/21	FY3/22	Change
(¥mn)					
Current assets	47,261	51,447	50,291	59,126	8,835
Cash and deposits	5,317	5,006	9,600	8,165	-1,435
Notes and accounts receivable - trade	12,969	13,658	10,961	11,517	556
Inventories	27,010	29,645	27,130	36,062	8,932
Non-current assets	27,083	26,522	27,438	31,556	4,118
Property, plant and equipment	15,489	16,129	16,001	20,129	4,128
Intangible assets	1,702	1,401	1,509	1,597	88
Investments and other assets	9,891	8,991	9,928	9,829	-99
Total assets	74,344	77,970	77,730	90,682	12,952
Current liabilities	34,141	37,161	34,242	40,996	6,754
Notes and accounts payable – trade	10,365	12,138	13,424	15,051	1,627
Short-term borrowings	16,817	18,784	12,800	15,688	2,888
Non-current liabilities	16,937	17,785	15,909	12,207	-3,702
Long-term borrowings	9,461	10,509	8,785	5,017	-3,768
Total net assets	23,265	23,023	27,577	37,478	9,900
Total liabilities and net assets	74,344	77,970	77,730	90,682	12,952

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

2. Outlook for FY3/23

For the FY3/23 consolidated results forecast, the Company projects net sales of ¥129,000mn (up 6.9% YoY), operating profit of ¥11,900mn (down 3.6%), ordinary profit of ¥11,900mn (down 8.4%), and profit attributable to owners of parent of ¥8,500mn (down 11.2%). The Company expects strong sales despite an uncertain market environment amid concerns of an economic downturn from COVID-19 and international affairs. It does however forecast a slight decrease in profit from higher purchasing costs amid surging global raw material prices and yen depreciation.

COVID-19 and spiking resources and food prices caused by the Russia/Ukraine conflict have raised concerns of an economic downturn both domestically and internationally. We think the outlook will continue to be uncertain for the outdoor sports and leisure industry to which the Company belongs. The fishing business market is being underpinned by the notion that it is an activity that matches the times, and remains strong. The Company deems that the COVID-19 pandemic has renewed interest in fishing among customers who became fond of the hobby during the fishing boom of the 1990s, which is accompanied by an apparent increase in people new to fishing, including women and families. Once the increase in customer numbers from COVID-19 settles, the Company expects to see upgrade demand for outdoor sports and leisure products, meaning higher average customer spend. The golf market is also being underpinned by the notion that outdoor sports and leisure enables people to steer away from the “three Cs.,” which suggests further growth potential with respect to both “ONOFF” and “FOURTEEN.” COVID-19 has shifted consumers’ attitudes favorably towards nature and the outdoors, and the Company’s well-regarded product development capabilities and marketing know-how make it well placed to achieve sales in excess of market growth as demand for products grows. However, it also forecasts higher purchasing costs from surging global raw material prices and yen depreciation. The Company’s fishing business manufactures products in multiple countries such as Japan, the UK, Thailand, China, and Vietnam, and it appears that some of these countries are starting to see the impact of higher purchasing costs. Parts shortages have become apparent in the cycle sports business. The impact of foreign currency (yen depreciation) will be mitigated somewhat by the Company’s domestic production output, but will need to be watched as each one-yen depreciation results in a roughly ¥40mn decrease of operating profit.

Performance trends

The Company forecasts net sales of ¥71,000mn and operating profit of ¥8,400mn for 1H FY3/23, and net sales of ¥58,000mn and ordinary profit of ¥3,500mn for 2H FY3/23. As usual, the Company's earnings are skewed towards the first half of the fiscal year. Earnings forecasts for the current fiscal year are formulated based on the 2H FY3/22 business environment continuing and assuming the usual seasonality factors. At FISCO, we believe the business plan is reasonable, and expect the Company to hit its targets provided there is no great change in the external environment.

Outlook for FY3/23

	FY3/22		FY3/23		
	Results	% of sales	Forecast	% of sales	Change (%)
Net sales	120,684	100.0%	129,000	100.0%	6.9%
Operating profit	12,349	10.2%	11,900	9.2%	-3.6%
Ordinary profit	12,997	10.8%	11,900	9.2%	-8.4%
Profit attributable to owners of parent	9,567	7.9%	8,500	6.6%	-11.2%

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

Growth strategy and key issues

Announces New Mid-term Business Plan 2025 that aggressively develops overseas markets

1. Announces New Mid-term Business Plan 2025 that aggressively develops overseas markets

The Company had been pursuing its Mid-term Business Plan 2023, but having already achieved its third-year target in the first year (FY3/22), it announced its New Mid-term Business Plan 2025 in May 2022. The New Mid-term Business Plan 2025 ends in FY3/26, by which it targets consolidated net sales of ¥150,000mn (up 24.3% from FY3/22), consolidated operating profit of ¥14,500mn (up 17.9%), and a dividend of ¥90 (up ¥40). Whereas the Company is the global leader as a comprehensive supplier of fishing products, it has higher market share in Japan, as overseas market share is still in the single digits. This may suggest that it has significant potential for growth in the world's largest market North America, and in Asia-Oceania where there is a potential for major growth.

The Company will formulate and implement strategies for each of its four global markets to penetrate overseas markets. In the US market, it aims to further boost market share in the world's largest market by introducing superior products including its private brand (PB) products centering on its mainstay bass fishing products that meet the needs of retail chains that are dominant in each region. In the mature Europe market, the Company aims to bolster its products in the mass-market segment, and increase market share in eastern Europe. In the expected growth market of Asia-Oceania, the Company seeks earnings growth by launching products that suit the market. Countries and regions of note include China, where lure fishing is expected to grow, Oceania, where products and marketing segmented by fish type centering on salt water fishing is effective, and south-east Asia, which is expected to see leisure and fishing business growth.

Growth strategy and key issues

While operating profit is expected to improve by a healthy 4.2% annually, the Company expects the operating profit margin to decline slightly to 9.7% (a 0.6ppt fall from FY3/22), in the final year of the new business plan (FY3/26). This is from factoring in the uncertainty caused by the recent global surge in raw material prices and yen depreciation, as well as the one-off cause of being unable to spend promotional expenses due to COVID-19 in FY3/22. The Company targets an operating profit margin of 9.7% in FY3/26 after injecting sufficient promotional expenses.

Numerical targets in the New Mid-term Business Plan 2025

	FY3/22 Results	FY3/26		
		Targets	Growth rate compared to FY3/22	4-year CAGR
Consolidated net sales	120,700	150,000	24.3%	5.6%
Consolidated operating profit	12,300	14,500	17.9%	4.2%
Operating profit margin (%)	10.2%	9.7%	-0.6pt	-
Dividend per share (%)	50.0	90.0	Up ¥40.0	15.8%

Note: 4-year CAGR is the 4-year average growth rate between FY3/22 and FY3/26
 Source: Prepared by FISCO from the Company's financial results

Attention focused on upcycling project that converts abandoned fishing nets into apparel items

2. Be Earth-Friendly –Fishing Net Upcycling Project–

In March 2022, the Company announced its Be Earth-Friendly –Fishing Net Upcycling Project– at Rakuten Fashion Week TOKYO 2022 (formal venue: Omotesando Hills), drawing the attention of the fashion industry. In this project, the Company will address the deterioration of the ocean environment as a major issue, and as part of recycling activities to tackle the problem, will recycle abandoned fishing nets into water resistance overalls and rainwear and return these to the fishing industry to create new value from abandoned items. Used fishing nets are difficult to sort and cannot be burned, so as a solution to the difficulty of disposal method, in this project, abandoned fishing nets that have been collected are washed, cut, and dissolved to produce pellets that will be the raw material for regenerated fiber, which is then spun into recycled cloth. This results in the easy-to-understand cycle of recycled cloth made from fishing nets being used to produce water resistance overalls and rainwear, and returned to fishing industry. The water resistance overalls and rainwear that were announced at Rakuten Fashion Week will be commercialized and sold as fishing wear under the Company's mainstay "DAIWA" brand. The Company expects this type of initiative to add a new environment value to its existing brand.

Announced "Be Earth-Friendly –Fishing Net Upcycling Project–"



Source: Materials supplied by the Company

Addressing social contributions and environmental issues with pride as a company leading the world

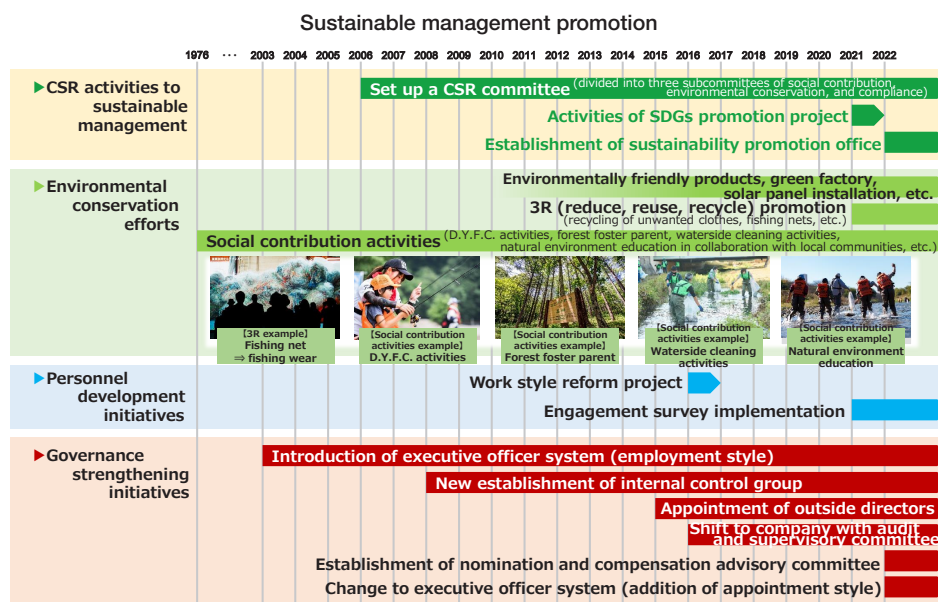
3. Promotion of sustainability management

(1) CSR activities to sustainability management

The Company has established “A Lifetime Sports Company” as its slogan, and actively promotes social contributions, environmental conservation, and stimulation of the fishing market through business. One example of this is the Company bolstering its structure by setting up a CSR committee in 2006. The Company also started a sustainable development goals (SDGs) project in 2021 and established a sustainability promotion office in 2022. Sustainability management is a key theme in the New Mid-Term Business Plan 2025, and the Company now has a company-wide system in place to address it. These efforts are very meaningful from an ESGs perspective, and FISCO expects a resulting boost in the Company’s value in the mid to long term.

(2) Example of social contribution activities: D.Y.F.C. Daiwa Young Fishing Club

D.Y.F.C. Daiwa Young Fishing Club, which the Company has continued since 1976, is a unique initiative that contributes to society and stimulates the fishing market. It addresses elementary and middle school students and aims to increase fishing fans and support a healthy upbringing for children, as the next generation, through an experience in which children interact with nature via fishing. Through its history of more than 40 years, members from the Club’s initial years have already finished raising their own children and members from the 1990s, when the domestic fishing population expanded, have families now and the experience has shifted to their children’s generation. Events and seminars were restricted in recent years because of COVID-19, but the Company expects these to restart from fall 2022.



Source: Materials supplied by the Company

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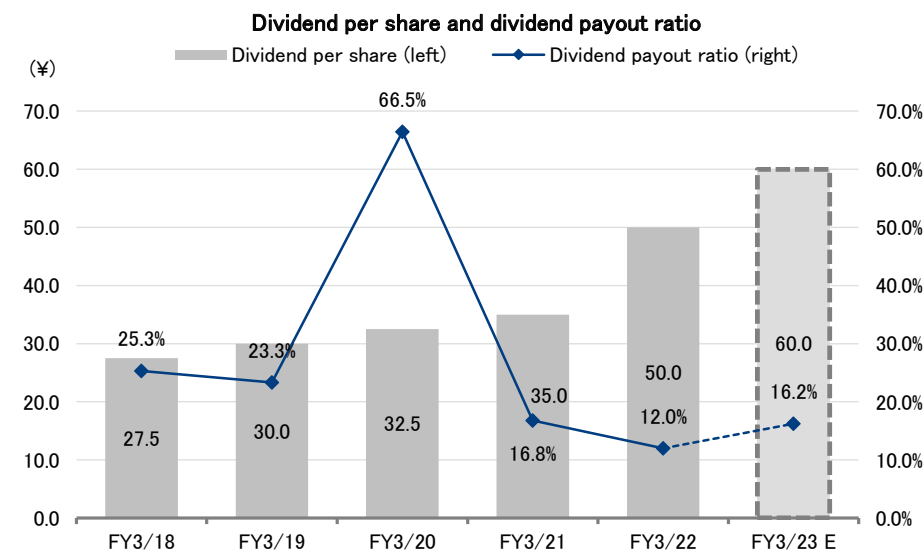
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Shareholder returns

Hikes dividends for 11th consecutive year. Plans to increase FY3/23 annual dividend by ¥10.0 YoY to ¥60.0

The Company pays dividends and offers a benefits program to shareholders under its shareholder returns policy. Under its basic policy of providing consistent dividends on an ongoing basis, the Company distributes profits in a manner that factors in its consolidated results and future business outlook. In the past five years since the reverse stock split, dividends have increased every year from the annual dividend of ¥25.0 in FY3/17. Looking even further back, dividends have increased for 11 consecutive years. FY3/22 annual dividends were up ¥15.0 YoY to ¥50.0 per share (¥20.0 at the end of 2Q and ¥30.0 at fiscal year-end), and the dividend payout ratio was 12.0%. For FY3/23, based on a favorable forecast, the Company has set its sights on raising dividends by ¥10.0 to ¥60.0 per share (¥30.0 at the end of 2Q and ¥30.0 at fiscal year-end) and achieving a dividend payout ratio of 16.2%.

The Company performed a 2-for-1 stock split per common share effective as of October 1, 2021. It performed the stock split with the aims of arranging a preferable environment for investing, improving the liquidity of its shares, and seeking to expand the investor base by reducing monetary value per investment unit.



Note: Retroactive adjustments have been applied with respect to the 2-for-1 stock split performed on October 1, 2021.
Source: Prepared by FISCO from the Company's financial results

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Shareholder returns

Under its shareholder benefits program, the Company presents shareholders with a well-regarded gift in the form of QUO cards featuring the Company's original designs depicting images from the popular Japanese manga "Fisherman Sanpei" illustrated by the late Takao Yaguchi. Each year shareholders with holdings of at least 1 unit (100 shares) as of March 31 of the respective year are eligible to receive a gift. Depending on the number and length of shares held, the gift value changes accordingly from ¥1,000 for shareholders who have had at least 1 unit and less than 10 units for less than 3 years up to ¥5,000 for shareholders who have had 20 units or more for no less than 3 years.

QUO cards featuring the Company's original designs



Source: Company's website

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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp