COMPANY RESEARCH AND ANALYSIS REPORT

Sanyei Corporation

8119

Tokyo Stock Exchange Standard Market

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Index

Summary

Sales increased and loss reduced in 1H FY2022. Domestic and overseas consumption recovered, while structural reforms progressed

Sanyei Corporation <8119> is a multifunctional trading company specializing in high-value-added products with a history of over 75 years. The Company handles a full range of lifestyle consumer goods and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. The group has 17 overseas locations and 60 directly managed stores in Japan. The Company stands out in terms of its coverage of high-value added products, 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 Sanyei business model, OEM Business represents about 70% of net sales, and the Brand Business about 30% of net sales. It has three main business segments—Furniture and Houseware Business, Fashion Accessories Business, and Home Appliance Business.

1. 1H FY2022 consolidated results

In the 1H FY2022 consolidated results, net sales were ¥18,203mn (up 11.8% year-on-year (YoY)), with an operating loss of ¥285mn (a YoY improvement of ¥72mn), an ordinary loss of ¥238mn (a YoY improvement of ¥4mn), and a loss attributable to owners of parent of ¥283mn (a YoY improvement pf ¥91mn). Net sales were driven by a ¥616mn YoY increase in sales in the Furniture and Houseware Business and a ¥1,071mn YoY increase in sales in the Fashion Accessories Business. In terms of overall trends, the COVID-19 pandemic situation has eased, and products related to outings, such as travel, beauty, and etc., are started to recover. Operating profit recovered mainly due to an increase in gross profit. Ordinary profit also showed modest improvement with foreign exchange gains decreasing according to the significant depreciation of the yen.

2. FY2022 consolidated results (forecast)

For the FY2022 consolidated results, the Company forecasts net sales to increase 8.9% YoY to ¥37,000mn, an operating loss of ¥500mn (a YoY improvement of ¥412mn), an ordinary loss of ¥400mn (a YoY improvement of ¥257mn) and a loss attributable to owners of parent of ¥500mn (a YoY improvement of ¥445m). The Company raised its forecasts for net sales and all profit items due to strong results in 1H. Operating profit is expected to show a clear recovery trend. Specifically, profitability in the Fashion Accessories Business is likely to improve significantly. Rises in the prices of raw materials and distribution costs, and rapid yen depreciation, etc. are all negative factors for the Company, which is primarily an import trading company. However, higher raw material prices can be passed on to sale prices for some transactions. Some transactions of the Company also avoid the impact of also lighten the impact of changing exchange rate. And risk avoidance measures such as forward exchange contracts taken by the Company may also reduce the impact of yen depreciation. Internally, the Company has almost completed consolidating stores, and seeks to turn around results by shifting to multi-brand stores. FISCO believes these measures will further improve results towards a return to profitability in FY2023.

3. Growth strategy

Consolidated subsidiary BENEXY CORPORATION has been mainly engaged in the operation of BIRKENSTOCK specialty stores, but the new strategy is to reorganize the business by turning it into a select store. Under this strategy 1) Expanding the footwear business, 2) Phasing out the operation of “BIRKENSTOCK” specialty stores. Going forward, BENEXY aims to expand its footwear distribution and repair business, including the conversion of existing stores into composite brand stores (select stores) and the creation of original brands. This initiative will enable seasonal merchandising, which is expected to level seasonal profit variances which are currently concentrated into the spring/summer season due to the nature of its sandal products and the store brand that is expected to be the most promising as a new branded store complex is Quorinest operated by BENEXY. FISCO looks forward to future initiatives, that the evolution of Quorinest to include BIRKENSTOCK and other footwear products serve as a growth model.

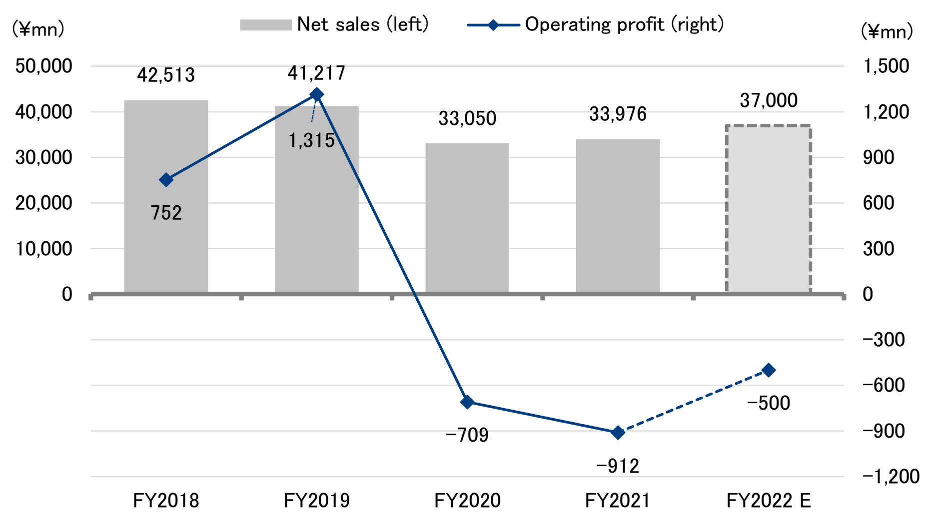
4. Shareholder return policy

The Company considers the appropriate return of profits to shareholders as one of the most important management issues. Under its corporate philosophy of “Zuien” (connection-i.e., the bonds), dividends are paid as continuously as possible so that its shareholders with close relationships with the Company can hold shares with peace of mind over the long term. The Company has maintained a certain level of dividends since the COVID-19 pandemic adversely impacted earnings in FY2020, paying an annual dividend of ¥20 per share. For FY2022, the Company expects an annual dividend of ¥20 per share (interim dividend of ¥10 paid, and an expected year-end dividend of ¥10).

Key Points

- 1H FY2022 sales benefited from consumption recovery domestically and abroad. Despite inflation, structural changes reduced losses
- The Company’s equity ratio was over 50%, and net assets were over ¥10 billion. The Company maintained its financial soundness based on capital accumulation to date
- Raised FY2022 forecasts. Fashion Accessories Business structural changes almost complete, Home Appliance Business changes ongoing
- Phased out operation of BIRKENSTOCK specialty stores and converted them to select stores. Expansion of sustainable brand lineup.

Results trends



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

Company profile

The Company is a multifunctional trading company that globally manufactures and sells “lifestyle goods that enhance health and enrich life” based on the theme of “health and environment”

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 75 years. Today, it carries a full range of consumer lifestyle goods and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. It has grown to be a multifunctional trading company with 17 overseas locations and 60 directly managed domestic retail stores. The Company stands out in terms of its coverage of products with high added value based on the concept of “focused on health and environment,” 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 deal with products at domestic and overseas sites and sells them in the Japanese and overseas markets, based on the concept of offering “enhancing health and enriching life through lifestyle goods.”

In personnel matters, the Company announced the promotion of Mr. Masaki Mizukoshi to the position of President and COO from January 2022, and it renewed the management system. Mr. Mizukoshi, who was formerly an employee of Sumitomo Corporation<8053>, will make use of his abundant experience and knowledge, including wholesale, retail, e-commerce and online shopping, targeting business development over the next 10 years. Former President Noriyuki Kobayashi, who has led the Company for over 10 years, will continue to participate in management as Chairman and CEO. The Company is listed on the Standard Market following the Tokyo Stock Exchange market segment restructuring in April 2022.

2. Business composition

The Company’s business segments are categorized as the Furniture and Houseware Business, the Fashion Accessories Business, the Home Appliance Business, and Others. The Furniture and Houseware Business includes MINT, the furniture and interior goods e-commerce brand, mainly procedures OEM products for major Japanese and foreign companies. In this segment, the sales occupied 59.5% of total net sales in 1H FY2022. The Fashion Accessories Business, which accounts for 25.3% of total net sales, conducts import sales of brand products to which it has the sales rights, such as BIRKENSTOCK sandals and shoes and Kipling bags, and also domestic and overseas OEM Business. The Home Appliance Business, which accounts for 10.7% of total net sales, consists of OEM product procurement and Brand Business, and the brands it focuses on are Vitantonio, which are cooking appliances, and mod’s hair, which are beauty appliances. The Others segment consists of pet stores and other businesses (percentage of total net sales: 4.6%).

The Company has two business models: Brand Business and OEM Business. The Brand Business mainly promotes wholesale and retail business in Japan for overseas brands and the Company's own brands. It carries brands with strong histories that have not yet been introduced in Japan, while in recent years the Company has proactively introduced new sustainable brands. The Brand Business accounted for 32.0% of overall sales in 1H FY2022, and the Company aims to increase the ratio of the Brand Business to broaden business in the consumer lifestyle product category. The OEM Business provides various procurement services, such as review of product specifications for goods that meet the needs of client companies, manufacturer selection, price negotiation, 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 (68.0% of overall sales in 1H FY2022).

Business overview

There are three main business segments: Furniture and Housewares, Fashion Accessories, and Home Appliances

1. Trends in the Furniture and Houseware Business

The Furniture and Houseware Business is the Company's largest business segment. In this segment, OEM Business has grown alongside the growth of the major clients, such as Ryohin Keikaku (MUJI). For the Brand Business, the subsidiary Essen Corporation mainly imports and sells German tableware brand Villeroy & Boch, and French enameled cast-iron pot brand CHASSEUR, etc. The Company's own e-commerce interior shops, such as MINT, are growing remarkably in recent years. They sell more than 1,000 items on Rakuten and Yahoo! Shopping, and meet the needs of consumers for items at reasonable prices, including good quality beds and mattresses, antique-style furniture, interior goods, garden exterior and outdoor goods. Recently, the dropout of stay-at-home demand suggests that growth may have peaked. The Company owns furniture and interior goods manufacturing factory in Malaysia (approximately 4,000m^2). It serves as a development base for ODM proposals in addition to manufacturing OEM and the Company's own brand products.

2. Trends in the Fashion Accessories Business

The Fashion Accessories Business is an inherently profitable segment, with the Brand Business having a large presence, accounting for about 50% of net sales. The largest brand the Company handles is BIRKENSTOCK, a comfortable shoe and sandal brand with more than 240 years of tradition in Germany, and its subsidiary BENEXY CORPORATION is engaged in the retail sales business, and it is supported by deep-rooted fans even in the price range of around ¥10,000 and is sold through 45 directly managed stores and e-commerce. As many customers use the products for a long period of time, the Company provides its own full range of after-sales services and their directly-managed stores are located in shopping centers and major department stores that have the ability to attract customers. The business has seen earnings deteriorate since several years ago due to the subsidence of the temporary boom, the occurrence of cannibalization among stores, mainly in urban centers, and the difficulty in attracting customers due to the COVID-19 pandemic. However, the Company has been promoting the closure of unprofitable stores and improving the sales capabilities of staff and sales personnel. The number of stores has been reduced from 65 (as of March 31, 2019) to 45 (as of September 30, 2022), as the Company scraps and builds stores.

3. Trends in the Home Appliance Business

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 export home appliances. In the Brand Business, the segment plans and sells its own Vitantonio brand of cooking appliances, beautify appliances brand "mod's hair," its own electric toothbrush brand "ION-Sei," and commercial cooking appliances brand "MULTI CHEF." Recently, the Vitantonio brand owned by subsidiary ZELIC Corporation, the sales in product categories such as hot sandwich makers and cordless portable blender rise due to stay-at-home demand during the COVID-19 pandemic. The easing of travel and behavioral restrictions has resulted in a recovery in domestic demand for beauty appliances. Mod's hair's compact ion heat brush was voted Best Buy in Kaden Hihyo magazine's heat brush category for the first half of 2022.

Business performance trends

1H FY2022 sales benefited from consumption recovery domestically and abroad. Despite inflation, structural changes reduced losses

1. Overview of 1H FY2022 results

In the 1H FY2022 consolidated results, net sales were ¥18,203mn (up 11.8% YoY), with an operating loss of ¥285mn (a YoY improvement of ¥72mn), an ordinary loss of ¥238mn (a YoY improvement of ¥4mn), and a loss attributable to owners of parent of ¥283mn (a YoY improvement of ¥91mn). Rises in the prices of raw materials and distribution costs had a negative impact, but improved net sales and progress on structural reforms boosted profits.

Overall net sales were driven by both segments' higher sales, with a ¥616mn YoY increase in sales in the Furniture and Houseware Business and a ¥1,071mn YoY increase in sales in the Fashion Accessories Business. In the Furniture and Houseware Business, the recovery in consumption activity in the Japanese market and overseas boosted OEM orders, and sales increased at a tableware subsidiary. In the Fashion Accessories Business, the easing of travel and behavioral restrictions saw travel goods OEM demand recover, helping increase sales at subsidiaries that distribute core brands BIRKENSTOCK and Kipling. OEM orders at the Home Appliance Business were sluggish, but beauty and cooking appliance sales grew in the Japanese market and overseas. In terms of overall trends, the COVID-19 pandemic picture has improved, and out-of-home-demand (travel, beauty, etc.) started to recover.

Gross profit benefited from the increase in net sales, but improved only 3.2% YoY to ¥4,274mn. This was due to the rise in prices of raw materials and distribution costs, etc., and the gross profit margin declined by 1.9 percentage points (pp) YoY to 23.5%. The increase in SG&A was kept down to 1.3% YoY as a result of progress made in reducing costs, including a strategic review of stores in the Brand Business. As a result, operating profit increased by ¥72mn YoY, mainly as a result of the improved gross profit margin. Ordinary profit improved only slightly by ¥4mn YoY due to lower foreign exchange gains caused by the strong yen depreciation, and the loss attributable to owners of parent improved by ¥91mn YoY. Segment income was positive in the Furniture and Houseware Business segment (¥389mn profit), and the Others segment (¥58mn profit), negative in the Fashion Accessories Business segment (¥98mn loss) and the Home Appliances Business segment (¥221mn loss).

1H FY2022 results (consolidated)

(¥mn)

	1H FY2021		1H FY2022		YoY	
	Results	% of sales	Results	% of sales	Change	Change (%)
Net sales	16,279	100.0%	18,203	100.0%	1,923	11.8%
Cost of sales	12,137	74.6%	13,929	76.5%	1,792	14.8%
Gross profit	4,142	25.4%	4,274	23.5%	131	3.2%
SG&A expenses	4,501	27.6%	4,560	25.1%	58	1.3%
Operating profit	-358	-2.2%	-285	-1.6%	72	-
Ordinary profit	-242	-1.5%	-238	-1.3%	4	-
Profit attributable to owners of parent	-375	-2.3%	-283	-1.6%	91	-

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

The Company's equity ratio was over 50% and net assets were over ¥10bn. The Company maintained its financial soundness based on the capital accumulation to date

2. Financial condition and management indicators

As of September 30, 2022, total assets amounted to ¥19,276mn, a decrease of ¥1,506mn from March 31, 2022. Of this amount, current assets decreased by ¥1,158mn to ¥14,548mn. The main factors were a ¥1,604mn decrease in cash and deposits, despite a ¥415mn increase in merchandise and finished goods. Non-current assets decreased by ¥347mn to ¥4,728mn. The main factor was a ¥193mn decrease in investments securities.

Total liabilities decreased by ¥1,628mn to ¥9,049mn. Current liabilities decreased by ¥1,597mn, with the main factors being a ¥1,166mn decrease in short-term borrowings. Non-current liabilities decreased by ¥31mn, and there were no significant changes. Interest-bearing debt was ¥4,856mn (¥6,073mn as of March 31, 2022), a decrease due mainly to the repayment of short-term borrowings. Net assets increased by ¥122mn to ¥10,227mn, and a retained earnings balance of ¥7,439mn shows that it has abundant capital.

The Company's management indicators as of September 30, 2022 show high safety and soundness with the current ratio of 285.9%, while the equity ratio remains high at 52.5%. Although business environment is unfavorable due to the impacts of the COVID-19 pandemic, the Company's financial soundness is maintained due to capital accumulation from the past.

Consolidated balance sheet and financial indicators

(¥mn)

	End of FY2019	End of FY2020	End of FY2021	End of 1H FY2022	Change
Current assets	16,561	17,706	15,707	14,548	-1,158
(Cash and deposits)	5,075	6,246	4,599	2,995	-1,604
(Notes and accounts receivable – trade, and contract assets)	3,849	3,616	3,886	4,047	160
(Merchandise and finished goods)	6,852	6,970	6,319	6,734	415
Non-current assets	5,632	6,348	5,075	4,728	-347
Total assets	22,193	24,055	20,782	19,276	-1,506
Current liabilities	6,913	8,637	6,686	5,088	-1,597
(Short-term borrowings)	1,908	3,900	2,873	1,706	-1,166
Non-current liabilities	3,862	4,067	3,992	3,960	-31
Total liabilities	10,775	12,704	10,678	9,049	-1,628
Net assets	11,417	11,351	10,104	10,227	122
Total liabilities and net assets	22,193	24,055	20,782	19,276	-1,506
<Soundness>					
Current ratio (Current assets / Current liabilities)	239.5%	205.0%	234.9%	285.9%	51.0pt
Equity ratio (Equity / Total assets)	51.0%	46.7%	48.1%	52.5%	4.4pt

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

Outlook

The Company raised its FY2022 forecasts for all profit items due to strong results in 1H. Fashion Accessories Business structural changes almost complete, Home Appliance Business changes ongoing

For the FY2022 consolidated results, the Company forecasts net sales to increase 8.9% YoY to ¥37,000mn, an operating loss of ¥500mn (an improvement of ¥412mn YoY), an ordinary loss of ¥400mn (an improvement of ¥257mn YoY) and a loss attributable to owners of parent of ¥500mn (an improvement of ¥445m YoY). Net sales and profits were revised upwards on factoring in strong 1H results. For the full fiscal year net sales forecast, the 1H progress rate was steady at 49.2% (47.9% in 1H FY2021). This forecast does not expect a rapid recovery in demand for fashion accessories, travel goods and beauty appliances, which have been adversely affected by the COVID-19 pandemic. In fact, the forecast takes into account the negative impact on consumption caused by external factors such as the global rise in raw material prices and distributions costs, and the rapid depreciation of yen, and so is somewhat conservative, meaning achievement is essential.

The Company anticipates a slight reactionary fall in Furniture and Houseware Business segment sales from the dropout of stay-at-home demand. In the Fashion Accessories Business segment, the recovery in going out demand is expected to underpin steady performance by the OEM Business. Sales in the Brand Business are expected to increase, as improvements by subsidiaries BENEXY and L&S Corporation towards a more robust internal structure start to have an impact. The Home Appliances Business segment is expected to see an increase in sales, although OEM Business orders are expected to remain sluggish.

Operating profit is expected to show a clear recovery trend, with a 1H operating loss of ¥285mn (actual), and an expected 2H operating of loss of ¥214mn. The Company has positioned FY2022 as a year of dramatic improvement in profitability, and intends to review the inventories and cost structure of all its businesses, and views 2H as the run-up period to returning to profitability in FY2023.

By segment, the Company expects the impact of yen deterioration on interior e-commerce to lead to weaker profits at the Furniture and Houseware Business segment, its biggest earner. In the Fashion Accessories Business segment, structural reforms by subsidiaries BENEXY and L&S Corporation are expected to have an impact, propelling an ¥865mn YoY improvement in segment profit and reducing the operating loss. The Home Appliances Business segment is undergoing supply chain reforms at the Company's own goods manufacturing factory, but the amount of time required for development has hindered progress in reducing production costs and is expected to lead to a temporary rise in the operating loss.

Rises in the prices of raw materials and distribution costs, and yen depreciation, etc. are all negative factors for the Company, which is primarily an import trading company. However, higher raw material prices can be passed on to sale prices for some transactions. Some transactions of the company also lighten the impact of changing exchange rate. And risk avoidance measures such as forward exchange contracts taken by the Company may also reduce the impact of yen depreciation. In terms of external factors, although there are still uncertainties such as the impact of the Russia/Ukraine conflict, the end of the COVID-19 pandemic is in sight, and travel and going out demand are recovering domestically (as of December 2022), which is expected to have a positive impact on the travel goods and beauty appliances the Company excels in. Internally, the Company has almost completed consolidating stores, and seeks to turn around results by shifting to multi-brand stores (select shops). FISCO believes these measures will further improve earnings towards a return to profitability.

Forecast for FY2022 consolidated results

(¥mn)

	FY2021		FY2022			
	Results	% of sales	Forecast	% of sales	Change	YoY
Net sales	33,976	100.0%	37,000	100.0%	3,023	8.9%
Operating profit	-912	-2.7%	-500	-1.4%	412	-
Ordinary profit	-657	-1.9%	-400	-1.1%	257	-
Profit attributable to owners of parent	-945	-2.8%	-500	-1.4%	445	-

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

Growth strategy

Phase out from BIRKENSTOCK specialty store operations, convert to select stores. Expansion of sustainable brand lineup

1. Phase out from BIRKENSTOCK specialty store operations, convert to select stores

Consolidated subsidiary BENEXY CORPORATION has focused on the operation of "BIRKENSTOCK" specialty stores, but the new strategy is to reorganize the business by turning it into a select store. Under this strategy, the company will 1) Expand the footwear business, and 2) Phasing out the operation of "BIRKENSTOCK" specialty stores. Until now, demand for "BIRKENSTOCK" sandals has been concentrated in the spring and summer months due to the nature of the product, making it difficult to secure year-round sales and improve store profitability. The company aims to expand its footwear distribution and repair business, including the conversion of existing stores into composite brand stores (select stores) and the creation of original brands. Under amicable discussions with BIRKENSTOCK GROUP B.V. of Germany, BENEXY will gradually terminate its operation of stores specializing in this brand from February 2023 to the end of September 2024. Although BENEXY will continue to sell and repair "BIRKENSTOCK" brand products.

This initiative is expected to enable a seasonal MD structure that will eliminate the earnings gap between busy and off-season periods. One of the most promising new brand store is "Quorinest," operated by BENEXY. It offers high-quality and unique clothing and sundry goods brands, including the French beret brand LAULHÉRE and the Turkish vegan rope sandal brand BOHONOMAD. Quorinest has a directly managed store in Tokyo Midtown Hibiya, and is often asked to open other stores by major developers in other area as well. We look forward to seeing whether the evolution of Quorinest to include "BIRKENSTOCK" and other footwear products will be a model for future developments.

2. Sustainable brand lineup expansion

The Company has come to handle a large number of brands that promote environmental consciousness and sustainable value, and this is one of its major features. In particular, based on the concept of "more earth-friendly," the Head Office is moving ahead with the "Our EARTH Project," in which it provides brands, products, materials, and services with the keywords "sustainable" and "ethical" to realize a sustainable society.

In November 2022, the Company launched its YOT WATCH wristwatch recycled from toys. This watch is the Company's own brand, and is made from recycling recycling plastic toys plastic toys to make colorful wristwatches. It is intended as a child's first watch, and contains numbers on its dial to make it easier it read. The color of the minute hand has also been changed. Also, YOT WATCH comes with comes with booklets titled "How to read the time" and "What is recycling?" that enable the wearer to learn about reading time with their first watch as well as about environmental issues. YOT WATCH is stocked at the Company's own e-commerce website, and at Takashimaya Department Stores and Hankyu Department Stores.

Shareholder return policy

The Company plans to pay an annual dividend of ¥20 per share in FY2022

The Company considers the appropriate return of profits to shareholders as one of the most important management issues. It determines the dividend comprehensively, taking into account factors such as its financial position through accumulating retained earnings and strengthening the management base, in preparation for future business development and unforeseen circumstances. Under its corporate philosophy of "Zuien" (connection-i.e., the bonds), dividends are paid as continuously as possible so that its shareholders can hold shares with confidence over the long term. The Company has maintained a certain level of dividends since the COVID-19 pandemic adversely impacted earnings in FY2020, paying an annual dividend of ¥20 per share. For FY2022, the Company expects an annual dividend of ¥20 per share (interim dividend of ¥10 paid, and an expected year-end dividend of ¥10).

The Company announced it would launch a shareholder benefit program in FY2022 with the aim of attracting investors and increasing consumer awareness of the group's products and brands. Shareholders as of the shareholder benefit reference date (March 31, 2023) will enjoy benefit points according to the number of shares held and length of time held. Benefit points can be exchanged for discount vouchers that can be used at the groups directly managed stores, discount coupons that can be used at designated online stores, original QUO cards, and donated to designated social contribution activities.

FISCO

Disclaimer

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