

GLOBERIDE, Inc.

7990

Tokyo Stock Exchange First Section

27-Dec.-2017

FISCO Ltd. Analyst

Fumiya Mizuno



FISCO Ltd.

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

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■ Summary

The FY3/18 forecast is for record-high net sales

GLOBERIDE, Inc. <7990> (hereafter, also “the Company”) became the global leader in fishing product sales (under the DAIWA global brand) in 1976. It has consistently led the industry since then with numerous innovations, revolutionary products based on unique technologies, and new proposals for fishing lifestyle. DAIWA is a universally known presence in the fishing world. GLOBERIDE also sells products for golf, tennis, and cycling sports worldwide. It generated 71.0% of sales in Japan and 29.0% from other countries and has steadily solidified positions in the Americas, Europe, and Asia and Oceania. Growth in sales to Asia has stood out recently. GLOBERIDE manufactures almost all of its products, except for some luxury items, in China, Vietnam, Thailand, and other overseas sites. Sales ratios by products are fishing, the main business, at 85.2%, golf at 6.2%, racquet sports at 7.8% and others including cycling sports at 0.9% in FY3/18 1H.

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

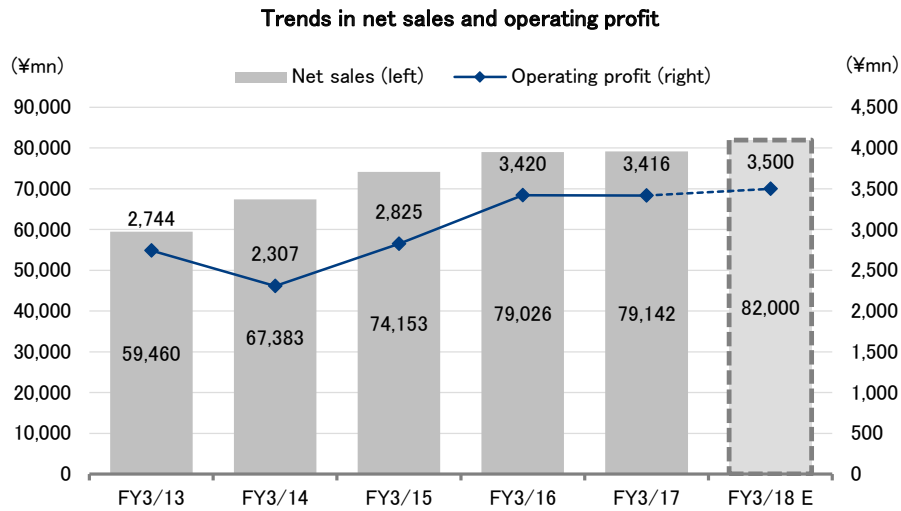
GLOBERIDE largely realized goals of “20% increase in sales, 30% rise in profits, and 40% dividend hike” from the medium-term business plan that started in FY3/15 and lasted through FY3/17. It is currently preparing a new medium-term plan that extends through FY3/21 with an aim of further advances through “higher sales, profits, and dividends.” GLOBERIDE hopes to present the full content of the plan within the FY3/18. It is on the verge of reaching its near-term target of ¥80,000mn after many years of patience and expects to surpass the all-time high of ¥80,652mn, which was recorded in FY3/93, in FY3/18.

For shareholder returns, GLOBERIDE plans to increase the dividend by ¥5 from FY3/17’s ¥50 to ¥55 in FY3/18. The target works out to a dividend payout ratio of 33.3%. GLOBERIDE also has a shareholder gift program that is helping to expand the number of shareholders. We have a favorable view of proactive shareholder returns while striking a balance with retained earnings to fund R&D and capital investments needed to create innovative products.

Key Points

- Sales to increase in FY3/18 Q2 from the progress in product development and the active expansion of overseas sales
- Aiming for higher operating profit and all-time high net sales in FY3/18
- Steadily raised the dividend, targeting ¥55 in FY3/18

Summary



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

Business details and history

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

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

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

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

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Business details and history

DAIWA brand mark



Source: Materials supplied by the Company

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

DAIWA



Source: Materials supplied by the Company

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

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Business details and history

DAIWA



Source: Materials supplied by the Company

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

GLOBERIDE is the sales distributor for PRINCE in Japan for tennis and other racquet sports. It proposes a tennis lifestyle for adults that covers activities both on and off the court and has carefully cultivated the brand for racquets as well as tennis wear and other related products. GLOBERIDE handles a wide range of products beyond tennis, including badminton that attracted interest with strong performances by Japanese athletes in the Olympics and squash. GLOBERIDE promotes CORRATEC, FOCUS, and BOTTECCHIA brands for cycling sports. It has also recently launched D-VEC, a new apparel brand that combines functionality and fashion. We expect further new proposals as a “lifetime sports company.”

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Business details and history

ONOFF



Source: Materials supplied by the Company

FOURTEEN



Source: Materials supplied by the Company

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Business details and history

PRINCE



Source: Materials supplied by the Company

CORRATEC



Source: Materials supplied by the Company

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Business details and history

History

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

Source: Prepared by FISCO from the Company's website

■ Performance trends

Sales to increase in 1H FY3/18 from the progress in product development and the active expansion of overseas sales

1. FY3/18 1H results

In the FY3/18 1H (April to September 2017) results announced on November 8, 2017, net sales were ¥44,951mn (up 6.3% year-on-year (YoY)), operating profit was ¥2,933mn (down 9.8%), ordinary profit was ¥2,969mn (up 14.8%), and profit attributable to the owners of the parent was ¥2,042mn (down 10.4%), for higher sales but lower operating profit. However, non-operating profit improved and profits were secured at the ordinary profit. Net sales exceeded ¥43,500mn, which was the estimated value at the time of the 1H.

Within Japan, there is a sense that the economic indicators are getting better, such as that the employment rate is improving compared to previously, but it is not the case that consumer confidence is improving to the same extent as these indicators. In this situation, it cannot be said that the environment surrounding the Company's products, which are not daily necessities, is necessarily a good one. However, it is responding through the launches of innovative products that strike a chord with people who enjoy fishing, golf, and racquet sports.

In fishing, the trend in the domestic fishing market as a whole in the 1H was comparatively favorable, such as an estimated 2% to 3% growth YoY. In this environment, the Company secured an increase of 5% for domestic sales.

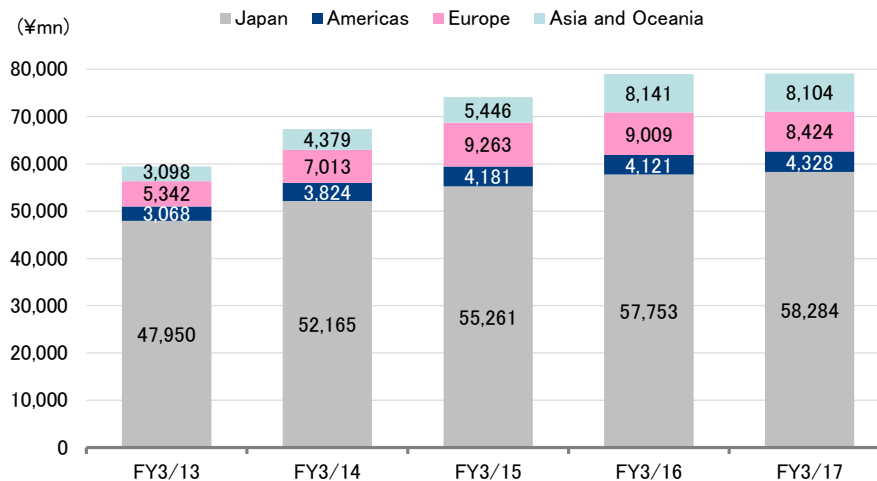
The 1H of 2016 was affected by the unseasonable weather and conditions were difficult, but 2017 has greatly benefited from the weather.

On the other hand, there is a sense that the economy is improving, if moderately, and consumers continue to highly evaluate the Company's products. As a result, they greatly exceed the market averages.

Golf maintained its performance from strong inquiries for the flagship brands, such as ONOFF. Domestically, sales increased 5% in a situation in which the market as a whole was basically unchanged YoY. In this situation, the growth was driven by the new products for advanced players launched in the spring of 2017 under the supervision of golf pro Shingo Katayama. In addition to the brand's appeal, the products were well received from their solid manufacturing that was linked to the play of professionals. Conversely, in racquet sports, sales declined 2%, as they were affected by the end of the "Nishikori effect" that had fueled a tennis boom.

Overseas, fishing expanded steadily. It cannot be said that the outdoor markets in Europe and the United States are performing well, but the results of the Company's measures to strengthen the overseas business, which it has been implementing since several years ago, are currently appearing. Looking by region, in the Americas, although the market cooled-down to the extent of a decline of from 5% to 10% YoY, even in this situation, the Company recorded growth of 16% in the United States on a local-currency basis. Similarly, in Europe, the fishing market was down from 5% to 10%, but it still secured an increase of 9%. In Asia and Oceania also, the market is not currently performing well, in a range of unchanged YoY to down 10%, but even in these conditions the Company recorded a high increase in sales, of up 22%.

Performance trends

Trends in sales by region


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

The conditions in the golf market are severe to the extent it can be described as a global slump, including that even in the main market of the Americas, a leading sports equipment manufacturer has withdrawn from golf equipment. The background to this is that temporarily there are no star players, like Tiger Woods. For the Company also, overall its sales declined 10%, including from the effects of a change of agency by its subsidiary for its main South Korean market.

In profits, due to exchange-rate fluctuations, raw material costs and other costs increased. The costs of sales increased from ¥26,276mn in the same period in the previous fiscal year to ¥28,548mn, while the cost of sales ratio rose from 62.2% to 63.5%. The major reason for this seems to be the increase in the price bands of products in the volume zone, alongside the growth in overseas sales. Overseas, while the focus has been on high-end products, in order to increase its market shares the Company has also been launching products in the medium and popular price bands.

In fact, the Company's strategy has been proving successful, such as sales are growing even in a situation in which the markets are cooling down. But compared to high-end products, naturally low-priced products are less profitable, which causes the cost of sales ratio to worsen. It is also actively conducting upfront investment, including spending to strengthen sales support overseas and on the e-commerce business. So the operating margin fell from 7.7% in the same period in the previous fiscal year to 6.5%.

However, in non-operating profit and expenditure, the Company was able to secure a double-digit increase in ordinary profit as a result of factors including that because the exchange-rate fluctuations settled down, it did not record a FOREX-related loss like the loss of ¥315mn in the same period in the previous fiscal year, and it also posted ¥270mn from the settlement of patent litigation.

Performance trends

Aiming for higher operating profit and all-time high net sales in FY3/18

2. Outlook for FY3/18

GLOBERIDE guides for ¥82,000mn in net sales (+3.6% YoY), ¥3,500mn in operating profit (+2.4%), ¥3,000mn in ordinary profit (+22.6%), and ¥1,900mn in profit attributable to owners of parent (-13.0%) in FY3/18. This outlook targets all-time high net sales, exceeding the current record of ¥80,652mn.

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

DAIWA's waterproofing and durability technologies



Source: Materials supplied by the Company

Response to the growing EC market is a key point. While real-world stores, which handle products, are likely to continue as the main channel for supplies, reels, fishing rods, and other higher-priced items are shifting to Internet sales and GLOBERIDE needs to bolster its support for the EC market. EC business involves sales through distributors, and World Sports, Co., Ltd., a subsidiary that handles retail business, is building omni-channel operations.

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Performance trends

For golf business, GLOBERIDE focuses on steady sales growth with provision of high-end products and services to “fan” customers while carefully preserving its brands. It utilizes test hitting opportunities and other events as member perks for ONOFF, FOURTEEN, and other fan clubs to improve brand value and also highlight product features. In golf in the 1H, the new products in the Black Series performed well, while the plan is to further grow sales from the new products for women launched in September 2017. In racquet sports, in a profit environment adversely affected by the decline in the player population, it is considered that the Company will continue to work to increase the power of the PRINCE brand and to strengthen sales.

ONOFF LADY



Source: Materials supplied by the Company

PRINCE



Source: Materials supplied by the Company

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Performance trends

The Company plans to continue increasing upfront investment expense, though it expects a rise in operating profit with sales and cost reduction offsetting the expense.

Financially, interest-bearing debt had been increasing due to the active capital investment in the last three years. But at the end FY3/18 1H, it had fallen ¥3,324mn on the end of the previous fiscal year, and the Company has also indicated that it will reduce it further in the future. As a result of such efforts to improve its finances, at the end of 2Q, the equity ratio had improved from 27.7% at the end of the previous fiscal year to 30.5%.

Past results and forecasts

	(¥mn)			
	FY3/15	FY3/16	FY3/17	FY3/18 E
Net sales	74,153	79,026	79,142	82,000
YoY	10.0%	6.6%	0.1%	3.6%
Operating profit	2,825	3,420	3,416	3,500
YoY	22.5%	21.1%	-0.1%	2.4%
Ordinary profit	2,918	2,885	2,447	3,000
YoY	66.7%	-1.1%	-15.2%	22.6%
Profit attributable to owners of parent	1,603	1,659	2,184	1,900
YoY	-44.3%	3.5%	31.6%	-13.0%
EPS (¥)	13.94	144.39	190.08	165.36
Dividend (¥)	4.00	45.00	50.00	55.00

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

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

■ Outlook and strategy

Currently formulating a new medium-term business plan that lasts through FY3/21

GLOBERIDE finished the medium-term business plan lasting through FY3/17 that had final-year goals of ¥80,000mn in consolidated sales (+18% versus FY3/14), ¥3bn in consolidated operating profit (+30%), and a ¥50 dividend (effectively a ¥15 dividend hike). While sales slightly missed the goal due to the impact of yen appreciation on conversion of overseas value to a yen basis, operating profit reached the goal one year ahead of time and ultimately overshot by ¥416mn.

Additionally, GLOBERIDE is currently preparing a new medium-term business plan that lasts through FY3/21 with aims of further growth and improved corporate value by sustaining “proactive management.” It has not presented plan content at this stage, but the new plan will continue the three measures from the previous medium-term plan of pursuing supply capacity for products with market advantages, stimulating and improving the domestic market, and taking actions in overseas markets.

Outlook and strategy

The final fiscal year is FY3/21 and targets the Tokyo Olympics and Paralympics year. We expect a reasonably healthy environment given the prospect of heightened sports excitement in Japan. But with the population declining there is no hope of the large Japanese market expanding. While the domestic market is likely to pick up, we think overseas business will remain the primary source of growth opportunity. Income levels should be rising in Asia, and these gains are likely to broaden demand for products related to fishing for leisure. We forecast continuation of a growth trajectory over the next three years thanks to this addition to market development room.

While GLOBERIDE is currently preparing the specific sales goal, we think it might target consolidated net sales from the ¥90,000mn to ¥100,000mn range, judging from 20% sales growth in the previous plan. It hopes to expand top-line sales with fishing as the main driver and is also considering wider peripheral businesses. New investments are part of the review, including M&A as a possible approach.

Plan formulation also has strong awareness of “post-Olympics” from 2020. GLOBERIDE is likely to move quickly in strengthening the overseas foundation and establishing capabilities to generate profits in these markets in order to sustain a growth trajectory even if domestic demand subsequently weakens.

(1) Fishing product business

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

GLOBERIDE is addressing the situation by proposing a different type of fishing than in the past and hopes to increase sales by creating a new market. We think GLOBERIDE is capable of pursuing this strategy because of its strength of steadily launching innovative products that cannot be produced by rivals. The Company also conducts activities to raise awareness among young people, such as the Daiwa Young Fishing Club (D.Y.F.C.) started 40 years ago, and takes an aggressive stance to market development.

DAIWA's technologies



Source: Materials supplied by the Company

Outlook and strategy

Daiwa Young Fishing Club



Source: Materials supplied by the Company

Yet overseas markets are the primary opportunity for driving future growth. Asia, which is already exhibiting robust growth, offers clear potential. For example, particularly strong demand for the Company's high-end products exists in China from the segment with large incomes even though these items cost a few times more than normal prices. The fishing style is also changing from simple fishing, mainly for crucian carp and koi carp, to fishing using lures and reels. Inquiries for high-end products handled by GLOBERIDE are likely to strengthen as income levels climb in Southeast Asia and other regions.

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

Fishing show in Italy



Italy – Pescare Show

Source: Materials supplied by the Company

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Outlook and strategy

(2) Golf products business

While GLOBERIDE aims to increase its global market share in fishing business, it is not trying to compete for volume with DUNLOP SPORTS CO. LTD. <7825>, Bridgestone Corporation <5108>, and other firms in the golf business. Instead it utilizes a strategy of calibration to its position in the industry.

The Company seeks differentiation from other manufacturers and provides high-end products and services to customers who are fans of these products with emphasis on nurturing ONOFF, FOURTEEN, and other brands. Specifically, following on from FOURTEEN, which has a fan club with more than 10,000 members, the ONOFF brand has started to build a membership organization and enhanced services for brand customers. It promotes measures that boost customer satisfaction. FOURTEEN follows a strategy of supplying the “best fourteen clubs” to golfers in order to accumulate sales.

The membership organization holds many fine quality events exclusive to members. These activities put emphasis on fans and pursue steady improvement of brand value and stable sales growth.

CLUB ONOFF membership organization



Source: Materials supplied by the Company

Fourteen Classic golf competition organized by FOURTEEN



Source: Materials supplied by the Company

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Outlook and strategy

(3) Racquet sports business

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

Enjoying adult tennis life off the court



Source: Materials supplied by the Company

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

Windsor Racquet Shop - Shibuya



Source: Materials supplied by the Company

Outlook and strategy

(4) Apparel

Apparel business offers opportunity in the new medium-term plan. GLOBERIDE mainly supplied fishing apparel up to now and is launching an independent apparel brand for the first time. It is developing the D-VEC brand released in 2017 as an urban fashion line that combines technology and functionality cultivated over many years for DAIWA fishing apparel with fashion sense from a dedicated design team.

D-VEC items, which can be worn comfortably even in a harsh fishing natural environment, comprise an extensive line-up of not only outerwear, but also T-shirts, shorts, shoes, umbrellas, and eyewear. GLOBERIDE opened the EC site and a shop in Harajuku, Tokyo on March 2017. It is proposing sports apparel that makes life fuller in accordance with the corporate ideal of being a “lifetime sports company” and hopes to enhance corporate value.

D-VEC



Source: The Company's website

■ Shareholder returns

Steadily raised the dividend each fiscal year, targeting ¥55 in FY3/18

GLOBERIDE plans to pay an annual dividend of ¥50 per share in FY3/17. The FY3/16 dividend was unusual at ¥27 for the year (essentially ¥45) because of the reverse stock split from 10 ordinary shares to 1 share conducted on October 1, 2015. The FY3/17 dividend hence works out to an effective increase of ¥5 or 11.1%.

GLOBERIDE pays shareholder returns while striking a balance with retained earnings that reflects proactive R&D and capital investments to develop innovative products. However, based on a positive stance toward shareholder returns amid ramped-up capital investments in recent years, continued positive returns can be expected going forward. GLOBERIDE will boost the dividend payout ratio to 33.3% (from FY3/17's 26.3%) if it pays a ¥55 in FY3/18 as planned.

■ Information security measures

To defend against external threats, has established a multi-level defense system and a 24-hour monitoring system, and thoroughly conducts employee training to prevent information leakages

On considering the environment created by the increasingly malicious and sophisticated ransomware and other types of computer viruses, the Company constantly installs the latest virus-detection software at various places in its networks, servers, and PCs. It has also established a multi-level defense system, including tools to catch unknown threats in advance. In addition, it has in place a 24-hour monitoring system operated by an external specialist agency for detecting and protecting against abnormalities. The Company actively conducts promotions for customers, so it handles personal information. Therefore, it thoroughly conducts employee training on information management and works to prevent information leakages.



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