

Sanyei Corporation

8119

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Summary

Posted the highest-ever level ordinary profit in FY3/17, aims to sustain at least ¥2,000mn in ordinary profit in the three-year medium-term management plan

Sanyei Corporation <8119> is a longstanding trading company with a 70-year history. It currently handles the full range of living-related products and broadly covers a supply chain of manufacturing, imports and exports, wholesale, and retail. It has grown into a multi-functional trading firm with 20 overseas locations and 84 domestic directly managed retail stores. Sanyei stands out in its coverage of products with high added value, including the introduction of differentiated European brands and OEM supply of unique products to customers, such as Ryohin Keikaku Co., Ltd. <7453>. It has three main business segments – Furniture and Houseware Business (55.1% of overall sales), Fashion Accessories Business (27.3%), and Home Appliance Business (12.2%).

1. Business descriptions

Furniture and Houseware Business has been driving growth in recent years with OEM supply as a large share of this business. This growth has been driven by expansion of business with major customers, such as Ryohin Keikaku. Main drivers in FY3/17 were a large spot order from a European customer, growth in energy-saving product transaction value, and gains in furniture direct-sale EC business.

Brand business has a substantial presence in Fashion Accessories Business. While sales and profits dropped in FY3/17, this segment exhibits high profitability. The largest brand is Birkenstock, which makes sandals and comfort shoes with excellent functional beauty and has a tradition of more than 240 years in Germany. It is supported by an enthusiastic fan base even with a price range of about ¥10,000. Retail sales expanded on growth in store numbers and upbeat EC in FY3/17. However, segment sales still dropped because this was not enough to offset decline from the contract loss in wholesale business.

2. Result trends

Sanyei reported consolidated FY3/17 results of ¥49,785mn in net sales (+0.7% YoY), ¥2,704mn in operating profit (+14.6%), ¥2,436mn in ordinary profit (+0.5%), and ¥1,428mn in profit attributable to owners of parent (-0.5%). Sales remained on the verge of ¥50,000mn, just as in the previous year, and operating and ordinary profits attained the highest-ever level. Factors supporting upbeat results were a large order from a European customer in the Furniture and Houseware Business, yen appreciation, and continuing efforts to lower costs.

The FY3/18 consolidated guidance calls for lower profits on a rise in sales with ¥50,000mn in net sales (+0.4% YoY), ¥2,100mn in operating profit (-22.4%), ¥2,100mn in ordinary profit (-13.8%), and ¥1,300mn in profit attributable to owners of parent (-9.0%). Sanyei seeks to break through the ¥50,000mn sales threshold that it missed in the past two years. In earnings, it anticipates a weaker outcome because of the impact of lower sales at the overseas subsidiary. The projected ¥2,100mn in ordinary profit, meanwhile, represents the third-highest level after last year and the previous year.

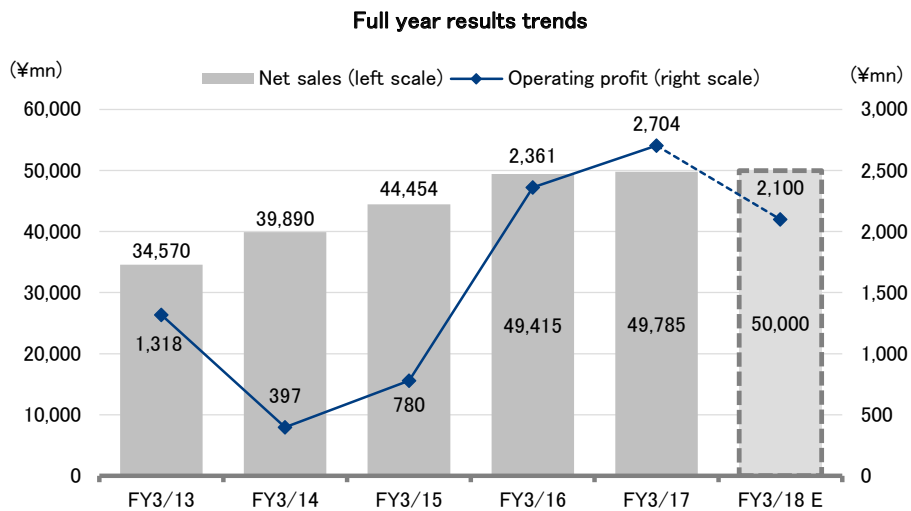
Summary

3. Growth strategy

Sanyei disclosed three-year numerical goals with FY3/18 as the starting year and hopes to deliver steady ordinary profit of at least ¥2,000mn. The FY3/20 final-year goal is ¥2,600mn in ordinary profit. Priority themes are 1) new challenges, 2) rigorous low-cost operations, 3) further creation of group synergies, 4) promotion of human resources strategy (aimed at cultivating an optimal human resources system), and 5) offensive governance (improving the business infrastructure system). Sanyei intends to invest proactively in system upgrades and program formation on the basis that developing lean operations is vital to stable realization of at least ¥2,000mn in earnings.

Key Points

- OEM expansion driving Furniture and Houseware Business, strong brand presence in Fashion Accessories Business
- Just under ¥50,000mn in net sales and set the highest-ever level ordinary profit in FY3/17
- Presented a three-year medium-term management plan with a goal of at least ¥2,000mn in stable ordinary profit



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

■ Company profile

Multi-functional trading company specializing in high value-added products with a history of over 70 years

1. Company profile and history

The Company was established in Osaka in 1946 as an exporter of accessories. Today, it handles lifestyle-related goods in general and is widely involved in operations in the supply chain, from manufacturing and importing and exporting, through to wholesale and retail sales. It has grown to be a multi-functional trading company with 20 overseas bases and 84 domestic, directly managed retail stores. Its individuality is clear on the point of its handling of high value-added products, such as its import into Japan of differentiated European brands and its OEM procurement for customers that are very selective about the products they want, as typified by Ryohin Keikaku.

2. Business composition

Sanyei operates under the following business segments – Furniture and Houseware Business, Fashion Accessories Business, Home Appliance Business, and Others. Furniture and Houseware Business mainly procures OEM products for major Japanese and foreign companies and provided 55.1% of overall sales and 84.1% of operating profit in FY3/17. Fashion Accessories Business covers import sales of brand products with sales rights, such as BIRKENSTOCK (sandals) and Kipling (bags), and domestic and overseas OEM business. It contributed 27.3% of sales and 26.7% of operating profit. Home Appliance Business handles OEM product procurement and brand business. Major brands are Vitantonio (cooking appliances) and mod's hair (beauty appliances). This segment generated 12.2% of sales and 8.5% of operating profit. The Others segment handles pet goods and other items and was at 5.4% of sales and had a segment loss.

Business descriptions and percentages

Business segment	Descriptions of the main businesses	Percentages of net sales	Percentages of operating profit
Furniture and Houseware Business	OEM for Ryohin Keikaku and WMF (kitchen goods manufacturer)	55.1%	84.1%
Fashion Accessories Business	BIRKENSTOCK (sandals) and Kipling (bags) and OEM for domestic and overseas retail stores, etc.	27.3%	26.7%
Home Appliance Business	Vitantonio (cooking appliances) and Mod's Hair (beauty appliances), and OEM for domestic and overseas manufacturers and retail stores	12.2%	8.5%
Other	Pet merchandise, pets, etc.	5.4%	-0.7%
*Adjusted amount			-18.5%

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

The business model consists of Brand business and OEM business. Brand business mainly promotes wholesale and retail activity in Japan for overseas brands and Sanyei's own brands. It obtains generally high profitability due to handling excellent brands with a strong history not introduced in Japan yet. Sanyei hopes to expand Brand business from 25.5% of total sales in FY3/17 to about 40% in future years. OEM business implements various procurement tasks, such as review of product specifications for products that meet the needs of customer companies, plant selection, price negotiations, production management, and export/import and logistics. Sanyei has strengths in the manufacturing network in Asia built through overseas initiatives from many years and production management by its own staff.

Company profile

Business model content and composition

	Descriptions of the main businesses	Percentages of net sales
Brand business	Wholesale and retail activity for overseas brands and proprietary brands	25.5%
OEM business	Review product specifications for products that meet the needs of customer companies, select plants, negotiate prices, manage production, handle export/import, and engage in other procurement tasks	74.5%

Source: Prepared by FISCO from the Company's results briefing materials

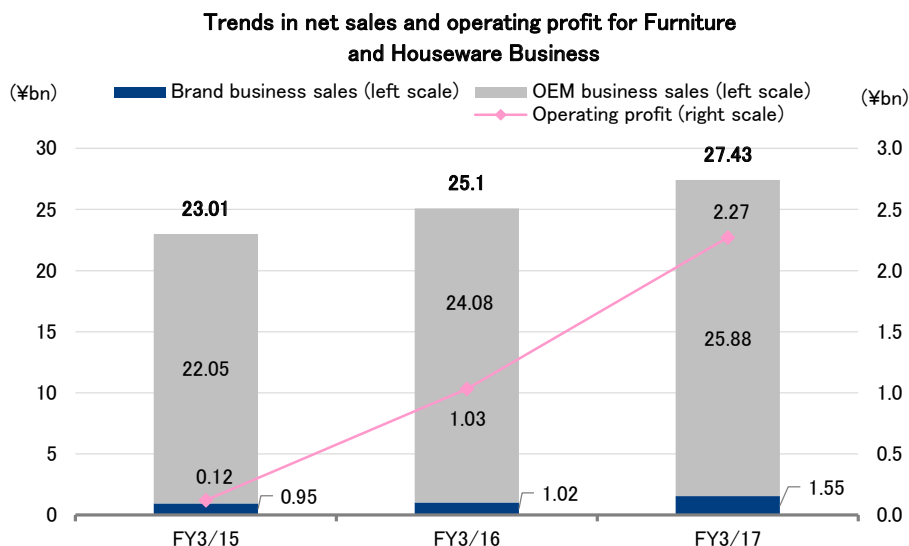
Business overview

OEM expansion driving Furniture and Houseware Business, strong brand presence in Fashion Accessories Business

1. Trends in the Furniture and Houseware Business

Furniture and Houseware Business has been driving growth in recent years with OEM supply as a large share of this business. This growth has been driven by expansion of business with major customers, such as Ryohin Keikaku. Main drivers of strong sales expansion to ¥27,431mn (+¥2,333mn YoY) in FY3/17 were a large spot order from a European customer, growth in energy-saving product transaction value, and gains in furniture direct-sale EC business (tripling YoY). Earnings boosts came from higher sales as well as improved gross margin ratio at overseas subsidiaries and reduction of the SG&A expenses ratio.

Exclusive agent contracts expire in October 2017 for WMF (kitchen items) and Silit (kitchen items) brands in the Furniture and Houseware Business, but this change should only have a minor impact on FY3/18 results.



Source: Prepared by FISCO from the Company's results briefing materials

Business overview

2. Trends in the Fashion Accessories Business

Brand business has a substantial presence in Fashion Accessories Business. While sales and profits dropped in FY3/17, this segment exhibits high profitability.

The largest brand is BIRKENSTOCK, which is managed by the subsidiary Benexy Corporation. BIRKENSTOCK makes sandals and comfort shoes with excellent functional beauty and has a tradition of more than 240 years in Germany. It is supported by an enthusiastic fan base even with a price range of about ¥10,000. The products are sold via the 62 directly managed stores and e-commerce. Sanyei offers robust after-sales services because many customer use the products for lengthy periods. Retail sales expanded on growth in store numbers and upbeat EC in FY3/17. However, segment sales still dropped because this was not enough to offset decline from the contract loss in wholesale business.

Kipling is a brand of nylon bags that was created in Belgium in 1987, and together with the Kipling monkey (its mascot), it is famous throughout the world as a playful, casual brand. Sanyei runs this business via 11 directly managed stores (including the Ginza store and outlet stores). While business was sluggish at directly managed stores, overall sales rose slightly in FY3/17 thanks to upbeat sales at outlets and other locations.

BIRKENSTOCK



Kipling



Source: The Company's results briefing materials

Results trends

Just under ¥50,000mn in net sales and set the highest-ever level ordinary profit in FY3/17

1. FY3/17 full year results

Sanyei reported consolidated FY3/17 results of ¥49,785mn in net sales (+0.7% YoY), ¥2,704mn in operating profit (+14.6%), ¥2,436mn in ordinary profit (+0.5%), and ¥1,428mn in profit attributable to owners of parent (-0.5%). Sales remained on the verge of ¥50,000mn, just as in the previous year, and operating and ordinary profits attained all-time highs.

In net sales, Furniture and Houseware Business sales grew substantially, including support from a large spot order by a European customer, and offset sales decline in other businesses. In ordinary profit, while sales decline at domestic subsidiaries (mainly in brand business) and investment costs were negative impacts, yen appreciation and continuing efforts to lower costs fueled a 1.8pp rise in gross margin ratio and higher profit.

FY3/17 full fiscal year results (consolidated)

	FY3/16		Period-start forecast	FY3/17			
	Result	% of sales		Result	% of sales	YoY	vs. forecast
Net sales	49,415	100.0%	49,000	49,785	100.0%	0.7%	1.6%
Cost of sales	36,485	73.8%	-	35,826	72.0%	-1.8%	-
Gross profit	12,929	26.2%	-	13,959	28.0%	8.0%	-
SG&A expenses	10,568	21.4%	-	11,254	22.6%	6.5%	-
Operating profit	2,361	4.8%	1,800	2,704	5.4%	14.6%	50.3%
Ordinary profit	2,423	4.9%	1,800	2,436	4.9%	0.5%	35.3%
Profit attributable to owners of parent	1,435	2.9%	1,300	1,428	2.9%	-0.5%	9.8%

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

Progress in repaying loans, financial soundness improved

2. Financial position and management indicators

Sanyei is maintaining sound financial conditions. Total assets climbed by ¥10mn versus end-FY3/16 to ¥23,057mn. Main increases were fixed assets by ¥181mn and investments and other assets, and main decreases were current assets by ¥172mn, cash and deposits, and notes and accounts receivable.

Liabilities dropped by ¥1,744mn from the end of the previous fiscal year to ¥10,249mn. Main declines were current liabilities by ¥1,952mn and short-term debt.

In management indicators, Sanyei realized hefty improvements in the current ratio at 204.5% (up from 167.0% at the end of the previous fiscal year) and the equity ratio to 55.1% (up from 47.5%). Short-term and long-term soundness strengthened further on loan repayment.

Results trends

Consolidated balance sheet, management indicators

	End-FY3/16	End-FY3/17	Change
	(¥mn)		
Current assets	17,007	16,835	-172
Cash and deposits	3,466	2,859	-607
Notes and accounts receivable	6,565	6,024	-540
Merchandise and finished products	6,017	6,381	364
Fixed assets	6,040	6,221	181
Total assets	23,047	23,057	10
Current liabilities	10,186	8,233	-1,953
Short-term debt	3,600	2,500	-1,100
Fixed liabilities	1,807	2,015	208
Total liabilities	11,993	10,249	-1,744
Net assets	11,054	12,807	1,753
Total liabilities and net assets	23,047	23,057	10
Stability			
Current ratio (current assets ÷ current liabilities)	167.0%	204.5%	-
Equity ratio (shareholders' equity ÷ total assets)	47.5%	55.1%	-

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

Forecasts

Targeting ¥50,000mn in net sales again in FY3/18, expects lower ordinary profit but still the third highest on record

The FY3/18 consolidated guidance calls for lower profits on a rise in sales with ¥50,000mn in net sales (+0.4% YoY), ¥2,100mn in operating profit (-22.4%), ¥2,100mn in ordinary profit (-13.8%), and ¥1,300mn in profit attributable to owners of parent (-9.0%). Sanyei seeks to break through the ¥50,000mn sales threshold that it missed in the past two years. However, the Company anticipates a substantial decline in earnings because of the impact of lower sales at the overseas subsidiary, despite improved profitability at subsidiaries handling brand business in Japan. The projected ¥2,100mn in ordinary profit, meanwhile, represents the third-highest level after last year and the previous year.

■ Medium- to long-term growth strategy

Presented a three-year medium-term management plan for the first time with a goal of at least ¥2,000mn in stable ordinary profit

1. Presented a three-year medium-term business plan

Sanyei disclosed three-year numerical goals with FY3/18 as the starting year. It previously set a goal for net sales, but this time it aims to deliver stable ordinary profit of at least ¥2,000mn. We think this change reflects growing confidence in profitability in recent years. The FY3/20 final-year goal is ¥2,600mn in ordinary profit.

There are five priority themes.

(1) New challenges

Sanyei is proactively recruiting new domestic and overseas customers in the OEM business. It aims to strengthen brands, including by M&A, and build a multilayer business model in the brand business.

(2) Rigorous low-cost operations

Sanyei is continuously reducing SG&A expenses in order to succeed in price competition in the OEM business.

(3) Further creation of group synergies

Sanyei is bolstering joint operations with nine domestic affiliates.

(4) Promotion of human resources strategy

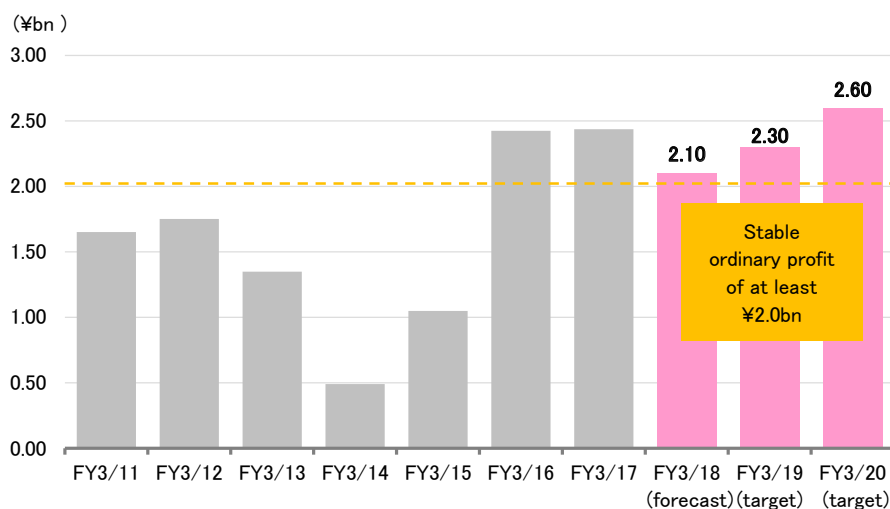
Sanyei is cultivating an optimal human resources system, including use of external consultants.

(5) Offensive governance

Sanyei has started a project to unify mission-critical systems on SAP and will introduce this system at domestic and overseas group firms during the next few years in order to bolster efficiency and risk management.

Sanyei intends to invest proactively in system upgrades and program formation on the basis that developing lean operations is vital to stable realization of at least ¥2,000mn in earnings.

Medium-term business plan (ordinary profit)



Source: Prepared by FISCO from the Company's results briefing materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

Medium- to long-term growth strategy

2. Starting overseas sales of brand products

Sanyei is a rare presence among Japanese trading firms with its transaction pattern of exporting products manufactured at overseas sites to overseas customers in the US, Europe, China, and other locations. While this mainly occurred in the OEM business, Sanyei has started developing overseas markets in the brand business too. In 2016, it began sales of Vitantonio products (cooking appliances) in Hong Kong and Taiwan. In April 2017, it initiated sales of five hair irons from the mod's hair brand for beauty appliances in Taiwan. It has already secured about 500 stores as sales channels, including specialty stores, home appliance retailers, drugstores, mail-order services, and major EC sites (Taiwan's three leading sites), and intends to double this presence to at least 1,000 stores in the next three years. Sanyei hopes to raise overseas brand awareness and bolster development of overseas markets to secure balance in its overall business.

Start of overseas sales for mod's hair beauty appliances

<Sales in Taiwan>

- Sales started in April 2017
- Five hair iron models
- Sales channels include specialty stores, home appliance retailers, and drugstores (real-world sites) plus mail-order services (TV shopping) and EC sites
- Secured these potent sales channels through collaboration with a local sales agent
- Intends to double this presence to at least 1,000 stores in the next three years



Three leading EC sites in Taiwan

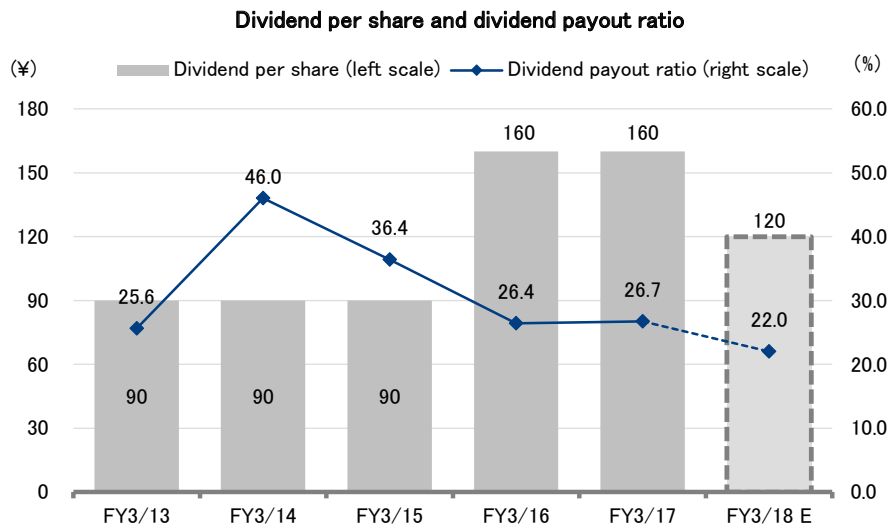
Began sales of Vitantonio cooking appliances in Hong Kong and Taiwan last year; likely to continue pursuing growth in brand and overseas sales

Source: The Company's results briefing materials

Shareholder return policy

¥160 dividend in FY3/17 (¥120 ordinary dividend), raised or sustained the dividend for 20 straight years

Sanyei employs a policy that targets a roughly 30% dividend payout ratio to support stable, continuous dividends and also retain profits to fund corporate reinforcement. The FY3/17 dividend totaled ¥160 (¥120 ordinary dividend) with ¥60 in 1H and ¥100 in 2H (¥60 ordinary dividend plus a ¥40 commemorative dividend). It expects to pay ¥120 in FY3/18 with ¥60 in 1H and ¥60 in 2H. Sanyei has raised or sustained the dividend in 20 straight years, making the stable dividend one of its appeals.



Note: The FY3/16 dividend included a ¥60 special dividend. The FY3/17 dividend contained a ¥40 dividend commemorating the 70th anniversary.

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



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