COMPANY RESEARCH AND ANALYSIS REPORT

Sanyei Corporation

8119

TSE JASDAQ

13-Aug.-2019

FISCO Ltd. Analyst

Hideo Kakuta

FISCO

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary 01

1. Business description 01
2. Results trends 02
3. Growth strategy and topics 02
4. Shareholder return policy 03

Company profile 04

1. Company profile and history 04
2. Business composition 04

Business overview 06

1. Trends in the Furniture and Houseware Business 06
2. Trends in the Fashion Accessories Business 07
3. Trends in the Home Appliance Business 08

Results trends 10

1. FY3/19 full year results 10
2. Financial position and management indicators 11

Outlook 12

Growth Strategy and Topics 14

1. Focus measures in the medium to long-term 14
2. Strengthening operations in the brands retail business 15

Shareholder return policy 16

Summary

Net sales of ¥43.0bn and ordinary income of ¥1bn forecast for FY3/20
Will utilize its planning and development capabilities in the furniture and houseware OEM business, and results are forecast to recover
Plans to drastically restructure the brand business

Sanyei Corporation <8119> is a multi-functional trading company specializing in high-value-added products with a history of over 70 years. It carries a full range of consumer lifestyle products and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. It has 19 overseas locations and 84 directly managed domestic retail stores. The Company stands out in terms of its coverage of products with high added value, including the introduction of differentiated European brands to Japan and OEM supply of unique products to customers, such as Ryohin Keikaku Co., Ltd. <7453>, which operates MUJI. It has three main business segments – Furniture and Houseware Business (46.6% of overall sales), Fashion Accessories Business (34.8%), and Home Appliance Business (13.7%).

1. Business description

The Furniture and Houseware Business is the Company's largest business segment. In this segment, OEM business represents a very large percentage of segment sales at about 93%, and growth has been driven by expansion in business at major customers, such as Ryohin Keikaku (MUJI). Sales increased from ¥17,007mn in FY3/13 to ¥27,431mn in FY3/17. Recently, sales have decreased due to the non-recurrence of spot orders by a major European customer, shrinkage of sales to a US volume retailer and other impacts, but the OEM business should remain the core component. The Company's own MINT e-commerce brand is a fast-growing brand. In March 2019, the Company's own furniture and interior goods plant in Malaysia (approximately 4,000 m2) started full-scale operations. It plans to not only utilize it to manufacture OEM or its own-brand products, but also as a development base for ODM proposals.

The brand business is highly profitable so far and has a substantial presence in the Fashion Accessories Business, representing about 56% of segment sales. The largest brand the Company handles is BIRKENSTOCK. 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 a deep-rooted fan base even with a price range of about ¥10,000. The products are sold via 63 directly managed stores and e-commerce. The Company offers after-sales services because many customers use the products for lengthy periods. Kipling is a brand of nylon bags that originated in Belgium in 1987, and together with the Kipling monkey keychain (its mascot), it is famous throughout the world as a playful, casual brand. The Brand revamped the brand concept, aiming to rejuvenate the brand, particularly targeting the millennial generation. It has successfully expanded sales channels and is handled in such ways as through directly operated 10 stores (including in Ginza and outlets), famous department stores nationwide (approx. 60 stores), airport duty free stores and EC malls.

2. Results trends

In the FY3/19 full year consolidated results, sales and profits declined, with net sales decreasing 4.9% YoY to ¥42,513mn, operating profit falling 55.3% to ¥752mn, ordinary profit declining 54.9% to ¥827mn, and net profit attributable to owners of parent decreasing 76.5% to ¥195mn. The main reasons for the major decline in net sales was the significant decrease in sales in the OEM business (furniture and houseware) for Europe and North America. It was also because in trading for Europe, at existing customers there were changes to purchasing policies due to alterations to shareholders, and as it failed to win some large-scale projects it bid for. Sales trended strongly in the Fashion Accessories Business and the Home Appliance Business. There were three main reasons for the major decrease in profits; the decline in profits in the overseas OEM business, the decline in profits in the brand business, and the strengthening of the management foundation. The reason for the decline in profits in the brand business included that 1) BENEXY CORPORATION (which is mainly a BIRKENSTOCK retailer) recorded a loss due to a decline in sales and an increase in costs, 2) domestic shipping costs and other costs increased in the furniture e-commerce business, and 3) the extent of losses grew, mainly for the new brands. Costs also increased for Company-wide management due to the introduction of a new core enterprise system.

For the FY3/20 full year consolidated results, the forecasts are for higher sales and profits, with net sales to increase 1.1% YoY to ¥43,000mn, operating profit to rise 33.0% to ¥1,000mn, ordinary profit to grow 20.9% to ¥1,000mn, and net profit attributable to owners of parent to climb 155.4% to ¥500mn. It is expected that the Furniture and Houseware Business will drive the growth in net sales. In the OEM business, which accounts for the majority of this segment, the Company will acquire new customers by utilizing its own development capabilities to provide ODM proposals. Sales are also forecast to continue to increase in the Home Appliance Business. In the home appliance-brand business, in addition to strong sales of beauty appliances, It will actively work to develop overseas sales channels. The Furniture and Houseware Business is also expected to drive the growth in operating profit. Profitability is forecast to improve due to the effects of temporarily withdrawing from the unprofitable North America business. The main reasons for the decline in profits in the Fashion Accessories Business will be the need for upfront investment in order to develop new businesses in the OEM business, and the time needed for BIRKENSTOCK earnings to recover. To summarize, in the OEM business, the Company needs to improve added value (such as from planning and proposals using ODM), and to restructure the brand business. It will be a year of progressing changes toward establishing a more robust business foundation.

3. Growth strategy and topics

The Company has set “four measures to focus on in the medium- to long-term.” In the OEM business, it will further refine its strength, of procurement capabilities, and strengthen price competitiveness (measure 1). The Company has 19 overseas bases, and in particular its strength is that for more than 60 years, it has had a network that conducts procurement activities in Southeast Asia and East Asia. A feature of the Company is that it supports production management and inspections, such as by positioning full-time employees at its partner plants. Going forward, it will further strengthen price competitiveness. It will also enhance its development capabilities, and regardless of whether in Japan or overseas, provide ODM proposals and develop sales channels (measure 2). The strategic bases it has positioned for strengthening development capabilities are its own home appliances plant in China and the furniture and interior goods manufacturing plant in Malaysia that began full-scale operations in March 2019. In the brand business, the Company will strengthen product development capabilities for its own brands and the e-commerce sales force, and expand wholesales sales channels, including overseas (measure 3). For this, the targets include the e-commerce brand MINT, Vitantonio cooking appliances, and ION-Sei high-performance oral-care products. Also, in the brands retail business, there are items that are recording losses, due to the effect of still being under development and the boom slowing, but it will pursue appropriate operations costs in the retail business and strengthen the services business (measure 4).

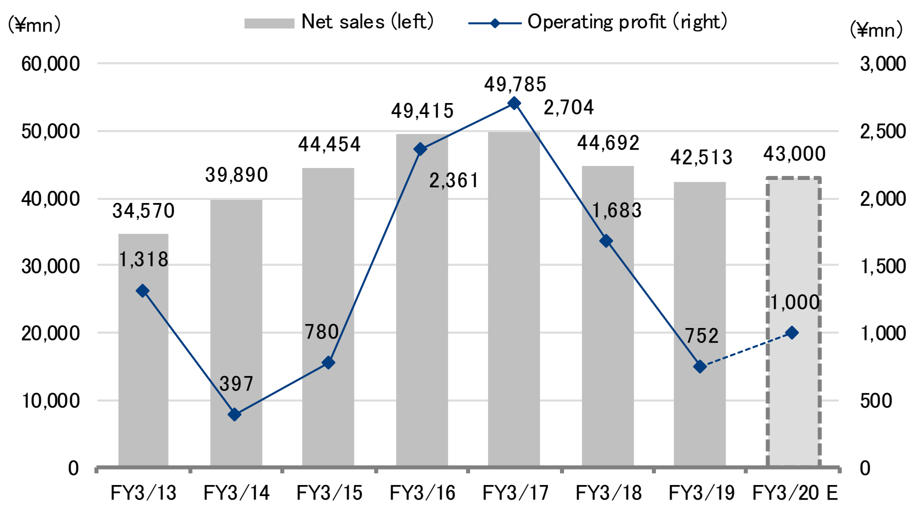
4. Shareholder return policy

The Company has adopted a policy that targets a roughly 30% dividend payout ratio, taking into consideration the need to implement stable, continuous dividends along with securing internal reserves to lay a stronger business foundation. In the last 3 years (FY3/16 to FY3/18), the Company has continuously paid an annual dividend of ¥160, and it maintained an annual dividend of ¥160 in FY3/19 also (interim ¥60, period-end ¥100). As net profit attributable to owners of parent declined 76.5% YoY, the dividend payout ratio increased 192.8%. In the last 22 years, the Company has continuously either increased or maintained the dividend. As a trading company in the wholesaling sector, the Company's operating results can be volatile at times. In this environment, we highly commend management's commitment to maintaining stable shareholder returns even during a downturn in operating results.

Key Points

- A multi-functional trading company specializing in high-value-added products based on the concept of "bringing fabulous products from the world to the world"
- Sales and profits declined in FY3/19. This was mainly from the effects of the fall in sales of houseware to Europe and North America in the OEM business and the slowdown at the subsidiary BENEXY (main brand is BIRKENSTOCK)
- The FY3/20 results forecasts are for net sales of ¥43bn and ordinary profit of ¥1bn. The Company will utilize its planning and development capabilities in the Furniture and Houseware Business. The forecast is for results to recover. Is also planning to drastically restructure the brand business.
- In the OEM business, is developing sales channels in Japan and overseas by providing ODM proposals that utilize its development capabilities. In the brand business, is pursuing efficient retail operations.

Full-year results trends



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

Company profile

A multi-functional trading company specializing in high-value-added products based on the concept of "bringing fabulous products from the world to the world"

1. Company profile and history

Established in Osaka in 1946 shortly after World War II, as an exporter of accessories, the Company has a history of more than 70 years. Today, it carries a full range of consumer lifestyle products and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. It has grown to be a multi-functional trading company with 19 overseas locations and 84 directly managed domestic retail stores. The Company stands out in terms of its coverage of products with high added value, including the introduction of differentiated European brands to Japan and OEM supply of unique products to clients, such as Ryohin Keikaku (MUJI). The Company is a global enterprise that manufactures products at overseas sites and sells them in overseas markets, based on the concept of "bringing fabulous products from the world to the world."

2. Business composition

The Company operates under the following business segments – Furniture and Houseware Business, Fashion Accessories Business, Home Appliance Business, and Others. The Furniture and Houseware Business mainly procures OEM products for major Japanese and foreign companies, with the proprietary e-commerce brand MINT also gaining momentum. This segment provided 46.6% of overall sales and 30.4% of operating profit in FY3/19 over the full fiscal year. The 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 34.8% of overall sales and 40.0% of operating profit. The Home Appliance Business handles OEM product procurement and brand business. Major brands are Vitantonio (cooking appliances) and mod's hair (beauty appliances). This segment generated 13.7% of overall sales and 29.4% of operating profit. The Others segment handles pet goods and other items and was at 4.9% of overall sale.

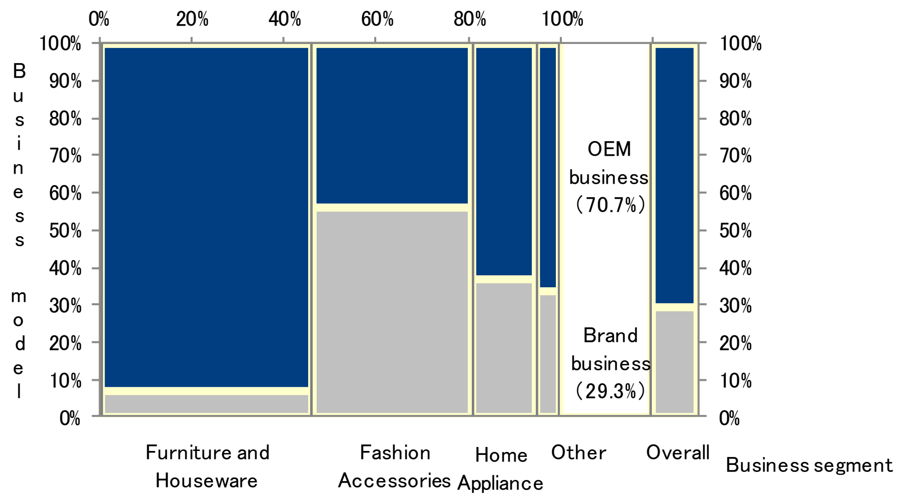
Business description and percentages (FY3/19)

Business segment	Descriptions of the main businesses	Percentages of net sales	Percentages of operating profit
Furniture and Houseware Business	OEM for Ryohin Keikaku (MUJI) and WMF (kitchen goods manufacturer)	46.6%	30.4%
Fashion Accessories Business	BIRKENSTOCK (sandals) and Kipling (bags) and OEM for domestic and overseas retail stores, etc.	34.8%	40.0%
Home Appliance Business	Vitantonio (cooking appliances) and mod's hair (beauty appliances), and OEM for domestic and overseas manufacturers and retail stores	13.7%	29.4%
Other	Pet merchandise, pets, etc.	4.9%	0.2%

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

The Company has two business models: brand business and OEM business. The brand business mainly promotes wholesale and retail activity in Japan for overseas brands and the Company's own brands. It has a generally higher profitability than the OEM business because it carries excellent brands with strong histories that have not yet been introduced in Japan. The brand business has a generally higher profitability than the OEM business. The Company aims to expand the brand business from 29.3% of overall sales in FY3/19 to about 40% in future years. The OEM business provides various procurement services, such as review of product specifications for products that meet the needs of client companies, plant selection, price negotiation and production schedule adjustment, production management, and export/import and logistics. The Company has strengths in the manufacturing network in Asia built through overseas initiatives over many years and production management by its own staff. The OEM business contributes 70.7% (FY3/19) of overall sales. Historically, the Company has developed its brand business using the knowledge and experience of overseas business it cultivated in the OEM business, and currently there are synergistic effects in various aspects.

Net sales by business segment and business model



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

Business overview

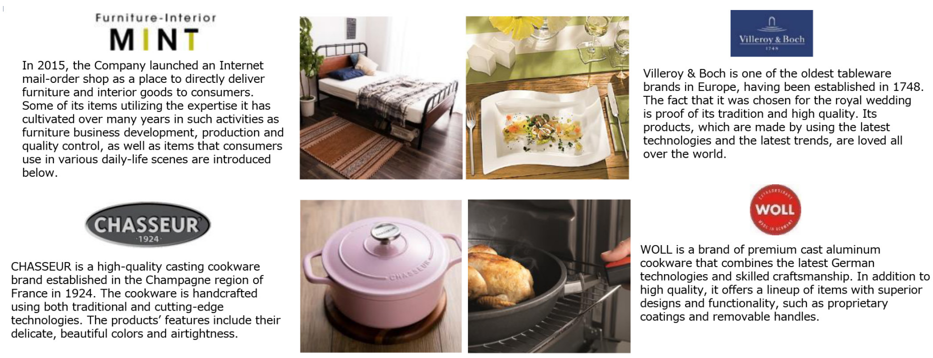
Primarily OEM business for major Japanese and foreign clients in the mainstay Furniture and Houseware Business
A feature of the Fashion Accessories Business is the import and sales of brands, including BIRKENSTOCK

1. Trends in the Furniture and Houseware Business

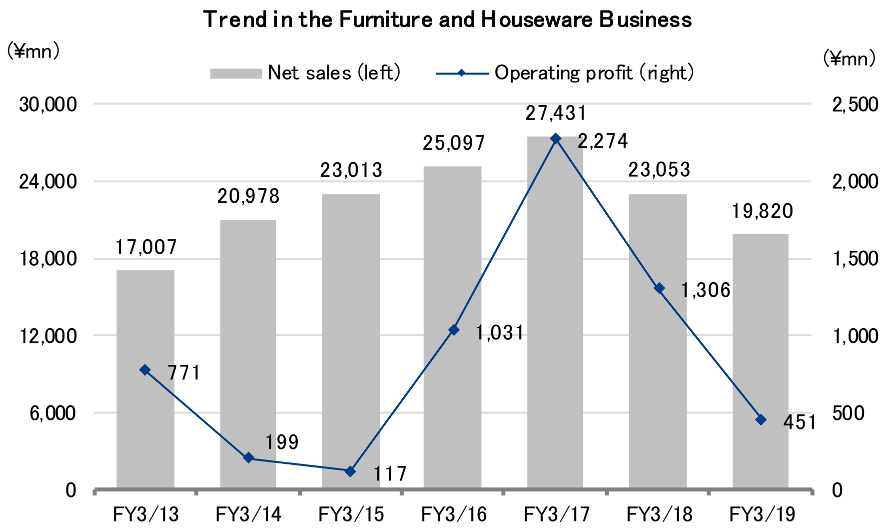
The Furniture and Houseware Business is the Company's largest business segment. In this segment, the OEM business represents a very large percentage of segment sales at about 93%, and growth has been driven by expansion in business at major clients, such as Ryohin Keikaku (MUJI). Sales increased from ¥17,007mn in FY3/13 to ¥27,431mn in FY3/17. Recently, sales have decreased due to the non-recurrence of spot orders by a major European customer, shrinkage of sales to a US volume retailer and other impacts, but the OEM business should remain the core component.

A brand growing remarkably is the Company's own e-commerce brand, MINT. It sells over 900 items on its own sales website, and on Rakuten and Yahoo!, and its items include good-quality beds, mattresses and antique style furniture, and interior goods at reasonable prices that meet the needs of consumers, and sales are growing. In March 2019, the Company's own furniture and interior goods plant in Malaysia (approximately 4,000 m2) started full-scale operations. In addition to manufacturing OEM or the Company's own brand products, it intends to utilize it as a development base for ODM proposals.

Introducing the Company Group's brands 1



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



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

2. Trends in the Fashion Accessories Business

The brand business has a substantial presence of around 56% in the Fashion Accessories Business and exhibits high profitability.

The largest brand the Company handles is BIRKENSTOCK. The retail business for BIRKENSTOCK is managed by the subsidiary BENEXY. BIRKENSTOCK provides sandals and comfort shoes with excellent functional beauty and has a tradition of more than 240 years in Germany. It is supported by a deep-rooted fan base even with a price range of ¥10,000. The products are sold via the 63 directly managed stores and e-commerce. The Company offers its own after-sales services because many customers use the products for lengthy periods. The directly managed stores are opened in shopping centers capable of attracting large numbers of customers. Sales and profits have recently declined due to the impact of the boom in BIRKENSTOCK footwear settling down, and the brand's policy to raise prices globally.

Kipling is a nylon bags brand created in Belgium in 1987 that is known throughout the world as a playful, casual brand, with the Kipling monkey as its mascot. The subsidiary L&S Corporation handles 10 directly managed stores (including outlets, such as in Ginza) and leading department stores throughout Japan (about 60 stores). Kipling has completely renewed its brand concept in recent years. It is aiming to rejuvenate the brand, particularly targeting the millennial generation (the generation born between 1981 and 1996 according to the definition of the Pew Research Center). For channels also, it has worked to expand wholesale sales channels, and in particular, it has succeeded in increasing sales by strengthening openings of airport duty free shops and in EC malls.

Introducing the Company Group's brands 2

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

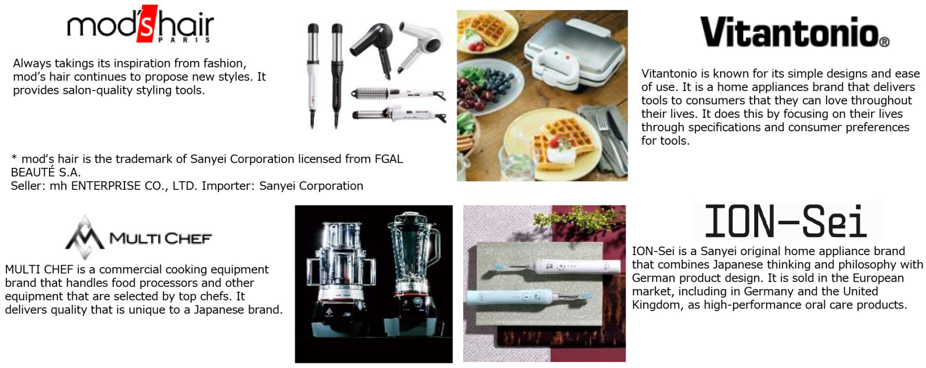
Source: Prepared by FISCO from the Company's results briefing materials

3. Trends in the Home Appliance Business

In the Home Appliance Business, the OEM business provides around 63% of sales and the brand business approximately 37%.

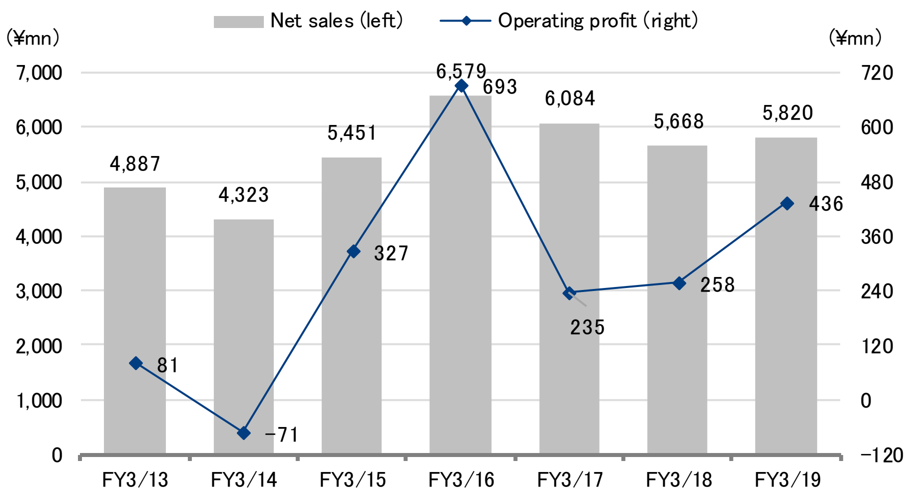
In the OEM business, the Chinese subsidiary, SANFAT ELECTRIC MANUFACTURING COMPANY LIMITED, manufactures and sells Home appliances. In the brand business, the subsidiary mh ENTERPRISE CO., LTD., handles the Vitantonio brand of cooking appliances and the mod's hair brand of beauty appliances. Also, the subsidiary SC TECHNO Co., Ltd, manufactures and sells the MULTI CHEF brand of commercial-use blenders. In recent years, results in the OEM business have trended steadily both in Japan and overseas, while in the brand business, although sales of cooking appliances have been declining, beauty appliances have been performing well. Overall, both net sales and operating profit are solid.

Introducing the Company Group's brands 3



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

Trends in the Home Appliance Business



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

Results trends

Sales and profits declined in FY3/19
Was affected by the decline in sales of houseware for Europe and North America in the OEM business, and the slowdown at the subsidiary BENEXY (main brand, BIRKENSTOCK)

1. FY3/19 full year results

Looking at the consolidated results for FY3/19, the Company reported declines in sales and profits, with net sales of ¥42,513mn, down 4.9% YoY, operating profit of ¥752mn, down 55.3%, ordinary profit of ¥827mn, down 54.9%, and profit attributable to owners of parent of ¥195mn, down 76.5%.

The main reason for the decline in net sales was the significant decrease in sales in the OEM business for Europe and North America (furniture and houseware). For trading in North America, e-commerce companies, as represented by Amazon (Amazon.com <AMZN>) are making inroads into the market of mass retailers, and in this situation, the Company had no choice but to contract sales for which profits are difficult to obtain. It was withdrawing temporarily from this business before the effects of the US-China trade friction are materialized, and as a result, it has achieved risk avoidance. In trading for Europe, changes to purchasing policies accompanying changes in shareholders, and failure to win some large-scale projects it bid for also avoided risk. Sales in the Fashion Accessories Business and in the Home Appliance Business trended steadily.

There were three main reasons for the major decrease in profits; the declines in profits in the overseas OEM business, the decline in profits in the brand business, and the strengthening of the management foundation. In the overseas OEM business, the major decrease in sales in the OEM business of houseware for Europe and North America directly caused the fall in profits. The reasons for the decline in profits in the brand business included that 1) BENEXY CORPORATION (which is mainly a BIRKENSTOCK retailer) recorded a loss due to a decline sales and an increase in costs, 2) domestic shipping costs and other costs increased in the furniture e-commerce business, and 3) the extent of losses grew, mainly for the new brands. For the mainstay BIRKENSTOCK brand, the impact of the slowdown of the boom in North America that began several years ago remains. Also, sales decreased because prices rose in the Japanese market under companies' global price policies, while costs and expenses also increased, which resulted in the decline in profits. The Company introduced a new core enterprise system to strengthen the management foundation, which caused costs to increase.

FY3/19 results (consolidated)

(¥mn)

	FY3/18		FY3/19		
	Results	% of sales	Results	% of sales	YoY
Net sales	44,692	100.0%	42,513	100.0%	-4.9%
Cost of sales	31,809	71.2%	30,384	71.5%	-4.5%
Gross profit	12,883	28.8%	12,128	28.5%	-5.9%
SG&A expenses	11,199	25.1%	11,376	26.8%	1.6%
Operating profit	1,683	3.8%	752	1.8%	-55.3%
Ordinary profit	1,832	4.1%	827	1.9%	-54.9%
Profit attributable to owners of parent	832	1.9%	195	0.5%	-76.5%

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

Financial position is highly stable. No major changes compared to the end of the previous fiscal year.

2. Financial position and management indicators

There was a slight decrease in assets on the balance sheet. Total assets declined by ¥488mn from the end of FY3/19 to ¥25,231mn as of March 31, 2019. Of which, current assets increased ¥63mn to ¥18,341mn, mainly due to increases of products and merchandise of ¥664mn and cash and deposits of ¥142mn. Fixed assets decreased ¥552mn to ¥6,890mn, primarily because investment securities declined ¥657mn.

Total liabilities increased by ¥480mn YoY to ¥12,763mn. Current liabilities increased by ¥1,583mn. This was mainly due to the increase of ¥910mn in short-term debt. Net assets decreased by ¥968mn to ¥12,468mn. Net assets were impacted by decreases in retained earnings and valuation difference on available-for-sale securities, as well as share buybacks.

In terms of management indicators, the current ratio stood at 157.4% (compared with 181.5% at the end of FY3/18) and an equity ratio of 48.9% (compared with 51.8% at the end of FY3/18), indicating a sound financial position.

Consolidated balance sheet and management indicators

(¥mn)

	March 31, 2018	March 31, 2019	Change
Current assets	18,277	18,341	63
(Cash and deposits)	4,630	4,773	142
(Notes and accounts receivable – trade)	6,615	5,722	-893
(Merchandise and finished products)	6,013	6,678	664
Fixed assets	7,442	6,890	-552
Total assets	25,719	25,231	-488
Current liabilities	10,072	11,655	1,583
(Short-term debt)	4,600	5,510	910
Fixed liabilities	2,209	1,107	-1,102
Total liabilities	12,282	12,763	480
Net assets	13,437	12,468	-968
Total liabilities and net assets	25,719	25,231	-488
<Stability>			
Current ratio	181.5%	157.4%	-
Equity ratio	51.8%	48.9%	-

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

Outlook

Net sales of ¥43.0bn and ordinary profit of ¥1bn forecast for FY3/20. The Company will utilize its planning and development capabilities in the Furniture and Houseware Business, and results are forecast to recover
Plans to drastically restructure the brand business

The Company forecasts higher sales and profits in FY3/20, with increases of 1.1% YoY in net sales to ¥43,000mn, of 33.0% YoY in operating profit to ¥1,000mn, of 20.9% YoY in ordinary profit to ¥1,000mn and of 155.4% YoY in profit attributable to owners of parent to ¥500mn.

It is expected that the Furniture and Houseware Business will drive the growth in net sales. In the OEM business, which accounts for the majority of this segment, the Company will acquire new customers by utilizing its own development capabilities to provide ODM proposals. Sales are also forecast to continue to increase in the Home Appliance Business. In the OEM business, it will advance new customer acquisition, while in the brand business, in addition to strong sales of beauty appliances, it will actively work to develop overseas sales channels.

The Furniture and Houseware Business is also expected to drive the growth in operating profit. Profitability is forecast to improve significantly due to the effects of temporarily withdrawing from the unprofitable North America businesses. It also intends to strengthen the collaboration system inside and outside of Japan and to rationalize the business departments. The main reasons for the decline in profits in the Fashion Accessories Business will be the need for upfront investment in order to develop new businesses in the OEM business. BIRKENSTOCK will implement a sweeping review of its store policy, but it will take some time for its earnings to recover.

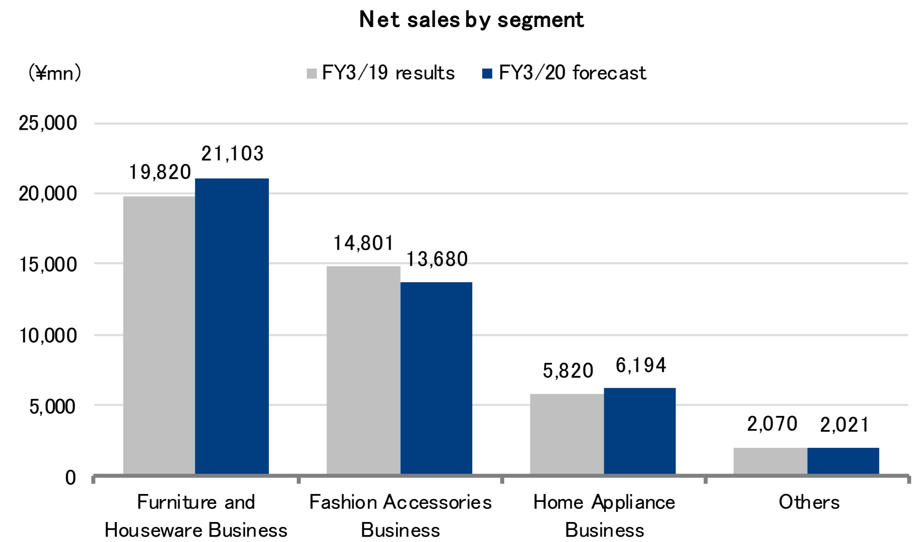
To summarize, the Company needs to improve added value (such as planning and proposals using ODM) in the OEM business while a restructure will be required in the brand business. It will be a year of progressing changes toward establishing a more robust business foundation.

Forecast for FY3/20

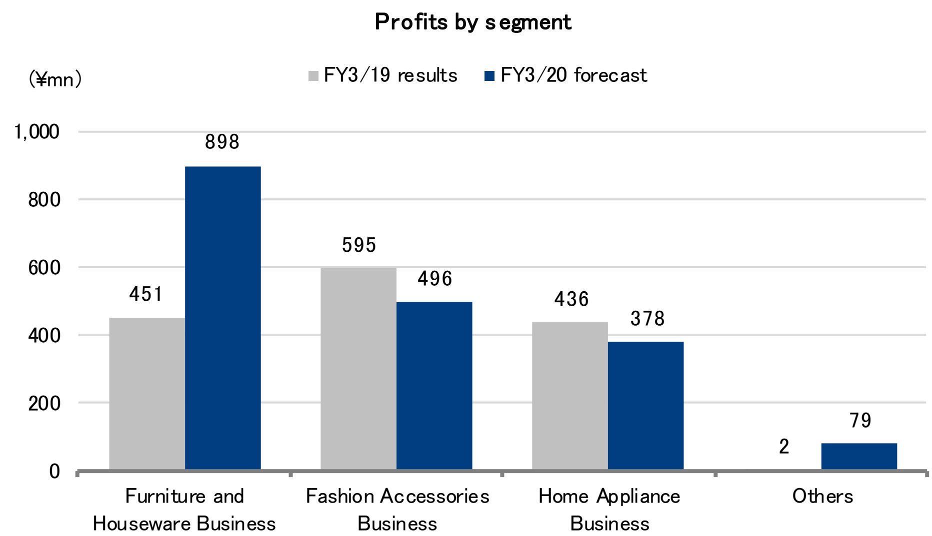
(¥mn)

	FY3/19		FY3/20			
	Results	Composition	Forecast	Composition	Change	YoY (%)
Net sales	42,513	100.0%	43,000	100.0%	486	1.1%
Operating profit	752	1.8%	1,000	2.3%	247	33.0%
Ordinary profit	827	1.9%	1,000	2.3%	172	20.9%
Profit attributable to owners of parent	195	0.5%	500	1.2%	304	155.4%

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



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



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

Growth Strategy and Topics

In the OEM business, is developing sales channels in Japan and overseas using ODM proposals that utilize its development capabilities
In the brand business, is pursuing efficient retail operations

1. Focus measures in the medium to long-term

The Company has set “four measures to focus on in the medium- to long-term.”

<OEM business>

Measure 1) Strengthen procurement capabilities to improve price competitiveness

Measure 2) By strengthening development capabilities, develop ODM proposals and sales channels, regardless of whether in Japan or overseas

<Brand Business>

Measure 3) Own brands: strengthen product development capabilities and the e-commerce sales force, and expand wholesale sales channels (including overseas)

Measure 4) Pursue appropriate operations costs in the retail business and strengthen the services business

In the OEM business, it will further refine its strength, of procurement capabilities, and strengthen price competitiveness (measure 1). The Company has 19 overseas bases (of which, 9 are in mainland China, 4 are in Hong Kong, 2 are in Malaysia, and 1 is in Taiwan). A particular strength is that for more than 60 years, it has had a network procuring from Southeast Asia and East Asia. A feature of the Company is that it supports production management and inspections by positioning full-time employees at its partner plants. Going forward, it will further strengthen price competitiveness. It will also enhance its development capabilities, and provide ODM proposals and develop sales channels (measure 2) regardless of whether in Japan or overseas. A strategic base it has positioned for strengthening development capabilities is the furniture and interior goods manufacturing plant in Malaysia that began full-scale operations in March 2019. The Company invested about ¥500mn in the new plant in Malaysia and is forecasting sales of around ¥2bn in a few years’ time. It has acquired a lot of experience in plant management through managing the home appliances plant in Guangdong Province, China, over the past 30 years.

In the brand business, the Company will strengthen product development capabilities for its own brands and the e-commerce sales force, and expand wholesales sales channels, including overseas (measure 3). For this, the targets include the e-commerce brand MINT, Vitantonio cooking appliances, and ION-Sei high-performance oral-care products. Also, there are items recording losses in the brands retail business. Some of these are still being developed and other losses result from the impact of the boom slowing down. But the Company will pursue appropriate operations costs in the retail business and strengthen the services business (measure 4; the details of measure 4 are given in the next section).

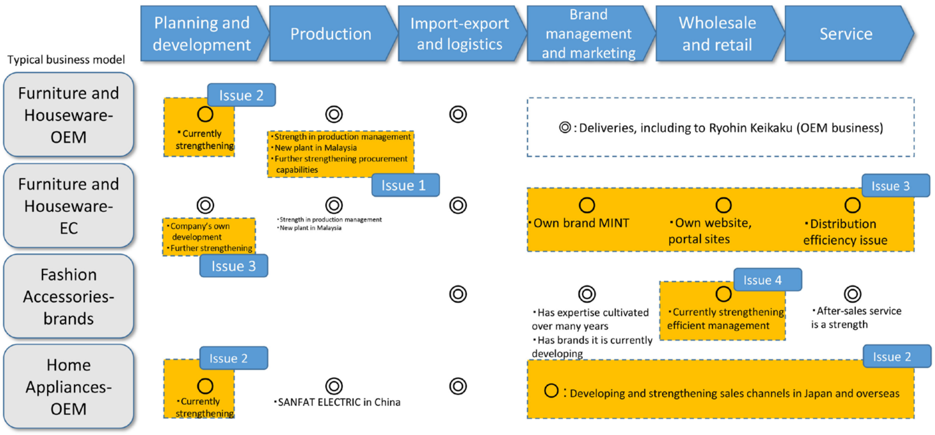
Focus measures in the medium to long-term

Field	Initiative	
OEM business	Measure 1)	Strengthen procurement capabilities to improve price competitiveness
	Measure 2)	By strengthening development capabilities, develop ODM proposals and sales channels, regardless of whether in Japan or overseas
Brand Business	Measure 3)	Own brands: strengthen product development capabilities and the e-commerce sales force, and expand wholesale sales channels (including overseas)
	Measure 4)	Pursue appropriate operations costs in the retail business and strengthen the services business

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

As a multi-function trading company, the Company aims to conduct high-value businesses by providing a wide-range of functions, from planning and development, production, through to retail and services. Going forward, it will further strengthen its expertise and transition its business style from a traditional transaction-mediation type (single function) to a business-investment type (multi-function and ODM proposals, including a model of outsourcing to its own plants, from planning and development through to manufacturing). In the brand business also, it will work to discover brands to enhance the product lineup and to strengthen downstream (retail and services).

Value chain strengths and issues



Source: Prepared by FISCO form the Company's results briefing materials and interviews

2. Strengthening operations in the brands retail business

A pressing issue facing the Company is "restructuring the brand business". Also, one of the measures it is focusing on in the medium- to long-term is "pursuing appropriate operations costs in the retail business and strengthening the services business". The background to this is the slowdown of BIRKENSTOCK, which is a mainstay brand, and also that it is currently developing other new brand businesses, which has resulted in a loss-making business structure. For BIRKENSTOCK, it will advance scrap & build as needed, while aiming to increase sales per store by adding more members to the sales force. Villeroy & Boch, which is a traditional Western tableware brand acquired in 2017, is struggling against the backdrop of the stagnation of the entire market for Western tableware in Japan. The measures to respond to this are firmly communicating the brand's value and also increasing the number of contact points.

The Company has also started new measures for retail store operations. At Sendai PARCO, it jointly opened a store for BIRKENSTOCK and its own brand Quorinest, which is resulting in more efficient operations costs. Also, at Koshigaya Lake Town, it jointly opened a store for Zwiesel Kristallglas, which is a German wine glass brand managed by another company, and Villeroy & Boch, with the aims of improving name recognition and efficiency.

Effective retail management

New measures for retail store management

①Cost-efficient operations at jointly opened stores

②Jointly opening stores with other company's brands to improve name recognition and efficiency

SENDAI PARCO outlet

Koshigaya LakeTown outlet

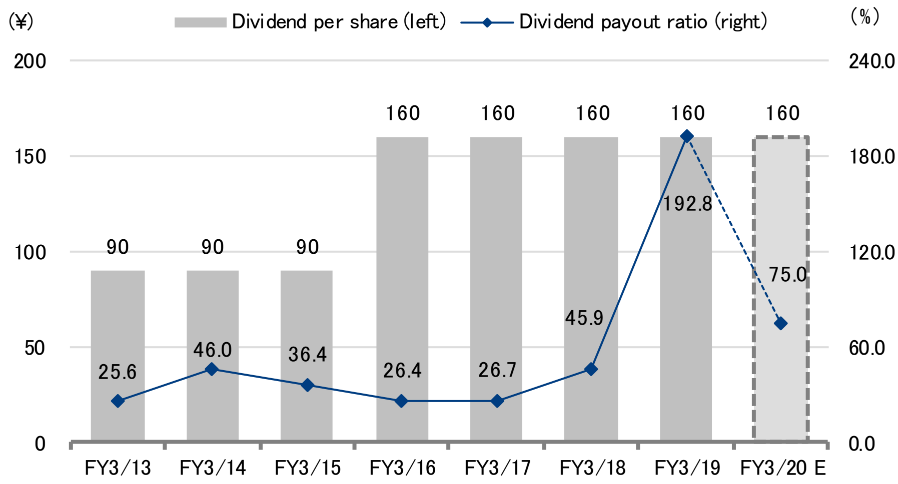
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Despite the decline in profits, in FY3/19 maintained a dividend of ¥160.
Raised or sustained the dividend for 22 consecutive years, making an attractive stable dividend

The Company has adopted a policy that targets a roughly 30% dividend payout ratio, taking into consideration the need to implement stable, continuous dividends along with securing internal reserves to lay a stronger business foundation. In the last 3 years (FY3/16 to FY3/18), the Company has continuously paid an annual dividend of ¥160, and it maintained an annual dividend of ¥160 in FY3/19 also (interim ¥60, period-end ¥100). As net profit attributable to owners of parent declined 76.5% YoY, the dividend payout ratio increased 192.8%. In the last 22 years, the Company has continuously either increased or maintained the dividend. As a trading company in the wholesaling sector, the Company's operating results can be volatile at times. In this environment, we highly commend management's commitment to maintaining stable shareholder returns even during a downturn in operating results.

Dividend per share and dividend payout ratio



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

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp