Q&A

Q1

Can you provide us with a breakdown of sales forecasts for fiscal 2015, the fiscal year ending February 29, 2016, for existing as well as all stores?

A1

Looking at the F.D.C. Products group as a whole, plans call for sales at existing as well as all stores to climb 4.2% and 8.9%, respectively, year on year, for the fiscal year ending February 29, 2016. Meanwhile, total 4°C jewelry existing and all store sales in fiscal 2015 are forecast to increase 4.4% and 6.5%, respectively, compared with fiscal 2014.

Q2

You have stated that the Group will look to control the opening of new 4°C BRIDAL stores in the fiscal year under review. As you work through to the final year of the Group's Fourth Medium-Term Management Plan, what do you see are the current major issues confronting 4°C BRIDAL operations, and what measures are you looking to adopt in order to strengthen the 4°C BRIDAL business?

A2

Since the launch of the 4°C BRIDAL brand in 2009, sales trends have been extremely robust. In the fiscal year ended February 28, 2015, however, sales at existing stores fell 12.9% compared with the previous fiscal year against the backdrop of difficult operating conditions. From a product perspective, the ratio of basic products for the 4°C BRIDAL brand is extremely high. With this in mind, we believe that our inability to properly develop and provide new offerings was the principal reason for the downturn in the brand's performance.

To address this issue, we have undertaken a thoroughgoing review of our product development activities including the development of various new materials. We are considering a broad range of measures with the aim of developing new materials and products and plan to continuously introduce fresh offerings in both the high and low price ranges through to June in the lead up to the peak demand period of July and August.

From an advertising and promotional perspective, marketing of the 4°C BRIDAL brand is largely conducted through Zexy. The most pressing issue that we face here is the decline in the number customer visiting stores via this promotional channel. On a positive note, the number of customers attracted to the brand after viewing products online is growing. Taking this into consideration, we undertook a variety of measures including the renewal of our homepage. This has helped to trigger robust trends of late. While partially reflecting the conservative approach adopted when initially setting forecasts for the current fiscal year, recent results have exceeded plans by a considerable margin. Moving forward, we will completely update product catalogs, renew online sites, and focus primarily on online advertising.

We will also undertake a thorough overhaul of our sales and marketing activities. Last year's customer determined rate was 35%. We began strictly adhering to a policy of again approaching the remaining 65% from April.

Through these initiatives, we will work diligently to bring about a definitive recovery in our 4°C BRIDAL operations during the fiscal year ending February 29, 2016. As our efforts bear fruit, we will work toward opening new stores from fiscal 2016.

Q3

SG&A expenses are projected to increase 4.6% compared with the previous fiscal year in fiscal 2015. This increase is higher than the growth rate in sales. This is most likely attributable to the upswing in personnel expenses on the back of a shift in contract employees to permanent employee status. Can you provide us with a breakdown of SG&A expenses? Furthermore, do you see the rate of SG&A expense increase coming in at below the growth rate in sales from the fiscal year ending February 28, 2017?

A3

SG&A expenses are projected to increase more than ¥1.0 billion. This is largely made up of personnel expenses. Factors include the shift in contract employees to permanent employee status. In specific terms, personnel expenses are expected to climb approximately ¥ 0.4 billion, or 5.3%, year on year and account for around 40% of the total increase in SG&A expenses. Other components of SG&A expenses include expenses relating to the opening of new stores mainly in the F.D.C. Products business. Leasehold rental expenses are estimated to climb 3% year on year. Depreciation as well as advertising expenses are each anticipated to increase 4% compared with the previous period. The upswing in these categories is largely in line with the opening of new stores.

Meanwhile, we will look to hold the rate of SG&A expenses increase to within the rate of sales growth, which is set at between 6 and 7% for fiscal 2016 and fiscal 2017.

Q4

Can you provide us with details of recent conditions in April? After struggling in the fiscal year ended February 28, 2015, are you sensing a recovery in 4°C BRIDAL operations after entering April?

A4

The Group recorded double-digit percentage rates of sales growth in its jewelry business in March 2014 due mainly to the rush in demand in the lead-up to Japan’s consumption tax rate hike. Entering the current fiscal year, combined sales of 4°C jewelry and 4°C BRIDAL products in March 2015 were essentially in line with plans (target for all stores: up 0.3%; down 14.8% year on year: target for existing stores: down 0.2%; down 16.1% year on year).

Turning to recent conditions in April, combined sales of 4°C jewelry and 4°C BRIDAL products up to April 12 after properly aligning the number of operating days climbed 22.5% for all stores and 19.3% for existing stores year on year. Looking at 4°C BRIDAL products on a stand-alone basis, sales at all and existing stores were up 29.4% and 20.0%, respectively year on year, and in excess of plans.

Combined existing store sales of 4°C jewelry and 4°C BRIDAL products for the first quarter are forecast to come in at below the previous year. Initially, we were projecting a decrease of 2% compared with the corresponding period of the previous fiscal year. Should trends continue at their current pace, we anticipate store sales will surpass the levels recorded in the corresponding period of the previous fiscal year. On this basis, we expect revenue to increase.

Q5

Under the Business Vision of the Group's fourth Medium-Term Management Plan, you have identified the goal of expanding the EC business. What percentage of F.D.C. Products' sales can be attributed to the EC business? What is your target for the EC business under the fourth Medium-Term Management Plan? Can you provide details of specific measures aimed at achieving the Group's EC business plans?

A5

Sales of F.D.C. Products' EC business were robust in the 65th business term climbing 28% year on year to ¥874,080,000. Exhibiting year-on-year growth of 38%, sales of the company's own site were especially strong. The EC business accounts for 3.3% of F.D.C. Products' sales totaling ¥28.0 billion. At this stage, the company has no presence in the bridal market.

Currently, the fashion jewelry makes up around 5% of the EC market. Generally speaking, fashion apparel provides the dominant share at roughly 10%. With this in mind, we will first look to lift the ratio of EC fashion jewelry activities.

In addition, we have commenced preparations to roll out EC business activities in the 4°C BRIDAL business from the fiscal year ending February 28, 2017. While specific numerical targets are currently being considered, we are committed to securing definitive growth.

MISUZU Co., Ltd. EC business sales came in at ¥130 million, up 32% compared with the previous period. We are also targeting growth of more than 10% in the fiscal year ending February 29, 2016.

Q6

Looking at page 7 of the fourth Medium-Term Management Plan presentation materials, the operating income margin for the fiscal year ending February 29, 2016 is forecast to come at lower than the level recorded for the previous fiscal year. What are the reasons for this downturn?

A6

Investment in human resources is the main reason for the downturn. This includes the shift of contract employees to permanent employee status. In addition, and against the backdrop of efforts to address the increase in child care requirements by balancing conventional normal work with alternative shifts, we have set the number of child care work personnel at a ratio of 0.7 of normal work personnel and are endeavoring to provide support through a shift structure.

Every effort is being made to promote the shift to permanent employee status in a bid to strengthen sales capabilities and to support employees in their child care needs. This effort is contributing to a small increase in overhead expenses.

Q7

When do you expect the shift to permanent employee status will add value and bear fruit? How do you plan to raise productivity per employee?

A7

Drawing from past experience, the majority of employees who shift to permanent employee status tend to begin showing their wares from around the second and third years. We will align our education and training activities including the Group's in-house school to this timeline.

In terms of productivity, our current key indicator is sales per employee. At this stage, we only measure the performance of permanent employees. Looking ahead, we plan to evaluate the effects of shifting to permanent employee status including measurement methods.