Q&A

Q1

Did you follow established procedures when deciding to withdraw from and dispose of MISUZU Co., Ltd.? What led to the decision and what are your reasons for transferring your interest in the company?

A1

There was no clear-cut withdrawal procedure. Our decision to undertake an M&A with MISUZU Co., Ltd. was originally based on expectations of Group growth through the development of MISUZU's apparel SPA business and our existing jewelry SPA business.

However, in light of the recent deterioration in apparel market conditions, and the limited nature of our measures, we felt that the future of MISUZU and its employees would be better served if the company underwent a reorganization with another group. On this basis, we decided to withdraw from the business.

Q2

What was the amount of operating loss attributable to MISUZU Co., Ltd. in the fiscal year ended February 29, 2016?

A2

In the fiscal year ended February 29, 2016, MISUZU Co., Ltd. incurred an operating loss of ¥86.8 million on sales of ¥487.0 million.

Q3

Looking at your forecasts for the jewelry business in the fiscal year ending February 28, 2017, the year-on-year increase in operating income is projected at 5.1% despite an anticipated year-on-year increase of 6.8% in net sales. What is your outlook for gross profit as well as selling, general and administrative expenses? Why do you expect that the rate of operating income growth will fall below the rate of net sales growth?

A3

We have adopted a conservative approach toward our forecasts. In the fiscal year ending February 28, 2017, we plan to integrate 4°C bridal products with 4°C BRIDAL merchandising. Our goals are to promote increased efficiency and to lift the level of our service by consolidating the management function. In pushing forward this initiative, we anticipate undertaking various steps including the replacement of products. As a result, sales are forecast to climb 6.8% year on year. On this basis, we estimate the gross margin will decline 0.2 of a percentage point while the ratio of overhead expenses will remain roughly the same at 52.5%. Meanwhile, we have set aside an investment amount of ¥100 million in a bid to enhance the 4°C brand value. In specific terms, this will entail advertising aimed at further honing the 4°C brand. In addition to this expenditure, we are expecting an increase in overhead expenses attributable to the opening of new stores and renovations. Taking each of these factors into consideration, the operating income margin is projected to fall slightly below the level recorded in the fiscal year ended February 29, 2016.

Q4

Turning to the Company’s monthly data for F.D.C. Products sales by item in March 2016, sales at existing jewelry stores declined 3.4% year on year. Is this a temporary occurrence or does it reflect the impact of changes in the company’s operating environment? In addition, could you tell us your thoughts on the current status of each brand and in particular engagement and marriage ring trends in the bridal jewelry business?

A4

Existing store sales in the F.D.C. Products jewelry business declined 2.5% year on year in March 2016. This decline narrows to 0.7% if we include the EC business. While 4°C BRIDAL existing store sales fell 14.3% year on year, 4°C jewelry existing store sales, which mainly comprise the department store channel, climbed 0.9% year on year. Accounting for each of these factors, total 4°C jewelry existing store sales were down 4.1% year on year. Meanwhile, canal 4°C existing store sales grew 2.3% year on year. We believe that weak results in March 2016 compared with the corresponding month of the previous year reflects the rush in demand in March 2015 in the lead-up to changes in retail prices in anticipation of the upswing in diamond prices in April 2015. This rush in demand had a particularly strong impact on 4°C BRIDAL sales. Entering April, 4°C BRIDAL and 4°C jewelry sales climbed 5.2% and 4.5%, respectively, year on year for an aggregate 4°C jewelry sales upswing of 4.4%. While canal 4°C sales and sales at all stores have improved 4.5% and 5.6%, respectively, results have recovered to 6.6% if we include EC sales. Sales are forecast to increase a little further in the second half of April. We anticipate trends during April will come in according to plans. Based on the aforementioned, we believe that weak sales in March were a temporary phenomenon. Despite a year-on-year downturn of 1.6%, all in all, 4°C bridal jewelry sales fared well and surpassed plans. Looking at the breakdown of engagement and marriage rings in the 4°C jewelry business, there was little discrepancy in results. Engagement ring sales declined 3% year on year and marriage ring sales contracted 1% year on year. In the 4°C BRIDAL business, engagement and marriage ring sales fell 22% and 10%, respectively, year on year. canal 4°C engagement ring sales grew 2.6% while marriage ring sales dropped 14.4% year on year.

Q5

What are your reasons for reducing jewelry prices from May 2016?

A5

The Company revised its retail product prices in line with movements in the coasts of bare metals and raw materials. As a guide, we consider revising the retail prices of our products when the costs of bare metals shifts by more than 10%. While we expect that our competitors will act in much the same way, their actions are not a factor in our decision to revise product prices. As a company, we place the utmost importance on maintaining the integrity of our pricing. When it comes to the revision of product prices, our stance is to address changes in our external environment in a genuine and sincere manner.