

FY2/17 Results Briefing

April 10, 2017 16:00 – 17:00

Q&A Session

Q1

What were the main issues in the Jewelry Business during FY2/17, and your strategies to address them?

A1

We achieved gains in both revenue and earnings in the Jewelry Business during FY2/17, though the bridal products business struggled.

In May 2016, YONDOSHI (4°C) stopped participating in bridal fairs sponsored by department stores, in order to avoid harming our brand value with long-term sales promotions and price competition. However, since the impact from this change will be fully absorbed in May 2017, we anticipate a recovery in year-on-year sales of 4°C BRIDAL products from May.

Also, since our competitors are selling discounted products at department stores, we are countering by holding our own bridal fairs for the 4°C BRIDAL brand, and from May 2017 will launch limited products exclusively at department stores.

At the same time in May 2016, we reduced the number of items offered at 4°C BRIDAL locations, which specialize in wedding-related products, from 340 to 240 items, in order to enhance inventory efficiency and customer convenience. However, this ultimately reduced our favorable position and competitiveness as a specialty store.

In FY2/18, with the aim of independence as a specialty store, we changed the catchment area of specialty stores, and consolidated around 50 4°C BRIDAL stores to 37 locations. We are also developing 122 major products to be sold exclusively at specialty stores, establishing our broad product range as an advantage. Further, to enhance the value of the 4°C jewelry brand, we are considering changing the model of certain sales spaces during the second half of the fiscal year, based on the ideas of “better quality, becoming an adult.”

Q2

Despite the weakness in sales during FY2/17, earnings were in line with plan. What were the reasons for the improvement?

A2

The gross profit margin in the Jewelry business was boosted during the period by the stable and low price of platinum, but ultimately declined year on year due to the impact

from inventory valuation at 4°C BRIDAL following product consolidation and renewal. On a consolidated basis, a major factor for the improvement in the gross profit margin was the upturn in the Apparel Business. There was also the sale of MISUZU in the Apparel Business, and improvement in the sales mix with a higher proportion of sales from the high-margin Jewelry Business.

In FY2/18, as a result of the elimination of the valuation decline, we anticipate a 1.2 percentage point improvement in the gross profit margin in the Jewelry Business, and an increase of 0.6 percentage points on a consolidated basis. The gross profit margin in the Apparel Business improved considerably in FY2/17, and we expect it to be roughly on this same level in FY2/18.

Q3

What is your medium-term plan for the number of store locations in the Jewelry Business, by brand?

A3

For 4°C jewelry, we do not plan to exceed 100 locations in Japan, and will essentially maintain the current number of stores through a program of scrap and build. For 4°C BRIDAL and canal 4°C, we think there is room to open another 50 to 80 locations, and we are close to achieving our plan for canal 4°C. Going forward, we will continue to open stores while carefully evaluating business conditions, but have not changed our position of 50 to 80 potential store openings. For MAISON JEWELL, stores located in suburban shopping centers, we currently have six locations, and existing stores are generating earnings. Looking at shopping centers nationwide with 20 to 25 billion yen in sales, there are 40 AEON MALL locations alone, and including others there are around 70 shopping centers of that scale. Accordingly, we think there is potential to open between 50 and 70 MAISON JEWELL locations. For Luria 4°C, stores with combined 4°C jewelry and bags are being replaced with 4°C bags locations. The number of stores handling these products is increasing significantly, and we think there is potential to open around 50 independent locations. Going forward, we plan to announce new brands this fall, and accelerate openings in China based on business conditions.

Q4

In the Jewelry Business, what were the FY2/17 year-on-year results at existing stores, and forecasts for FY2/18, by brand?

A4

FY2/17 year-on-year results at existing stores in the Jewelry Business were down 3.5% overall. By brand, 4°C jewelry was down 4.1%, 4°C BRIDAL down 7.6%, EAU DOUCE 4°C down 6.5%, and 4°C bag down 3.8%, with Luria 4°C up 1.0%, canal 4°C up 3.3%, and MAISON JEWELL up 21.4%. The e-commerce business rose 30.5%.

For FY2/18, we anticipate an overall year-on-year increase of 3.0% at existing stores in the Jewelry Business. By brand, we expect increases of 3.0% at 4°C jewelry, 5.0% at 4°C BRIDAL, 6.9% at EAU DOUCE 4°C, 3.2% at canal 4°C, and 5.2% at MAISON JEWELL, with a 28.4% decrease at 4°C bag, and a 2.0% increase at Luria 4°C. We forecast an 8.6% increase in the e-commerce business.

Q5

What were the net sales in the e-commerce business in FY2/17, and your forecast for FY2/18? Also, what are your growth strategies in the e-commerce business?

A5

Net sales in the e-commerce business overall in FY2/17 amounted to ¥1,545.46 million, growth of 30.5% from the previous fiscal year. Sales through 4°C's in-house e-commerce site increased the most, rising 37.0% year on year to ¥1,165.16 million.

In FY2/18, our e-commerce sales target is around ¥1,700 million (+8.7% YoY), mainly through growth in the in-house site. On other sites, we will withdraw from two sites with low sales efficiency, and narrow our focus to four main sites in order to enhance quality. Also, sales through our bridal site opened in August 2016 are growing steadily, and we plan to increase this further in FY2/18. For the e-commerce business, for the present we are targeting sales of ¥2.0 billion, mainly by enhancing visibility.

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