2Q FY2/21 Results Briefing Q&A Session Summary

Q&A Session

Q1: How do you plan to tackle COVID-19 and what specific measures do you have in place for the current fiscal year from an EC business perspective?

A1: Access to our brand website is increasing dramatically in the wake of COVID-19. In addition to videos that showcase our product lineup, we will employ models as well as a variety of visual presentation, live TV, and other tools to convey the Group's wide array of brands to customers while taking steps to improve quality. Moreover, we will put in place online measures in a bid to attract customers while leveraging various formats including CRM-based DM advertising, display ads aimed at portable sites, and Instagrammers. Working to minimize sales opportunity loss, preparations are being made for this year's Christmas season. We will, for example, draw on EC inventories in the event that items are out of stock at brick-and-mortar stores and employ a distribution system to ensure delivery the next day or the day after next.

Q2: While narrowing the downturn in existing store fashion jewelry sales by revising Canal 4°C rebranding measures, what revisions were actually made? Has rebranding helped recapture those customers that had turned to other brands?

A2: To ensure that we did not detract from the 4°C brand, Canal 4°C rebranding took place in September 2019. By focusing mainly on purchases by women primarily for their own use, Canal produced by 4°C triggered a departure from its existing customer base. With this, and after completing a makeover of marketing activities, existing Canal 4°C store sales recovered from the latter half of April thanks to efforts aimed at increasing the mix of products that meet strong gift-giving needs. We remain confident that this recovery trend will continue in the second half.

Q3: With the transition from Heisei to the Reiwa era, December 23 was no longer recognized as a public holiday. How did the Christmas 2019 peak period differ from corresponding holiday seasons of the past? Moreover, what are your brick-and-mortar store as well as e-commerce plans this Christmas given the impact of COVID-19?

A3: The fact that December 23 was not recognized as a public holiday had a considerable impact on the industry as a whole, dampening people's celebratory as well as gift-giving spirits during the 2019 Christmas season. With no change in the current calendar year, the hurdles are projected to remain the same. Against this backdrop, we will look mainly toward addressing anniversary gift needs, an inherent strength, throughout the coming peak Christmas period. In addition to limited edition Christmas products, we will put forward a rich and varied lineup that will attract the interest of customers. We will also work quickly to address e-commerce needs while securing an appropriate level of inventory.

Q4: What impact is the surge in gold prices having on profit margins as well as product prices?

A4: The price of gold in the first half climbed 23% compared with the corresponding period of the previous year. In contrast, the price of platinum declined 4%. Thanks largely to successful efforts aimed at curtailing the development and manufacture of products in line with the temporary closure of stores in response to the government's declaration of a state of emergency, trends in procurement prices have had little affect on the gross profit margins of shelf inventory at this time. We remain confident in our ability to maintain gross profit margins this fiscal year. However, should raw material prices continue to soar in the future, there is a strong possibility that not only this company, but the industry as whole, will consider passing on the upswinging input costs to the consumer for certain brands.

Q5: You mentioned that the Company took note of uncertainties surrounding spending trends as a result of COVID-19 and the lingering impact of the pandemic on consumption when putting in place full fiscal year earnings forecasts. What specifically are your thoughts on conditions in the future?

A5: We are especially concerned about the impact on the bridal jewelry market. Looking at recent trends, including the postponement of weddings, the impact is indeed being felt. We anticipate this will continue into the next fiscal year. As far as current conditions surrounding the Jewelry Business are concerned, the sluggish recovery exhibited by stores in Tokyo, Osaka, Nagoya, and other urban locations is being offset by store results in other areas. We believe that a positive turnaround in consumption trends in the aforementioned Tokyo, Osaka, Nagoya, and other urban locations will require a little more time.

Q6: What do you see as important to further increasing the top line with respect to the Company's strengths in 4°C brand gift fashion jewelry?

A6: Looking beyond just our products themselves, we place equal importance on creating the right image through advertising. It is vital that we remain in tune with the feelings of our customers. Our goal is to properly convey that flutter of the heart when presenting a loved one with the ultimate gift and capturing that moment of joy when opening a gift box from someone special. We initiated steps to rollout a lineup of holiday season anniversary products across our nationwide network of department store outlets from October 30. This includes a Christmas edition series that no other company can match.

Q7: From a 4°C brand perspective, you have historically focused on creating a mature adult image while working to improve quality when implementing a rebranding strategy. The direction of your efforts have also honed in on increasing the ratio of purchases for own use. In light of the aforementioned, are measures to enhance Christmas season gift needs this year temporary?

A7: While attracting new customers, our Canal 4°C rebranding endeavors undertaken in September 2019 also led to a significant loss of existing customers. Reflecting on these results, we will take our time with efforts to enhance the value of the 4°C brand. Moving forward, we will put forward proposals that are designed to attract new customers while at the same time recognizing the importance of existing customers and especially those supporters who are looking for that special gift for each anniversary scene.

Q8: You have identified efforts to strengthen your DX-response measures and increase profitability as key components of your medium-term strategy. While other apparel companies are drastically reducing the number of stores and increasing the ratio of e-commerce sales, how will you balance the Group’s brick-and-mortar store and e-commerce endeavors from the next fiscal year?

A8: The focus of our activities is directed toward DX support as we work to engage in customers-driven management and promote work style reform. Rather than separating e-commerce from brick-and-mortar stores, we recognize the need to create an environment in which customers can choose the most convenient means of purchasing a product irrespective of sales channel. In addition, we have taken steps to leverage CRM since October 2019 with the aim of building a business model that helps deepen and foster long-lasting relationships with customers. As far as the Apparel Business is concerned, plans are in place to open eight brick-and-mortar stores each year on a continuous basis going forward.

Q9: It would appear that efforts to reduce selling, general and administrative expenses played a major role in boosting operating income. Is the Company overreaching in its efforts here? Moreover, can we expect further reductions in SG&A expenses in the second half, and can you provide with a breakdown?

A9: The principal item was a cutback in personnel expenses of ¥470 million due mainly to the temporary closure of stores during April and May. The amount of reduction still came to ¥70 million even after excluding employment adjustment subsidies. Reductions in the percentage of rent, which is recognized as a sales-linked overhead expense, represented the largest amount. Steps were also taken to substantially curtail travel and transportation costs through work style reforms including the introduction of remote meetings. From an advertising perspective, we are adopting a more selective approach with a focus on efficacy. Rather than television commercials, the Company is concentrating its investment in social networking and live TV. Looking ahead, we will continue to push forward with structural reforms and strive to improve profitability even in the face of low growth by focusing on items where we see further room for reduction.

Q10: Has Mr. Takiguchi's focus on the management of F.D.C. Products made it easier for compared with the previous year?

A10: By concentrating on the Jewelry Business, product development and promotion as well as sales policies have indeed become easier. Mr. Takiguchi's current mission is to rebuild F.D.C. Products, a mainstay operating company, and improve its profitability.