2Q FY2/20 Results Briefing Q&A Session Summary

Q&A Session

Q1: What trends have you witnessed as a result of the change in era name and consumption tax rate hike? Moreover, December 23 will no longer be recognized as a public holiday. What impact do you anticipate this will have on the peak Christmas period?

A1: We hear that the number of couples getting married is increasing substantially as a result of the change in era name. The Company is enjoying a significant upswing in bridal jewelry sales. Looking at existing store results for May 2019, sales of 4°C bridal jewelry grew 7.5% and 14.5% through each of the specialty and department store channels, respectively, compared with the corresponding period of the previous year.

We are also looking at a year-on-year pickup in existing stores sales for September 2019 on a standalone basis of 24.6% on the back of the rush in demand prior to the consumption tax rate hike. While projecting difficult conditions due to a market correction in October 2019, we expect to see a recovery from November.

As far as the busy Christmas period is concerned, sales have historically peaked on December 23. Because this day is no longer recognized as a public holiday, we believe that traffic will be concentrated in the evening as customers visit stores after work. With this in mind, we will work diligently to boost purchases by expanding television commercials while undertaking various measures including promotional campaigns in a bid to stimulate early demand. We will, for example, team up with a male entertainer for the first time to push forward a series of plans.

Q2: What are your thoughts on monthly trends and the status of recovery?

A2: Buoyed by efforts to expand purchases for own use among our female clientele, 4°C sales in the first half climbed 6.6% compared with the corresponding period of the previous fiscal year. In specific terms, purchases by women for their own use climbed7.5% year on year. There is a clear indication that women are finding our products increasingly attractive.

Turning to results in bridal jewelry, first half bridal jewelry sales at 4°C Bridal specialty stores grew 3.4% compared with the corresponding period of the previous fiscal year, and 4.1% year on year at department stores. On this basis, we believe we are enjoying a recovery trend.

Q3: You have identified efforts to control costs as one reason for the increase in profit. What kind of cost control measures are you implementing?

A3: From a 4°C brand perspective, we have eliminated certain stores in such urban areas as Sapporo, Ginza, and Shinjuku as well as regional areas including Hiroshima and Sendai in a bid to improve profitability by optimizing the number of stores within each area. As a result, we have lowered personnel, rent and other fixed costs while successfully increasing profit margins. In specific terms, personnel expenses and rent in the first half of the fiscal year under review declined 4% and 2%, respectively, compared with the corresponding period of the previous fiscal year on a consolidated basis.

Depreciation fell approximately ¥50 million thanks largely to the closure of unprofitable stores. This in turn has helped improve profitability.

The ratio of selling, general and administrative (SG&A) expenses also improved 1.3 percentage points year on year.

Moreover, positive steps were taken to lower the cost of sales ratio by cutting back the AS'TY Group's handling or unprofitable products in the Apparel Business. In the first half of the fiscal year under review, the gross profit margin improved 1.7 percentage points compared with the corresponding period of the previous fiscal year. Profit also increased substantially.

age Co., Ltd. reported record high profit for the first half of FY2/20 on a non-consolidated basis. In pushing forward the strategy of opening store that would further entrench the company's dominant position in the Kansai area, this record profit largely reflected efforts to increase profit margins, including successful steps to improve the gross profit margin and reduce distribution costs.

Q4: What is your outlook on purchases for own use trends? What kind of brand strategy will you adopt for this market?

A4: Looking at trends in the Company's current Jewelry Business, we believe gift-related demand makes up 80% of the market, and purchases for own use the remaining 20%. We will work to further expand purchases for own use demand while maintaining gift-related sales, an area of inherent strength. We recognize that efforts to expand purchases for own use demand will entail capturing a share from other brands. From our perspective, we believe that all channels offer the potential for growth.

Expanding purchases for own use demand among women and also be interpreted as increasing support from the female market. By attracting the increased support of women, we also expect to reinforce gift-related demand.

Q5: How would you summarize the background behind the downturn in business results over the past three fiscal years? How will you make use of this knowledge when rebranding the 4°C brand?

A5: Existing store sales continued to increase each period from the fiscal year ended February 2011 to the fiscal year ended February 2016. From a profit perspective, we also reported record high earnings in each fiscal year over this period. As a result of expanding the number of stores, we over-sold items that were easy to market. Looking back, this may have driven away certain customers as they grew bored of our product lineup.

Through rebranding, we will work to upgrade the status of the 4°C brand. We will also take steps to lift average spending per customer while expanding the purchase for own use market.

Q6: What costs do you envisage may arise as a result of efforts to rebrand the 4°C brand?

A6: We have sought input from a well-known overseas creative director, which in turn is projected to generate costs. In addition, we anticipate incurring promotional costs aimed at enhancing our profile in the aftermath of rebranding. We intend to factor in all of these projected costs when formulating plans and forecasts for the next fiscal year.

We will implement rebranding initiatives while taking into consideration plans and forecasts to ensure that there is no major change to our earnings structure and platform.