

SENSHUKAI CO.,LTD. (Tokyo Stock Exchange, First Section: 8165)  
Second Quarter of Fiscal 2014 Earnings Presentation



July 31, 2014

1. Consolidated Results of Operations for 2Q Fiscal 2014
2. Overview by Segment
3. 2Q Fiscal 2014 Results Relative to Initial Plan
4. Consolidated Earnings Outlook for Fiscal 2014

# 1. Consolidated Results of Operations for 2Q Fiscal 2014



(Millions of yen)

|                  | 2Q Fiscal 2013 |                | 2Q Fiscal 2014 |                | YoY change   |                          |
|------------------|----------------|----------------|----------------|----------------|--------------|--------------------------|
|                  |                | % to net sales |                | % to net sales | Difference   | Change in % to net sales |
| Net sales        | <b>72,736</b>  | -              | <b>74,048</b>  | -              | <b>1,312</b> | -                        |
| Cost of sales    | <b>37,222</b>  | <b>51.2%</b>   | <b>39,082</b>  | <b>52.8%</b>   | <b>1,860</b> | <b>1.6%</b>              |
| Gross profit     | <b>35,513</b>  | <b>48.8%</b>   | <b>34,966</b>  | <b>47.2%</b>   | <b>-547</b>  | <b>-1.6%</b>             |
| SG&A expenses    | <b>33,887</b>  | <b>46.6%</b>   | <b>33,132</b>  | <b>44.7%</b>   | <b>-755</b>  | <b>-1.9%</b>             |
| Operating income | <b>1,626</b>   | <b>2.2%</b>    | <b>1,833</b>   | <b>2.5%</b>    | <b>207</b>   | <b>0.3%</b>              |
| Ordinary income  | <b>1,995</b>   | <b>2.7%</b>    | <b>1,946</b>   | <b>2.6%</b>    | <b>-49</b>   | <b>-0.1%</b>             |
| Net income       | <b>1,241</b>   | <b>1.7%</b>    | <b>914</b>     | <b>1.2%</b>    | <b>-327</b>  | <b>-0.5%</b>             |

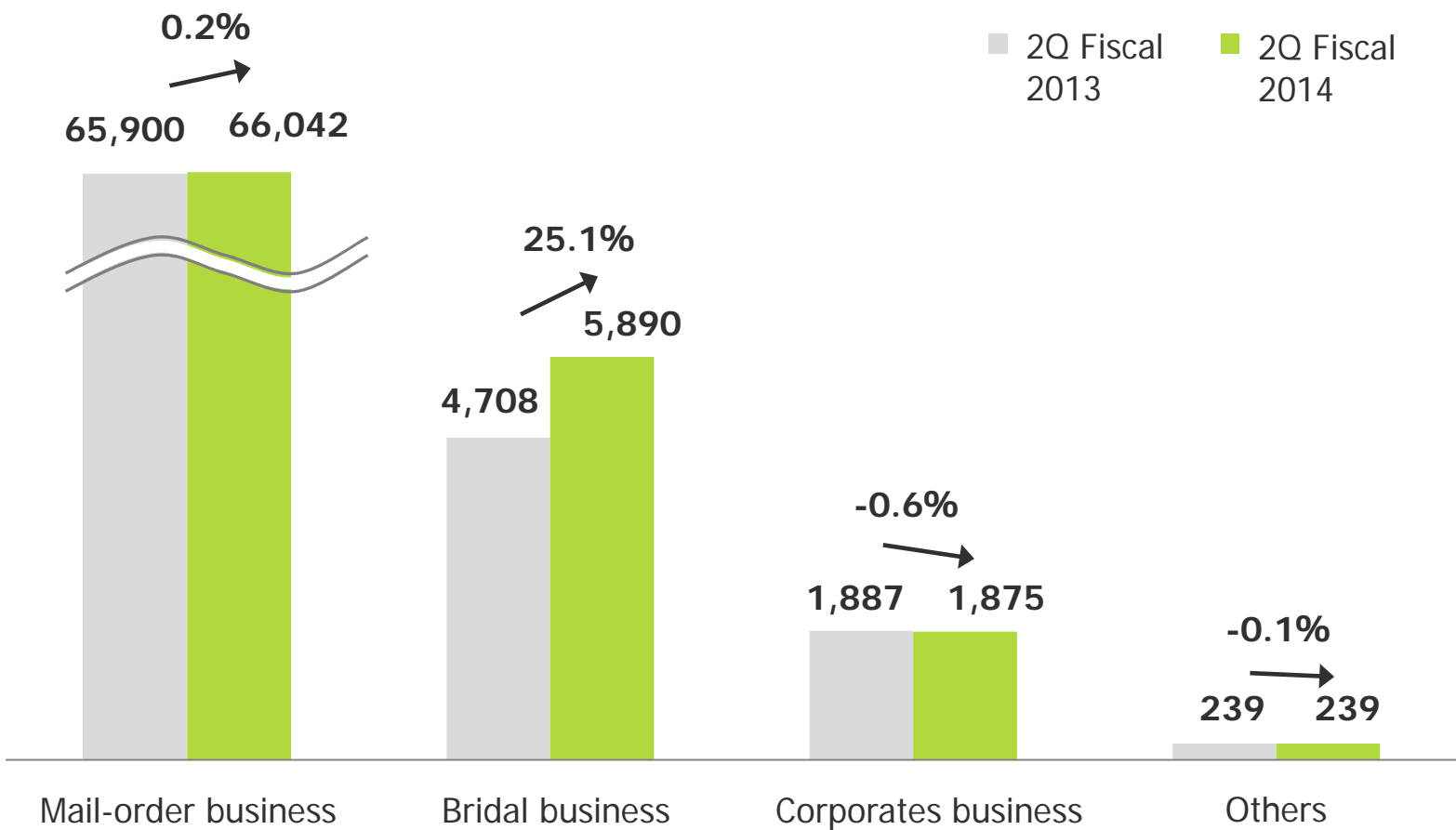
- ◆ Net sales rose due to strong sales at existing facilities and the opening of new facilities in the bridal business
- ◆ Operating income rose due to the reduction in SG&A expenses despite the decline in the gross profit margin resulting from the yen's depreciation and an increase in loss on valuation of goods

|  | Dec. 31,<br>2013 | Jun. 30,<br>2014 | Difference    | Remarks  | (Millions of yen) |
|--|------------------|------------------|---------------|--|-------------------|
| <b>Assets</b>                          |                  |                  |               |  |                   |
| Current assets                         | <b>50,177</b>    | <b>50,186</b>    | <b>9</b>      | <ul style="list-style-type: none"> <li>Cash and deposits increased</li> <li>Accounts receivable-trade and others decreased</li> </ul>    |                   |
| Non-current assets                     | <b>48,622</b>    | <b>48,317</b>    | <b>-305</b>   | <ul style="list-style-type: none"> <li>Buildings and structures increased</li> <li>Investment securities decreased</li> </ul>            |                   |
| Total assets                           | <b>98,800</b>    | <b>98,504</b>    | <b>-296</b>   |  |                   |
| <b>Liabilities</b>                     |                  |                  |               |  |                   |
| Current liabilities                    | <b>39,635</b>    | <b>33,276</b>    | <b>-6,359</b> | <ul style="list-style-type: none"> <li>Notes and accounts payable-trade decreased</li> <li>Short-term loans payable decreased</li> </ul> |                   |
| Non-current liabilities                | <b>8,805</b>     | <b>15,409</b>    | <b>6,604</b>  | <ul style="list-style-type: none"> <li>Bonds with subscription rights to shares increased</li> </ul>                                     |                   |
| Total liabilities                      | <b>48,440</b>    | <b>48,685</b>    | <b>245</b>    |  |                   |
| <b>Net assets</b>                      |                  |                  |               |  |                   |
| Shareholders' equity                   | <b>54,975</b>    | <b>55,341</b>    | <b>366</b>    | <ul style="list-style-type: none"> <li>Retained earnings increased</li> </ul>  |                   |
| Accumulated other comprehensive income | <b>-4,615</b>    | <b>-5,522</b>    | <b>-907</b>   | <ul style="list-style-type: none"> <li>Deferred gains or losses on hedges decreased</li> </ul>   |                   |
| Total net assets                       | <b>50,359</b>    | <b>49,818</b>    | <b>-541</b>   |  |                   |
| Total liabilities and net assets       | <b>98,800</b>    | <b>98,504</b>    | <b>-296</b>   |  |                   |

(Millions of yen)

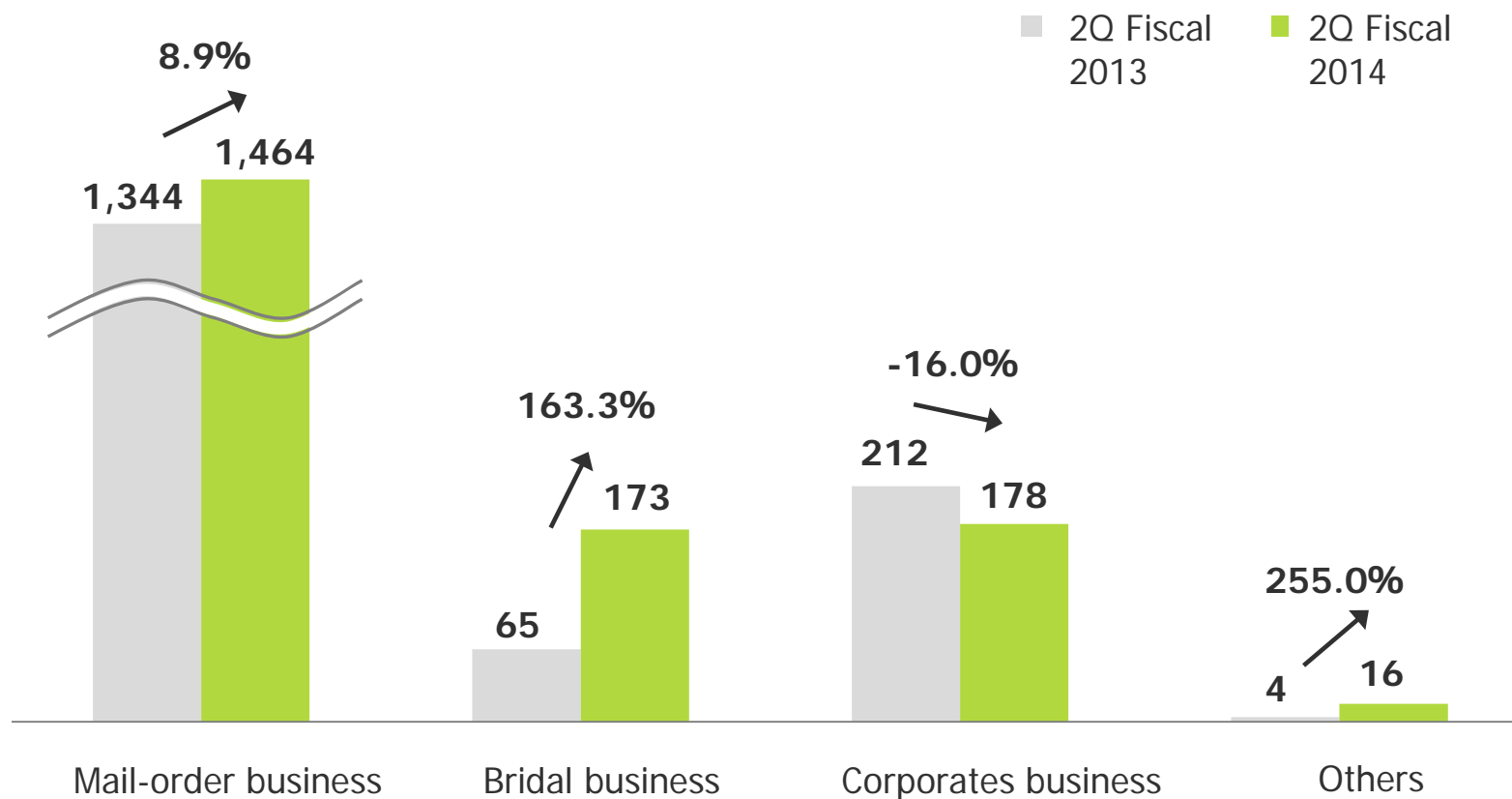
|  | 2Q Fiscal<br>2013 | 2Q Fiscal<br>2014 | Difference    | 2Q Fiscal 2014 highlights   |
|--|-------------------|-------------------|---------------|---|
| Net cash provided by<br>(used in) operating activities | <b>2,857</b>      | <b>3,514</b>      | <b>657</b>    | <ul style="list-style-type: none"> <li>■ Increase in notes and accounts payable-trade: +¥5.7bn</li> <li>■ Decrease in other current assets: +¥2.6bn</li> <li>■ Income before income taxes and minority interests: +¥1.7bn</li> <li>■ Depreciation: +¥1.2bn</li> <li>■ Decrease in other current liabilities: -¥9.5bn</li> </ul> |
| Net cash provided by<br>(used in) investing activities | <b>511</b>        | <b>-1,290</b>     | <b>-1,801</b> | <ul style="list-style-type: none"> <li>■ Purchase of intangible assets: -¥0.3bn</li> <li>■ Purchase of property, plant and equipment: -¥1.0bn</li> </ul>  |
| Net cash provided by<br>(used in) financing activities | <b>-2,843</b>     | <b>2,122</b>      | <b>4,965</b>  | <ul style="list-style-type: none"> <li>■ Proceeds from issuance of bonds with subscription rights to shares: +¥6.9bn</li> <li>■ Decrease in short-term loans payable: -¥4.1bn</li> <li>■ Repayment of long-term loans payable: -¥1.2bn</li> </ul>   |
| Cash and cash equivalents at<br>end of period          | <b>7,993</b>      | <b>11,118</b>     | <b>3,125</b>  |   |

(Millions of yen)



- Mail-order business: Sales increased slightly as a result of higher demand prior to the April consumption tax hike and the post-tax hike decline in demand
- Bridal business: Sales increased due to strong sales at existing facilities and the opening of new facilities in Kamakura and Kyoto

(Millions of yen)



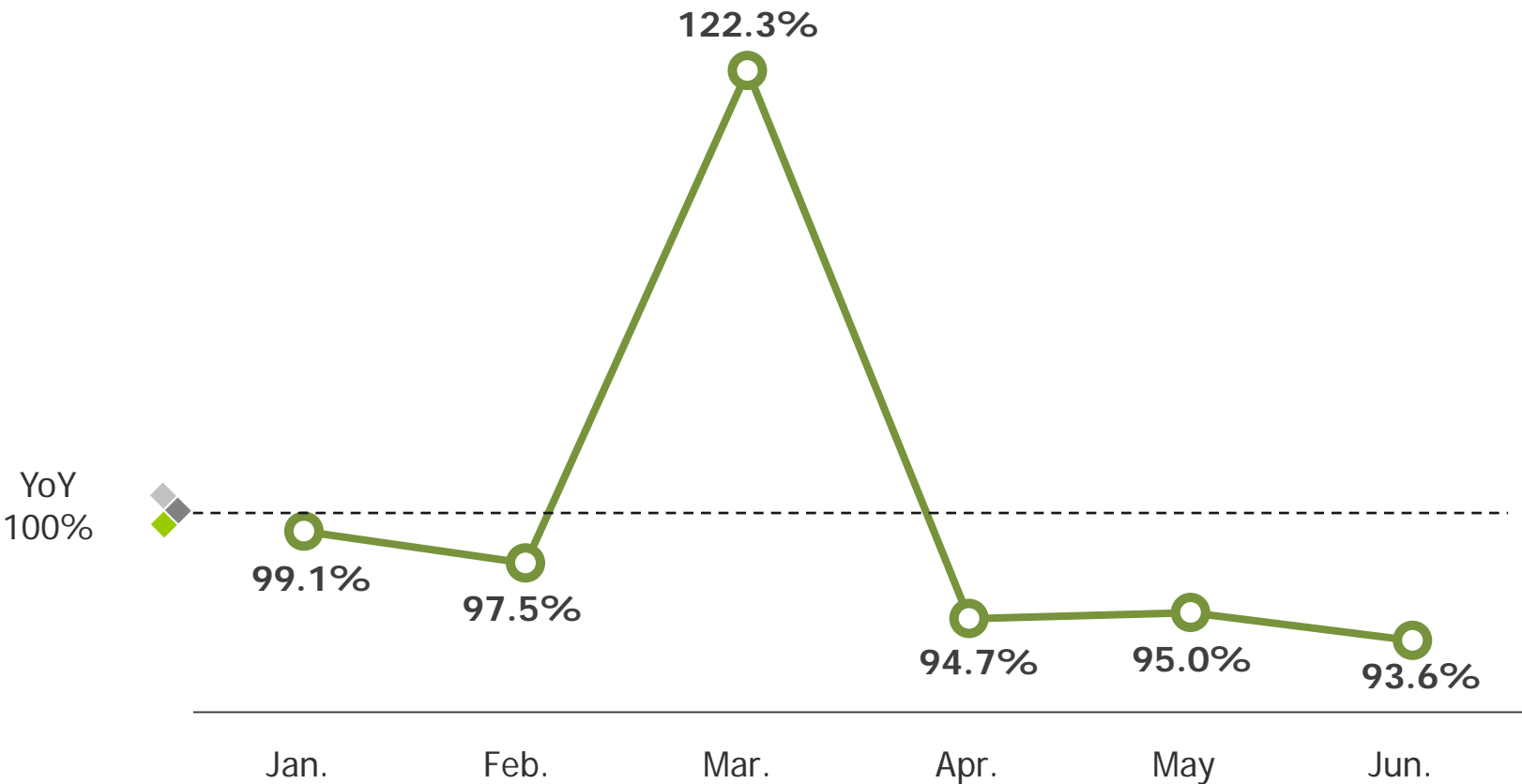
- ◆ Mail-order business: Operating income increased due to the overall reduction of SG&A expenses
- ◆ Bridal business: Operating income increased due to strong sales at existing facilities



## 2. Overview by Segment

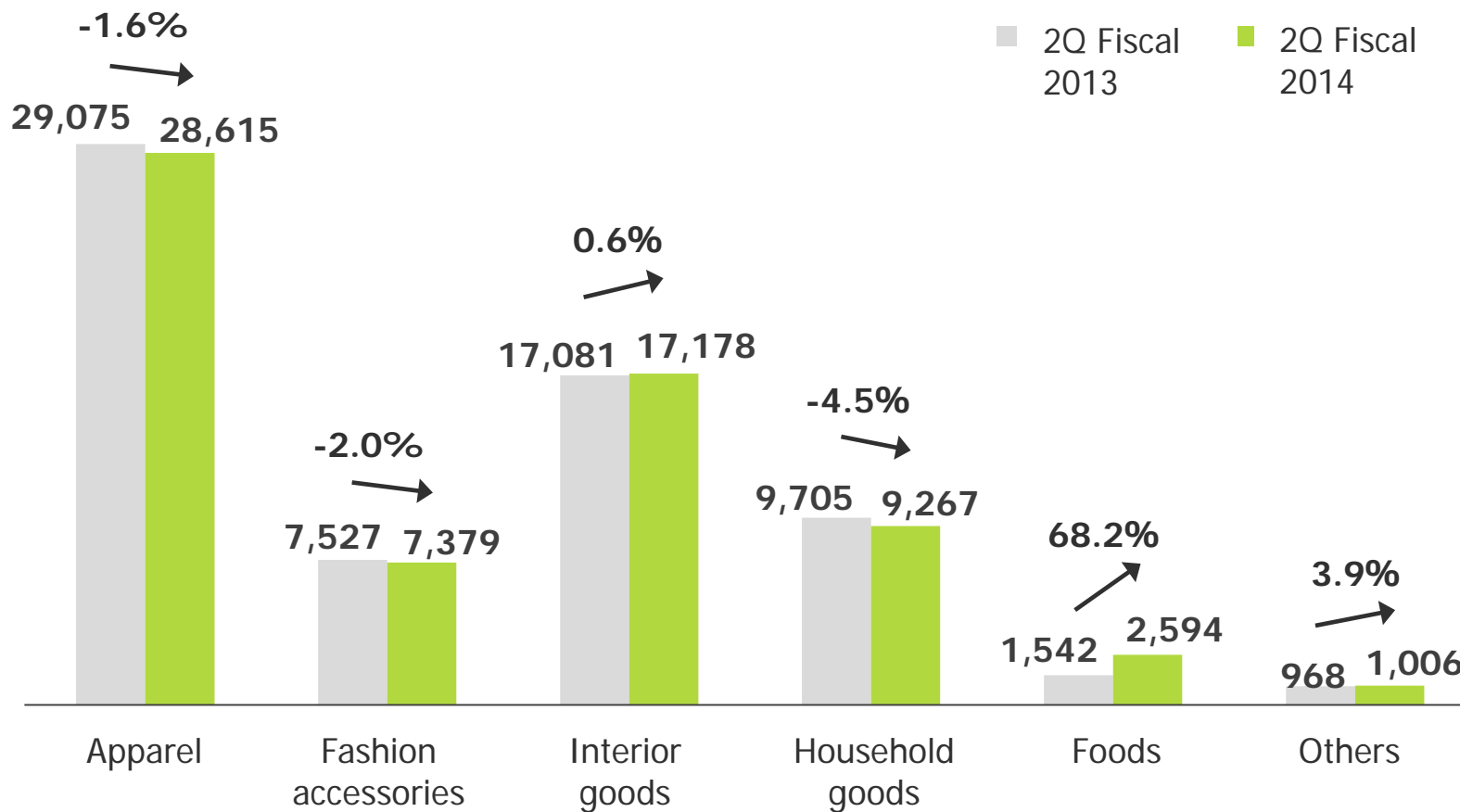
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Mail-order Business –Monthly Sales



- March: Much higher because of the rush demand to make purchases prior to the April consumption tax hike
- April-June: Sharp drop following the April consumption tax hike

(Millions of yen)



- ◆ Apparel/fashion accessories: Sales were weak overall due to unfavorable weather and other factors
- ◆ Foods: Additional sales from functional food products

|   | 2Q Fiscal 2013 | 2Q Fiscal 2014 | Difference   |
|---|----------------|----------------|--------------|
| Semi-annual number of active customers (10,000 members) | <b>292.3</b>   | <b>275.9</b>   | <b>-16.4</b> |
| Semi-annual number of new members (10,000 members)      | <b>48.1</b>    | <b>44.0</b>    | <b>-4.1</b>  |
| Average sales per order (Yen)                           | <b>10,461</b>  | <b>10,726</b>  | <b>265</b>   |
| Semi-annual order frequency per customer (Times)        | <b>2.09</b>    | <b>2.12</b>    | <b>0.03</b>  |
| Catalog circulation (10,000 volume)                     | <b>3,563</b>   | <b>3,531</b>   | <b>-32</b>   |

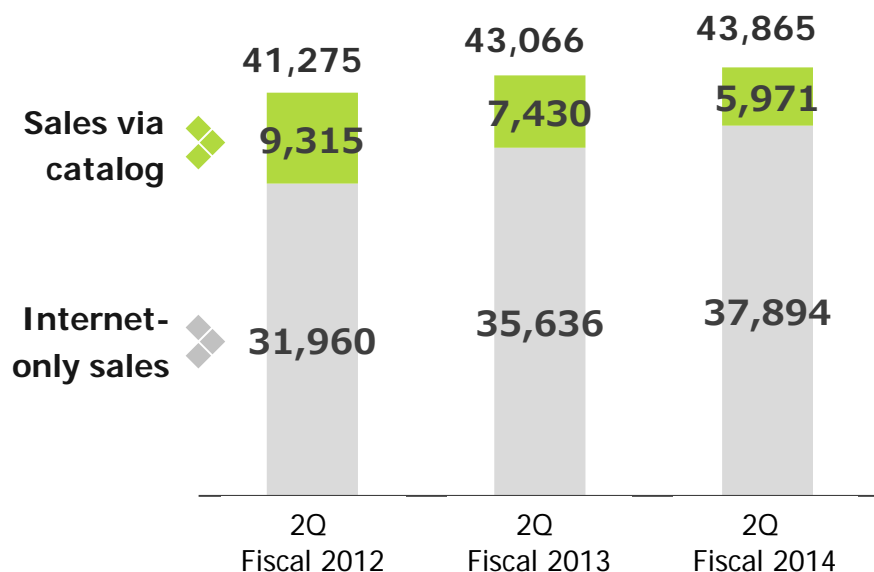


Average sales per order and order frequency per customer increased despite a decrease in the number of active customers

## Internet Sales

(Millions of yen)

(including mobile sales)



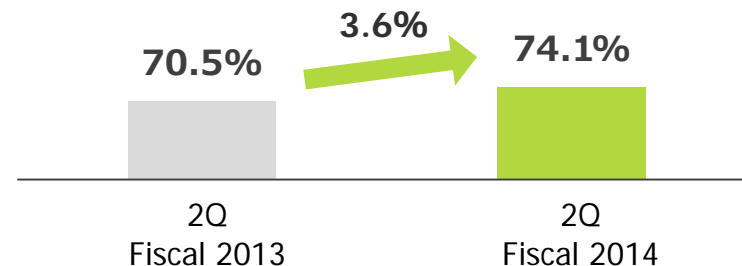
■ Sales via catalog: Customer reads a catalog then purchases by Internet, entering catalog number

■ Internet-only sales: Customer makes purchase through the Internet by putting products into online shopping cart

◆ In Fiscal 2014, a behavior targeting test is under way and improvements are being made, such as a revision to the method for displaying recommendations in product descriptions for smartphone users.

◆ We will continue to work on increasing CVR by improving sales areas to match smartphones because channels for receiving information and making purchases are different for PCs and smartphones.

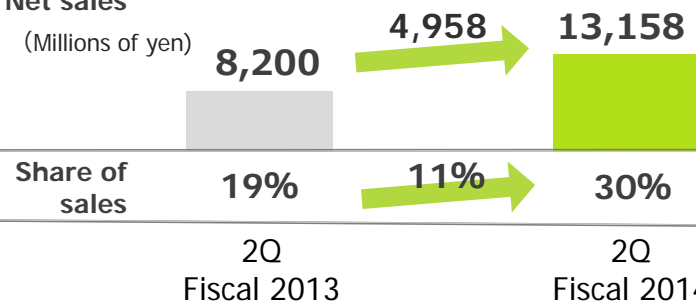
## Ratio of Internet-based Orders



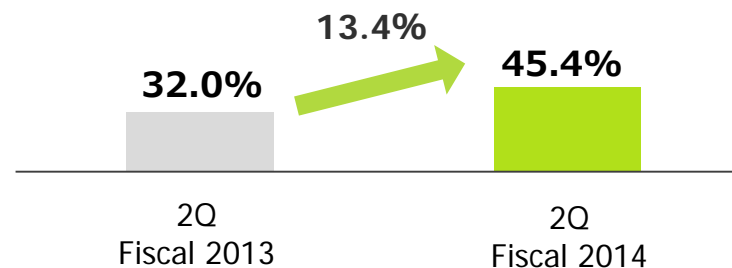
## Amount and Share of Smartphone Sales

Net sales

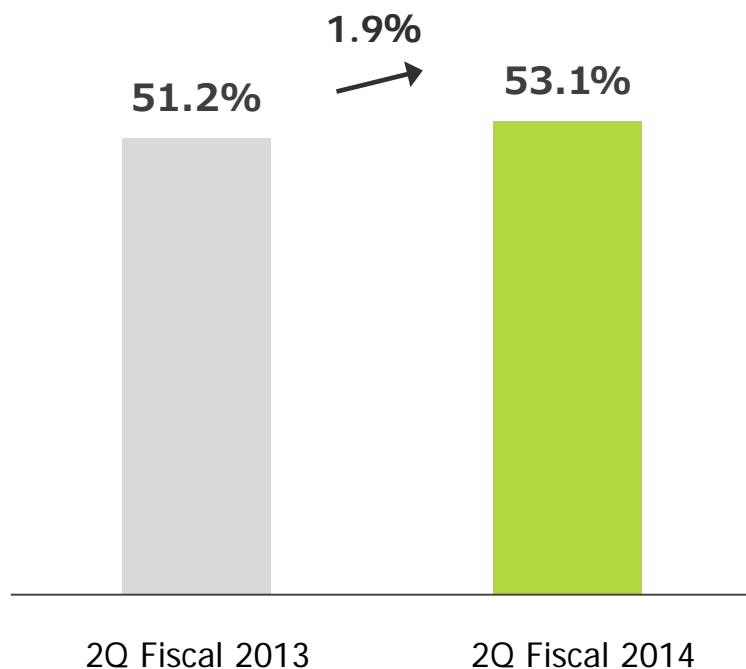
(Millions of yen)



## Share of Website Visits by Smartphone Users (number of sessions)



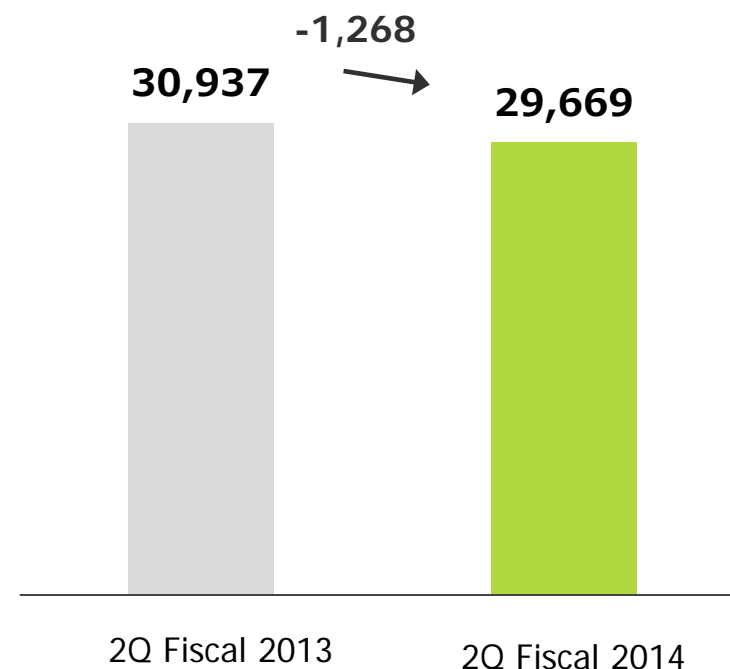
## Cost-of-sales Ratio



- ◆ The cost-of-sales ratio increased due to the weaker yen.
- ◆ The cost-of-sales ratio increased due to higher share of sales from products sold at bargain prices and an increase in valuation losses

## SG&A Expenses

(Millions of yen)



- ◆ Selling expenses:
  - Decrease in distribution-related costs due to a higher average unit price of shipments (up 10%)
  - Reduction in printing costs from a smaller number of catalog circulation and a review of paper use
  - Decrease in cross-media advertising expenses (from spring and summer TV commercials to a single spring TV commercial campaign)

|   | 2Q Fiscal 2013 | 2Q Fiscal 2014 | Difference   |
|---|----------------|----------------|--------------|
| Net sales (Millions of yen)               | <b>4,708</b>   | <b>5,890</b>   | <b>1,182</b> |
| • New facilities                          | <b>0</b>       | <b>236</b>     | <b>236</b>   |
| • Existing facilities                     | <b>4,708</b>   | <b>5,654</b>   | <b>946</b>   |
| Operating income (Millions of yen)        | <b>65</b>      | <b>173</b>     | <b>108</b>   |
| Guesthouses                               | <b>16</b>      | <b>18</b>      | <b>2</b>     |
| Weddings (Couples)                        | <b>1,155</b>   | <b>1,518</b>   | <b>363</b>   |
| Average sales per wedding<br>(10,000 yen) | <b>398</b>     | <b>379</b>     | <b>-19</b>   |



Sales increased due to strong sales at existing facilities and the opening of new facilities

(Millions of yen)

|                        | 2Q Fiscal 2013 | 2Q Fiscal 2014 | Difference |
|------------------------|----------------|----------------|------------|
| Net sales              | <b>1,887</b>   | <b>1,875</b>   | <b>-12</b> |
| • Contracting services | <b>1,256</b>   | <b>1,324</b>   | <b>68</b>  |
| • Sampling             | <b>499</b>     | <b>430</b>     | <b>-69</b> |
| • Others               | <b>132</b>     | <b>121</b>     | <b>-11</b> |
| Operating income       | <b>212</b>     | <b>178</b>     | <b>-34</b> |



Contracting services: Higher sales for existing customers



Sampling: Decrease in the number of major clients



### 3. 2Q Fiscal 2014 Results Relative to Initial Plan

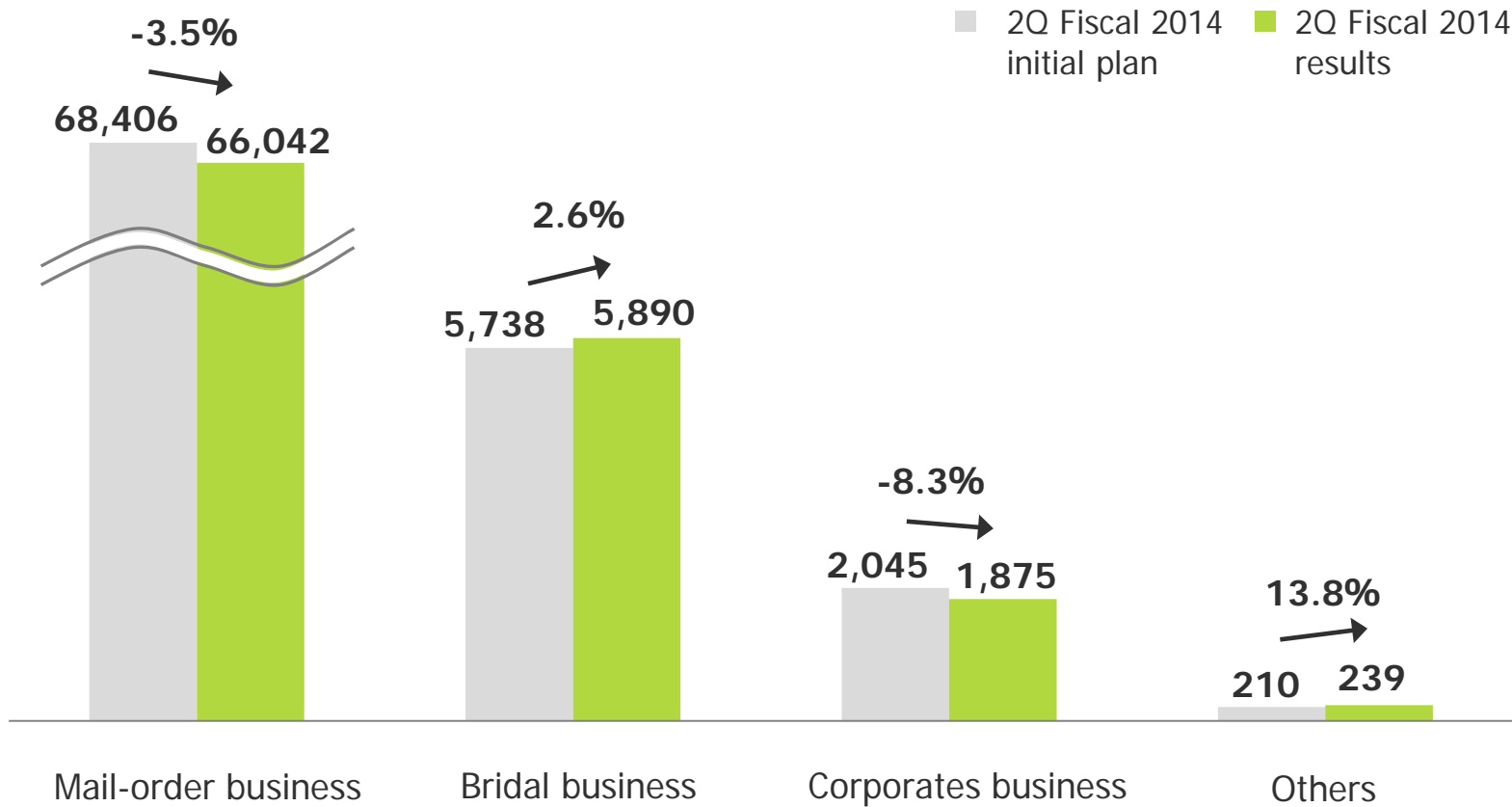


(Millions of yen)

|                  | 2Q Fiscal 2014<br>(Initial plan) |                | 2Q Fiscal 2014<br>(Results) |                | Relative to initial plan |                          |
|------------------|----------------------------------|----------------|-----------------------------|----------------|--------------------------|--------------------------|
|                  |                                  | % to net sales |                             | % to net sales | Difference               | Change in % to net sales |
| Net sales        | <b>76,400</b>                    | -              | <b>74,048</b>               | -              | <b>-2,352</b>            | -                        |
| Cost of sales    | <b>40,693</b>                    | <b>53.3%</b>   | <b>39,082</b>               | <b>52.8%</b>   | <b>-1,611</b>            | <b>-0.5%</b>             |
| Gross profit     | <b>35,706</b>                    | <b>46.7%</b>   | <b>34,966</b>               | <b>47.2%</b>   | <b>-740</b>              | <b>0.5%</b>              |
| SG&A expenses    | <b>34,606</b>                    | <b>45.3%</b>   | <b>33,132</b>               | <b>44.7%</b>   | <b>-1,474</b>            | <b>-0.6%</b>             |
| Operating income | <b>1,100</b>                     | <b>1.4%</b>    | <b>1,833</b>                | <b>2.5%</b>    | <b>733</b>               | <b>1.1%</b>              |
| Ordinary income  | <b>1,400</b>                     | <b>1.8%</b>    | <b>1,946</b>                | <b>2.6%</b>    | <b>546</b>               | <b>0.8%</b>              |
| Net income       | <b>700</b>                       | <b>0.9%</b>    | <b>914</b>                  | <b>1.2%</b>    | <b>214</b>               | <b>0.3%</b>              |

- ◆ Net sales declined vs. initial plan in the mail-order business and the corporates business
- ◆ Operating income increased due to the improvement in the gross profit margin and the reduction in SG&A expenses

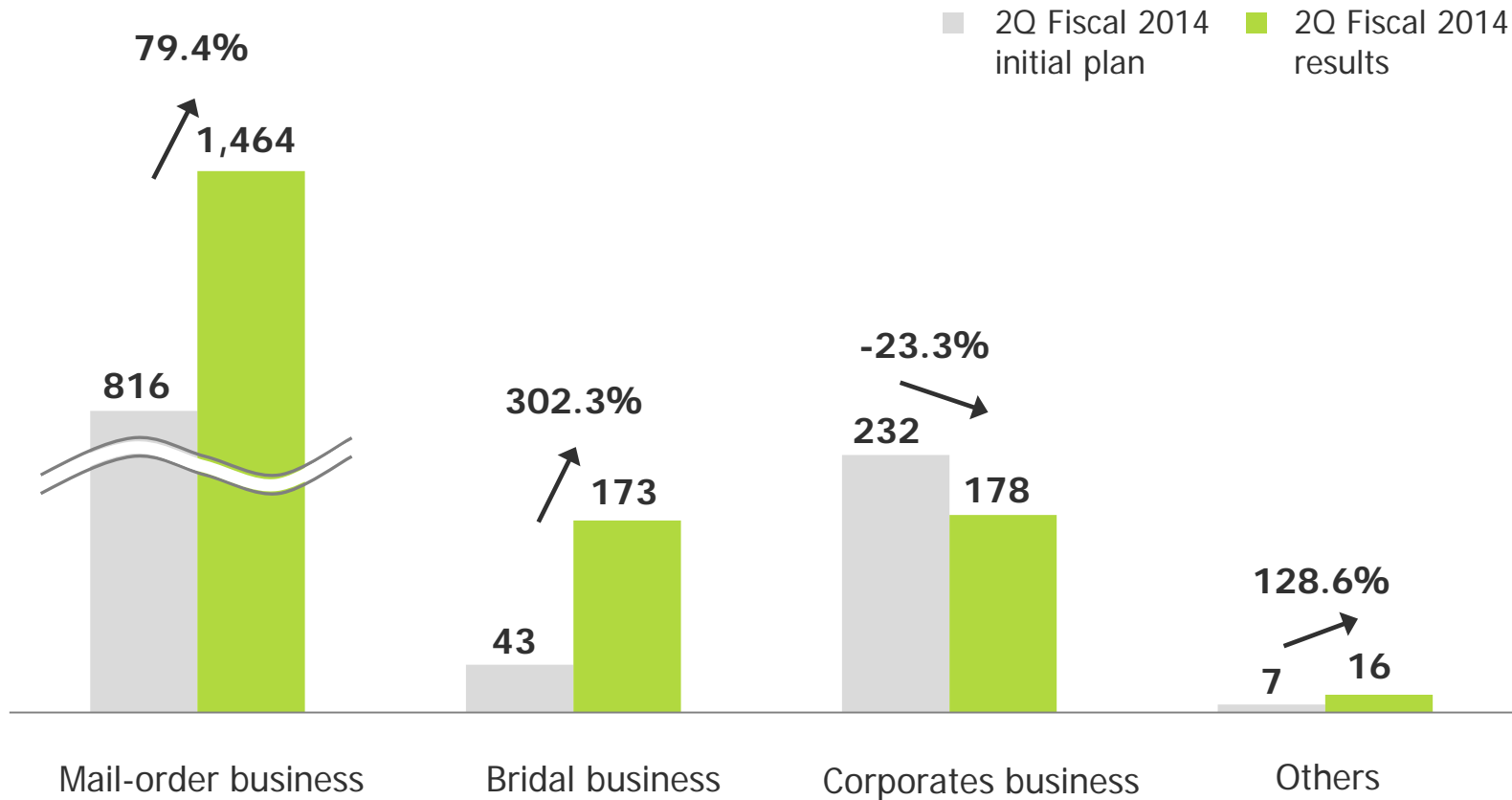
(Millions of yen)



- Mail-order business: Drop in sales after the falloff in demand following the April consumption tax hike and lower sales in the *Hanpukai* business
- Bridal business: Increase in the number of weddings

# Consolidated Operating Income by Business Segment (Compared with Initial Plan)

(Millions of yen)





- Mail-order business:** Operating income increased due to the improvement in the gross profit margin and the reduction in SG&A expenses
- Bridal business:** Operating income increased due to an increase in the number of weddings and the reduction in SG&A expenses

## 4. Consolidated Earnings Outlook for Fiscal 2014

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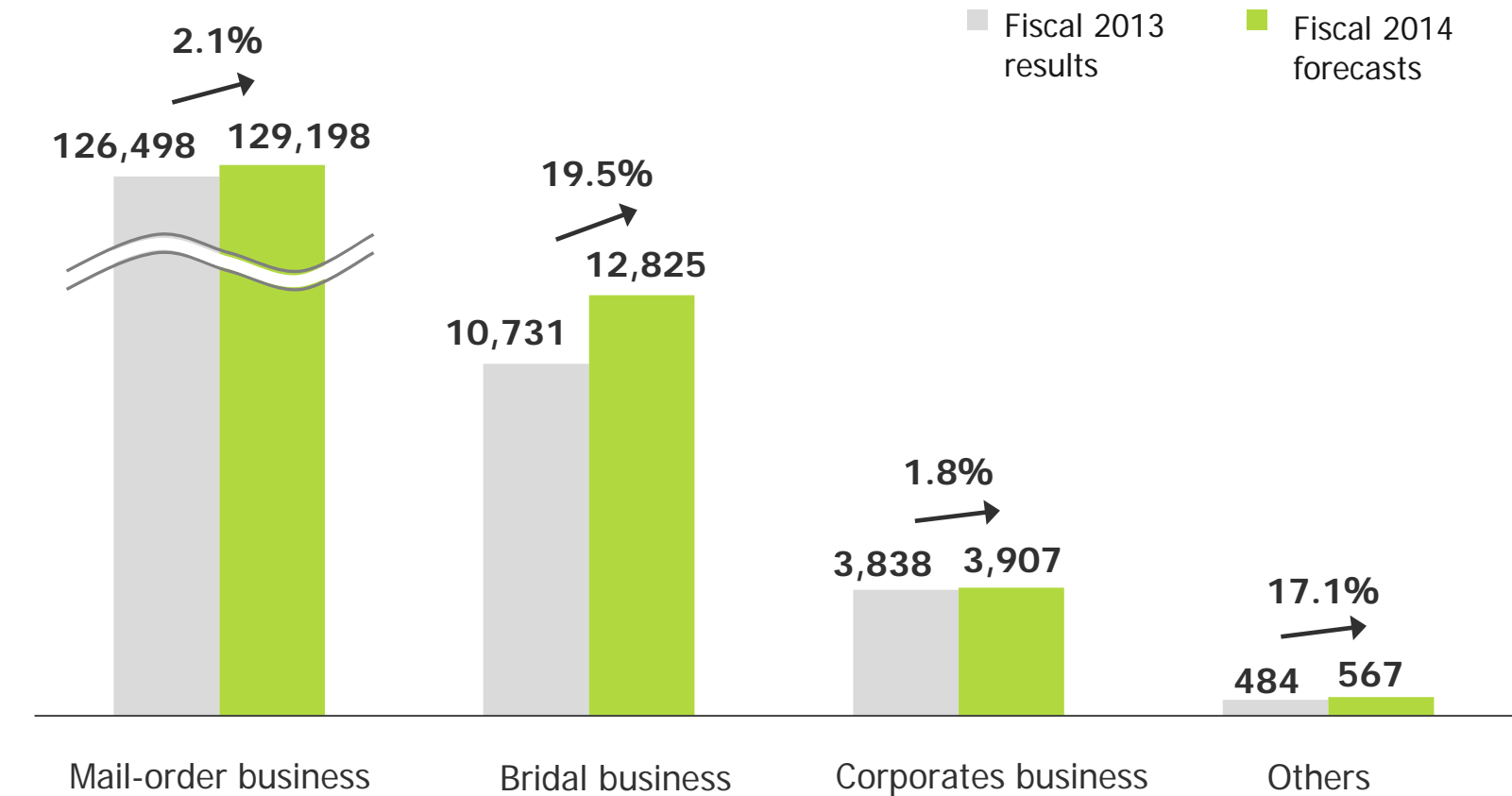
(Millions of yen)

|                  | Fiscal 2013 (Results) |                | Fiscal 2014 (Forecasts) |                | YoY change    |                          |
|------------------|-----------------------|----------------|-------------------------|----------------|---------------|--------------------------|
|                  |                       | % to net sales |                         | % to net sales | Difference    | Change in % to net sales |
| Net sales        | <b>141,552</b>        | -              | <b>146,500</b>          | -              | <b>4,948</b>  | -                        |
| Cost of sales    | <b>72,475</b>         | <b>51.2%</b>   | <b>77,046</b>           | <b>52.6%</b>   | <b>4,571</b>  | <b>1.4%</b>              |
| Gross profit     | <b>69,077</b>         | <b>48.8%</b>   | <b>69,453</b>           | <b>47.4%</b>   | <b>376</b>    | <b>-1.4%</b>             |
| SG&A expenses    | <b>65,057</b>         | <b>46.0%</b>   | <b>65,853</b>           | <b>44.9%</b>   | <b>796</b>    | <b>-1.1%</b>             |
| Operating income | <b>4,019</b>          | <b>2.8%</b>    | <b>3,600</b>            | <b>2.5%</b>    | <b>-419</b>   | <b>-0.3%</b>             |
| Ordinary income  | <b>4,631</b>          | <b>3.3%</b>    | <b>4,000</b>            | <b>2.7%</b>    | <b>-631</b>   | <b>-0.6%</b>             |
| Net income       | <b>4,046</b>          | <b>2.9%</b>    | <b>2,300</b>            | <b>1.6%</b>    | <b>-1,746</b> | <b>-1.3%</b>             |

- 
 Net sales: Forecast higher sales in all segments, especially in the mail-order business and the bridal business
- 
 Operating income: Forecast a slight decline in operating income due to the lower SG&A-to-sales ratio, despite the lower gross profit margin

# Consolidated Sales Outlook by Business Segment for Fiscal 2014 (YoY Comparison)

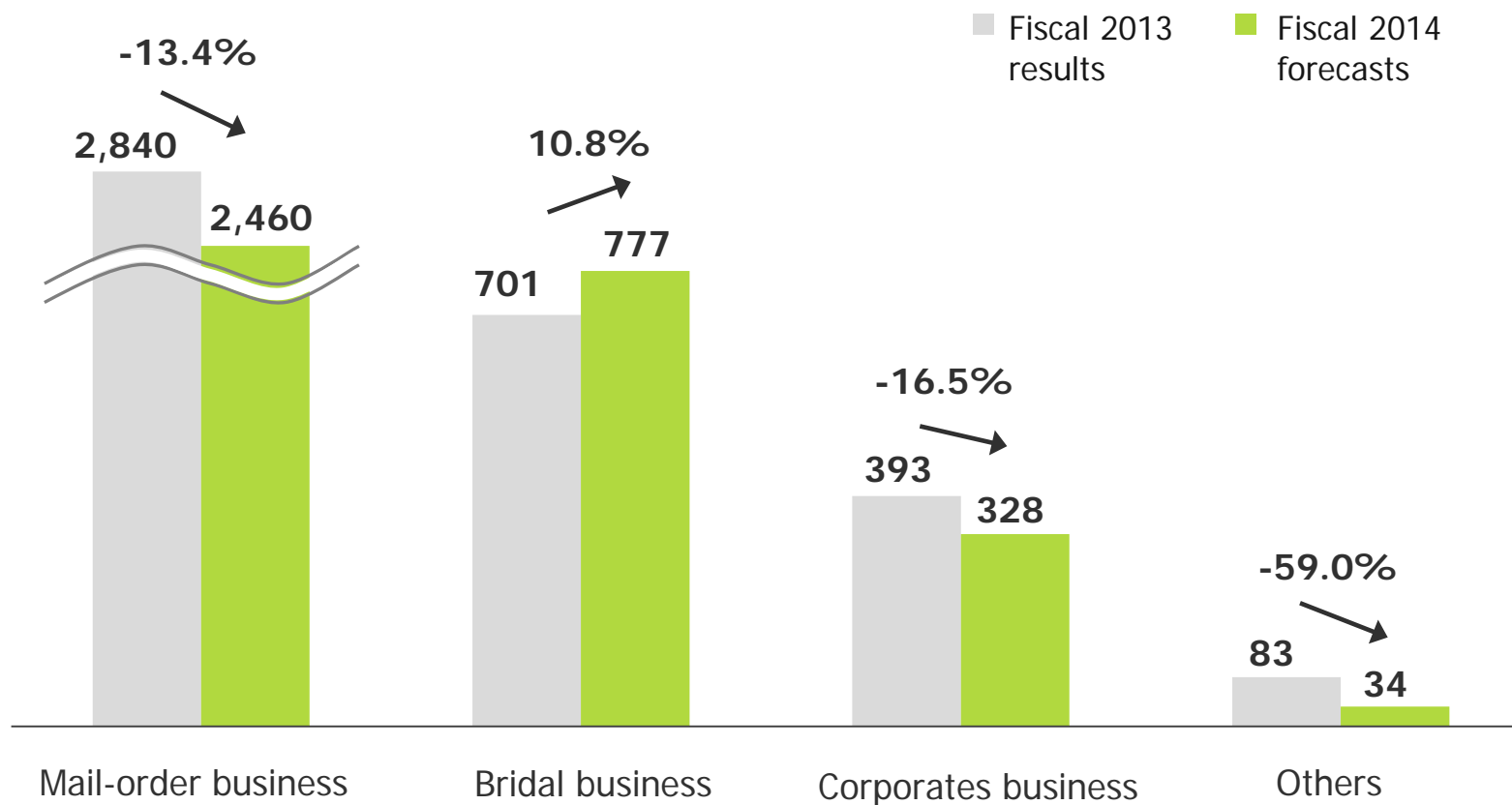
(Millions of yen)



- Mail-order business: Forecast a steady increase in Internet sales, but an ongoing decline in the *Hanpukai* business
- Bridal business: Forecast a strong performance at existing facilities and the expected contribution to second-half sales from two new facilities opened in the first half
- Others: Forecast higher sales in service businesses, primarily insurance and credit card services

# Consolidated Earnings Outlook by Business Segment for Fiscal 2014 (YoY Comparison)

(Millions of yen)



- Mail-order business: Forecast lower operating income mainly due to an increase in the cost-of-sales ratio caused by the weaker yen and growth in sales of products sold at bargain prices
- Bridal business: Forecast higher operating income due to the strong performance of existing facilities and the expected contribution to operating income from new facilities



## Launch of *Hietori Biyori* 365

### January 2014: Onkatsu Research Office established at the Monthly Business Development Department

Senshukai launched the new *Hietori Biyori* 365 brand, a source of new ideas for "Onkatsu (staying warm)" to solve the problem of feeling cold that many women have.

### September 2014: New catalog to be issued

Concept: A 365-day "warm life" both mentally and physically

The catalog will have about 40 types of original products, such as socks for staying warm, a special steamed yellow ginger powder from southern Japan (Amami Tokunoshima), and bath additives.

## Two Egao no Mori (smile forest) Nursery School openings

September 1, 2014: Egao no Mori Nursery School Ino to open in Sakura City, Chiba

Licensed nursery school  
(Capacity: 60 children)



October 1, 2014: Egao no Mori Nursery School Kamiikedai to open in Ota-ku, Tokyo

Licensed small nursery school  
(Capacity: 19 children)



## Full-scale start of the Smile Forest Project with customers



The Smile Forest project started in 2013 with the slogan “together with our customers, making everyone smile.” Interest among customers was very strong and donations in the first half of 2014 totaled more than 14 million yen. We have used these funds to start a number of projects to support post-quake reconstruction and protect the environment.

## Post-quake reconstruction support

### Blankets for newborn babies in earthquake-affected areas

Baby blankets (“Okurumi” in Japanese) with a design reflecting the nature of the Tohoku region were created with designer Yurio Seki. With the cooperation of the General Community Corporation J'espère, the blankets were given to babies in four prefectures of the Tohoku region. Since 2013, more than 5,000 blankets have been given in 40 locations.



### Participation in event by childcare NPO in Ishinomaki

Senshukai participated in an exhibition in June held by the Non-profit Organization Baby Smile Ishinomaki. There was a stamp workshop by Yurio Seki, a family photo space, gifts of baby clothes from our employees, and other activities. More than 500 families visited our exhibition area.



## Environmental activities



### Renewable energy classes for elementary school students and their mothers

Japan's Agency for Natural Resources and Energy is working with the private sector to conduct the Green Power Project. As part of this project, we plan to hold classes at 10 elementary schools throughout Japan with Diamond, Inc. The objective is to give parents and their children an opportunity to think about the importance of renewable energy.

## Dividend forecast

Our basic policy is to consistently distribute earnings to shareholders with a consolidated payout ratio of 30% as the target.

We plan to pay a dividend of 12 yen per share for the cumulative second quarter of Fiscal 2014.


We plan to pay a year-end dividend of 12 yen, which results in an annual dividend of 24 yen per share, the same as the dividend for 2013.

## Schedule for earnings announcements

**October 31, 2014 (Friday)**      **Announcement of financial results for the third quarter of Fiscal 2014**

**February 5, 2015 (Thursday)**      **Announcement of financial results for Fiscal 2014**

**February 6, 2015 (Friday)**      **Earnings presentation for Fiscal 2014 (Tokyo)**

 The forward-looking statements contained in this earnings presentation are based on information that was available at the time of the release of this presentation. Actual results could differ significantly from these projections due to a variety of factors.

## Senshukai IR e-mail

We have started an IR e-mail service to supply investors and other individuals with information about results of operations and monthly sales, press releases, and other information about our activities.

To receive these e-mails, please register for this service (currently available only in Japanese) on the Senshukai IR website.

Benefit  
program

## 1. Gift certificates

### Applicable shareholders

Holders of 100 shares or more who are listed on Senshukai's Shareholder Register as of June 30 and December 31 each year (Twice each year)

### Program details

Shareholders receive gift certificates that can be used to purchase Senshukai products.

[Previous program]

Until June 30, 2014

| Shares held   | Gift certificates |
|---------------|-------------------|
| 100-499       | 1,000 yen         |
| 500-999       | 2,500 yen         |
| 1,000 or more | 5,000 yen         |

[New program]

Starting on December 31, 2014

| Shares held   | Gift certificates |
|---------------|-------------------|
| 100-299       | 1,000 yen         |
| 300-499       | 2,000 yen         |
| 500-999       | 4,000 yen         |
| 1,000 or more | 5,000 yen         |



Benefit  
program

## 2. Special benefit for long-term shareholders

### Applicable shareholders

Holders of 100 shares or more for one year or more who are listed on Senshukai's Shareholder Register as of December 31 each year (Once each year)

### Program details

[Previous program]

Until December 31, 2013

Shareholders received hospitality points based on the number of years they have held Senshukai stock.

[New program]

Starting on December 31, 2014



Shareholders receive gift certificates based on the number of years they have held Senshukai stock.

| Shares held   | Years/Gift certificates |                 |                 |
|---------------|-------------------------|-----------------|-----------------|
|               | 1 year or more          | 2 years or more | 3 years or more |
| 100-299       | 500 yen                 | 1,000 yen       | 1,500 yen       |
| 300-499       | 1,000 yen               | 1,500 yen       | 2,000 yen       |
| 500-999       | 1,500 yen               | 2,000 yen       | 3,000 yen       |
| 1,000 or more | 2,000 yen               | 3,000 yen       | 4,000 yen       |

\* Long-term shareholders receive these gift certificates in addition to the gift certificates that are sent to all shareholders.