

SENSHUKAI CO.,LTD.

(Tokyo Stock Exchange, First Section: 8165)

Fiscal 2014 Earnings Presentation

(January 1 - December 31, 2014)

February 5, 2015

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for Smiles 2018

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1. About Senshukai

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Women's Smiles Company

senshukai

To become the "one and only" choice for women

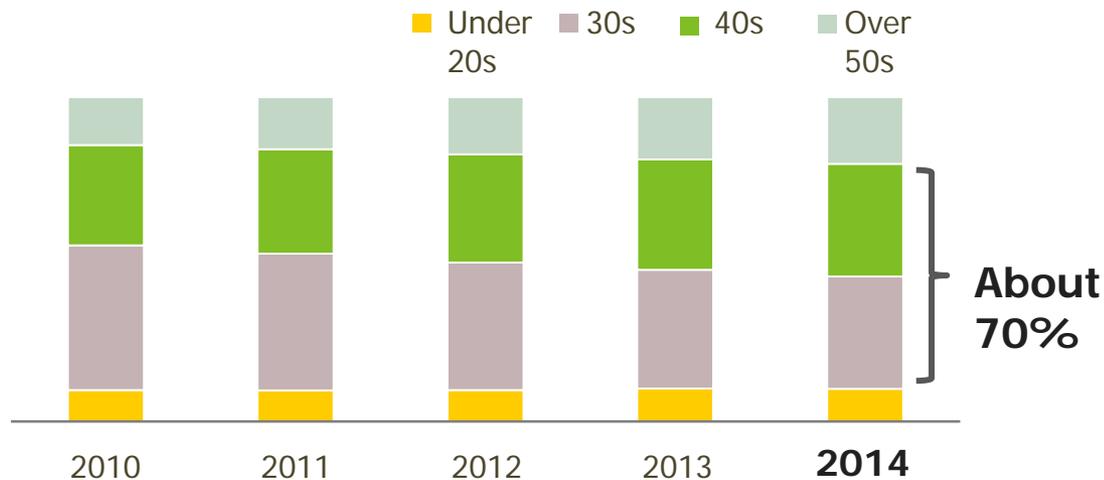
Senshukai wants to remain a company, that is the "one and only" choice for women. We accomplish this by offering original and one-of-a-kind products that women want along with safe, convenient and thorough services that customers can use with confidence.



Women customers are 92% of annual active customers of 3.84 million



Age Composition of Customers



As a "Women's Smiles Company," Senshukai provides a wide range of merchandise and services that cover a variety of activities and stages of women's lives.

Mail-order Business

Senshukai's core business

- Catalog business
- *Hanpukai* business



Others

- Childcare business
- Insurance and credit card services



Bridal Business

House wedding business
18 wedding halls, mostly in northern Kanto and Kyushu



Corporates Business

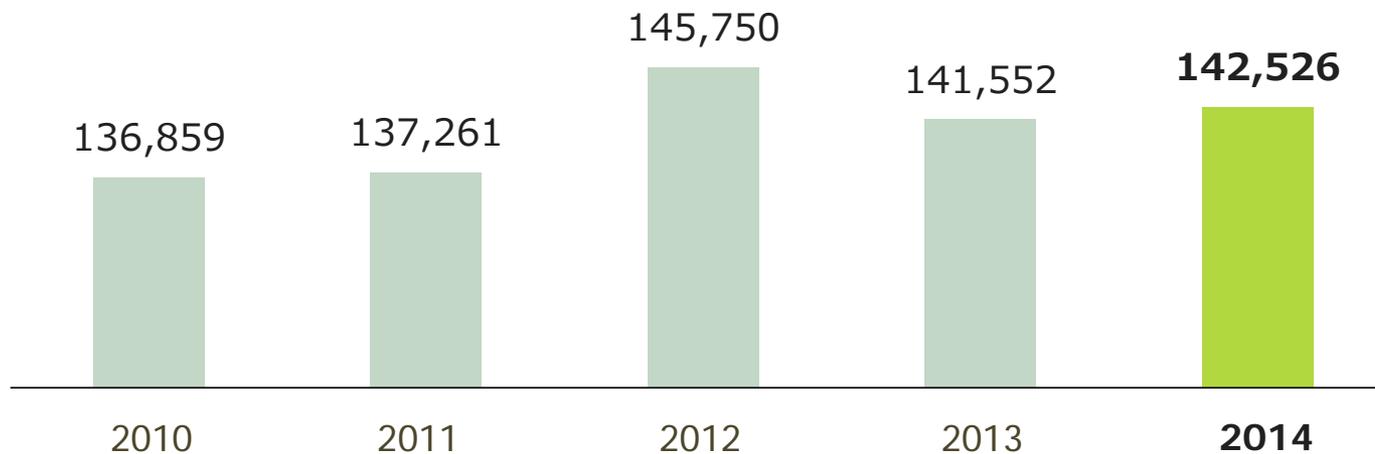
A variety of services to support the operations of client companies



Consolidated Net Sales and Operating Income (Recent Five Years)

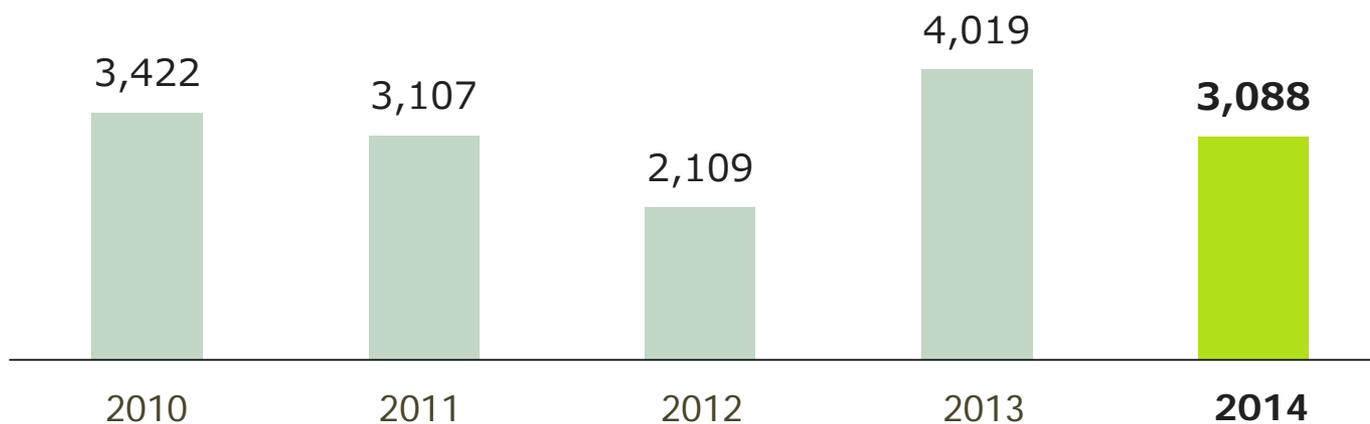
Net Sales

(Millions of yen)



Operating Income

(Millions of yen)



2. Consolidated Results of Operations for Fiscal 2014

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Fiscal 2014 Consolidated Statement of Income (YoY Comparison)

(Millions of yen)

	2013		2014		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	141,552		142,526		974	
Cost of sales	72,475	51.2%	75,038	52.6%	2,563	1.4%
Gross profit	69,077	48.8%	67,488	47.4%	-1,589	-1.4%
SG&A expenses	65,057	46.0%	64,399	45.2%	-658	-0.8%
Operating income	4,019	2.8%	3,088	2.2%	-931	-0.6%
Ordinary income	4,631	3.3%	3,549	2.5%	-1,082	-0.8%
Net income	4,046	2.9%	1,798	1.3%	-2,248	-1.6%
Net income per share (yen)	93.43		41.52		-51.91	
Return on equity	8.5%		3.5%		-5.0%	

- ◆ Net sales rose 0.7% year on year due to the strong performance of the bridal business despite the slight decline in the mail-order business following the April 2014 consumption tax hike
- ◆ Operating income declined 23.2% year on year due to the decline in the gross profit margin resulting from the yen's depreciation and an increase in loss on valuation of goods

Fiscal 2014 Consolidated Balance Sheet (YoY Comparison)

	Dec. 31, 2013	Dec. 31, 2014	Difference	Remarks
Assets				
Current assets	50,177	53,554	3,377	<ul style="list-style-type: none"> ■ Cash and deposits: +¥1.4bn ■ Forward exchange contracts: +¥2.2bn
Non-current assets	48,622	47,231	-1,391	<ul style="list-style-type: none"> ■ Investment securities: -¥1.3bn
Total assets	98,800	100,785	1,985	
Liabilities				
Current liabilities	39,635	33,470	-6,165	<ul style="list-style-type: none"> ■ Electronically recorded obligations-operating: +¥5.9bn ■ Short-term loans payable: -¥3.6bn ■ Others: -¥7.5bn
Non-current liabilities	8,805	14,153	5,348	<ul style="list-style-type: none"> ■ Bonds with subscription rights to shares: +¥7.0bn ■ Long-term loans payable: -¥1.3bn
Total liabilities	48,440	47,624	-816	
Net assets				
Shareholders' equity	54,975	55,707	732	<ul style="list-style-type: none"> ■ Retained earnings: +¥0.7bn
Accumulated other comprehensive income	-4,615	-2,546	2,069	<ul style="list-style-type: none"> ■ Valuation difference on available-for-sale securities: +¥0.4bn ■ Deferred gains or losses on hedges: +¥1.5bn
Total net assets	50,359	53,160	2,801	
Total liabilities and net assets	98,800	100,785	1,985	

Fiscal 2014 Consolidated Statement of Cash Flows

(YoY Comparison)

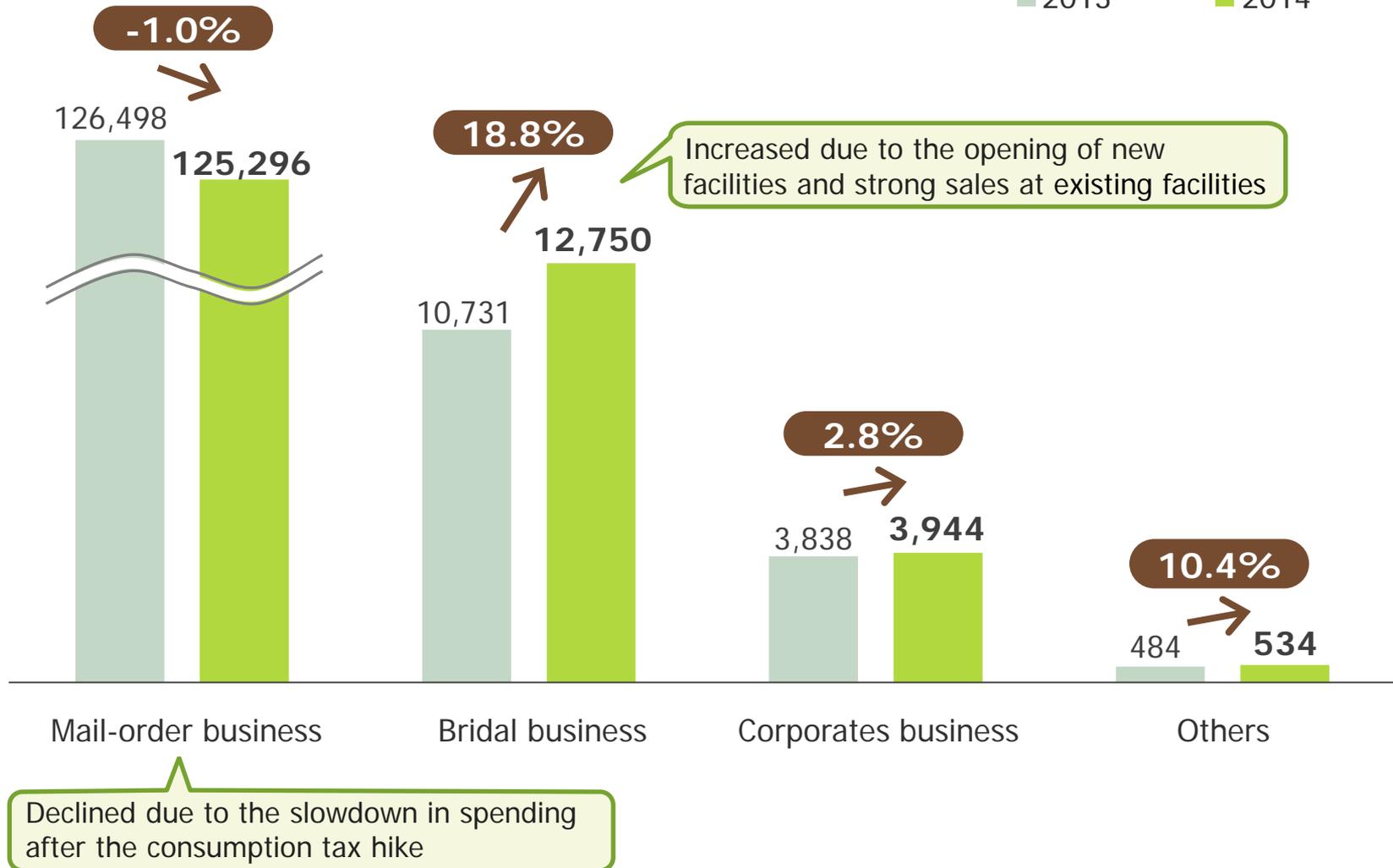
(Millions of yen)

	2013	2014	Difference	2014 highlights
Net cash provided by (used in) operating activities	2,174	2,722	548	<ul style="list-style-type: none"> ■ Income before income taxes and minority interests: +¥2.9bn ■ Depreciation: +¥2.6bn ■ Increase in notes and accounts payable-trade: +¥4.5bn ■ Decrease in other current liabilities: -¥8.2bn
Net cash provided by (used in) investing activities	-2,168	-1,540	628	<ul style="list-style-type: none"> ■ Purchase of property, plant and equipment: -¥1.7bn ■ Proceeds from sales of investment securities: +¥0.9bn
Net cash provided by (used in) financing activities	-986	-91	895	<ul style="list-style-type: none"> ■ Net decrease in short-term loans payable: -¥4.1bn ■ Repayment of long-term loans payable: -¥2.5bn ■ Proceeds from issuance of bonds with subscription rights to shares: +¥6.9bn
Cash and cash equivalents at end of period	6,495	7,910	1,415	

Fiscal 2014 Consolidated Sales by Business Segment (YoY Comparison)

(Millions of yen)

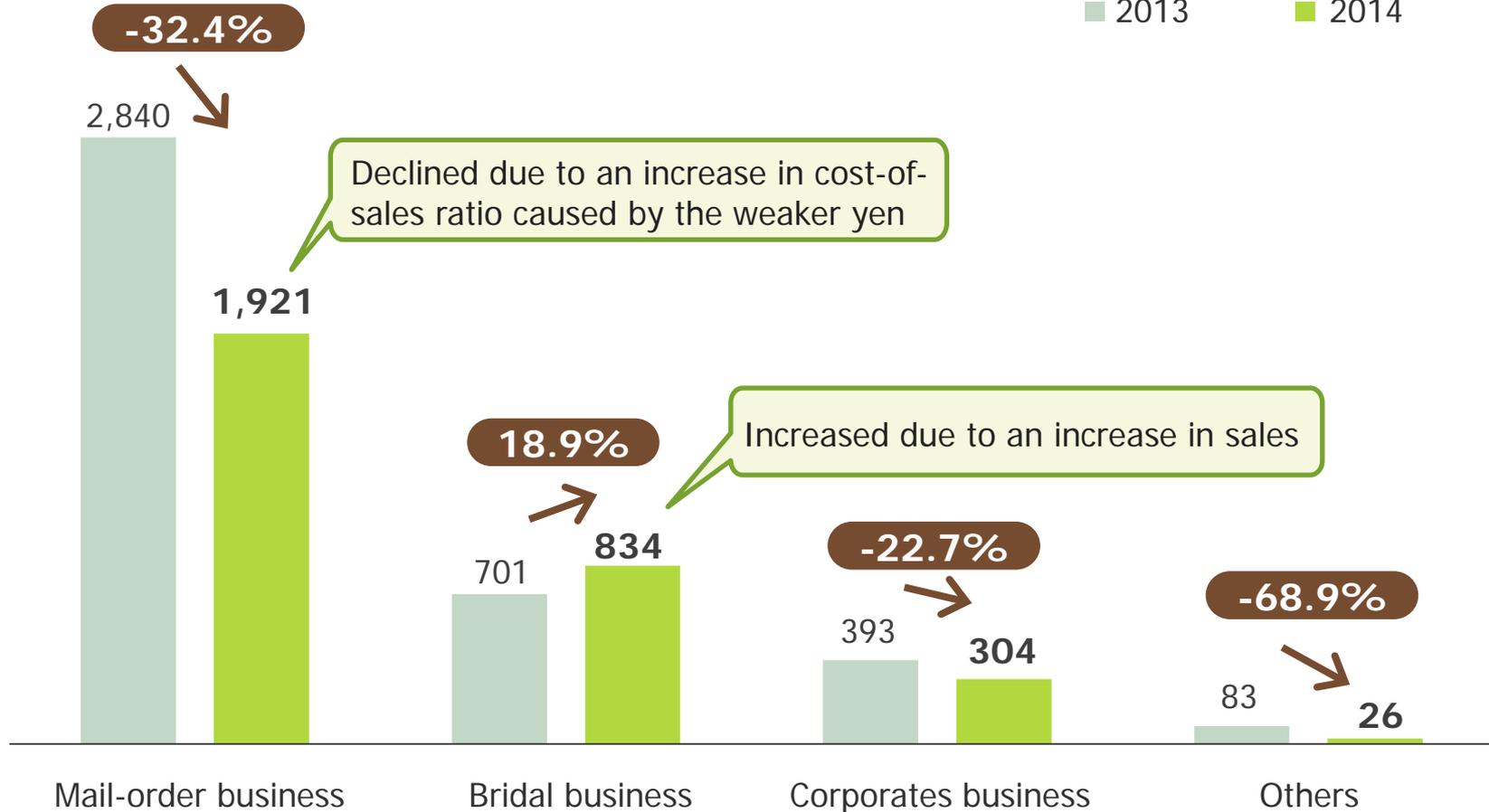
■ 2013 ■ 2014



Fiscal 2014 Consolidated Operating Income by Business Segment (YoY Comparison)

(Millions of yen)

■ 2013 ■ 2014



3. Overview by Segment


for Smiles 2018

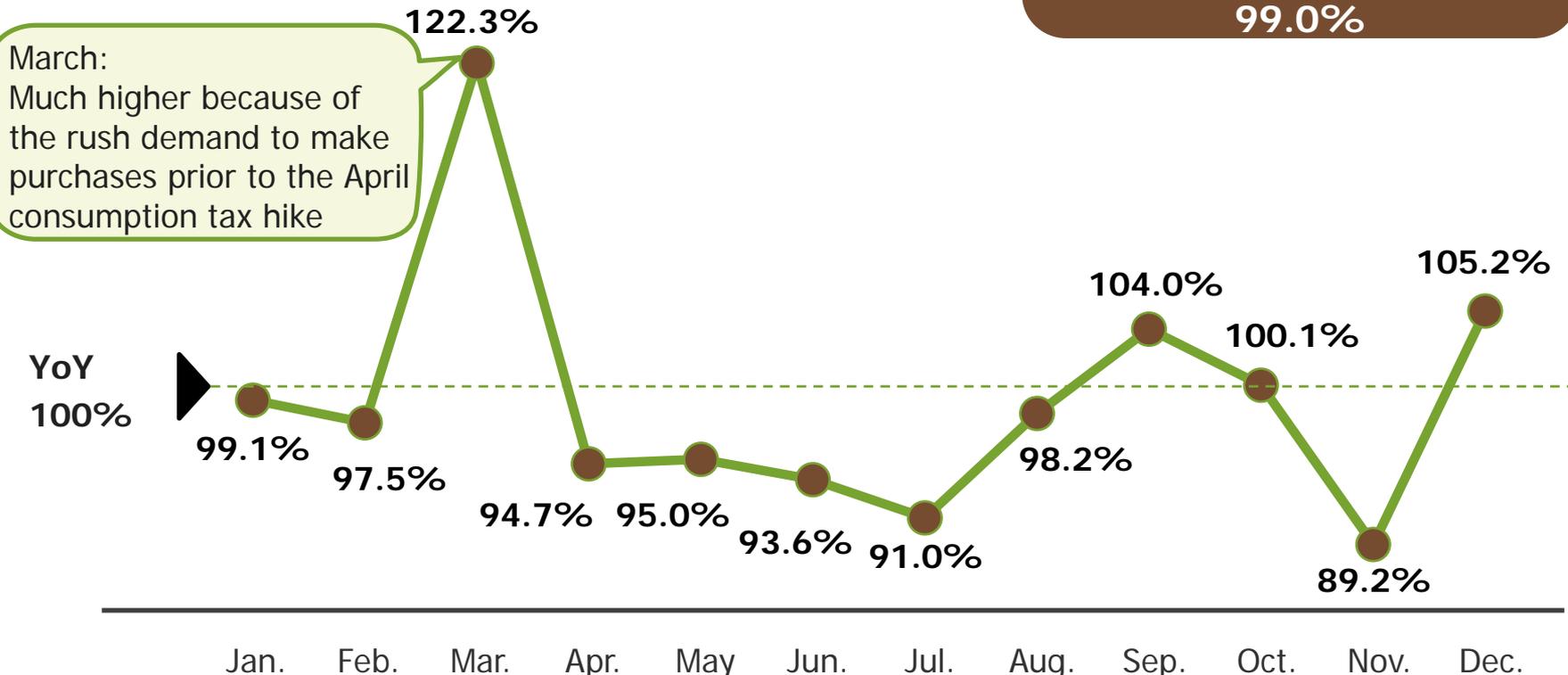
Overview of the Mail-order Business (YoY Comparison)

	2013	2014	Difference	Major components
Net sales (Millions of yen)	126,498	125,296	-1,202	
Operating income (Millions of yen)	2,840	1,921	-919	
Annual number of active customers (10,000 members)	403.6	383.9	-19.7	Number of current and new members decreased due to a decline in TV commercials
Annual number of new members (10,000 members)	90.9	85.1	-5.8	
Average sales per order (Yen)	10,536	10,616	80	Average sales per order and order frequency per customer increased despite a decrease in the number of active customers
Annual order frequency per customer (Times)	2.90	2.92	0.02	
Catalog circulation (10,000 volume)	6,463	6,375	-88	

* All figures other than net sales and operating income are non-consolidated data for the mail-order business (excluding the *Hanpukai* business).

Mail-order Business –Monthly Sales

January to December:
99.0%



March:
Much higher because of the rush demand to make purchases prior to the April consumption tax hike

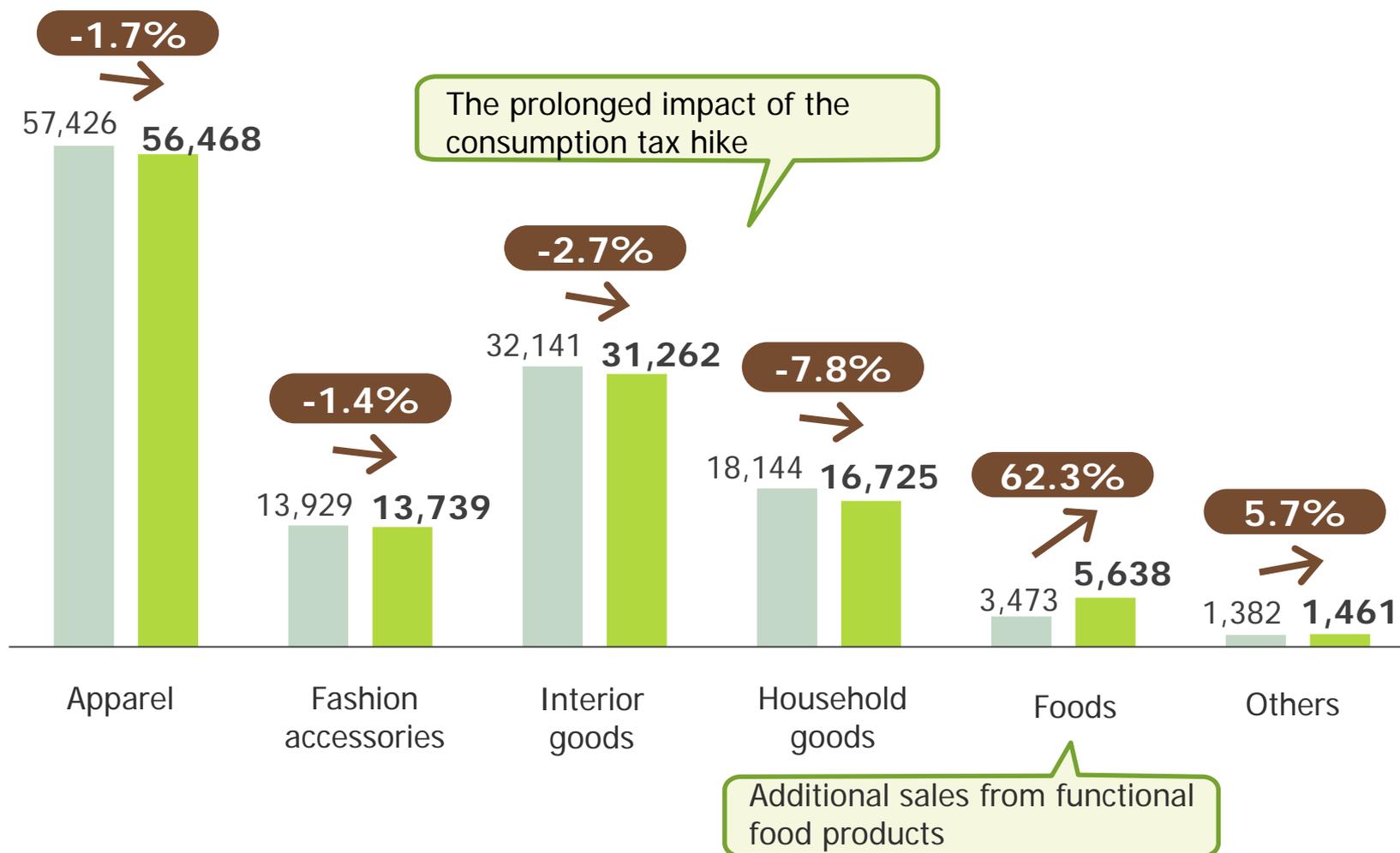
April-July:
Sharp drop following the consumption tax hike

November:
Slow sales of winter products because of unusually warm weather

Mail-order Business –Sales by Product Category (YoY Comparison)

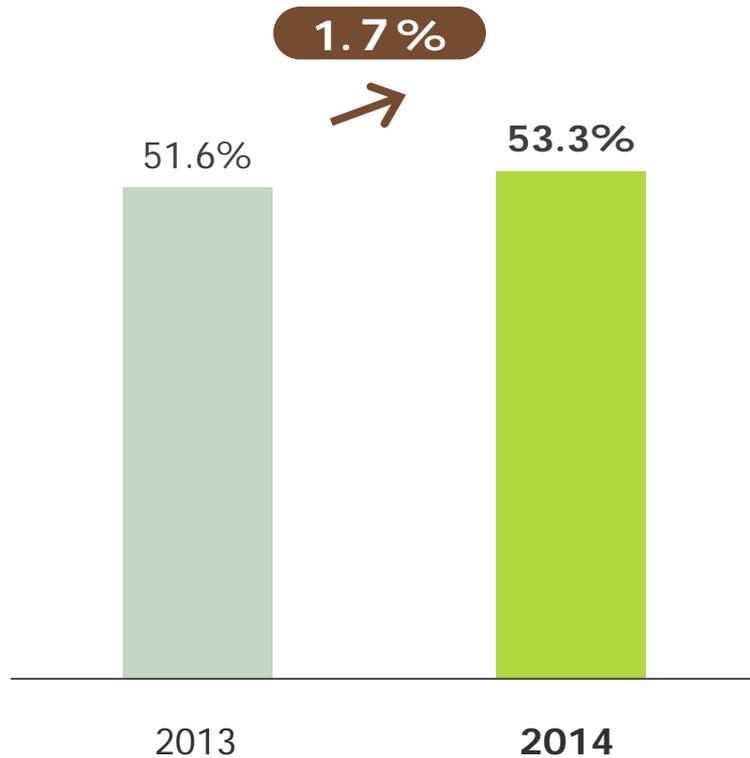
(Millions of yen)

■ 2013 ■ 2014



Mail-order Business –Differences in Cost-of-sales Ratio and SG&A Expenses (YoY Comparison)

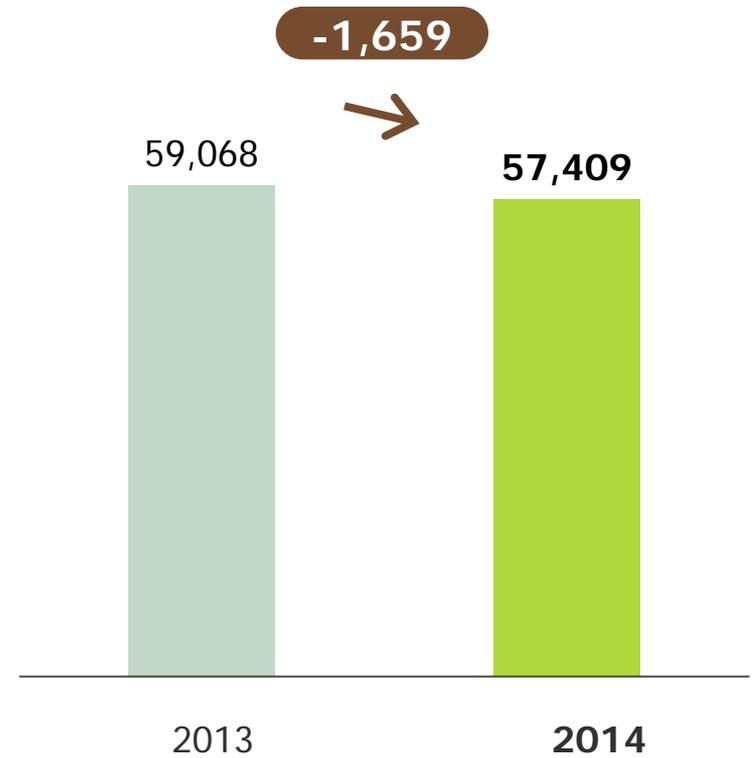
Cost-of-sales Ratio



- ◆ The cost-of-sales ratio increased due to the weaker yen
(For merchandise purchased from trading companies and manufacturers and direct purchases)
- ◆ The valuation losses on goods increased due to higher inventories

SG&A Expenses

(Millions of yen)



- ◆ Distribution costs:
Packing expenses declined due to a higher average unit price of shipments
- ◆ Sales promotion expenses:
Catalog circulation and cross-media advertising expenses declined

Internet Sales (Billions of yen)

(including mobile sales)



- Sales via catalog: Customer uses Internet to enter catalog product number
- Internet-only sales: All Internet sales other than sales via catalog

◆ Optimizing sales areas to match device capabilities, such as by enabling smartphone users to view additional product information and check merchandise inventories

◆ Use a campaign management system* to distribute e-mail with the ideal timing in relation to the level of interest among customers

* Campaign management system: Automatically plans, executes and operates marketing campaigns by using the centralized management of data involving customers and their purchases, e-mail messages sent, responses to past campaigns and other items

Ratio of Internet-based Orders



Amount and Share of Smartphone Sales



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



Overview of the Bridal Business (YoY Comparison)

	2013	2014	Difference	Major components
Net sales (Millions of yen)	10,731	12,750	2,019	
New facilities	-	749	749	Opening of new facilities in Kamakura and Kyoto
Existing facilities	10,731	12,001	1,270	Strong sales due in part to renovations
Operating income (Millions of yen)	701	834	133	
Guesthouses	16	18	2	
Weddings (Couples)	2,632	3,260	628	
Average sales per wedding (10,000 yen)	397.6	381.7	-15.9	

Overview of the Corporates Business (YoY Comparison)

(Millions of yen)

	2013	2014	Difference	Major components
Net sales	3,838	3,944	106	
Contracting services	2,706	2,857	151	Increase in contracting sales of major clients
Sampling	907	801	-106	Decrease in the number of existing clients
Novelties	144	225	81	Increase in the number of new clients
Others	81	61	-20	
Operating income	393	304	-89	

4. Consolidated Earnings Outlook for Fiscal 2015


for Smiles 2018

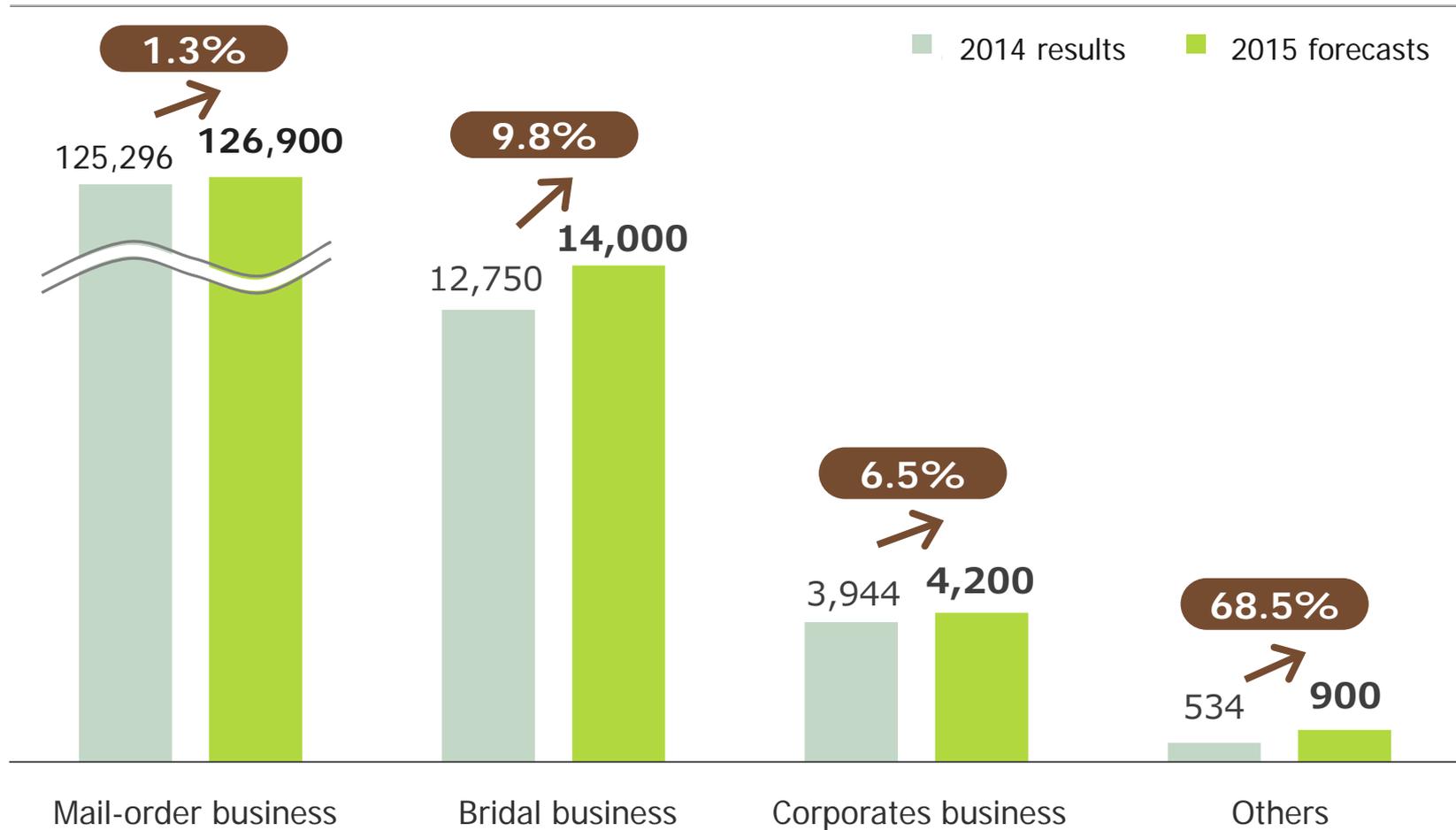
(Millions of yen)

	2014 (Results)		2015 (Forecasts)		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	142,526		146,000		3,474	
Cost of sales	75,038	52.6%	76,715	52.5%	1,677	-0.1%
Gross profit	67,488	47.4%	69,284	47.5%	1,796	0.1%
SG&A expenses	64,399	45.2%	66,084	45.3%	1,685	0.1%
Operating income	3,088	2.2%	3,200	2.2%	112	0.0%
Ordinary income	3,549	2.5%	3,500	2.4%	-49	-0.1%
Net income	1,798	1.3%	2,000	1.4%	202	0.1%

- ◆ Net sales: Forecast higher sales for the mail-order business due to the planned renewal of catalog and the launch of catalog targeting new customer segments; forecast higher sales for the bridal business because of expected growth in sales at new and existing facilities, just as in 2014
- ◆ Operating income: Forecast higher operating income due to outlook for cost-of-sales and SG&A expense ratios about the same as in 2014 despite the negative effects of the weaker yen, etc.

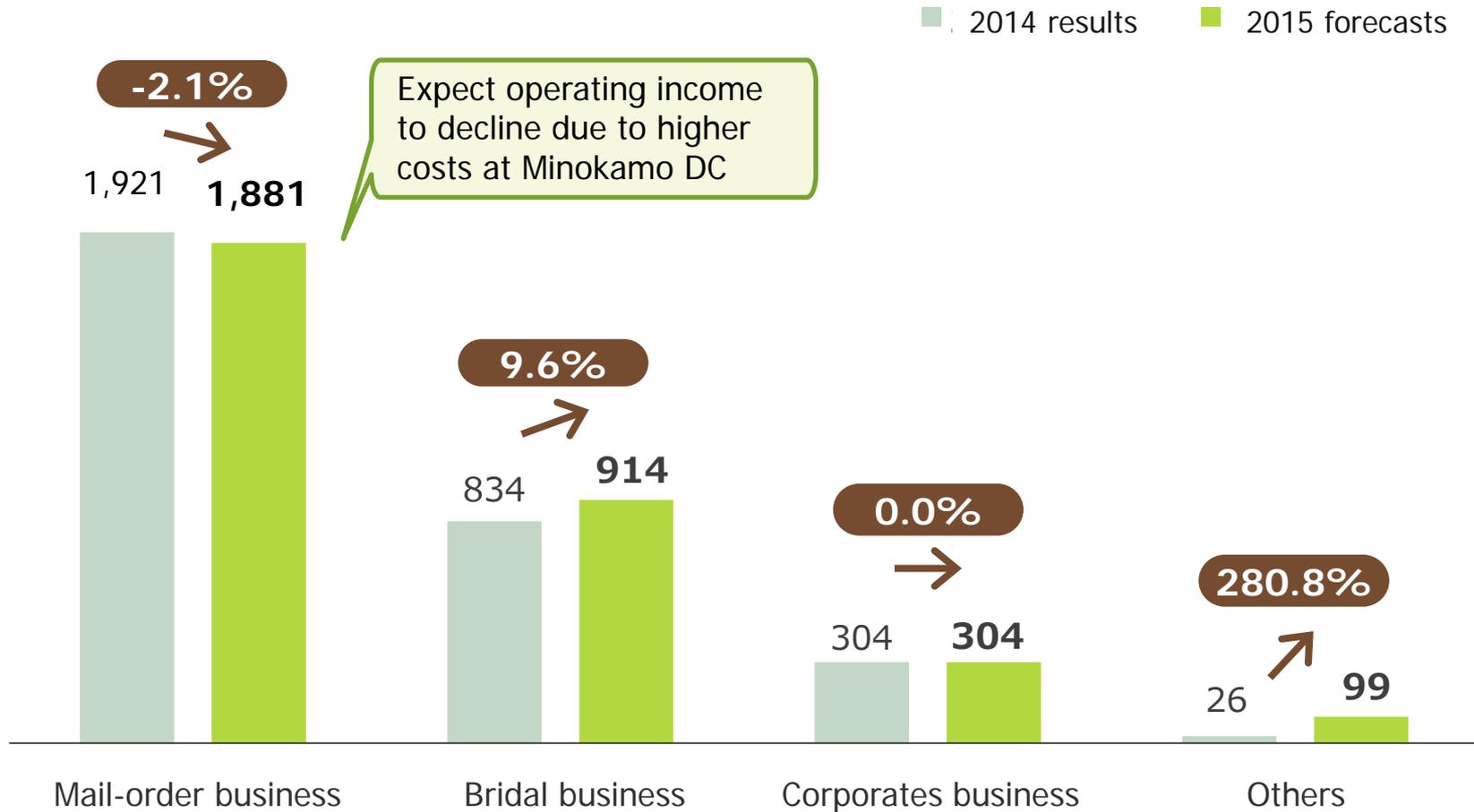
Fiscal 2015 Consolidated Sales Outlook by Business Segment (YoY Comparison)

(Millions of yen)



Fiscal 2015 Consolidated Operating Income Outlook by Business Segment (YoY Comparison)

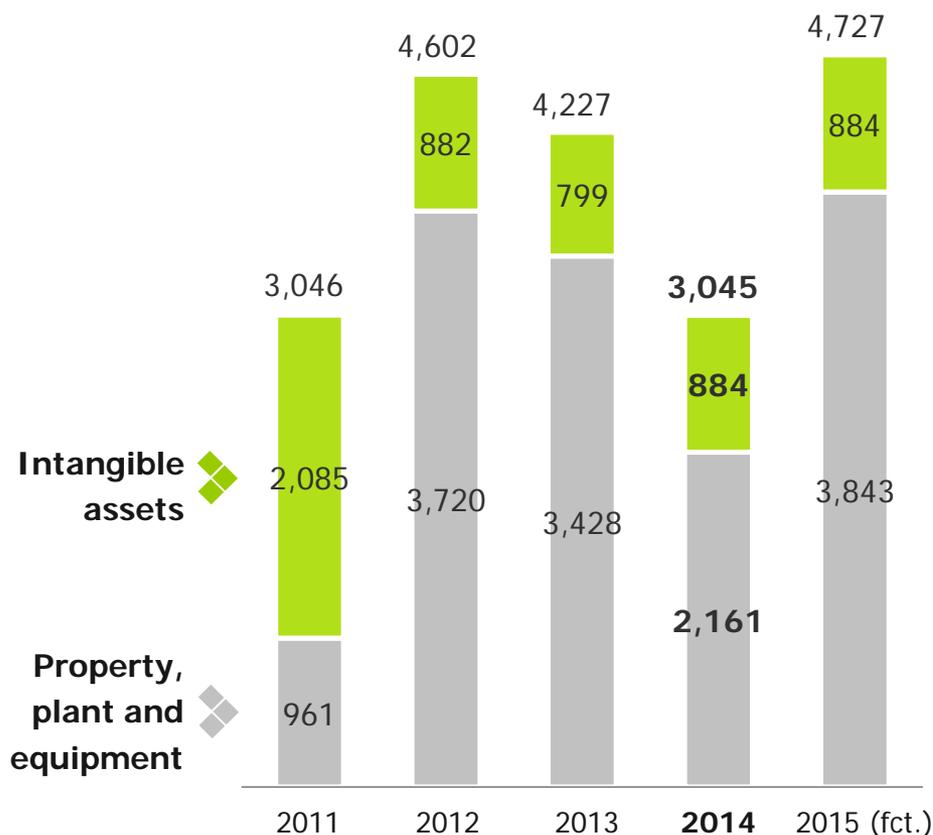
(Millions of yen)



Trend and Plan for Capital Expenditures and Depreciation Expenses

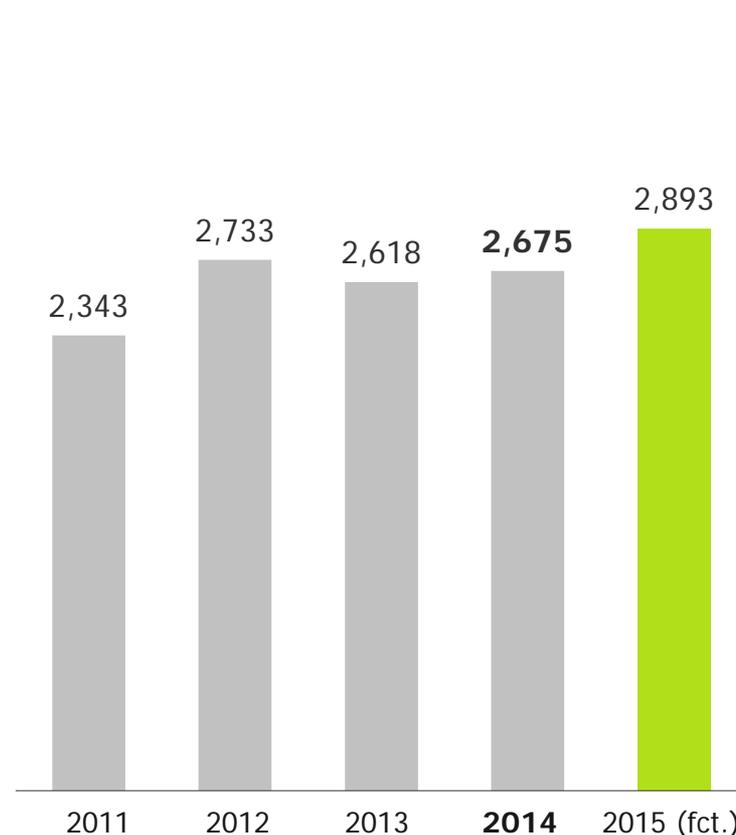
Capital Expenditures

(Millions of yen)



Depreciation Expenses

(Millions of yen)



◆ Property, plant and equipment: Expect costs related to the establishment of Minokamo Distribution Center and new facilities at Dears Brain Inc. to increase in Fiscal 2015

5. Medium- to Long-term Management Plan (Fiscal 2014 to Fiscal 2018)

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Medium- to Long-term Management Plan "Innovate for Smiles 2018"

Senshukai Group Targets (Fiscal 2014 to Fiscal 2018)

Medium- to Long-term Management Targets (Consolidated)

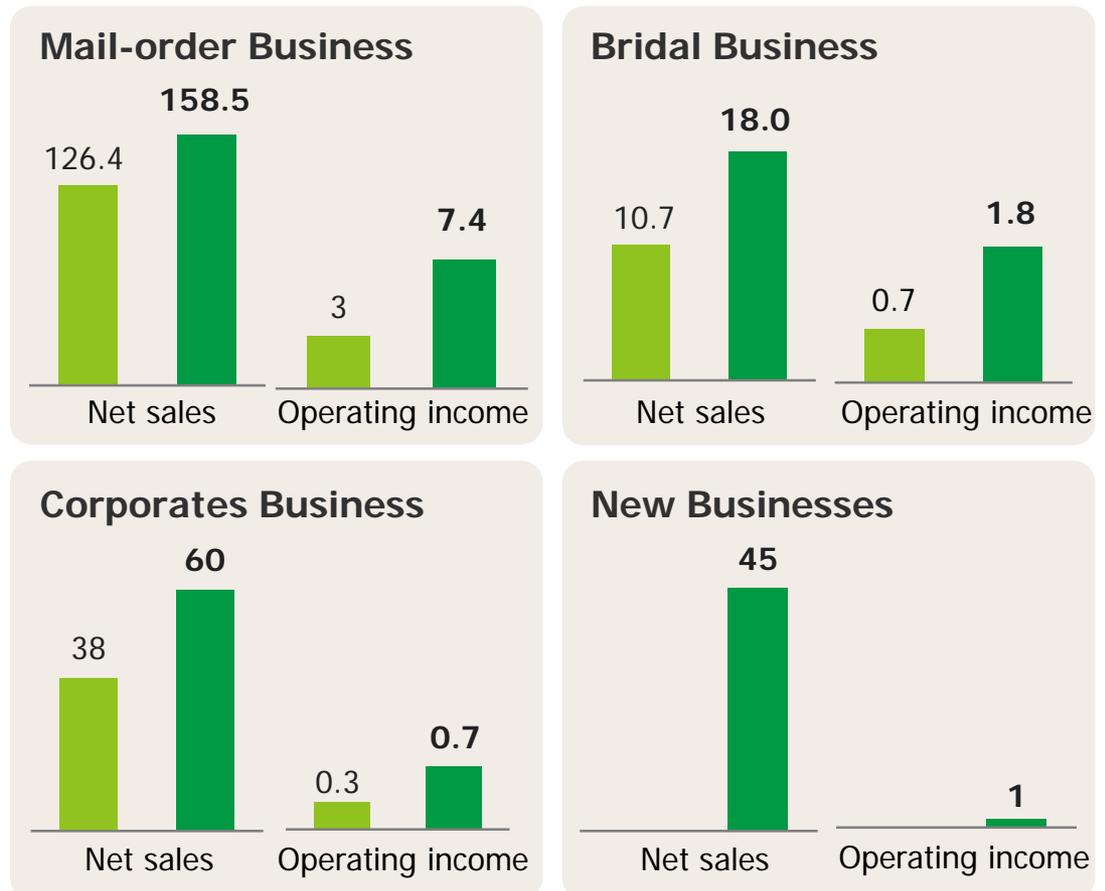
(Millions of yen)

	2013 results	2018 targets
Net sales (% to net sales)	141,552 (100.0%)	187,000 (100.0%)
Operating income	4,019 (2.8%)	10,000 (5.3%)
Net income	4,046 (2.8%)	6,500 (3.5%)
Return on equity	8.5%	10.0%

Targets by Business Segment

(Billions of yen)

■ 2013 results ■ 2018 targets



Mail-order Business

- Core Strategy 1: “Customer Strategy” Clearly define targeted customer segments
- Core Strategy 2: “Merchandising Strategy” Differentiate ourselves by selling self-developed original products with added value
- Core Strategy 3: “Sales Channel Strategy” Use an omni-channel approach to give customers more opportunities to purchase our products
- Core Strategy 4: “Fulfillment Strategy” Invest in logistics and IT systems to improve efficiency



Core fashion catalog
“BELLE MAISON fashion”



Scheduled launch: May 2015

Catalog targeting women
in their 50s
“Vialamo”

First-year initiatives and plan for 2015

- Increase the use of private brands created to target specific customer segments
- Launch “BELLE MAISON fashion 2015 Spring” as the core fashion catalog
 - A catalog focused on merchandise containing very carefully selected original items
 - Continue progress with differentiating by developing original products with added value
- Production of merchandise that targets customers in their 30s and 50s
 - Will issue “rirune” in March and “Vialamo” in May and link these catalogs with e-commerce
 - Build season-based merchandising just as at stores, rather than merchandise based on catalog, with emphasis on the self-developed original products
- Reorganize logistics operations in the Chubu area
 - Start operations at the Minokamo Distribution Center; preparations under way for start-up in 2015

Bridal Business

To sustain sales growth, we will continue to open new wedding halls and renovate existing ones in both urban and suburban styles.



Scheduled opening: March 2015

FORTUNE IN THE TERRACE



Scheduled opening: July 2015

KOTOWA Nara Park Premium View

First-year initiatives and plan for 2015

- Goal is 26 wedding halls by the end of 2018; there were 18 at the end of 2014
- Plan for new wedding halls
 - Two in 2015 (Niigata in March and Nara in July), and two each in 2016 and 2017

New Businesses

We keep developing unique businesses to fulfill women customers' needs.

1. Put priority on developing new businesses likely to generate meaningful synergies with existing businesses due to high compatibility.
2. Cultivate peripheral businesses to complement those new businesses that we develop.

Opened in Sep. 2014

Egao no Mori
Nursery School
Ino



To be opened in Apr. 2015

Egao no Mori
Nursery School
Kamata-ekimae



Opened in Oct. 2014

Egao no Mori
Nursery School
Kamiikedai



To be opened in Apr. 2015

Egao no Mori Nursery
School Omori-ekimae



First-year initiatives and plan for 2015

- Childcare business
Egao no Mori Nursery School Ino was opened in Sakura City, Chiba in September 2014
Egao no Mori Nursery School Kamiikedai was opened in Ota-ku, Tokyo in October 2014
Plan to open two nursery schools in Ota-ku, Tokyo (Kamata and Omori) in April 2015

6. Others

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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 totaled more than 70 million yen until 2014. We have used these funds to the number of projects to support post-quake reconstruction, “Pink Ribbon Campaign” and environmental activities.

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 9,000 blankets have been given in 40 locations.



Pink Ribbon Campaign

Distribution of free breast cancer screening coupons as part of promotion activities

Distributed 3,100 coupons in collaboration with Japan Cancer Society



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 have held classes at seven 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

Senshukai's basic policy regarding dividends is to appropriately return profits to shareholders that reflects its business performance by maintaining stable dividends that take into account a payout ratio while at the same time strengthening the business foundation with retained earnings.

Based on this policy and in light of Fiscal 2014 consolidated results, Senshukai plans to pay a year-end dividend of 12 yen per share, which has been initially planned, and together with an interim dividend of 12 yen, this will result in a total annual dividend of 24 yen per share.

For Fiscal 2015, Senshukai plans an annual dividend of 16 yen per share (8 yen each at interim and year-end), based on the earnings forecast.

Schedule for Earnings Announcements

April 24, 2015 (Friday)	Announcement of financial results for the first quarter of Fiscal 2015
July 30, 2015 (Thursday)	Announcement of financial results for the second quarter of Fiscal 2015
July 31, 2015 (Friday)	Earnings presentation for the second quarter of Fiscal 2015 (Tokyo)
October 30, 2015 (Friday)	Announcement of financial results for the third quarter of Fiscal 2015

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.