

SENSHUKAI CO.,LTD.

(Tokyo Stock Exchange, First Section: 8165)

Fiscal 2015 Earnings Presentation

February 4, 2016

 **innovate**
for Smiles 2018

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1. Consolidated Results of Operations for Fiscal 2015



Fiscal 2015 Consolidated Statement of Income (YoY Comparison)

(Millions of yen)

| | 2014 | | 2015 | | YoY change | |
|------------------|----------------|----------------|----------------|----------------|---------------|--------------------------|
| | | % to net sales | | % to net sales | Difference | Change in % to net sales |
| Net sales | 142,526 | | 134,321 | | -8,205 | |
| Cost of sales | 75,038 | 52.6% | 73,442 | 54.7% | -1,596 | 2.1% |
| Gross profit | 67,488 | 47.4% | 60,879 | 45.3% | -6,609 | -2.1% |
| SG&A expenses | 64,399 | 45.2% | 64,316 | 47.9% | -83 | 2.7% |
| Operating income | 3,088 | 2.2% | -3,437 | -2.6% | -6,525 | -4.8% |
| Ordinary income | 3,549 | 2.5% | -2,540 | -1.9% | -6,089 | -4.4% |
| Net income | 1,798 | 1.3% | -5,307 | -4.0% | -7,105 | -5.3% |

- ◆ Net sales decreased due to the continued drop in sales in the mail-order business after the April 2014 consumption tax hike, unusual temperatures (unseasonable weather), and a change in marketing measures (shift from coupon distribution to point offer structure).
- ◆ The operating loss was caused by a lower earnings as sales decreased, the yen's weakness and a decrease in gross profit margin resulting from an increase in clearance sales to slash inventory to adequate levels.
- ◆ The net loss was the result of impairment loss, special retirement expenses and the reversal of deferred tax assets.

Fiscal 2015 Consolidated Balance Sheet (YoY Comparison)

| | Dec. 31, 2014 | Dec. 31, 2015 | Difference | Remarks |
|--|---------------|---------------|------------|--|
| Assets | | | | |
| • Current assets | 53,554 | 51,947 | -1,606 | <ul style="list-style-type: none"> Cash and deposits: +¥6.3bn Notes and accounts receivable-trade: -¥2.5bn Merchandise and finished goods: -¥3.5bn Forward exchange contracts: -¥2.3bn |
| • Non-current assets | 47,231 | 53,404 | 6,173 | <ul style="list-style-type: none"> Property, plant and equipment: +¥2.8bn Investment securities: +¥3.7bn |
| Total assets | 100,785 | 105,352 | 4,567 | |
| Liabilities | | | | |
| • Current liabilities | 33,470 | 31,410 | -2,060 | <ul style="list-style-type: none"> Electronically recorded obligations-operating: -¥1.0bn Income taxes payable: -¥0.7bn |
| • Non-current liabilities | 14,153 | 20,236 | 6,082 | <ul style="list-style-type: none"> Long-term loans payable: +¥5.6bn |
| Total liabilities | 47,624 | 51,647 | 4,022 | |
| Net assets | | | | |
| • Shareholders' equity | 55,707 | 57,159 | 1,451 | <ul style="list-style-type: none"> Capital stock: +¥1.9bn Capital surplus: +¥2.8bn Retained earnings: -¥6.0bn Treasury shares: +¥2.7bn |
| • Accumulated other comprehensive income | -2,546 | -3,481 | -934 | <ul style="list-style-type: none"> Valuation difference on available-for-sale securities: +¥0.4bn Deferred gains or losses on hedges: -¥1.4bn |
| • Minority interests | - | 27 | 27 | |
| Total net assets | 53,160 | 53,705 | 544 | |
| Total liabilities and net assets | 100,785 | 105,352 | 4,567 | |

Fiscal 2015 Consolidated Statement of Cash Flows

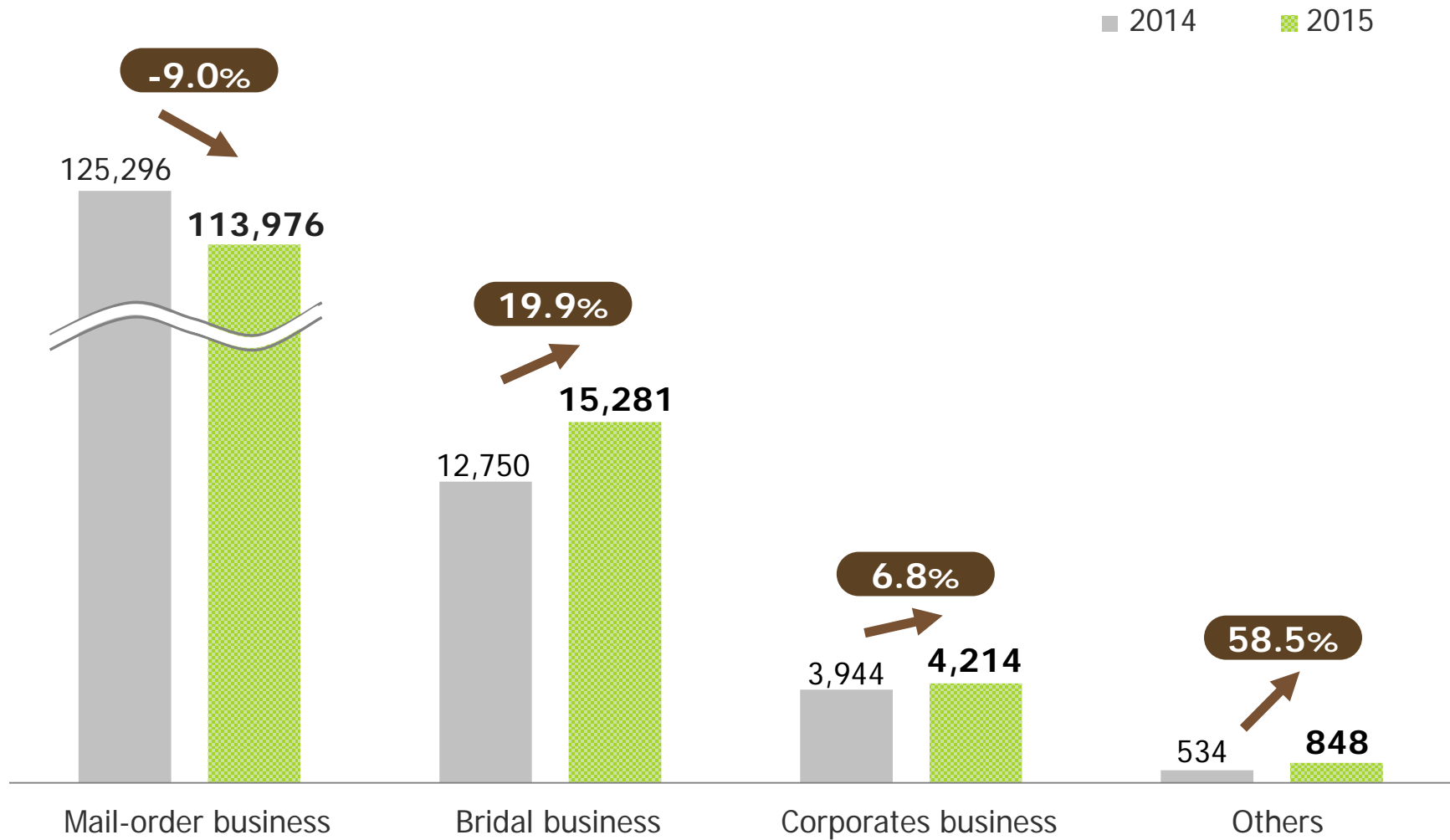
(YoY Comparison)

(Millions of yen)

| | 2014 | 2015 | Difference | 2015 highlights |
|---|--------|--------|------------|--|
| Net cash provided by (used in) operating activities | 2,722 | 3,400 | 678 | <ul style="list-style-type: none"> Loss before income taxes and minority interests: -¥3.8bn Depreciation: +¥2.9bn Decrease in inventories: +¥3.5bn |
| Net cash provided by (used in) investing activities | -1,540 | -8,053 | -6,513 | <ul style="list-style-type: none"> Purchase of property, plant and equipment: -¥4.9bn Purchase of investment securities: -2.6bn |
| Net cash provided by (used in) financing activities | -91 | 11,060 | 11,152 | <ul style="list-style-type: none"> Proceeds from long-term loans payable: +¥7.8bn Proceeds from issuance of common shares: +¥3.8bn Proceeds from disposal of treasury shares: +¥3.6bn Repayments of long-term loans payable: -¥2.6bn |
| Cash and cash equivalents at end of period | 7,910 | 14,303 | 6,393 | |

Fiscal 2015 Consolidated Sales by Business Segment (YoY Comparison)

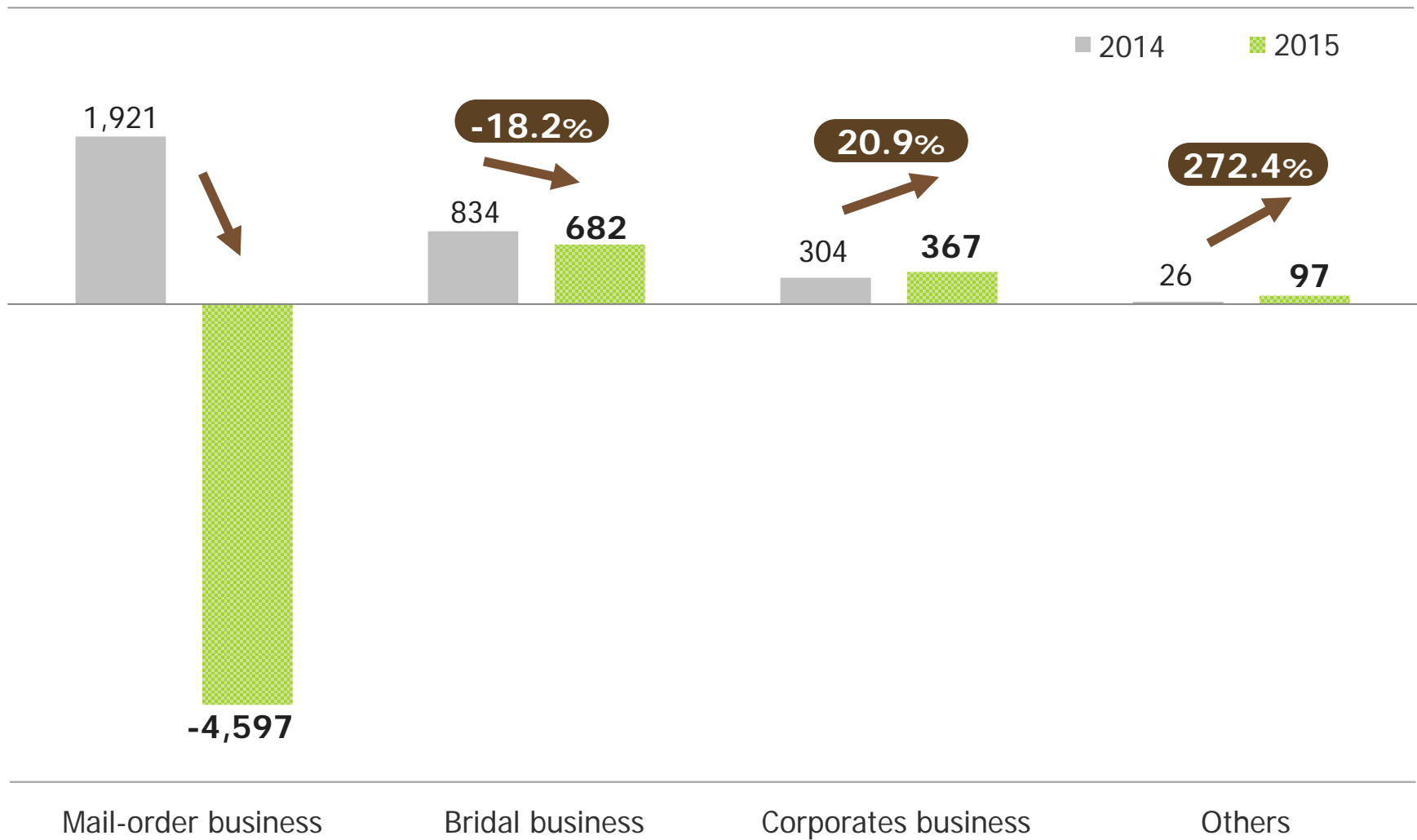
(Millions of yen)



* "Others" represents services business primarily offering insurance and credit card services, and childcare business

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

(Millions of yen)



* "Others" represents services business primarily offering insurance and credit card services, and childcare business

2. Overview by Segment


for Smiles 2018

Overview of the Mail-order Business (YoY Comparison)

| | 2014 | 2015 | Difference | Main factors |
|--|---------|---------|------------|--|
| Net sales (Millions of yen) | 125,296 | 113,976 | -11,320 | |
| Operating income (Millions of yen) | 1,921 | -4,597 | -6,518 | |
| Annual number of active customers (10,000 members) | 383.9 | 363.1 | -20.8 | ■ Decrease in the number of current and new members mainly due to a decrease in TV commercials |
| Annual number of new members (10,000 members) | 85.1 | 80.5 | -4.6 | |
| Average sales per order (Yen) | 10,616 | 10,336 | -280 | ■ Decrease in the number of current customers with a high average sale per order and order frequency |
| Annual order frequency per customer (Times) | 2.92 | 2.84 | -0.08 | |
| Catalog circulation (10,000 volume) | 6,375 | 6,568 | 193 | ■ Larger number of catalog circulation but decrease in pages |

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

Net Sales

External factors

- ❖ Continued drop in sales after the April 2014 consumption tax hike
- ❖ Unseasonable weather (warm winters, etc.)

Internal factors

- ❖ Change in marketing measures (shift from coupon distribution to point offer structure)
- ❖ Smaller sales area caused by a big reduction in catalog pages
- ❖ Slow response to the shift to smartphone purchases
- ❖ Decrease in the cross-media promotions
(TV commercials were distributed in spring and autumn for 2014, but only autumn for 2015)

Operating Income

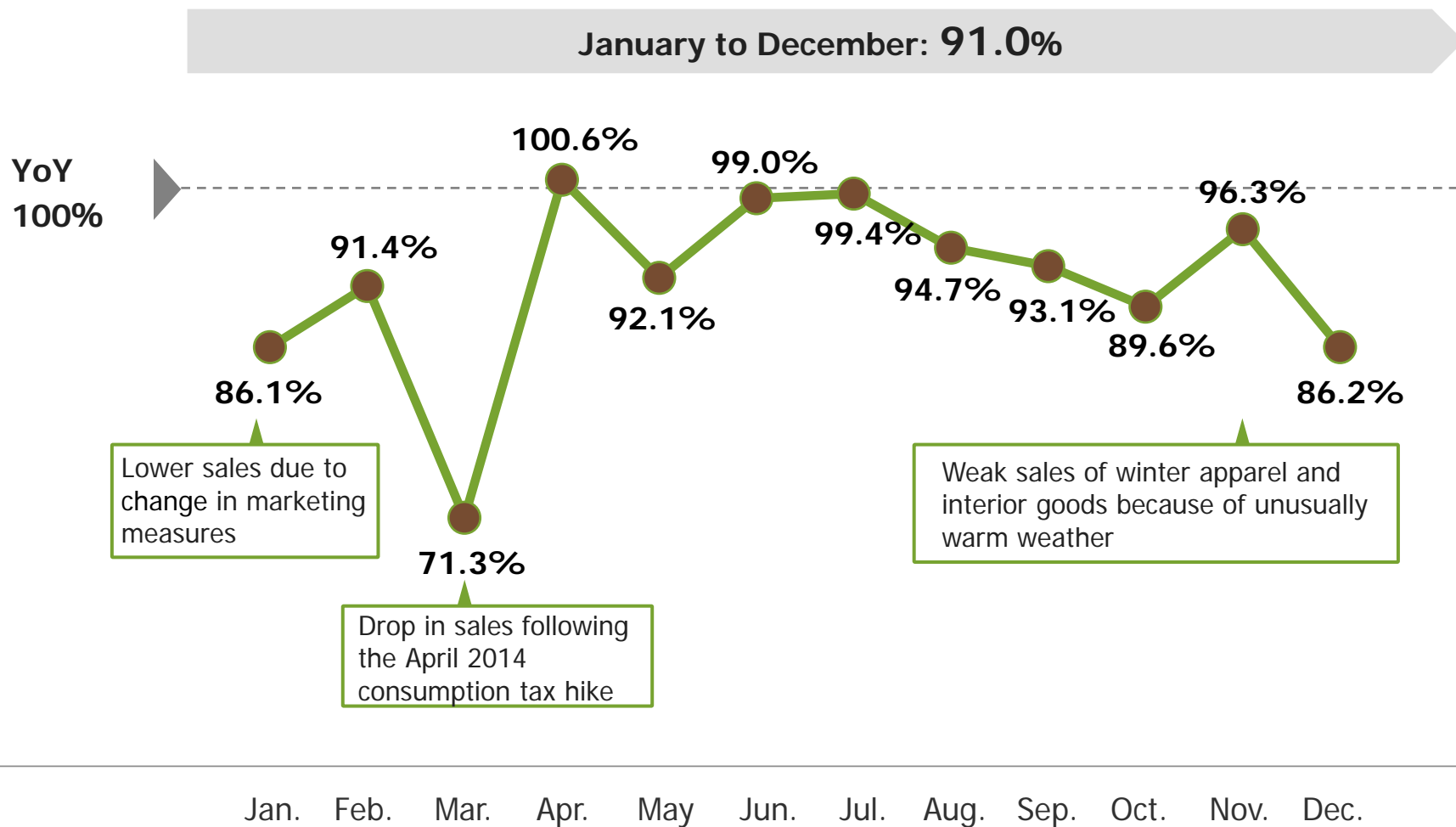
External factors

- ❖ Rising raw materials and other prices due to weaker yen

Internal factors

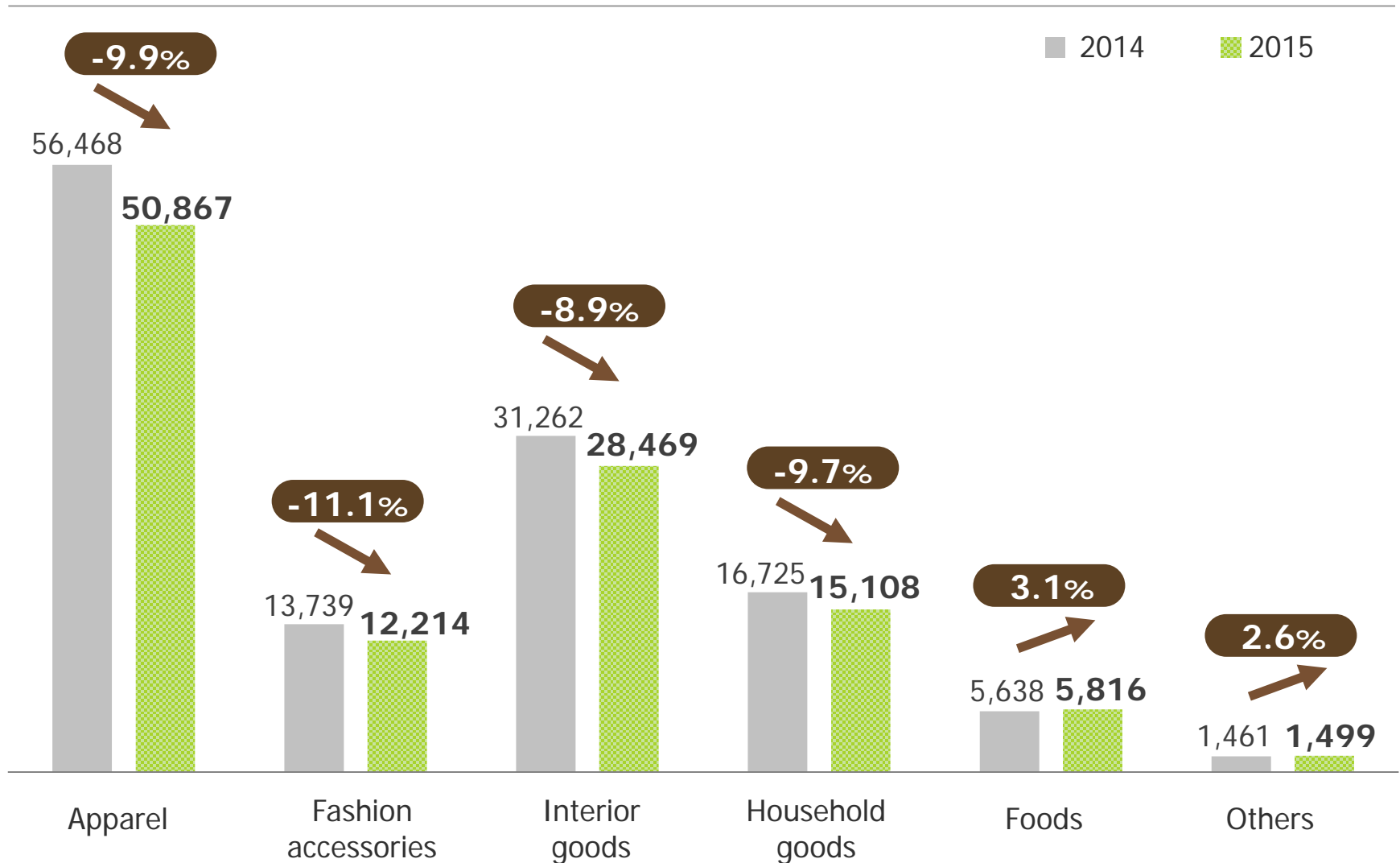
- ❖ Decrease in earnings due to lower sales
- ❖ Increase in the percentage of sales from discounted merchandise
- ❖ Increase in cost-of-sales ratio resulting from an increase in clearance sales to slash inventory to adequate levels
- ❖ Increase in sales promotion expenses due to additional marketing measures

Mail-order Business –Monthly Sales



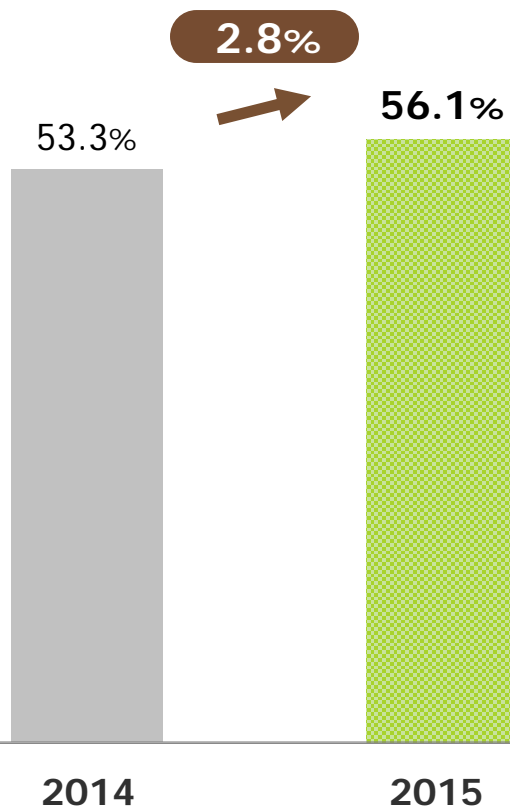
Mail-order Business –Sales by Product Category (YoY Comparison)

(Millions of yen)



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

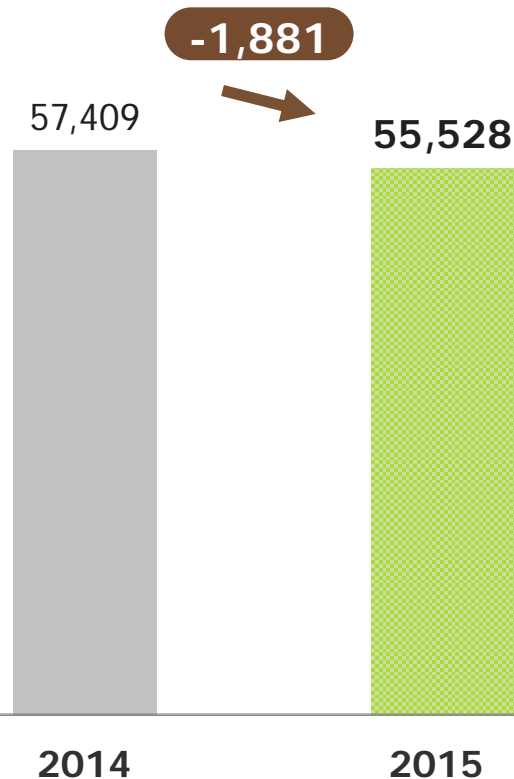
Cost-of-sales Ratio



- ◆ Increase in the percentage of sales from discounted merchandise
- ◆ Increase in the cost-of-sales ratio due to the weaker yen (For merchandise purchased from trading companies and manufacturers and direct purchases)
- ◆ Higher merchandise write-downs due to inventory disposals

SG&A Expenses

(Millions of yen)



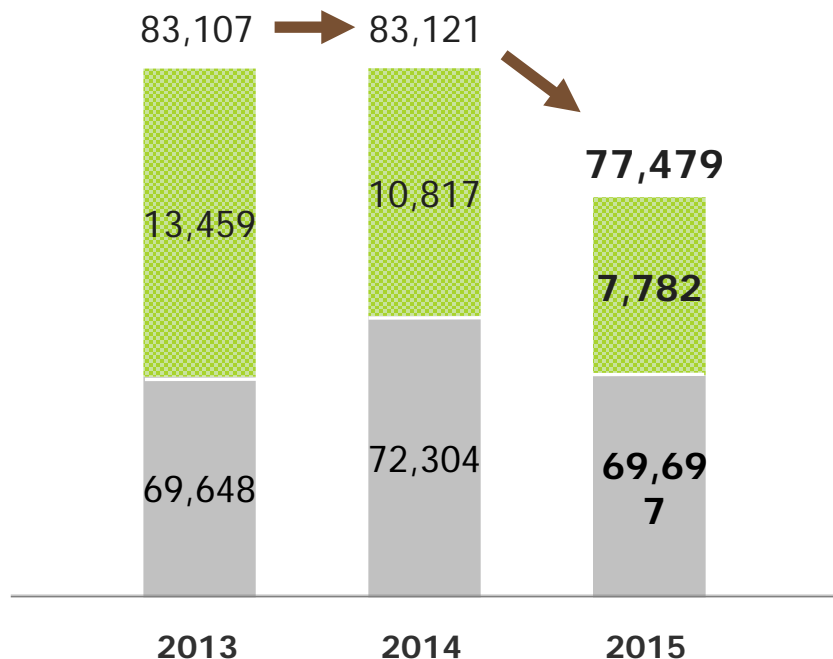
- ◆ Distribution costs:
 - Decrease in packing expenses due to lower sales
 - Decrease in shipping charges
- ◆ Sales promotion expenses:
 - Decrease in production and printing costs due to a reduction in catalog pages

Internet Sales

(Millions of yen)

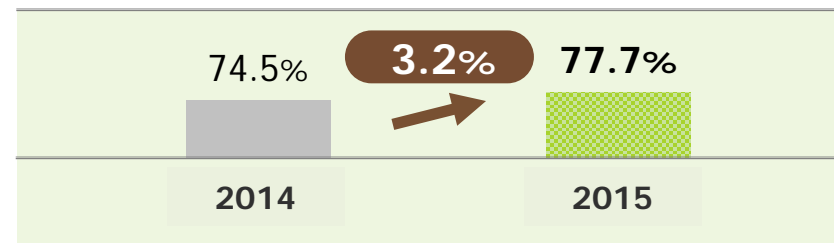
(including mobile sales)

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

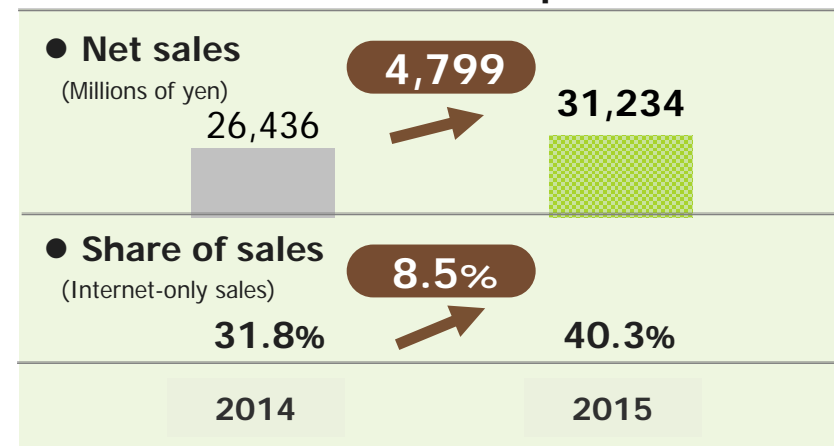


- ◆ Lower sales due to a decrease in the number of customers
- ◆ Lower sales due to a slow response to the shift to smartphone purchases

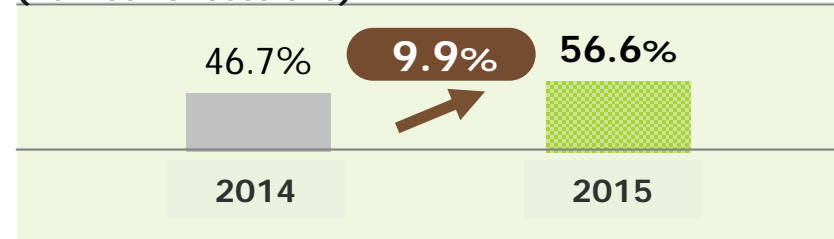
Ratio of Internet-based Orders



Amount and Share of Smartphone Sales



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



Overview of the Bridal Business (YoY Comparison)

| | 2014 | 2015 | Difference | Main factors |
|---|--------|--------|------------|--|
| Net sales (Millions of yen) | 12,750 | 15,281 | 2,531 | |
| • New facilities (including PLANETWORK facilities) | - | 2,951 | 2,951 | <ul style="list-style-type: none"> ■ Opening of new facilities in Niigata and Nara ■ Two PLANETWORK facilities |
| • Existing facilities | 12,750 | 12,330 | -420 | |
| Operating income (Millions of yen) | 834 | 682 | -152 | |
| Guesthouses | 18 | 22 | 4 | |
| Weddings (Couples) | 3,260 | 3,974 | 714 | |
| Average sales per wedding (10,000 yen) | 381.7 | 374.0 | -7.7 | <ul style="list-style-type: none"> ■ Decrease in the number of guests ■ More discounted sales due to intense competition |

Overview of the Corporates Business (YoY Comparison)

(Millions of yen)

| | 2014 | 2015 | Difference | Main factors |
|------------------------|-------|-------|------------|--|
| Net sales | 3,944 | 4,214 | 270 | |
| • Contracting services | 2,857 | 2,978 | 121 | ■ Increase in sales to current clients at outsourced logistics and call center |
| • Sampling | 801 | 950 | 149 | ■ Increase in sales to existing clients and larger number of new clients |
| • Novelties | 225 | 246 | 21 | |
| • Others | 61 | 40 | -21 | |
| Operating income | 304 | 367 | 63 | |

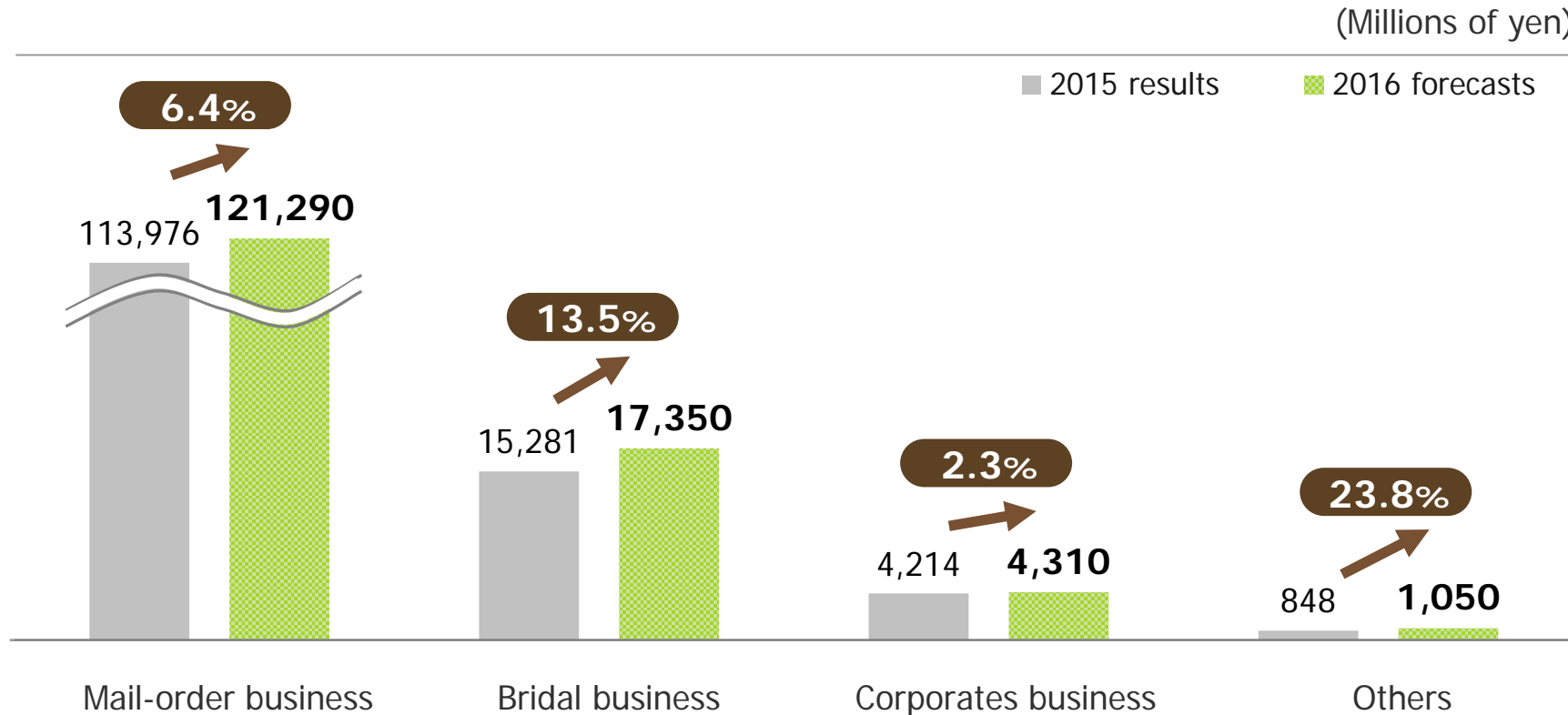
3. Consolidated Earnings Outlook for Fiscal 2016


for Smiles 2018

(Millions of yen)

| | 2015 (Results) | | 2016 (Forecasts) | | YoY change | |
|------------------|----------------|----------------|------------------|----------------|------------|--------------------------|
| | | % to net sales | | % to net sales | Difference | Change in % to net sales |
| Net sales | 134,321 | | 144,000 | | 9,679 | |
| Cost of sales | 73,442 | 54.7% | 75,407 | 52.4% | 1,965 | -2.3% |
| Gross profit | 60,879 | 45.3% | 68,592 | 47.6% | 7,713 | 2.3% |
| SG&A expenses | 64,316 | 47.9% | 66,992 | 46.5% | 2,676 | -1.4% |
| Operating income | -3,437 | -2.6% | 1,600 | 1.1% | 5,037 | 3.7% |
| Ordinary income | -2,540 | -1.9% | 2,200 | 1.5% | 4,740 | 3.4% |
| Net income | -5,307 | -4.0% | 1,400 | 1.0% | 6,707 | 5.0% |

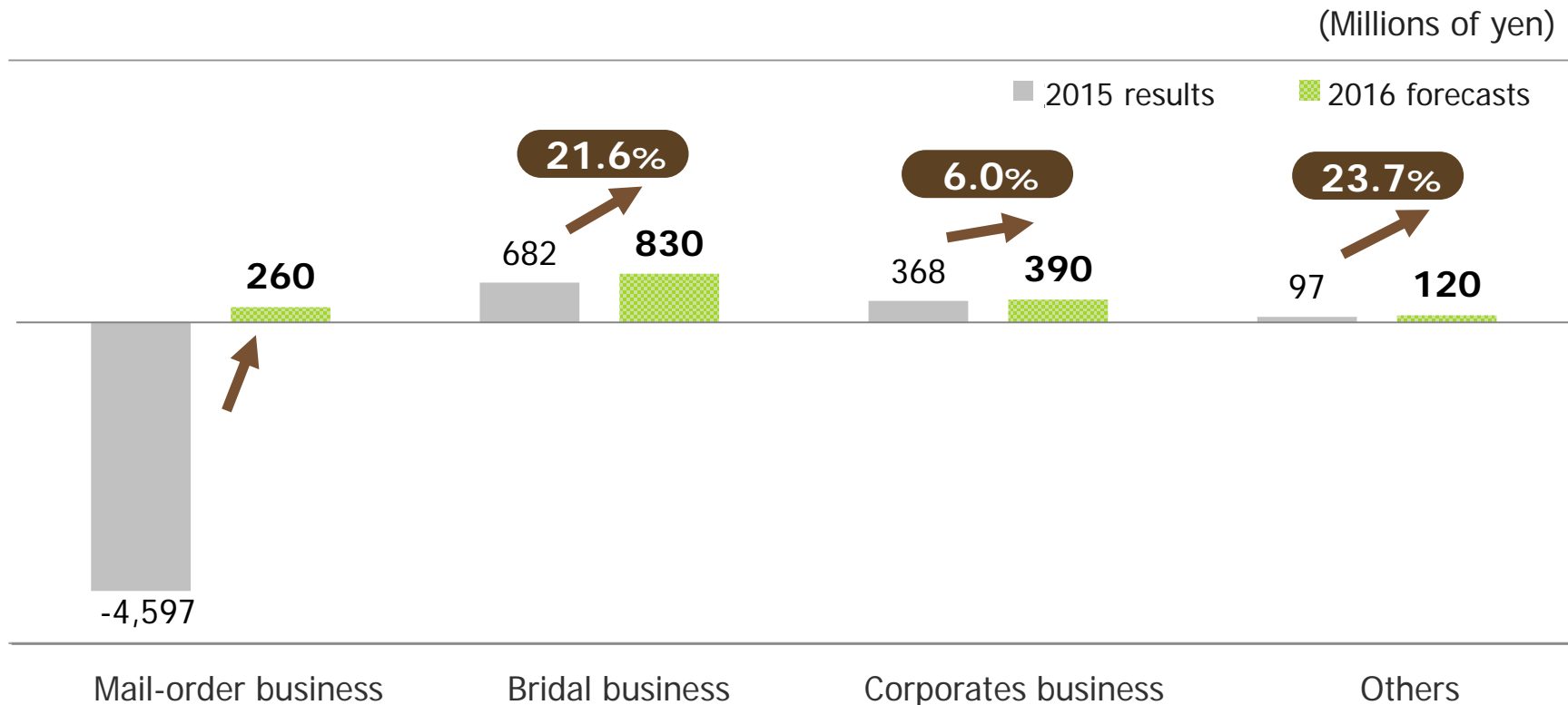
Fiscal 2016 Consolidated Sales Outlook by Business Segment (YoY Comparison)



- ◆ Increase in cross-media promotions (Increased from one to two TV commercials in each year)
- ◆ Sales growth resulting from full-scale start of *"BELLE MAISON DAYS"*
- ◆ More activities to increase sales via smartphones
- ◆ Larger sales area by increasing number of catalogs and pages
- ◆ Increase in Bridal business sales

* "Others" represents services business primarily offering insurance and credit card services, and childcare business

Fiscal 2016 Consolidated Operating Income Outlook by Business Segment (YoY Comparison)



- ❖ Lower cost-of-sales ratio due to rise in sales of *"BELLE MAISON DAYS"*
- ❖ Lower cost-of-sales ratio due to a decrease in bargain and clearance sales because of the 2015 cut in slow-moving inventories
- ❖ Reduction in logistics expenses resulting from start of operations at the Minokamo Distribution Center
- ❖ Higher earnings in the bridal business due to larger scale of operations resulting from the business alliance with Watabe Wedding Corporation

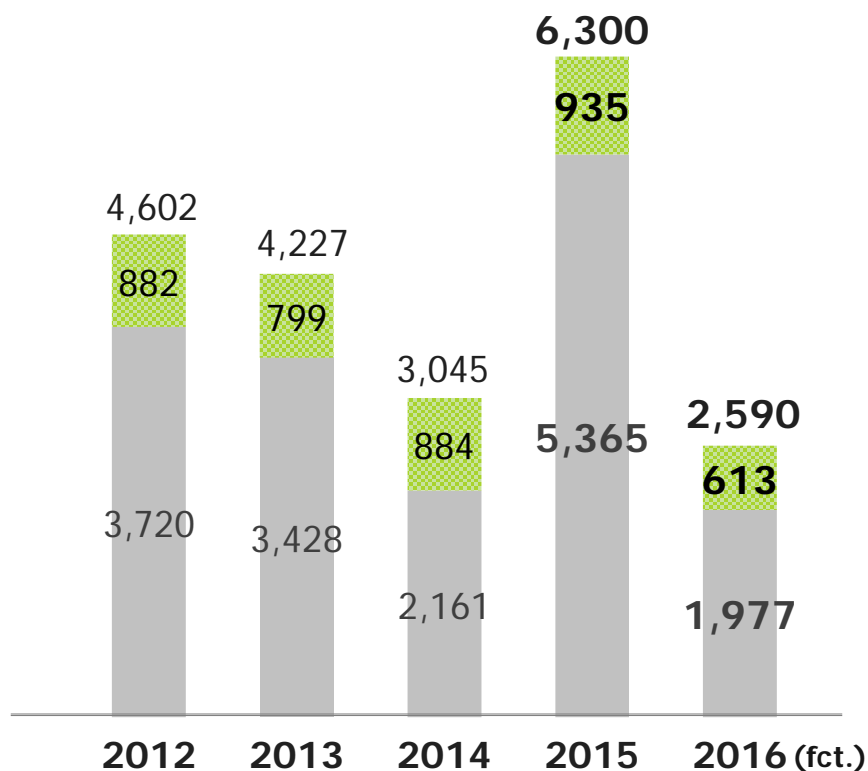
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Trend and Plan for Capital Expenditures and Depreciation Expenses

Capital Expenditures

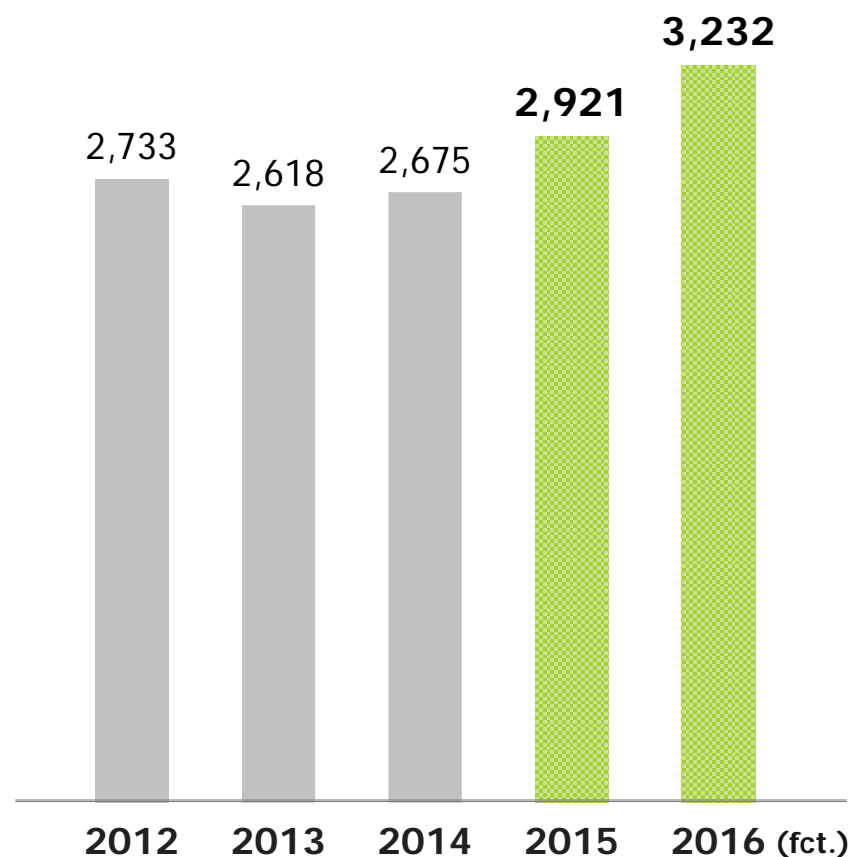
(Millions of yen)

■ Property, plant and equipment ■ Intangible assets



Depreciation Expenses

(Millions of yen)








- ◆ Property, plant and equipment increased significantly in 2015 due to the establishment of Minokamo Distribution Center and opening of new facilities at Dears Brain Inc.

4. Revisions to the Medium- to Long-term Management Plan (Fiscal 2014 to Fiscal 2018)



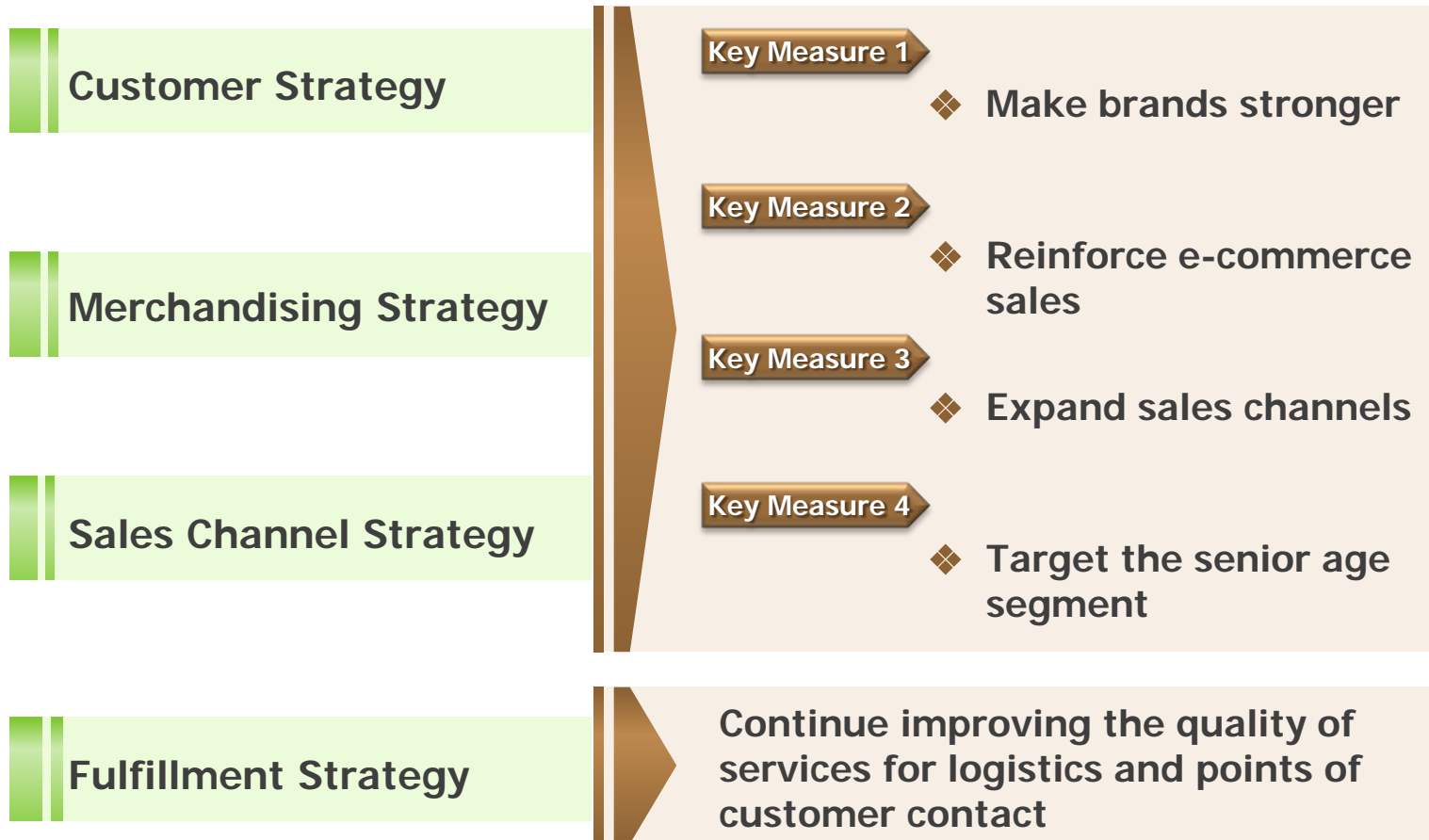
Medium- to Long-term Management Plan

"Innovate for Smiles 2018"

| | | <u>2018 Initial Targets</u> | | <u>2018 Revised Targets</u> |
|---|---|---|---|---|
|  | Sales target Operating income Net income ROE | ¥187.0 billion ¥10.0 billion ¥6.5 billion About 10 % | ➡ | ¥165.0 billion ¥5.0 billion ¥4.0 billion About 7 % |
|  | Sales target Operating income | ¥158.5 billion ¥7.4 billion | ➡ | ¥140.0 billion ¥2.6 billion |
|  | Sales target Operating income | ¥18.0 billion ¥1.8 billion | ➡ | ¥18.0 billion ¥1.6 billion |
|  | Sales target Operating income | ¥6.0 billion ¥0.7 billion | ➡ | ¥5.7 billion ¥0.6 billion |
|  | Sales target Operating income | ¥4.5 billion ¥0.1 billion | ➡ | ¥1.3 billion ¥0.2 billion |

Mail-order
Business

Ongoing core strategy initiatives and specific actions



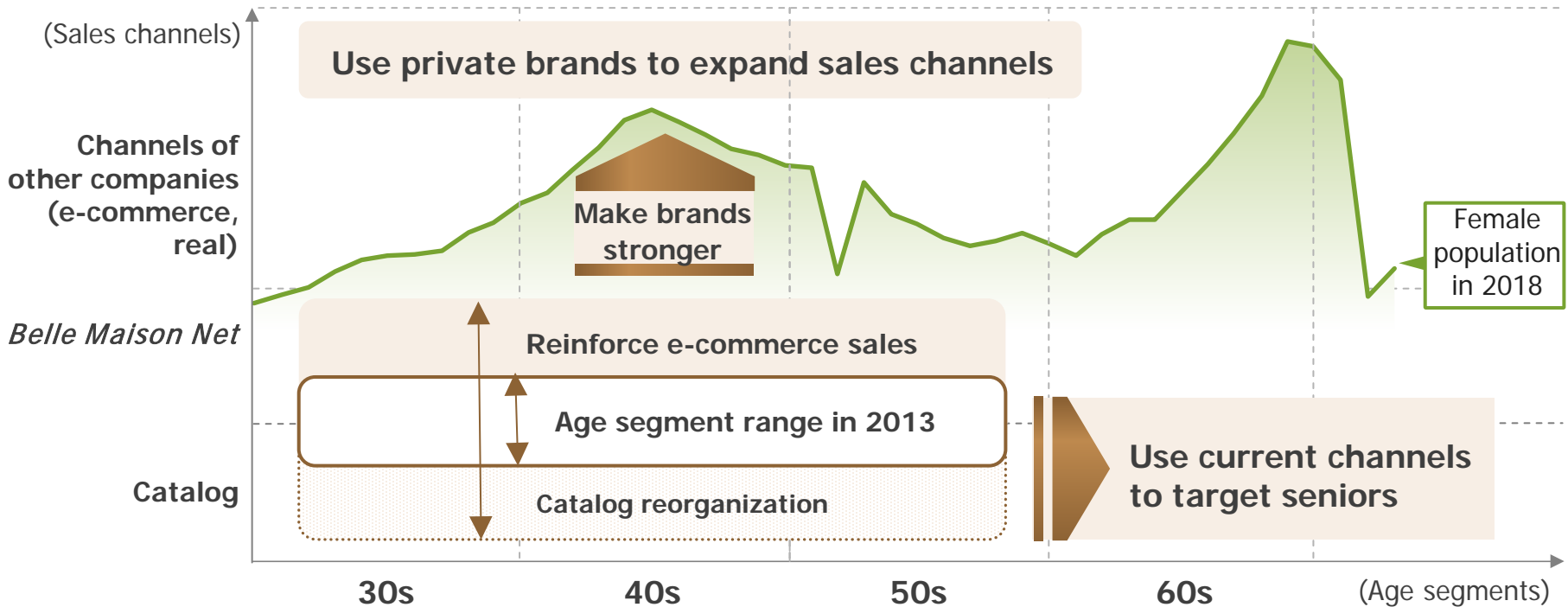
Medium- to Long-term Management Plan

"Innovate for Smiles 2018"

Mail-order
Business

Key measures: "Make brands stronger" "Reinforce e-commerce sales"
"Expand sales channels" "Target the senior age segment"

- ◆ Upgrade overall sales capabilities by supplying clear forms of value and increase sales areas



Initiatives for 2018

- ◆ In the past, Senshukai concentrated on creating many private brands to heighten its profile in the mail-order market. Starting in 2016, we will further refine these brands and aim for sales growth by using these brands in our own catalogs and e-commerce operations as well as in external sales channels.

Mail-order
Business

Delivering smiles to all customers in a multitude of ways

Key measure 1 Make brands stronger

Senshukai has created many special private brands, including the core *BELLE MAISON DAYS* brand. Now, while creating brands that match the needs of a variety of customers, we will continue upgrading designs and quality and increase our focus on branding.

We will also focus on SPA product development and procurement to speed up measures to cut costs and offer more added value.

BELLE MAISON
DAYS



Key measure 2 Reinforce e-commerce sales

We will build a stronger e-commerce sales framework centered on smartphones as the use of these phones for e-commerce grows. As the purchasing environment changes rapidly, we will alter sales areas with flexibility and create systems that offer greater convenience. We also plan to sell a wider selection of carefully selected national brand merchandise to make sales areas more appealing.

Key measure 3 Expand sales channels

Use stronger brands (see Key measure 1) to enable private brands to be used to enlarge sales channels. Aggressively seek new sales channels, both other companies' channels as well as sales channels in other countries.



Key measure 4 Target the senior age segment

Use core strengths of highly appealing catalogs and solid relationships with women to leverage existing customer assets in order to attract more senior customers.

Bridal
Business

Unify the strengths and expertise of all bridal business companies

- ◆ Constantly create new forms of value as the leader in Japan's wedding market



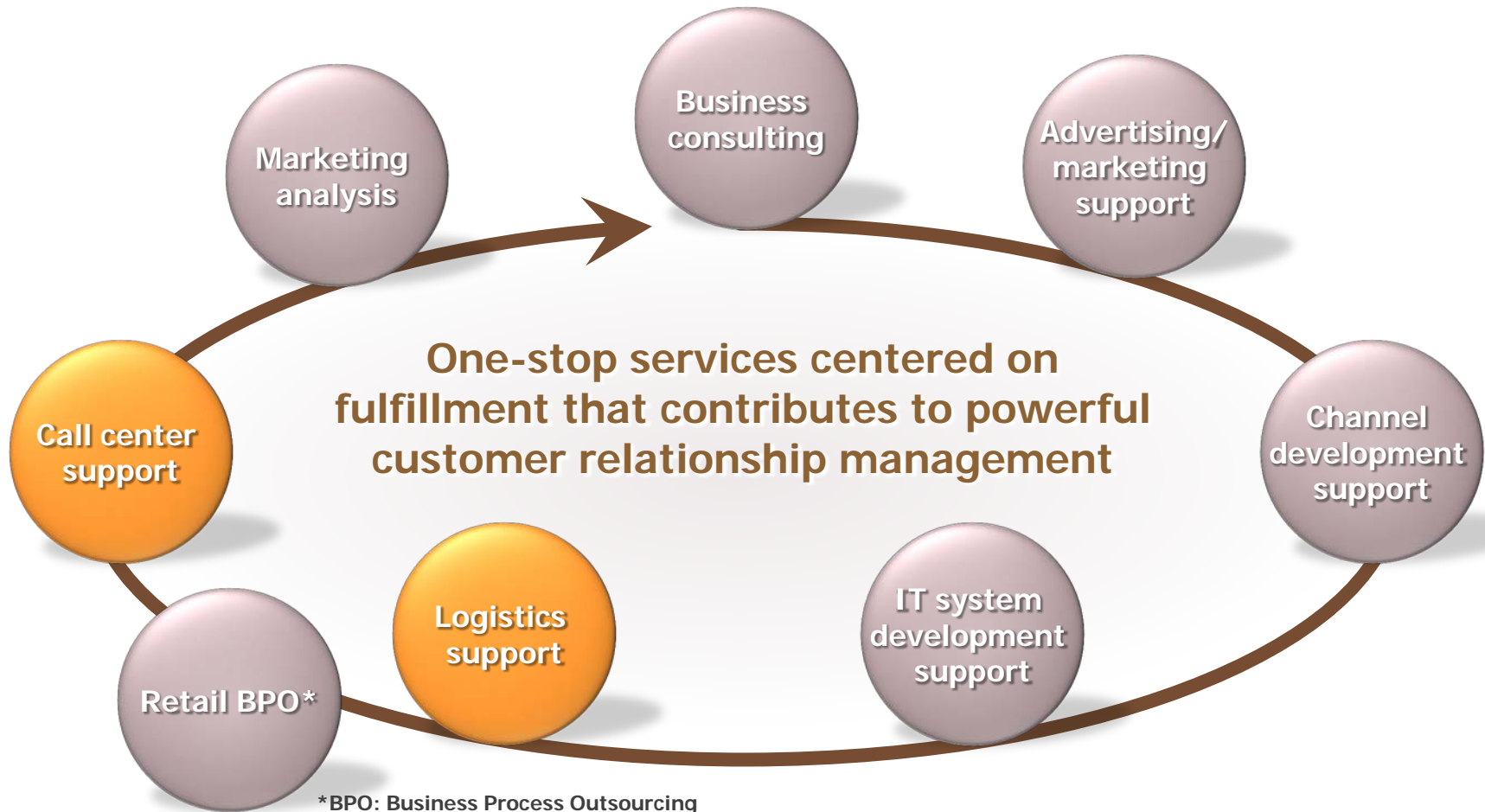
New openings in 2016



Corporates
business

Increase Senshukai's presence in support for mail-order business

◆ Supply services that make Senshukai a strategic partner in the mail-order business



Medium- to Long-term Management Plan

“Innovate for Smiles 2018”

New Businesses

A childcare business with priority on safety, confidence and the highest possible quality

- ◆ Consistently increase the number of locations to help end the shortage of child day care and nursery school facilities in Japan

New openings in 2016



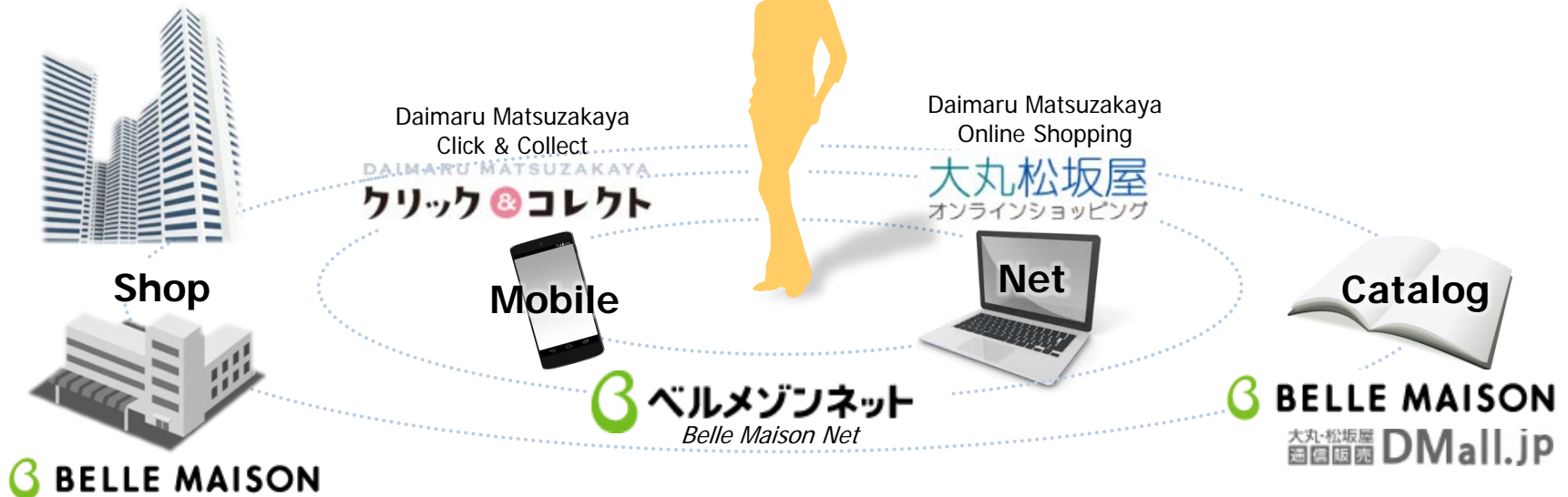
Senshukai is dedicated to launching new businesses appropriately as a “Women’s Smiles Company.”



Capital &
Business
Alliance
with JFR

Goal is maximizing value for customers by leveraging the strengths of Senshukai and J.FRONT RETAILING

- ◆ Aiming for rapid progress by using to the greatest extent the assets and expertise of the two companies



Continue creating a broad array of value that is distributed by using the private brands of the two companies and jointly developed brands in their respective channels

5. Others


for Smiles 2018



Smile Forest donations from customers surpass ¥95 million

The Smile Forest project started in 2013 with the slogan “together with our customers, making everyone smile.” With the strong support from customers, donations totaled ¥95,367,257 as of January 4, 2016.

To position Senshukai as a “Women’s Smiles Company,” these funds were used for three activities: Tohoku reconstruction support, the Pink Ribbon Campaign, and environmental activities.

Tohoku reconstruction support – Fourth year of support in Ishinomaki, parent-child yoga event was held

As part of an earthquake recovery program to give smiles to mothers and their children in Tohoku, Senshukai has donated more than 20,000 blankets for babies in the four prefectures of the Tohoku region.

In Ishinomaki, which we have supported since the March 2011 disaster, Senshukai and the local NPO Baby Smile Ishinomaki held a parent-child yoga event in October.



Pink Ribbon Campaign – 70% of customers support the Pink Ribbon Campaign, now in its 8th year

All brassieres sold by Senshukai help fund this campaign, which includes the distribution of free breast cancer screening coupons. According to a fiscal 2015 customer survey, 70.6% of customers believe this campaign is consistent with the public’s perception of Senshukai. (Distributed 3,400 coupons in 2015)

Environmental activities – Green Power Classes reach the 11th school as phase 2 starts

These classes, which Senshukai holds at elementary schools, make children think about the importance of renewable energy and ways to deal with problems involving energy and the environment.



Dividend Forecast

Senshukai's 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 2015 consolidated results, Senshukai plans to pay a year-end dividend of 4 yen per share, which has been initially planned, and together with an interim dividend of 4 yen, this will result in a total annual dividend of 8 yen per share.

For Fiscal 2016, Senshukai plans an annual dividend of 8 yen per share (4 yen each at interim and year-end), based on the earnings forecast.

Schedule for Earnings Announcements

- **April 28, 2016 (Thursday) Announcement of financial results for the first quarter of Fiscal 2016**
- **July 28, 2016 (Thursday) Announcement of financial results for the second quarter of Fiscal 2016**
- **July 29, 2016 (Friday) Earnings presentation for the second quarter of Fiscal 2016 (Tokyo)**
- **October 28, 2016 (Friday) Announcement of financial results for the third quarter of Fiscal 2016**

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.

6. Reference: About Senshukai





Women's Smiles Company

senshukai



To become the “one and only” choice
for women

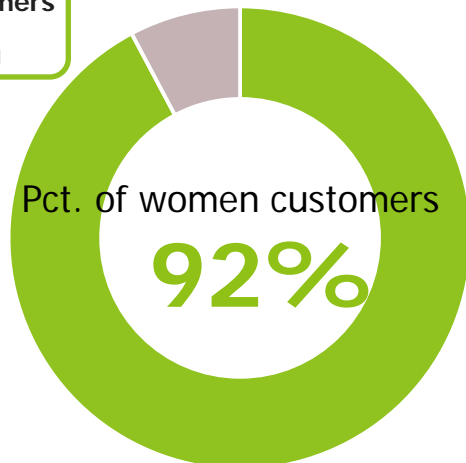


Senshukai wants to remain a company, that is the “one and only” choice for women. We accomplish this by offering original and one-of-a-kind products that women want along with safe, convenient and thorough services that customers can use with confidence.

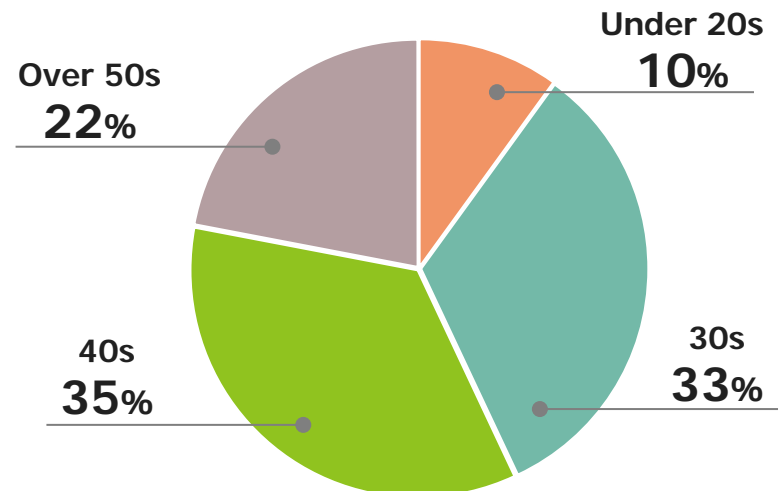


Gender Composition of Customers

Annual active customers
3.63 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
- E-commerce
- *Hanpukai*

Bridal Business

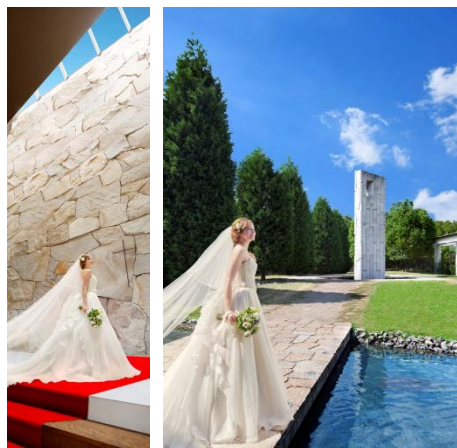
House wedding business

- 22 wedding halls in Japan

Corporates Business

A variety of services to support the operations of client companies

BELLE MAISON



Others (New Businesses)

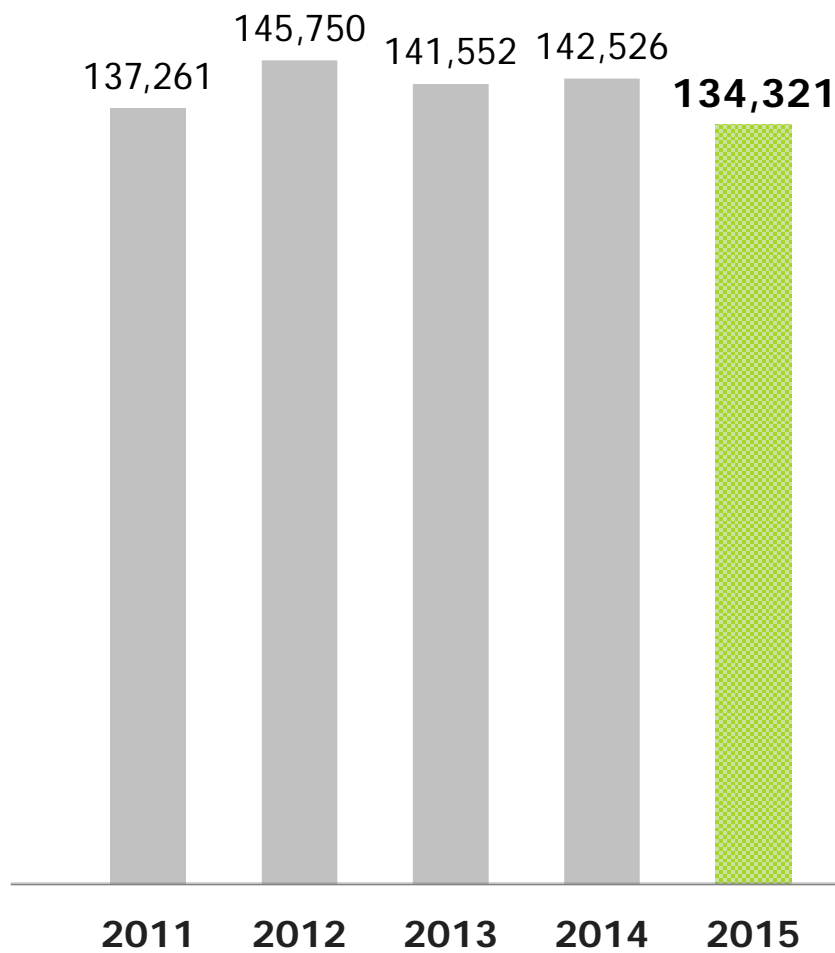
Childcare business
Insurance service
Credit card service



Consolidated Net Sales and Operating Income (Recent Five Years)

Net Sales

(Millions of yen)



Operating Income

(Millions of yen)

