

SENSHUKAI CO.,LTD.

(Tokyo Stock Exchange, First Section: 8165)

# Fiscal 2017 Earnings Presentation

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senshukai

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# 1 Consolidated Results of Operations for Fiscal 2017

(Millions of yen)

	2016		2017		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	129,074		125,999		-3,075	
Cost of sales	67,087	52.0%	71,437	56.7%	4,350	4.7%
Gross profit	61,986	48.0%	54,561	43.3%	-7,425	-4.7%
SG&A expenses	60,791	47.1%	58,848	46.7%	-1,943	-0.4%
Operating profit	1,194	0.9%	-4,287	-3.4%	-5,481	-4.3%
Ordinary profit	1,673	1.3%	-4,206	-3.3%	-5,879	-4.6%
Profit attributable to owners of parent	1,420	1.1%	-11,090	-8.8%	-12,510	-9.9%

- ◆ Net sales decreased 2.4% year-over-year due to lower sales in the mail-order business despite higher sales in the bridal, corporates and other businesses.
- ◆ Operating loss was caused by the sales decrease and a lower cost to sales ratio.

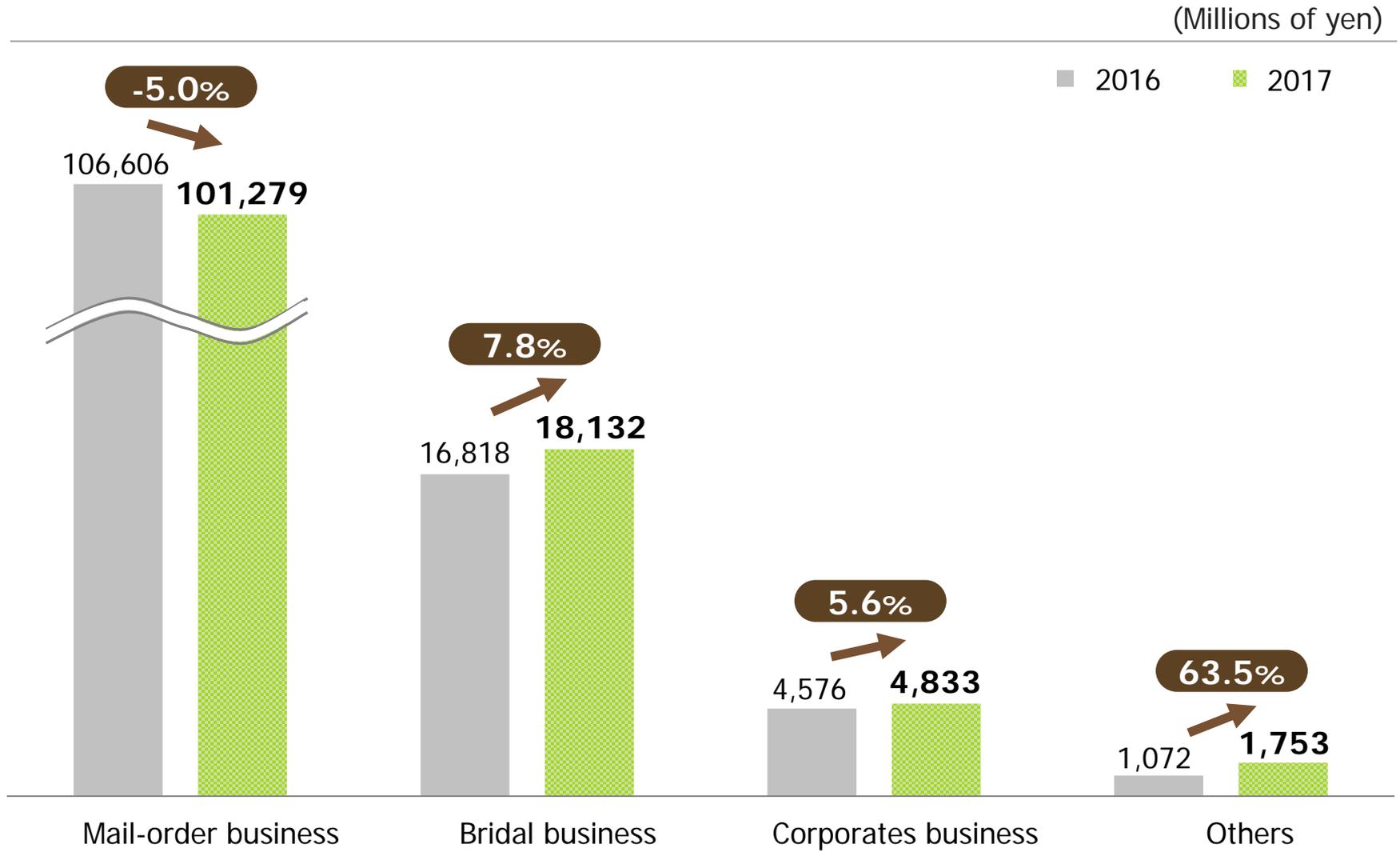
(Millions of yen)

	Dec. 31, 2016	Dec. 31, 2017	Difference
<b>Assets</b>			
• Current assets	52,618	48,854	-3,763
• Non-current assets	49,341	41,586	-7,755
<b>Total assets</b>	<b>101,959</b>	<b>90,441</b>	<b>-11,518</b>
<b>Liabilities</b>			
• Current liabilities	29,298	30,066	767
• Non-current liabilities	20,088	18,826	-1,262
<b>Total liabilities</b>	<b>49,387</b>	<b>48,892</b>	<b>-494</b>
<b>Net assets</b>			
• Shareholders' equity	58,399	41,155	-17,243
• Accumulated other comprehensive income	-5,890	318	6,209
• Non-controlling interests	64	74	10
<b>Total net assets</b>	<b>52,572</b>	<b>41,548</b>	<b>-11,024</b>
<b>Total liabilities and net assets</b>	<b>101,959</b>	<b>90,441</b>	<b>-11,518</b>

- ❖ Property, plant and equipment and intangible assets decreased ¥4,535 million and ¥1,439 million, respectively, due to booking of impairment loss and other factors.
- ❖ Retained earnings decreased due to booking of loss attributable owners of parent of ¥11,090 million.

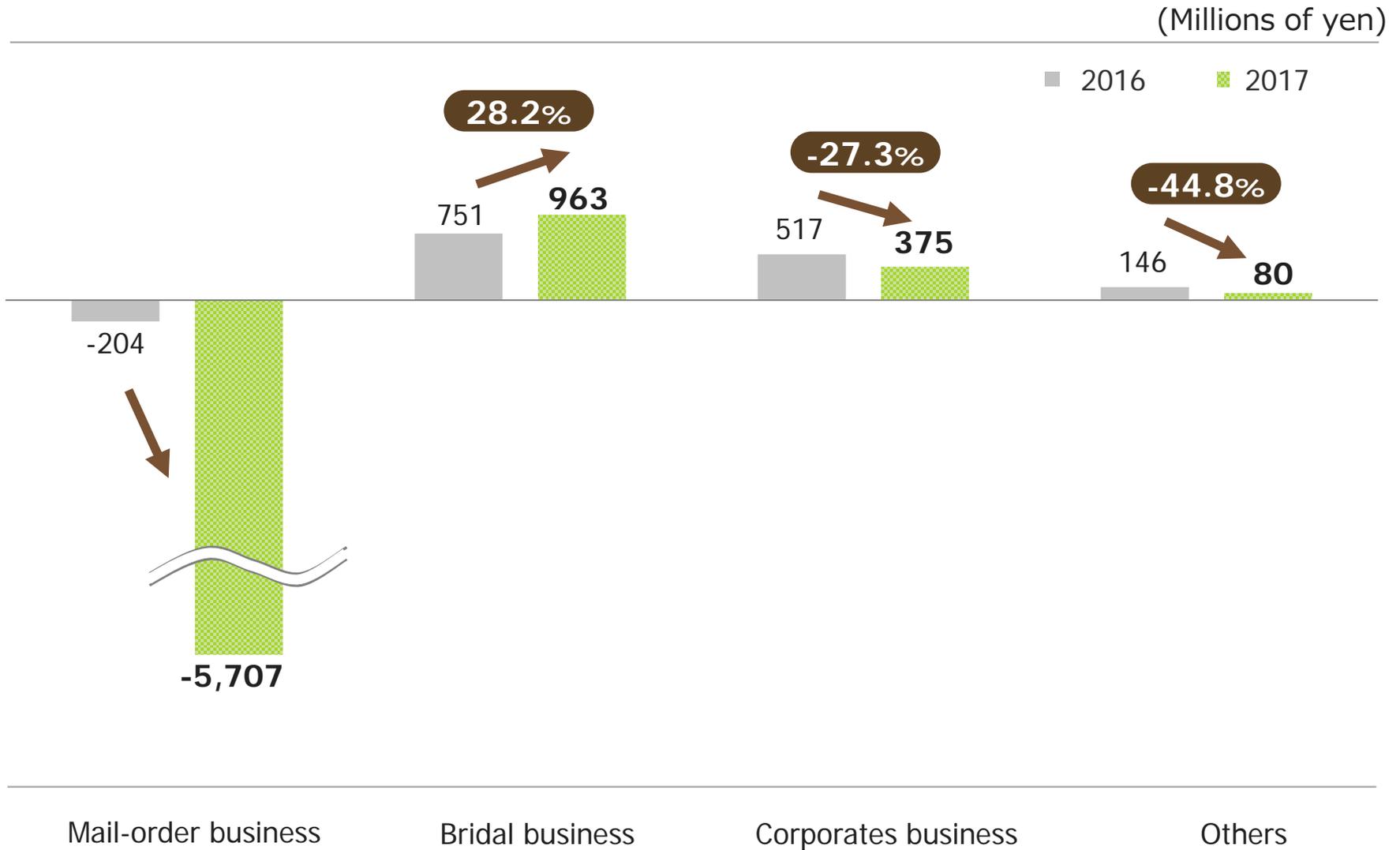
(Millions of yen)

	2016	2017	Difference	
Net cash provided by (used in) operating activities	3,825	1,952	-1,873	<ul style="list-style-type: none"> <li>■ Loss before income taxes: -10,899</li> <li>■ Impairment loss: +5,473</li> <li>■ Depreciation: +2,196</li> <li>■ Decrease in inventories: +4,454</li> </ul>
Net cash provided by (used in) investing activities	94	-397	-491	<ul style="list-style-type: none"> <li>■ Purchase of property, plant and equipment: -1,165</li> <li>■ Purchase of shares of subsidiaries: -835</li> <li>■ Proceeds from sales of investment securities: +1,754</li> </ul>
Net cash provided by (used in) financing activities	-1,580	-1,148	431	<ul style="list-style-type: none"> <li>■ Proceeds from long-term loans payable: +2,800</li> <li>■ Repayments of long-term loans payable: -1,656</li> <li>■ Payment for redemption of bonds with subscription rights to shares: -2,000</li> </ul>
Cash and cash equivalents at end of period	16,600	17,323	723	



\* Others: Services business primarily offering insurance and credit card services, childcare business, etc.

# Fiscal 2017 Consolidated Operating Profit by Business Segment (YoY Comparison)



\* Others: Services business primarily offering insurance and credit card services, childcare business, etc.

## 2 Overview by Segment

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# Overview of the Mail-order Business (YoY Comparison)

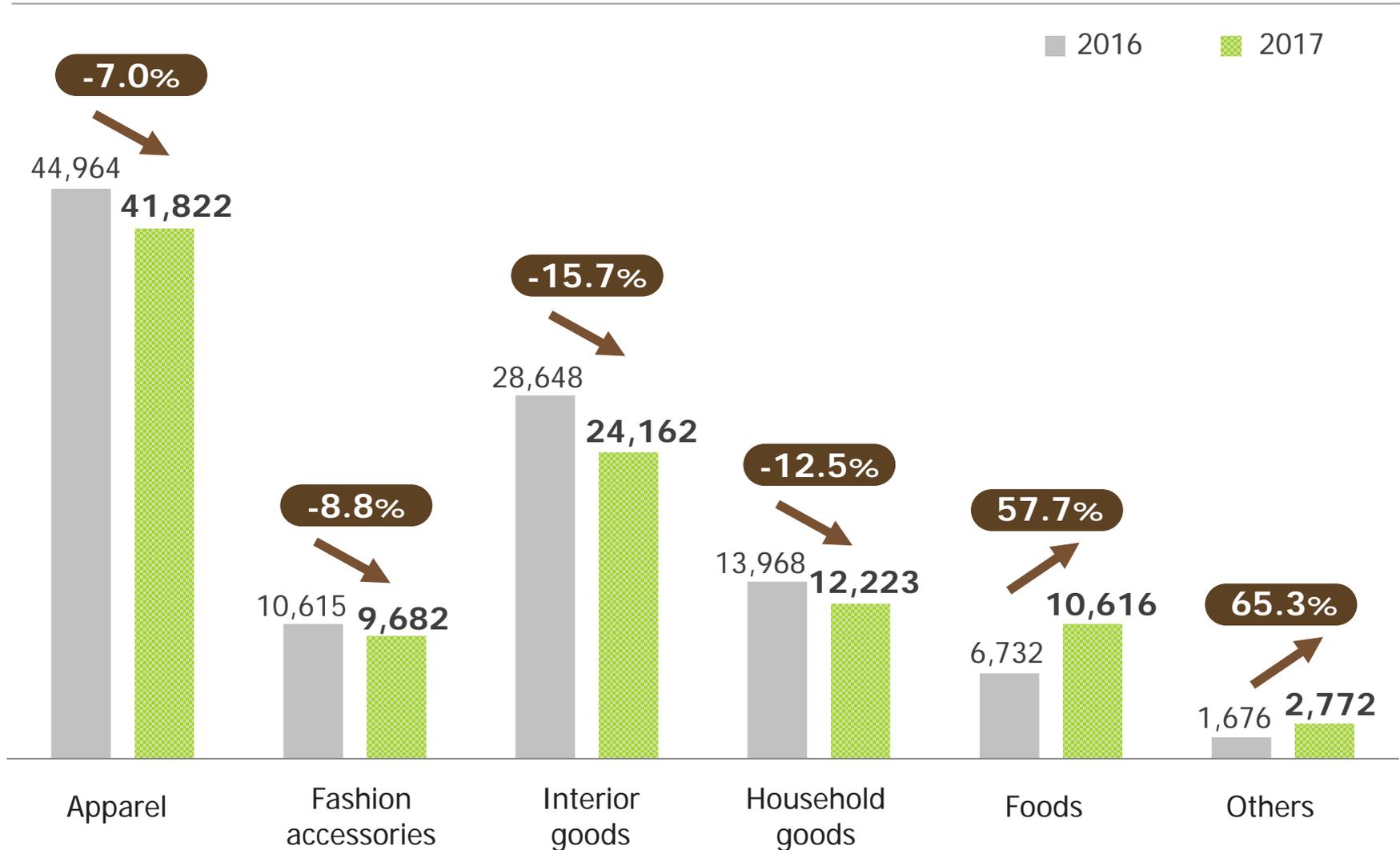
	2016	2017	Difference	Main factors
Net sales (Millions of yen)	106,606	101,279	-5,327	
Operating profit (Millions of yen)	-240	-5,707	-5,467	
Annual number of active customers (10,000 members)	337.9	323.7	-14.2	
Annual number of new customers (10,000 members)	74.5	75.2	0.7	
Average sales per order (Yen)	10,575	9,718	-857	■ Lower unit price
Annual order frequency per customer (Times)	2.75	2.74	-0.01	■ Decrease in the number of current customers with a high order frequency
Catalog circulation (10,000 volume)	7,580	4,740	-2,840	■ Suspension of some catalogs and a decrease in catalog types resulting from combining into single publications
Ratio of Internet-based orders	80.2%	83.5%	3.3%	
Share of smartphone sales to Internet sales	47.6%	54.7%	7.1%	

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

January to December: 95.0%

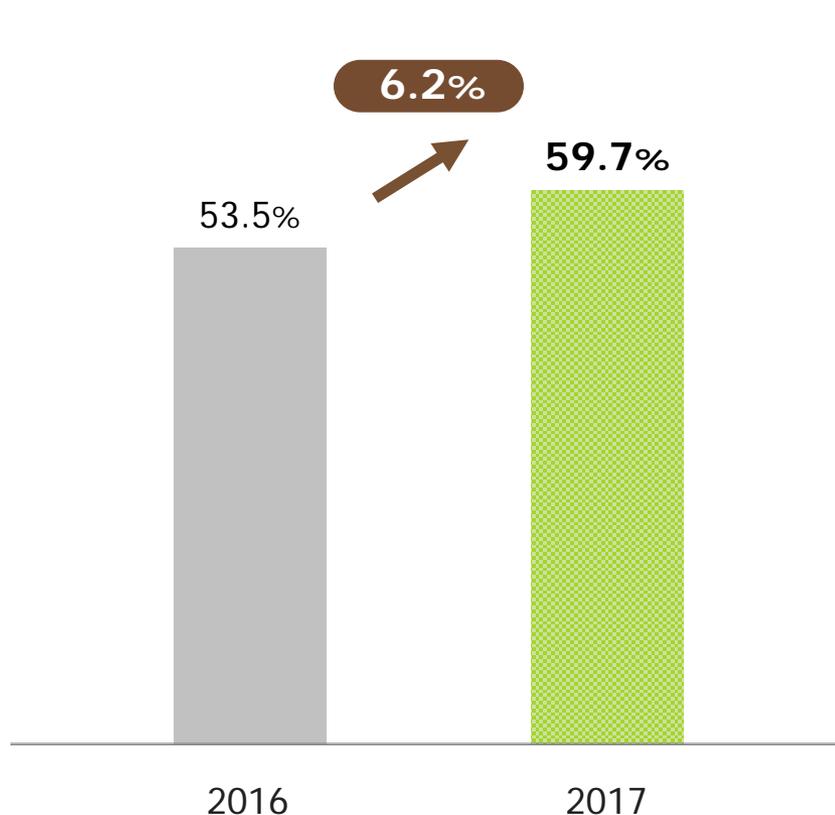


(Millions of yen)



\* Others: Flower sales at Senshukai Iihana Co., Ltd. and gift catalog sales, etc.

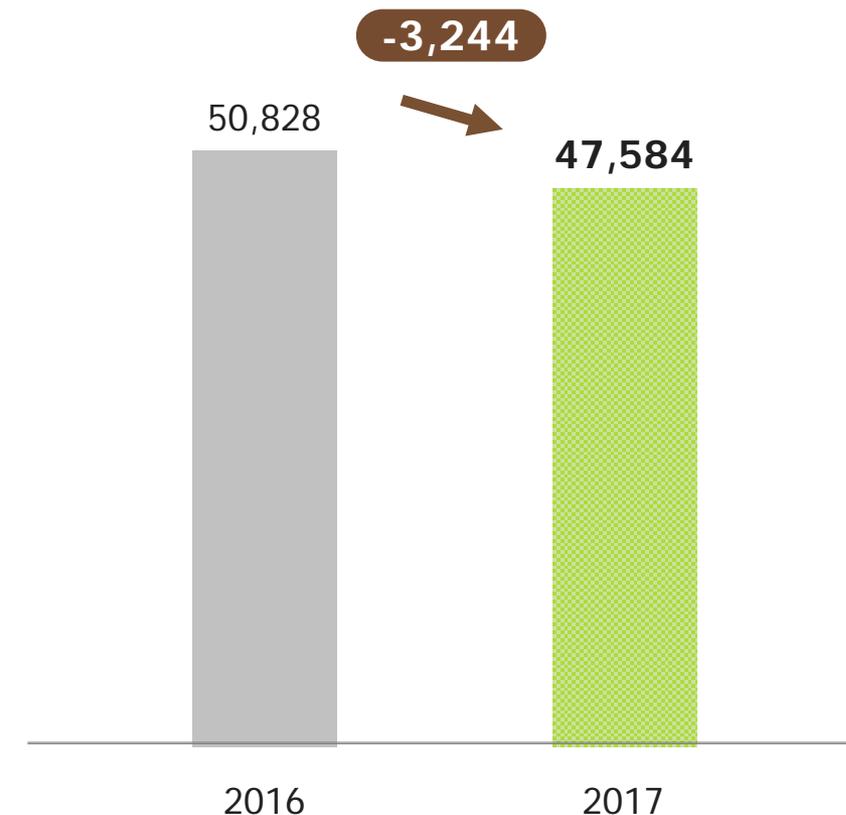
## Cost to Sales Ratio



- ◆ Increase in share of bargain and clearance sales
- ◆ Increase in valuation losses on goods and write-downs

## SG&A Expenses

(Millions of yen)



- ◆ Decrease in printing, production and catalog mailing costs due to the reduction in catalog circulation
- ◆ Lower depreciation mainly due to impairment loss
- ◆ Cost reduction by reexamining each expense items

	2016	2017	Difference	Main factors
Net sales (Millions of yen)	16,818	18,132	1,314	
• New facilities	-	20	20	■ Opening of KOTOWA Kyoto Nakamuraro in September
• Existing facilities	16,818	18,112	1,294	
Operating profit (Millions of yen)	751	963	212	
Guesthouses	23	24	1	
Weddings (Couples)	4,362	4,635	273	
Average sales per wedding (10,000 yen)	364.8	368.7	3.9	

(Millions of yen)

	2016	2017	Difference	Main factors
Net sales	4,576	4,833	257	
• Contracting services	3,354	3,518	164	■ Increase in orders for outsourced logistics and call center services as well as contract merchandise sales (office for administrating shareholder benefit programs, etc.)
• Sampling	994	1,038	44	
• Novelties	195	259	64	■ Growth in contracts with current clients and for one-time projects
• Others	33	17	-16	
Operating profit	517	375	-142	■ Lower profit margins for contracting services and novelties

## Reasons for the December 15 Forecast Revision

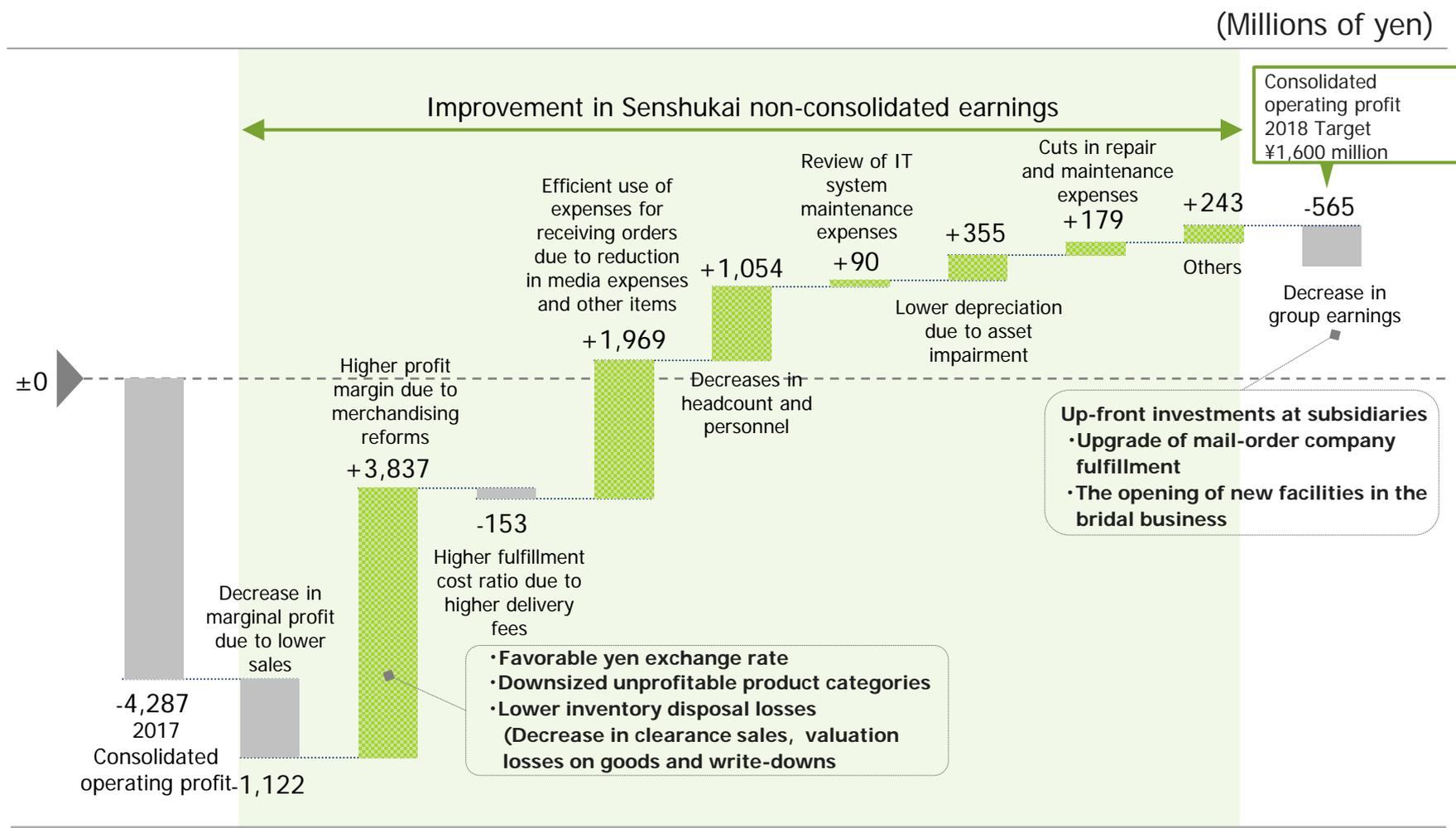
- Factor 1** • Sales less than planned in the mail-order business, especially Belle Maison  
 → Actions to increase sales did not produce significant benefits
- Factor 2** • Increase in valuation losses and other expenses caused by clarification of the inventory management policy  
 → Expenses increased resulting from a review of inventory assessments and other measures
- Factor 3** • Increase in business structure reform expenses, such as special retirement payments as the number of voluntary retirements increased  
 → 134 early retirements were well above the expected 50

## Reference

- Asset impairment losses (Millions of yen)

Company name	Location	Total
Senshukai Co.,Ltd.	● Osaka headquarters building and other office locations	1,400
	● Logistics centers	1,681
	● Software and other intangible assets	1,401
	● Others	270
Subsidiaries	Subsidiary business sites	718
<b>Total</b>		<b>5,473</b>

## 3 Consolidated Earnings Outlook for Fiscal 2018

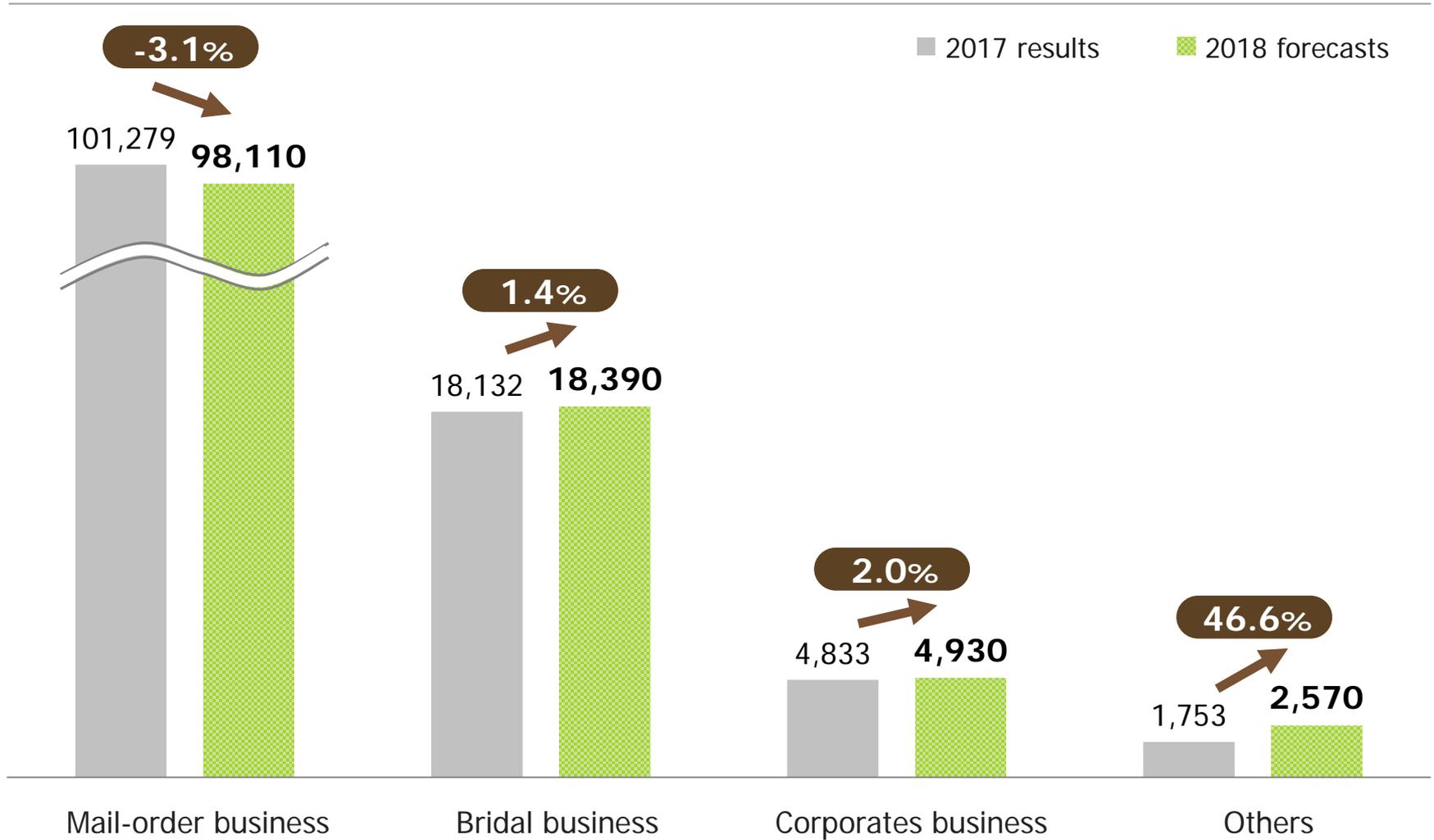


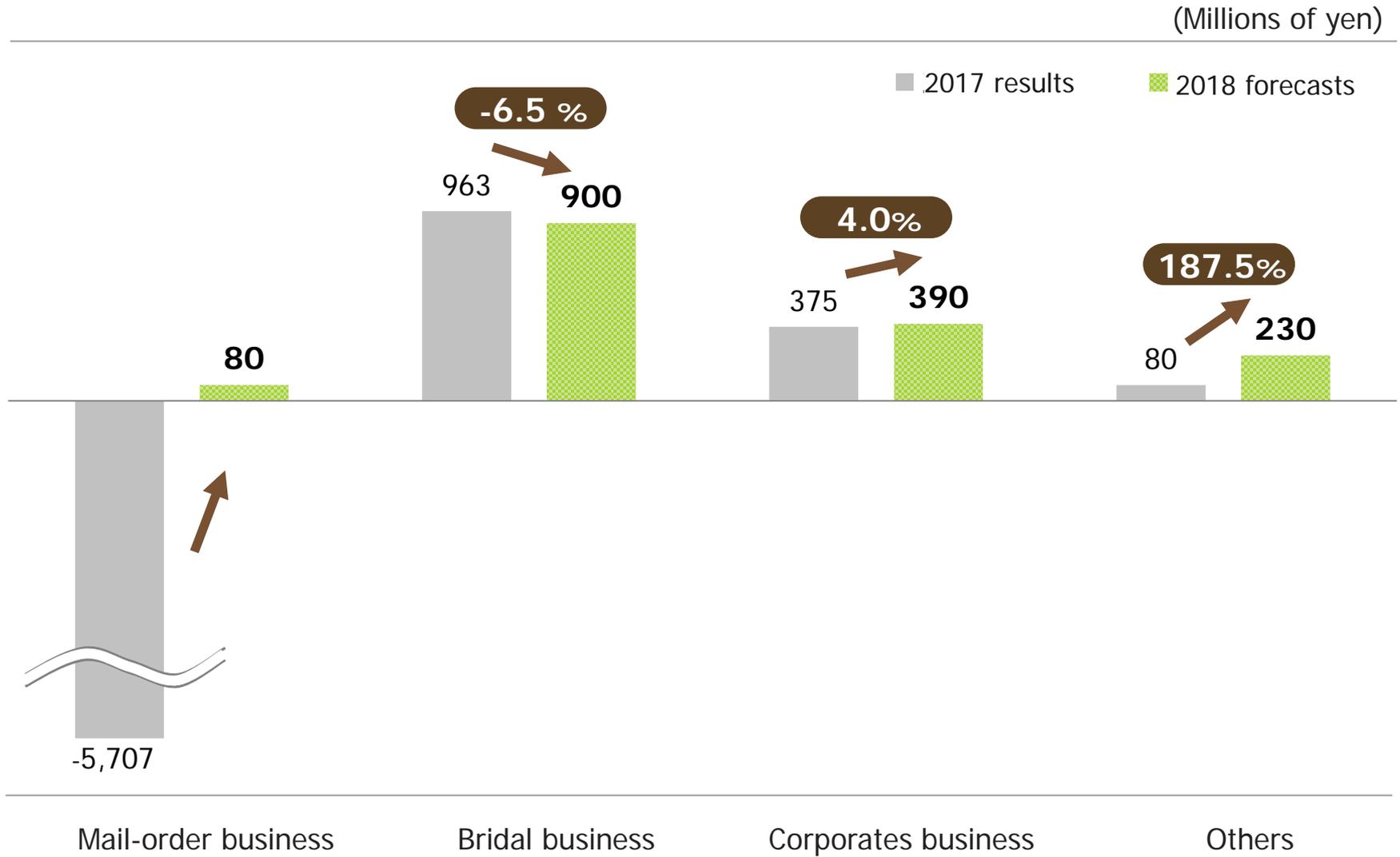
◆ The 2018 consolidated operating profit target of ¥1.6 billion incorporates benefits from Belle Maison inventory reductions and cuts in selling, group personnel and administrative expenses.

(Millions of yen)

	2017 (Results)		2018 (Forecasts)		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	125,999		124,000		-1,999	
Cost of sales	71,437	56.7%	67,091	54.1%	-4,346	-2.6%
Gross profit	54,561	43.3%	56,908	45.9%	2,347	2.6%
SG&A expenses	58,848	46.7%	55,308	44.6%	-3,540	-2.1%
Operating profit	-4,287	-3.4%	1,600	1.3%	5,887	4.7%
Ordinary profit	-4,206	-3.3%	1,900	1.5%	6,106	4.8%
Profit attributable to owners of parent	-11,090	-8.8%	1,400	1.1%	12,490	9.9%

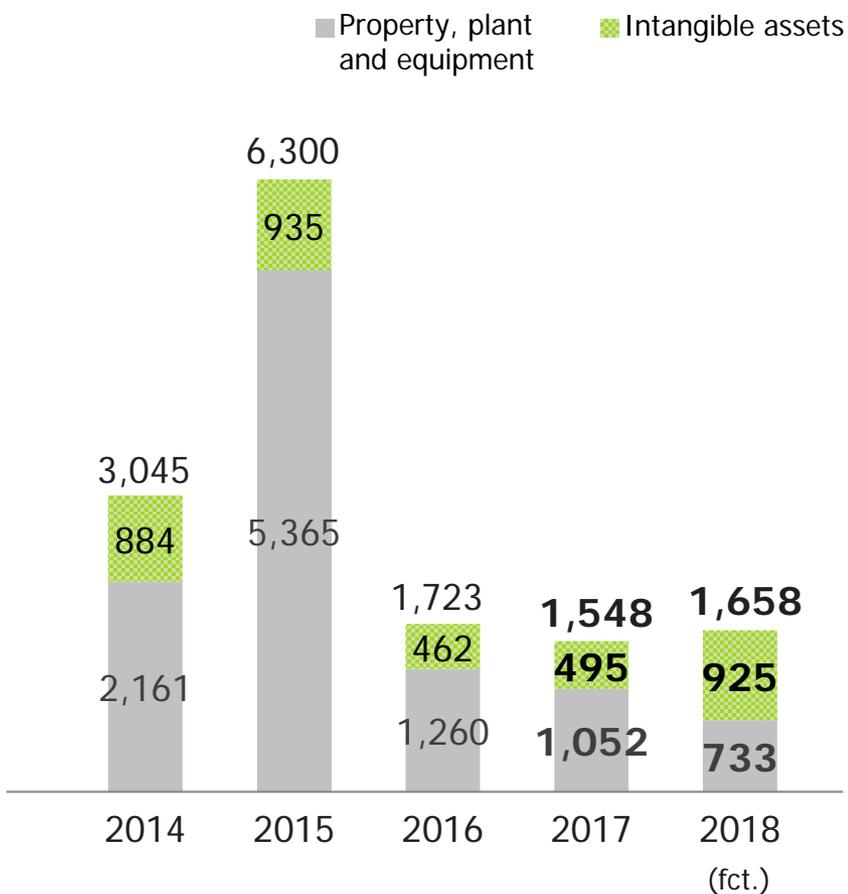
(Millions of yen)





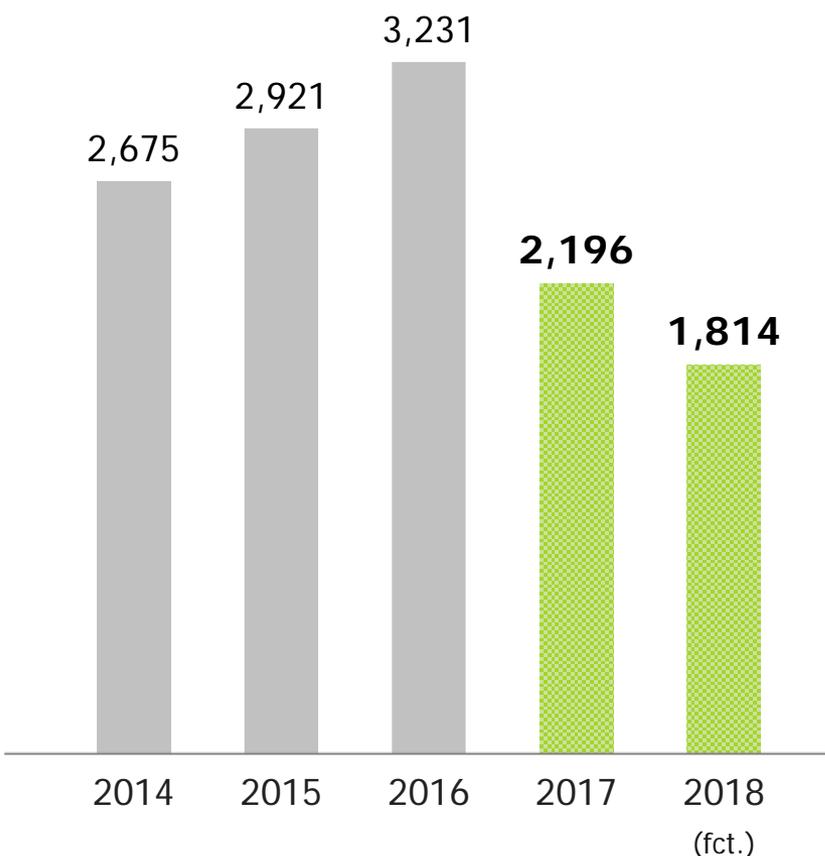
## Capital Expenditures

(Millions of yen)



## Depreciation Expenses

(Millions of yen)



- ◆ Property, plant and equipment: Construction of call center network in 2017, update of Kani Distribution Center machinery and equipment and Egao no Mori Nursery School Doshin expenditures in 2018
- ◆ Intangible assets: Construction of Feel Life core system in 2018

## 4 Others

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## Collaboration with Home Appliance and Electronics Retailer EDION



- Started trial sales of Belle Maison products at the EDION Tsutaya-Kaden store in Hiroshima

Senshukai has started working with EDION, which has ranked first among Japan's home appliance/electronics retailers in home renovation product sales for six consecutive years. The aim is to increase life style category sales and attract more new customers.

The EDION Tsutaya-Kaden store p

laces emphasis on new ideas involving life styles. The trial sales of Belle Maison products based on the theme of "new life style products" started on December 26, 2017 and will end in early April 2018.



## Cross-media marketing activities

- Hotcott (warm cotton innerwear) and the "Torokeru" series videos generate a strong response!

Growth in the number of media posts (paper, Internet news and others) has raised awareness of Belle Maison and its merchandise and helped increase sales.

The "Torokeru" series video with a cat is extremely popular with more than 35,000 views.





## Smile Forest donations from customers surpass ¥140 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 ¥145,061,419 as of December 31, 2017. 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 - Baby blanket donation program ends after four years and about 30,000 blankets for new lives in Tohoku

As part of an earthquake recovery program to give smiles to mothers and their children in Tohoku, Senshukai has donated blankets for babies in the four prefectures (Aomori, Iwate, Miyagi and Fukushima) of the Tohoku region since 2013.

During the program’s four years, 33,591 blankets were given to maternity hospitals and organizations that support childcare.



Pink Ribbon

### Pink Ribbon Campaign

#### - More activities to support breast cancer survivors

In addition to its activities to promote breast cancer screening, Senshukai started a program in 2015 to support breast cancer survivors. In 2017, Senshukai held events where these survivors could give a talk on their experiences, and created and started selling Caring Hats that are easy to use for the cancer survivors.



### Environmental activities - Green Power Class

#### Special events for parents and children were held in Osaka and Tokyo

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. In December 2017, a class was held in Okayama. A new curriculum for events for parents and children was created and these events were held in Osaka during the school spring break in March and Tokyo during the summer break in August.



## Dividend Forecast

Senshukai's policy regarding dividends is to distribute earnings to shareholders in a manner that reflects its performance. Furthermore, the policy is to pay stable dividends that take into account the payout ratio while reflecting the need to use retained earnings to strengthen the company's foundation for business operations.

Because of the consolidated and non-consolidated net losses in 2017, we plan to pay no dividend for 2017. We plan to pay no interim dividend in 2018 and have not made a decision about the year-end dividend. Our highest priorities are the implementation of our medium-term plan from 2018 and the growth of shareholders' equity from the standpoint of the stability and safety of business operations. In addition, operations in 2018 will be significantly affected by seasonal factors.

## Schedule for Earnings Announcements

- **April 27, 2018 (Friday)** Announcement of financial results for the first quarter of Fiscal 2018
- **July 26, 2018 (Thursday)** Announcement of financial results for the second quarter of Fiscal 2018
- **July 27, 2018 (Friday)** Earnings presentation for the second quarter of Fiscal 2018 (Tokyo)
- **October 26, 2018 (Friday)** Announcement of financial results for the third quarter of Fiscal 2018

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.