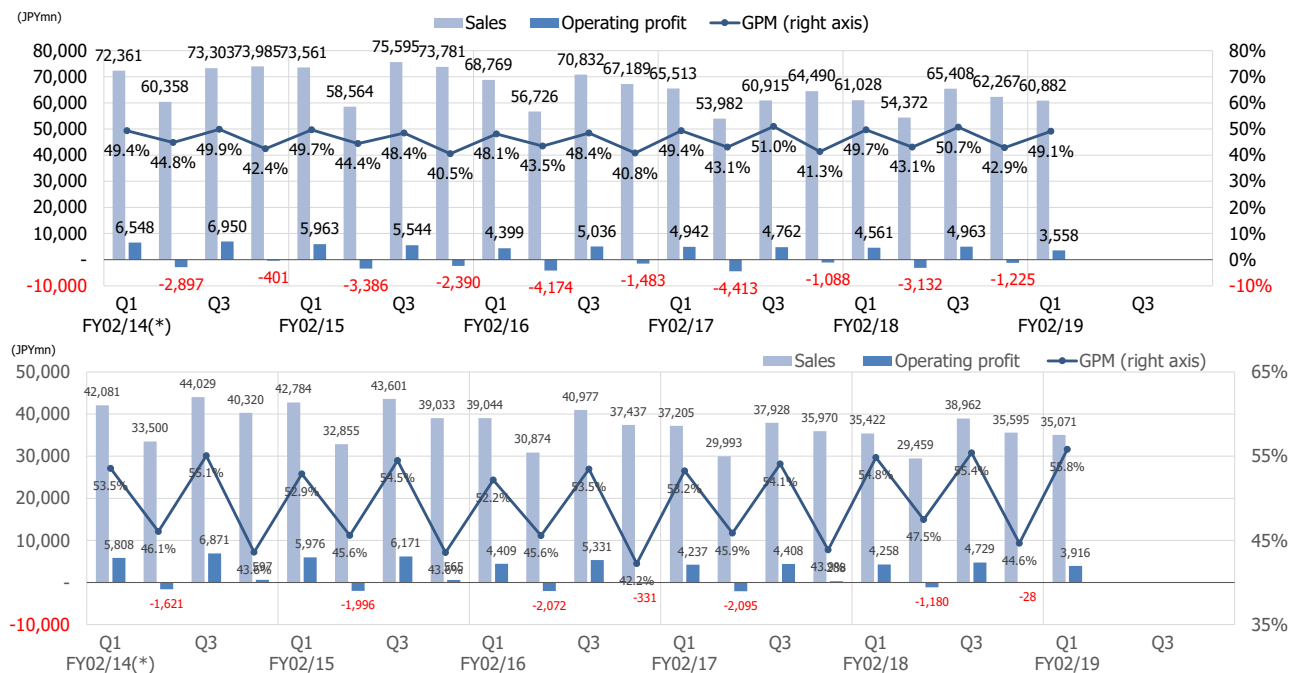


Q1 FY02/19 results (out July 6, 2018)

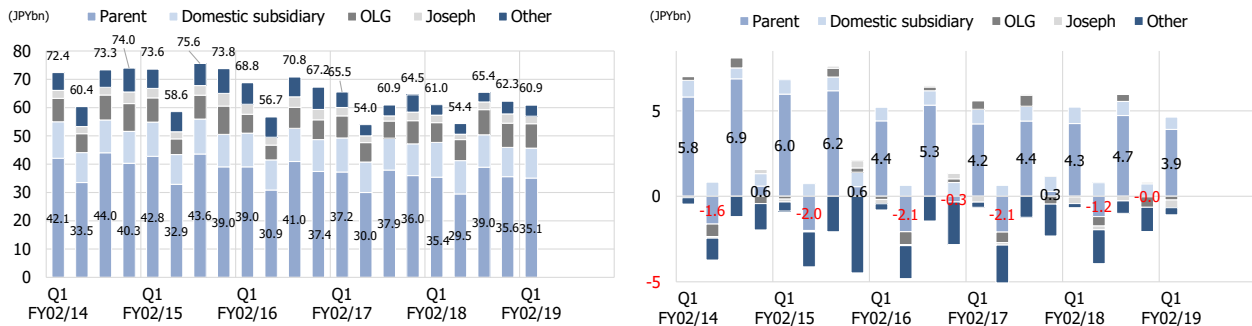
- ▷ Q1 FY02/19: Consolidated operating profit down 22% (-JPY1.0bn) YoY as solid gains at domestic e-commerce business overwhelmed by drop in sales and earnings at main domestic apparel subsidiaries and affiliates
- ▷ Domestic apparel business: Operating profit down 15% (-JPY800mn), with sales and earnings down at parent and most major subsidiaries and affiliates
 - E-commerce: E-commerce sales at parent up 36% (+JPY1.2bn), now account for 12.5% of parent sales (versus 9.1% in FY02/18); favorable results aided by ongoing "selection and concentration" strategy
 - Brands: Sales of core brands down 2.3% as drop in sales of Nijyusanku and Kumikyoku offset ongoing growth at Jiyuku; new distribution channels also see lower sales of two key brands
- ▷ Overseas Apparel business: Operating losses increased by JPY100mn; overall sales increased while earnings declined despite improved profitability at European production business and in China
- ▷ Lifestyle business: Operating profit down 28% (-JPY200mn) due mainly to decline in sales and earnings at resort business, which was hit by a drop in Japanese tourist traffic to Guam
- ▷ Topics: Company follows through on previously announced plans to buy back up to 2.0mn shares during 1H (completing buybacks by May 24) and extinguish 5.0mn treasury shares (on April 27)

Consolidated earnings (top) and parent Onward Kashiwama earnings (bottom)



Source: Shared Research based on company data

Sales (left) and operating profit (right) breakdown by company



Source: Shared Research based on company data
Note: OLG refers to the Onward Luxury Group.

Overview

Q1 FY02/19: Consolidated operating profit down 22% (-JPY1.0bn) YoY as solid gains at domestic e-commerce business overwhelmed by drop in sales and earnings at main domestic apparel subsidiaries and affiliates

For Q1 FY02/19, the company reported sales of JPY60.9bn (-0.2% YoY), operating profit of JPY3.6bn (-22.0%), and recurring profit of JPY4.1bn (-15.6%). Consolidated operating profit was down JPY1.0bn YoY, reflecting a JPY765mn decline in earnings at the domestic apparel business, JPY139mn decline at the overseas apparel business, and JPY224mn decline at the lifestyle business.

The domestic apparel-related business continued to face a harsh operating environment as overall apparel sales through department stores remained weak. Total sales of Onward's core brands were down 2.3% (-JPY328mn), with sales of the mainstay Nijusanku brand down 6.2% (-JPY442mn) and sales of Kumikyoku down 5.2% (-JPY141mn). In contrast, domestic e-commerce sales at the parent continued rising at a rapid pace with Q1 sales up 36.1% (+JPY1.2bn), thanks in part to the company's ongoing "selection and concentration" strategy.

At overseas apparel-related business, overall sales increased while earnings were down even though profitability improved in China and at the company's European production business. Operating losses increased by JPY139mn, most of which was attributable to growing losses at two of its main subsidiaries in Europe, OLG and Joseph. Q1 operating losses of JPY219mn at OLG represented an increase of JPY182mn in losses YoY; at Joseph, operating losses of JPY444mn were up JPY60mn YoY.

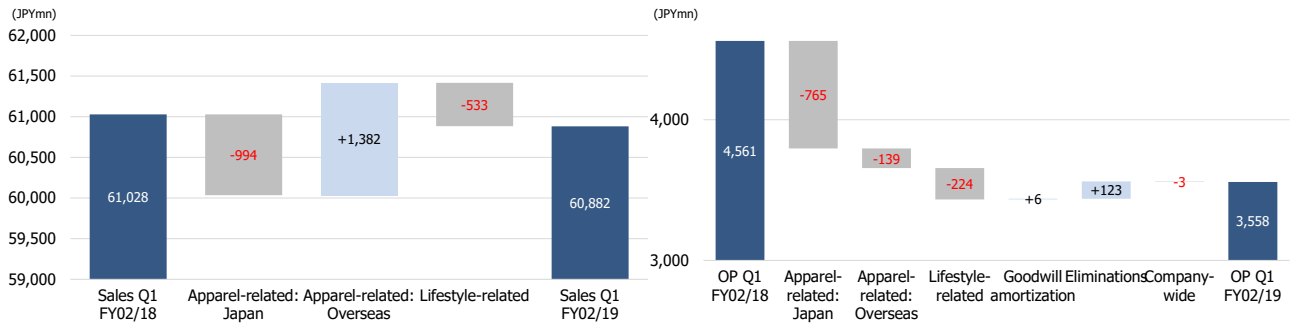
At the lifestyle-related business, overall sales and earnings finished down as the resort business suffered from a drop in Japanese tourist traffic to Guam amid rising geopolitical tension in the region.

Shareholder returns

Along with the release of FY02/18 results on April 6, 2018, the company announced a) a new share buyback program with an upper limit of 2.0mn shares (equal to 1.4% of shares outstanding, excluding treasury stock) or JPY2.0bn, to be undertaken during 1H FY02/19; and b) plans to extinguish 5.0mn of 25.4mn previously acquired treasury shares on April 27, 2018. The company reported that it extinguished the 5.0mn treasury shares (equal to 2.97% of shares outstanding) as planned on April 27, 2018, and that it had also completed its share buyback program by May 24, 2018, buying back 2.0mn shares at the total cost of JPY1.8bn.

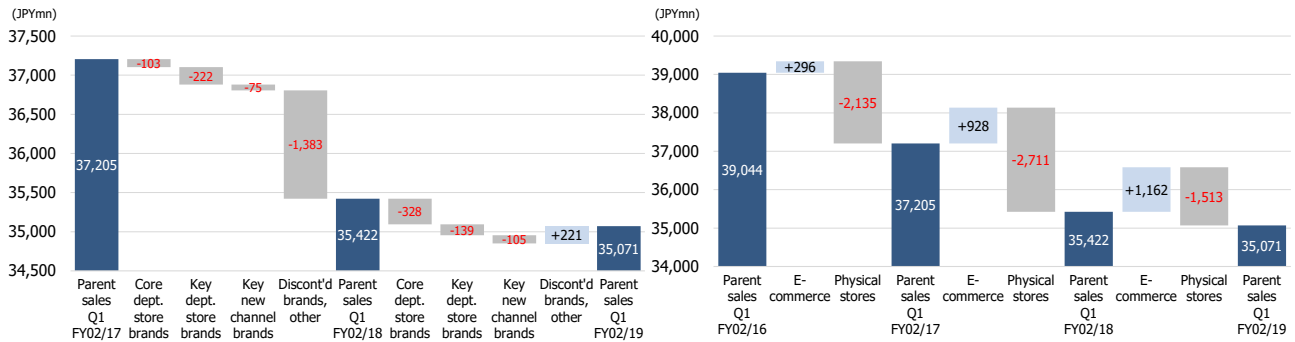
Seasonality: the company's quarterly results fluctuate significantly due to seasonal bargain sales. Q1 (March-May) includes March—a peak season. Whereas Q2 (June–August) includes the summer sales period of July. Therefore the proportion of merchandise sold at normal prices is lower than in Q1 and profitability is likely to be affected. Similarly, Q4 profits are affected by winter bargain sales in January and valuation losses recorded at the end of the financial year.

Factors contributing to changes in sales (left) and operating profit (right)

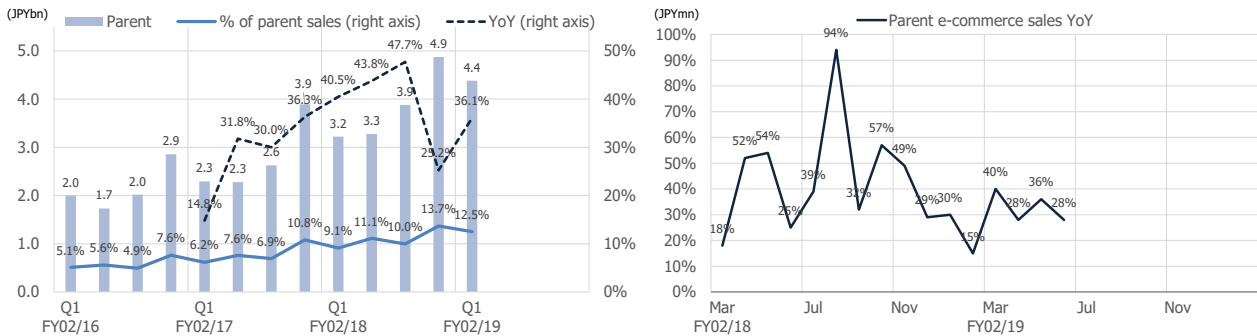


Source: Shared Research based on company data

Factors contributing to changes in parent company sales



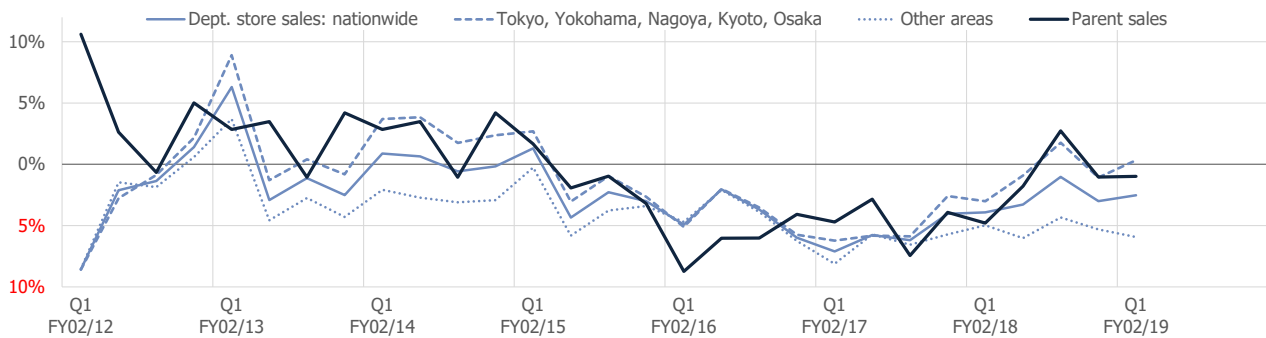
Parent company e-commerce sales (JPYbn)



Source: Shared Research based on company data

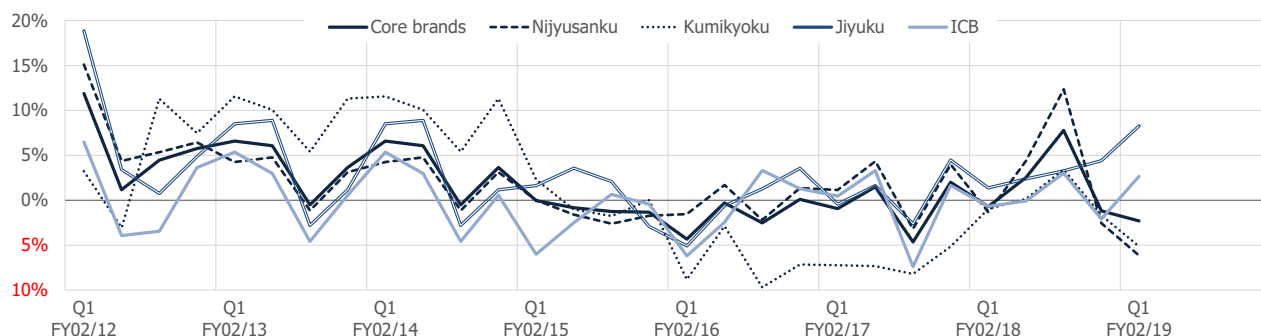
Reference data

Parent sales YoY



Source: Shared Research based on company data

Sales YoY for core brands



Source: Shared Research based on company data

European businesses performance

(JPYmm)		FY02/16				FY02/17				FY02/18				FY02/19				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Onward Luxury Group	Sales	6,713	5,254	7,454	6,990	7,810	6,889	6,069	8,246	7,020	7,404	8,887	8,573	8,590	-	-	-	-
	YoY	-21.6%	-6.0%	-12.1%	-30.1%	16.3%	31.1%	-18.6%	18.0%	-10.1%	7.5%	46.4%	4.0%	22.4%	-	-	-	-
JOSEPH Group	Sales	3,514	2,753	3,703	3,651	2,997	2,365	1,821	2,991	2,652	1,900	2,709	3,256	2,647	-	-	-	-
	YoY	4.6%	9.7%	8.5%	-17.7%	-14.7%	-14.1%	-50.8%	-18.1%	-11.5%	-19.7%	48.8%	8.9%	-0.2%	-	-	-	-
Total of two companies	Sales	10,227	8,007	11,157	10,641	10,807	9,254	7,890	11,237	9,672	9,304	11,596	11,829	11,237	-	-	-	-
	YoY	-4.3%	-1.9%	-0.6%	-11.7%	-7.2%	-8.8%	-15.5%	-7.9%	-4.2%	0.2%	14.3%	11.0%	10.4%	2.3%	-	-	-
EUR/JPY (quarter end)		133.7	135.6	136.0	129.9	124.1	123.6	114.9	119.7	118.9	123.9	131.3	132.8	131.3	126.7	-	-	-
	YoY	-4.3%	-1.9%	-0.6%	-11.7%	-7.2%	-8.8%	-15.5%	-7.9%	-4.2%	0.2%	14.3%	11.0%	10.4%	2.3%	-	-	-
GBR/JPY (quarter end)		184.0	189.6	186.9	184.6	157.5	162.7	134.9	140.4	139.8	142.2	142.7	150.3	149.3	144.6	-	-	-
	YoY	8.2%	11.5%	8.6%	-0.6%	-14.4%	-14.2%	-27.8%	-23.9%	-11.3%	-12.6%	5.8%	7.1%	6.8%	1.7%	-	-	-

Source: Shared Research based on company data

Starting date for seasonal sales events at major department store chains

		Takashimaya	Daimaru Matsuzakaya	Isetan Mitsukoshi	Sogo & Seibu
2018	Summer	June 29	June 29	June 29	June 29
	Winter	January 2	January 2	January 4	January 1
2017	Summer	June 30	June 30	July 12	June 30
	Winter	January 2	January 2	January 11	January 1
2016	Summer	July 1	July 1	July 13	July 1
	Winter	January 2	January 2	January 13	January 1
2015	Summer	July 8	July 8	July 15	July 1
	Winter	January 2	January 2	January 14	January 1
2014	Summer	June 27	June 27	July 16	June 27
	Winter	January 2	January 2	January 15	January 1
2013	Summer	June 28	June 28	July 17	June 28
	Winter	January 2	January 2	January 18	January 1
2012	Summer	July 1	July 1	July 13	July 1
	Winter	January 2	January 2	January 2	January 2
2011	Summer	July 1	July 1	July 1	July 1
	Winter	January 2	January 2	January 2	January 2

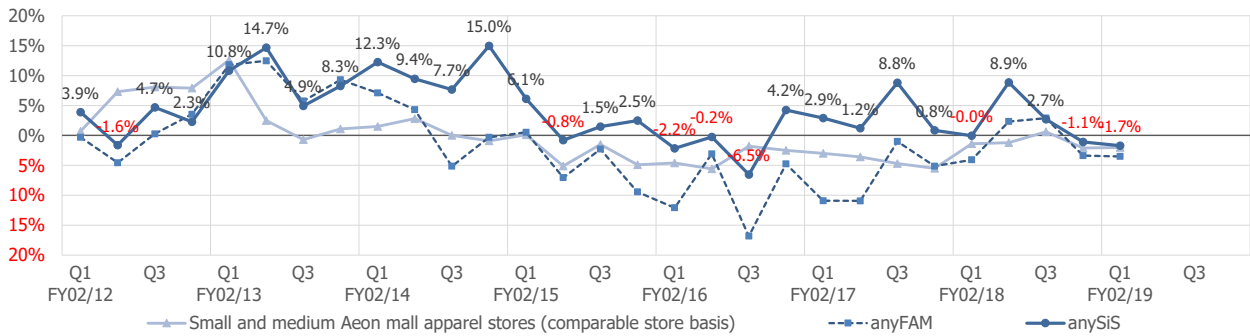
Source: Shared Research based on company data

Progress

Progress		FY02/16				FY02/17				FY02/18				FY02/19		FY02/16 FY02/17 FY02/18 FY02/19			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Act.	Act.	Act.	Est.
% of FY	Sales	26.1%	47.6%	74.5%	100.0%	26.8%	48.8%	73.7%	100.0%	25.1%	47.5%	74.4%	100.0%	25.0%		263,516	244,900	243,075	248,500
	Parent	26.3%	47.1%	74.8%	100.0%	26.4%	47.6%	74.5%	100.0%	25.4%	46.5%	74.5%	100.0%	25.2%		148,332	141,096	139,438	146,000
	Gross profit	27.7%	48.3%	77.1%	100.0%	28.6%	49.1%	76.5%	100.0%	26.7%	47.3%	76.5%	100.0%	26.3%		119,452	113,262	113,576	119,200
	Parent	28.2%	47.7%	78.1%	100.0%	28.4%	48.0%	77.4%	100.0%	27.4%	47.1%	77.6%	100.0%	27.6%		72,161	69,860	70,883	74,900
	SG&A expenses	24.8%	49.7%	75.0%	100.0%	25.1%	50.5%	74.6%	100.0%	23.8%	48.2%	74.2%	100.0%	24.3%		115,674	109,059	108,409	112,000
	Parent	24.6%	49.5%	75.1%	100.0%	24.7%	49.9%	75.4%	100.0%	24.0%	48.1%	74.8%	100.0%	24.8%		64,824	63,022	63,104	66,300
	Operating profit	116.4%	6.0%	139.3%	100.0%	117.6%	12.6%	125.9%	100.0%	88.3%	27.7%	123.7%	100.0%	68.9%		3,778	4,203	5,167	7,200
	Parent	60.1%	31.9%	104.5%	100.0%	62.0%	31.3%	95.8%	100.0%	54.7%	39.6%	100.4%	100.0%	50.3%		7,337	6,838	7,779	8,600
	Recurring profit	94.4%	24.5%	115.6%	100.0%	94.7%	20.6%	107.0%	100.0%	82.5%	36.3%	131.8%	100.0%	69.6%		5,504	5,577	5,928	7,300
	Net income	83.5%	44.9%	139.5%	100.0%	60.3%	32.6%	148.1%	100.0%	55.4%	42.3%	133.5%	100.0%	40.0%		4,278	4,744	5,366	6,000
% of 1H	Sales	54.8%	100.0%			54.8%	100.0%			52.9%	100.0%			52.8%		125,495	119,495	115,400	117,500
	Parent	55.8%	100.0%			55.4%	100.0%			54.6%	100.0%			54.1%		69,918	67,198	64,881	67,000
	Gross profit	57.3%	100.0%			58.2%	100.0%			56.4%	100.0%			55.7%		57,755	55,579	53,735	57,300
	Parent	59.2%	100.0%			59.0%	100.0%			58.1%	100.0%			58.6%		34,443	33,565	33,409	35,300
	SG&A expenses	49.9%	100.0%			49.8%	100.0%			49.2%	100.0%			50.4%		57,530	55,050	52,305	54,800
	Parent	49.7%	100.0%			49.6%	100.0%			50.0%	100.0%			51.6%		32,106	31,423	30,331	32,200
	Operating profit	1,955.1%	100.0%			934.2%	100.0%			319.2%	100.0%			249.0%		225	529	1,429	2,500
	Parent	188.7%	100.0%			197.8%	100.0%			138.3%	100.0%			127.2%		2,337	2,142	3,078	3,100
	Recurring profit	385.7%	100.0%			459.1%	100.0%			227.5%	100.0%			192.0%		1,347	1,150	2,150	2,900
	Net income	186.0%	100.0%			185.1%	100.0%			131.0%	100.0%			94.5%		1,920	1,546	2,269	1,800

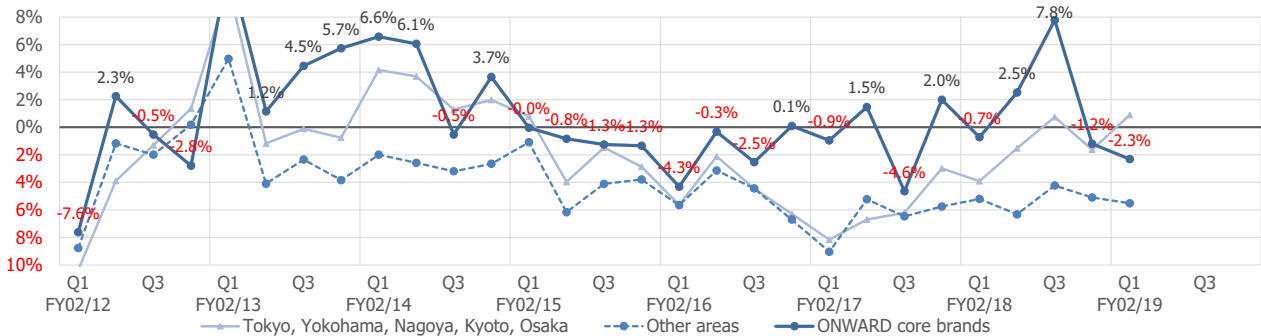
Source: Shared Research based on company data

Sales at small and medium Aeon mall apparel stores (comparable mall basis) versus Onward new distribution channel brand sales



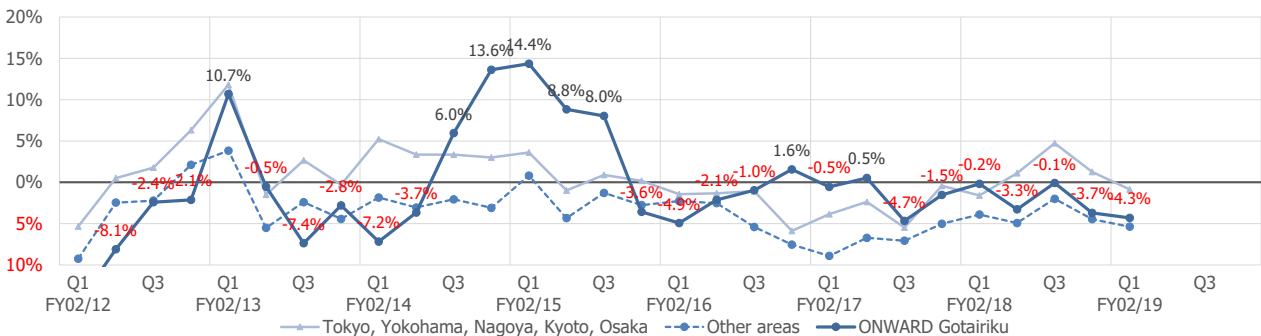
Source: Shared Research based on company data

Domestic womenswear sales at department stores by region and Onward core brand sales



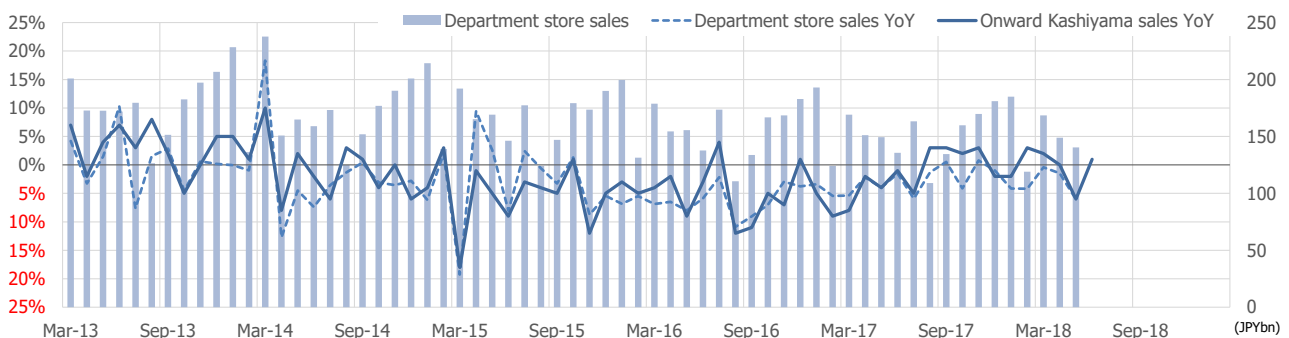
Source: Shared Research based on Japan Department Stores Association and company data

Domestic menswear sales at department stores by region and Gotairiku sales



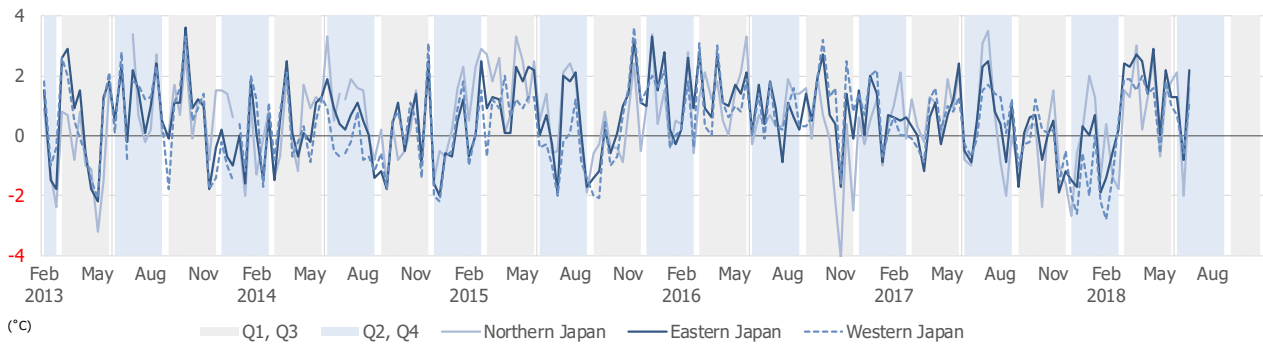
Source: Shared Research based on Japan Department Stores Association and company data

Department store and Onward Kashiwama monthly apparel sales



Source: Shared Research based on Japan Department Stores Association and company data

Average domestic temperature and seasonal variation (°C)



Source: Shared Research based on Japan Meteorological Agency data; normal value derives from the average of observed values during 30 years from 1981 to 2010.

This note is the most recent addition to the [full report](#).

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <http://www.sharedresearch.jp>.

Disclaimer

This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report.

The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report's objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer

The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion by us that could influence investment decisions in the company, such opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.

Contact Details

Shared Research Inc.

3-31-12 Sendagi Bunkyo-ku Tokyo, Japan

<http://www.sharedresearch.jp>

Phone: +81 (0)3 5834-8787

Email: info@sharedresearch.jp