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On **December 10, 2018,** Visionary Holdings Co., Ltd. announced earnings results for 1H FY04/19.

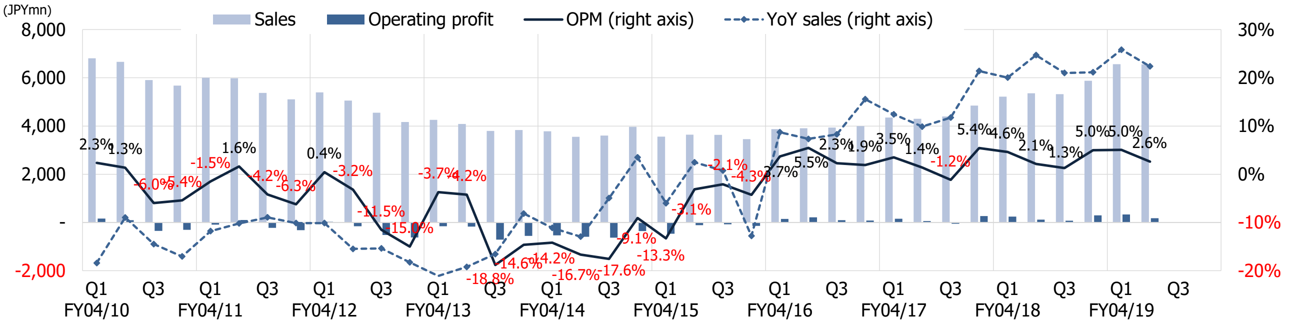
Income statement	FY04/18				FY04/19		FY04/18	FY04/19	FY04/19		FY04/18	FY04/19		YoY change		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	1H Act.	1H Act.	1H Est.	% of FY	FY	Est.	% of FY	Q1	Q2	1H
Sales	**5,220**	**5,358**	**5,321**	**5,876**	**6,570**	**6,557**	**10,579**	**13,127**	**12,350**	**106.3%**	**21,776**	**25,300**	**26.0%**	**+1,349**	**+1,199**	**+2,548**
Retail	5,108	5,240	5,195	5,743	6,423	6,270	10,348	12,693			21,286	-		+1,315	+1,031	+2,345
Wholesale					5	144	-	149						+5	+144	+149
E-commerce	112	119	125	133	142	142	231	284			490	-		+30	+23	+53
YoY	20.0%	24.7%	21.0%	21.2%	25.8%	22.4%	22.4%	24.1%	16.7%		21.7%	16.2%				
Retail	19.8%	24.6%	20.8%	20.9%	25.7%	19.7%	22.2%	22.7%			21.5%	-				
E-commerce	30.1%	29.4%	28.8%	35.3%	26.8%	19.4%	29.7%	23.0%			31.0%	-				
CoGS	1,825	1,923	1,960	2,149	2,366	2,397	3,748	4,763			7,858	-		+541	+474	+1,015
Gross profit	**3,395**	**3,435**	**3,361**	**3,727**	**4,203**	**4,160**	**6,831**	**8,363**			**13,919**	**15,928**		**+808**	**+725**	**+1,533**
YoY	15.9%	19.9%	18.5%	18.5%	23.8%	21.1%	17.8%	22.4%			18.2%	14.4%				
GPM	**65.0%**	**64.1%**	**63.2%**	**63.4%**	**64.0%**	**63.4%**	**64.6%**	**63.7%**			**63.9%**	**63.0%**		**-1.1pp**	**-0.7pp**	**-0.9pp**
SG&A expenses	3,155	3,320	3,293	3,434	3,872	3,988	6,475	7,860			13,202	14,798		+717	+668	+1,385
Selling expenses	299	305	373	313	396	-	604				1,290					
Personnel expenses	1,366	1,439	1,382	1,532	1,733	-	2,805				5,719					
Rents	648	666	664	674	694	-	1,314				2,652					
Depreciation	93	103	72	77	114	-	196				345					
Other	750	807	802	839	934	-	1,557				3,198					
YoY	13.6%	18.3%	14.1%	19.1%	22.7%	20.1%	16.0%	21.4%			16.3%	12.1%				
Selling expenses	26.2%	21.0%	30.9%	7.6%	32.4%	-	23.5%				21.1%	-				
Personnel expenses	19.0%	20.6%	12.6%	23.5%	26.9%	-	19.8%				18.9%	-				
Rents	2.5%	4.4%	6.8%	5.0%	7.1%	-	3.4%				4.6%	-				
Depreciation	63.2%	71.7%	14.3%	4.1%	22.6%	-	67.5%				35.8%	-				
Other	6.7%	21.7%	16.1%	31.9%	24.5%	-	14.0%				18.8%	-				
SG&A-to-sales ratio	60.4%	62.0%	61.9%	58.4%	58.9%	60.8%	61.2%	59.9%			60.6%	58.5%		-1.5pp	-1.1pp	-1.3pp
Selling expenses	5.7%	5.7%	7.0%	5.3%	6.0%	-	5.7%	-			5.9%	-				
Personnel expenses	26.2%	26.9%	26.0%	26.1%	26.4%	-	26.5%	-			26.3%	-				
Rents	12.4%	12.4%	12.5%	11.5%	10.6%	-	12.4%	-			12.2%	-				
Depreciation	1.8%	1.9%	1.4%	1.3%	1.7%	-	1.9%	-			1.6%	-				
Other	14.4%	15.1%	15.1%	14.3%	14.2%	-	14.7%	-			14.7%	-				
Operating profit	**241**	**115**	**68**	**293**	**331**	**172**	**355**	**503**	**483**	**104.2%**	**716**	**1,130**	**29.3%**	**+91**	**+57**	**+148**
Retail	262	130	117	384	524	293	392	817			893	-		+262	+163	+425
Wholesale					2	37	-	39						+2	+37	+39
E-commerce	13	13	31	19	18	12	26	30			76	-		+5	-1	+4
Other	-1	-11	-19	-11	-21	-25	-12	-46			-41	-		-21	-14	-34
Adjustments	-31	-20	-62	-99	-191	-146	-51	-337			-212	-		-160	-126	-286
YoY	57.9%	93.4%	-	11.7%	37.7%	49.7%	67.9%	41.6%	35.9%		69.5%	57.7%				
Retail	76.3%	123.8%	-	42.8%	100.2%	124.8%	89.6%	108.4%	-		90.6%	-				
E-commerce	-12.9%	-17.8%	131.2%	19.0%	39.8%	-8.3%	-15.5%	15.2%	-		26.2%	-				
OPM	4.6%	2.1%	1.3%	5.0%	5.0%	2.6%	3.4%	3.8%	3.9%		3.3%	4.5%		0.4pp	0.5pp	0.5pp
Retail	5.1%	2.5%	2.3%	6.7%	8.2%	4.7%	3.8%	6.4%			4.2%	-		3.0pp	2.2pp	2.6pp
Wholesale					36.7%											
E-commerce	11.3%	11.2%	24.5%	14.5%	12.5%	8.6%	11.3%	10.6%			15.5%	-		1.2pp	-2.6pp	-0.7pp
Non-operating income (expense	-22	-11	-8	-88	-24	-18	-32	-42	-50		-129	-100		-2	-7	-9
Financial income (expenses)	-27	-27	-27	-24	-22	-23	-54	-46			-104			+4	+4	+8
Other	5	16	19	-64	-2	6	21	4			-25			-7	-11	-17
Recurring profit	**219**	**104**	**59**	**205**	**307**	**154**	**323**	**462**	**433**	**106.6%**	**588**	**1,030**	**29.8%**	**+88**	**+50**	**+139**
RPM	4.2%	1.9%	1.1%	3.5%	4.7%	2.4%	3.1%	3.5%	3.5%		2.7%	4.1%		0.5pp	0.4pp	0.5pp
Extraordinary gains (losses)	-35	1	-10	-1	14	-19	-34	-5			-44			+48	-20	+29
Income taxes	86	71	-115	-222	76	-19	157	58			-181			-9	-89	-99
Implied tax rate	46.5%	67.5%	-230.9%	-108.7%	23.8%	-13.7%	54.1%	12.6%			-33.2%	-				
Minority interests	-	-	-	-	-	-	-	-						-	-	-
Net income	**99**	**35**	**165**	**428**	**245**	**154**	**133**	**399**	**255**	**156.4%**	**726**	**640**	**38.2%**	**+146**	**+119**	**+266**
YoY	18,883.0%	-	-	176.4%	148.5%	345.7%	-	199.7%	91.6%		555.5%	-11.8%				
Net margin	1.9%	0.6%	3.1%	7.3%	3.7%	2.3%	1.3%	3.0%	2.1%		3.3%	2.5%		1.8pp	1.7pp	1.8pp
Meganesuper store count	**354**	**368**	**372**	**381**	**386**	**389**	**368**	**389**			**381**			**+32**	**+21**	**+21**
Openings (new and relocation)	5	8	9	14	7	12	13	19			36			+2	+4	+6
Contact lens specialist stores	-	1	2	7	1	1	1	2			10			+1	-	+1
Increase from M&A	-	11	-	-	2	5	11	7			11			+2	-6	-4
Closures	-1	-5	-5	-5	-2	-9	-6	-11			-16			-1	-4	-5
Inventories	**2,697**	**2,735**	**2,998**	**3,164**	**3,841**	**4,473**	**2,735**	**4,473**			**3,164**	-		**+1,145**	**+1,737**	**+1,737**
Days in inventory	133	129	133	131	135	158	127	138			135			+2	+29	+11
Interest-bearing debt	**7,468**	**7,463**	**7,429**	**6,300**	**5,803**	**6,074**	**7,463**	**6,074**			**6,300**	-		**-1,665**	**-1,389**	**-1,389**
Cash and deposits	3,604	3,817	3,614	2,975	3,158	2,377	3,817	2,377			2,975	-		-446	-1,441	-1,441
Net debt	3,865	3,646	3,815	3,325	2,645	3,697	3,646	3,697			3,325	-		-1,220	+52	+52
Net assets	**595**	**699**	**944**	**1,382**	**1,677**	**1,880**	**699**	**1,880**			**1,382**	-		**+1,081**	**+1,181**	**+1,181**

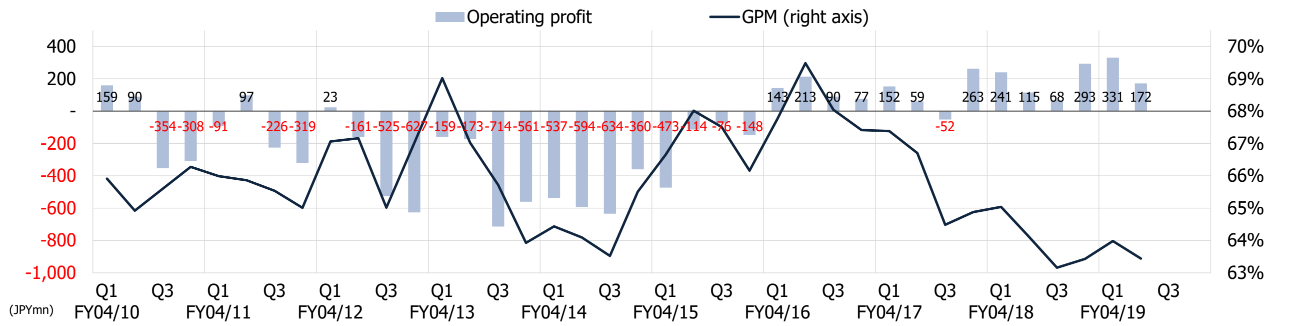
Source: Shared Research based on company data
Note: Figures may differ from company data due to differences in rounding methods.

1H FY04/19 results (out December 10, 2018)

- 1H FY04/19: Sales finished 1H up 24.1% YoY, operating profit up 41.6% YoY. Next-generation stores performed favorably and comparable store sales added to gains with continued double-digit growth, putting sales well ahead of year-ago levels and above plan
- Earnings growth underpinned by the expansion of business operations coupled with ongoing efforts to transition to a common infrastructure, allowing more of the top-line gains to flow through to the bottom line. Profit was up despite amortization of goodwill
- Comparable store sales: Up 22.3% YoY in 1H. Sales at existing stores bolstered by remodeling of 16 stores. Monthly sales in October at 21 stores that underwent remodeling by the end of Q2 were up 36.6% YoY
- Contact lenses: Sales progressed at contact lens specialty stores and recently acquired subsidiaries; subscription contracts and e-commerce sales also grew. Launched private brand products on December 7, 2018
- Operating profit: Up JPY148mn YoY as top-line growth offset upfront spending and increased expenses; Retail segment underpinned gains with JPY425mn increase in segment profit
- Made Visionize a consolidated subsidiary in May 2018: With its acquisition of Visionize for JPY1.1bn, Visionary is looking to create a growth area that can drive earnings over the medium- to long-term by combining eye care services and branded product procurement capabilities with Visionize, and working together to develop and operate high value-added stores. Opened five directly managed Eyestyle stores
- Reorganization of subsidiaries through company split: To accelerate intra-group cooperation and alliances and otherwise speed the reorganization process, the company is moving to increase management oversight and strategic planning at the group level to assure an appropriate and timely reorganization of group businesses. In 1H, the company acquired two stores and shares in Visionize
- FY04/19: In the context of growth of the contact lens business, the company will continue to focus on subscription contracts, which are a source of recurring revenue. The company plans to use contact lenses to increase gross profit while accelerating growth of eyeglass sales by introducing next-generation eye care specialty stores (accelerate in Q3) and raising the profile of its eye care services
- Growth strategy: Strategic measures for growth include transitioning to the next-generation store format, ongoing openings of new stores designed to meet local market needs, hiring of personnel to support business expansion and continued training, promotion of M&A via Me no Kenkou (eye health) platform, and growth of the wearable device business with an aim of pioneering a new market

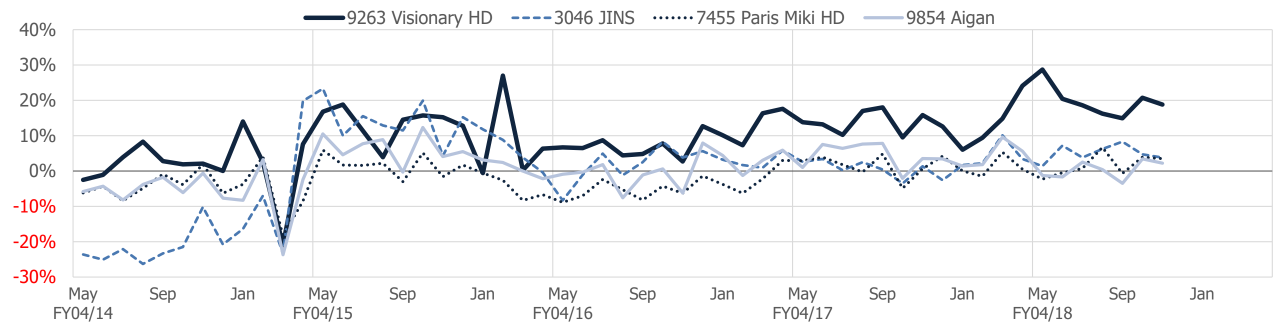
Quarterly results





Source: Shared Research based on company data

Comparable store sales growth by company



Source: Shared Research, based on each company data

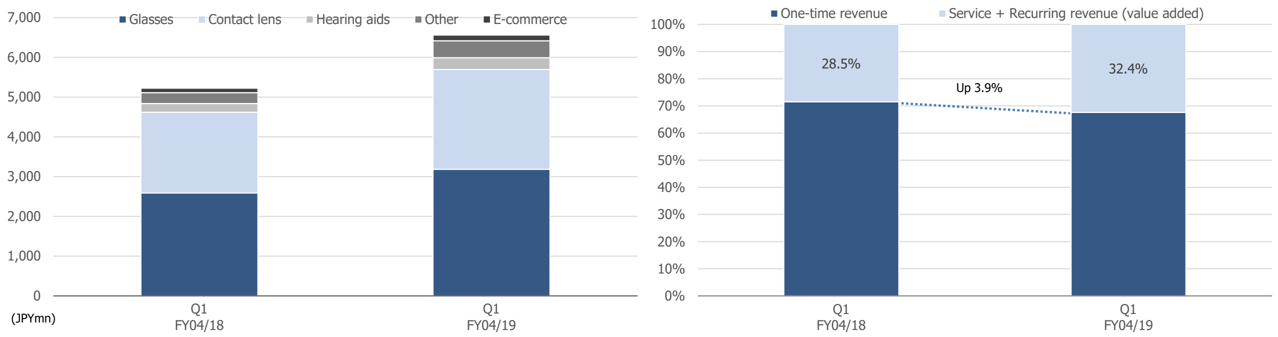
Overview of results

1H FY04/19: Sales finished 1H up 24.1%, operating profit up 41.6% YoY. Next-generation stores performed favorably and comparable store sales added to gains with continued double-digit growth, putting sales well ahead of year-ago levels and above plan

For 1H FY04/19, the company reported a 24.1% YoY increase in sales and a 41.6% rise in operating profit (compared with consolidated results for Meganesuper in 1H FY04/18). Bolstered by the acquisition of new subsidiaries, the group saw its 14th consecutive quarter of higher sales (with eighth consecutive quarters of double-digit sales growth) and its seventh consecutive quarter of higher earnings. In addition to strong growth in sales at existing stores (+22.3% in 1H; 34th consecutive month of positive growth since February 2016), sales also received a boost from strong gains at the E-commerce business, finishing 1H well ahead of the year-ago level. Performance versus plan was also strong and above plan as sales and operating profit finished 1H 6.3% (JPY777mn) and 4.2% (JPY20mn) above targets, respectively.

Eyewear and hearing aids drove sales on the positive effects of ongoing media exposure improving recognition of Visionary as an eye care company and of the shift to the next-generation store format. The steady accumulation of recurring revenue business, including regular contact lens deliveries and Hyper guarantee premium insurance, also contributed. Newly acquired subsidiaries and businesses as well as the Wholesale business launched in FY04/19 also contributed to results.

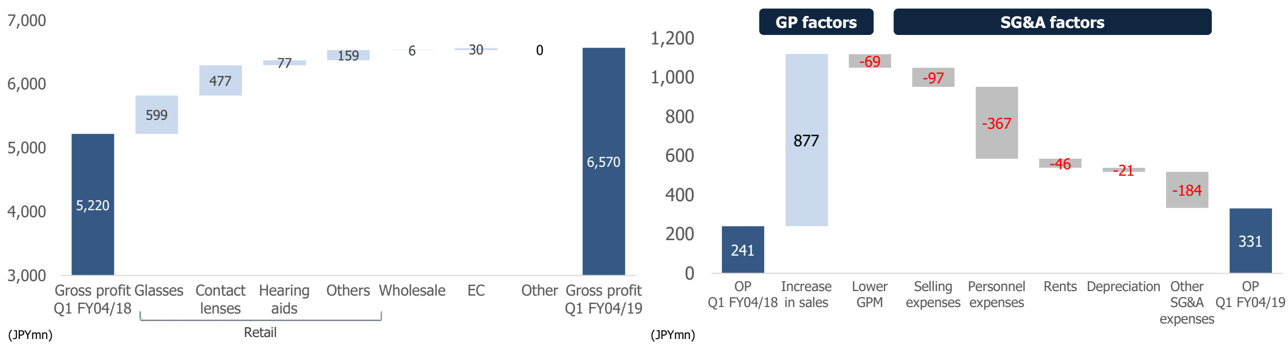
Sales by product (left), services and recurring sales (right) (as of Q1, for reference)



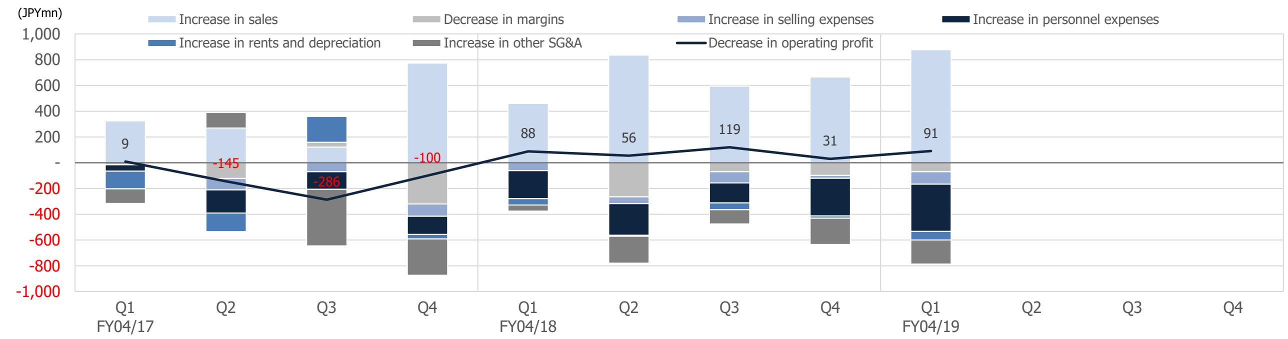
Source: Shared Research, based on company data

Although SG&A expenses increased due to business expansion and M&A activities, the SG&A-to-sales ratio fell 1.3pp YoY on increased sharing of infrastructure with the positive effects of acquisitions. Amortization of goodwill increased (JPY41mn), but higher sales led to higher profit. An initiative to enhance human resources also appears to be having a positive effect. An increase in labor costs came from summer bonuses paid for the first time in 10 years, and an increase in other SG&A expenses came from an increase in costs for the outsourcing of call center functions accompanying growth in contact lens sales, so these various increases were all related to business expansion.

Sales and operating profit (as of Q1, for reference)



Operating profit (to be updated after interviews with the company)



Source: Shared Research, based on company data

Retail segment (formerly Eyewear Retailing)

The Retail segment reported sales of JPY12.7bn (+22.7% YoY) and operating profit of JPY817mn (2.1x YoY). Earnings would have been even higher had it not been for companywide expenses not allotted to the segment (primarily parent company management costs and compensation for executives at subsidiaries) in the form of adjustments to segment earnings, which at JPY337mn were up sharply YoY (JPY51mn in 1H FY04/18). The strong 1H results reflect the gains stemming from the strategic measures being implemented under the company's medium-term management plan, including 1) transitioning to its next-generation store format, 2) ongoing openings of new stores designed to meet local market needs, 3) hiring of personnel to support business expansion and continued training, and 4) ongoing M&A via its Me no Kenkou (eye health) platform.

Transition to next-generation store format

Since 2015 the group has been expanding and enhancing its eye care services with the aim of bringing in new customers and increasing average spending per customer. During FY04/18 it furthered this effort with the conversion of three existing stores into the next-generation format along with the opening of one new store in the next-generation format. During Q1 FY04/19 the company remodeled a total of 10 existing stores, with six of these being conversions into the next-generation format. Following remodeling, nine of the 10 stores went on to log 40% YoY increases in sales in the month of July. In particular, stores that were remodeled to the next-generation format all saw significant improvement in KPIs.

In Q2, the company remodeled 10 stores (one in August, three in September, and six [including one relocation] in October) and opened one new store in September, bringing the total number of remodeled stores to 15. Monthly sales in October at 21 stores that underwent remodeling by the end of Q2 were up 36.6% YoY. The company plans to actively remodel existing stores and open new stores in Q3 as well (five stores on November 23, one [new store] on November 30, and three on December 1).

KPIs (left: Takadanobaba store, right: next-generation stores [excluding relocations and new openings])

Takadanobaba main store	FY04/17 2H	FY04/18 2H After transition to next generation store	FY04/19 Q1
Customer footfall YoY		+21.1%	+42.3%
Retail conversion YoY		+2.2pt	+5.8pt
Glass: no. of new customers		+148.1%	+296.4%
Glass: avg. customer spend	38,803	47,854	51,743
YoY		23.3%	-
Premium lens ratio	79.7%	83.3%	88.4%
Glass: multiple purchase			-
Hearing aids: avg. customer spend	142,348	239,163	241,071

Next generation store	FY04/18 Q1	FY04/19 Q1
Customer footfall YoY		+11.8%
Retail conversion YoY		+2.5pt
Glass: no. of new customers		+83.5%
Glass: avg. customer spend	39,559	47,293
YoY		19.6%
Premium lens ratio	66.6%	84.2%
Glass: multiple purchase	6.4%	9.2%
Hearing aids: avg. customer spend	127,893	158,249

Source: Shared Research, based on company data
Note: Multiple purchases of eyewear refers to purchase of multiple sets of glasses on the same day to suit different lifestyle scenarios.

Improvement in KPIs

In the medium to long term, Visionary is working to build up infrastructure that will allow it to provide eye care proposals to the high value-added segment of the eyewear market and improve efficiency through an appointment system. It launched the first next-generation store in Takadanobaba in November 2017 and had shifted eight stores to the next-generation format by end Q1 FY04/19. The main KPIs at these stores are each up YoY. If we assume eyewear sales are customer count x customer spend, we can calculate customer count as store visits (+11.8%) x purchase ratio (+2.5pp) and customer spend as unit sales price (+19.6%) x multiple purchases (6.4% → 9.2%), and we can see that the shift to the next-generation format is resulting in increases across the board. In addition, media exposure has helped improve customer awareness of Visionary as an eye care company, helping to nearly double the number of new customers following the transition to the new format and likely improving customer traffic in the long term. The member count has also grown significantly to 9mn (as of end July 2018). Shared Research believes the company's effective usage of its member database is contributing to KPI improvement.

Progress in employee education

The next-generation format requires time to develop employees with a high level of skill in conducting examinations and to enhance total eye care examinations, but the company believes it is a valuable tool for achieving improved customer satisfaction and greater profit. At the next-generation stores, customers seem more receptive to proposals for multiple sets of eyeglasses to suit different lifestyle scenarios, as evidenced by the higher ratio of multiple purchases (ratio of customers buying multiple sets of eyeglasses in the same day). In addition, the rising unit sales price of hearing aids (accounting for 5% of sales) is contributing to earnings. Previously it was common for customers to purchase a hearing aid for only one ear, but as with eye care, careful proposals are leading to an increase in customer spend as the company recommends wearing hearing aids in both ears.

These effects arise in large part from improvements in the level of staff abilities in terms of technique and customer service. Even compared with their status at the time the first next-generation store was launched in Takadanobaba in November 2017, staff abilities have steadily improved over time. Visionary expects to see continued improvement from November 2018 onward. In order to refine the next-generation format, improve customer satisfaction, and identify potential issues, the company established a ten-person team at the head office to conduct follow-up calls with customers who have visited next-generation stores. About

80% of respondents said they were satisfied with their experience, and measures to push the ratio ever closer to 100% are being discussed in-house.

Shift to next-generation store format (as of September 2018)

Year		Stores
FY04/18		Takadanobaba Honten, Azabujuban, Hachioji Honten, Himeji Miyukidori
FY04/19	Jun.	Shinjuku Chuohigashiguchi, Kokura Honten, LaLaPort Toyosu, Niigata Kurosaki, Megane House Toyama Honten, Kawagoe CREAMALL
	Aug.	Atsugi Odori
	Sep. (Planned)	Kichijoji Daiyagai, Megane House Takaoka Station South, Sagami-Ono Station
	Oct. (Planned)	Kohoku New Town Center-Minami, Wako, Kobe Sannomiya, Fukui Ninomiya, Sanjo Shiyakushodori

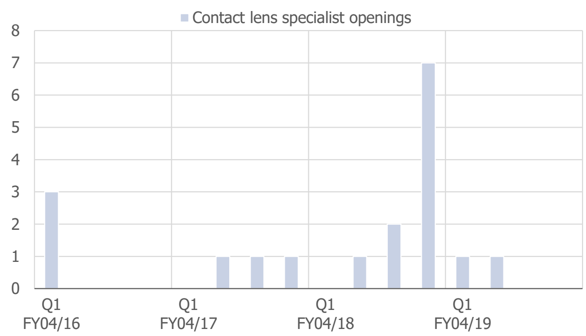
Source: Shared Research, based on company data

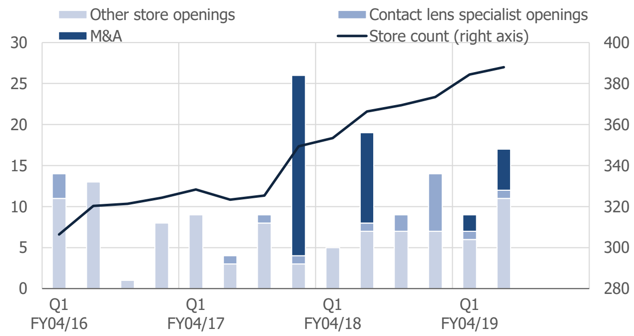
Ongoing openings of new stores designed to meet local market needs

Based on an analysis of its extensive database covering, Visionary had 9mn customers as of end July 2018. It is working to choose the store format best suited to the unique needs of each local market (choosing from among its next-generation format, traditional format, and contact lens special store format). During 1H, the group opened a total of 19 new stores (including two stores opened by Michinoku Eye Care Platform Co., which it acquired from Takahashi Co., Ltd., and five Eyestyle stores as a result of making Visionize a subsidiary) and closed 11 stores to bring the total number of stores in operation at end-1H to 389.

Visionary is already planning to open nine next-generation stores during Q3, including remodeling of existing stores to the new-generation format. One special characteristic of the company's store development is that it employs a range of formats, from contact lens specialty stores of about 17sqm to standard stores of about 130sqm. Visionary has no competitors who can manage this level of flexibility and is therefore receiving more and more requests from commercial facilities to open stores. It seems likely the company will accelerate store openings, with a potential for double branding and new brands after it made Visionize a subsidiary in August 2018.

New store openings and number of stores in operation





Source: Shared Research, based on company data

Ongoing M&A via Me no Kenkou (eye health) platform

In addition to expanding the number of stores that emphasize eye care services (the group's strength), the company is also looking to expand its store network by establishing alliances with or acquiring other eyewear retailers in surrounding areas and coordinating retail store formats and merchandise lineups by using a common platform. In addition to expanding its store network, Visionary aims to give itself a competitive advantage in the high value-added segment of the eyewear retailing market by building up business infrastructure that can be used by all group companies.

In 1H, Visionary took over the operation of two stores in Aomori from Takahashi Co., Ltd. and completed the acquisition of shares of Visionize Co., Ltd. that was agreed to in the contract signed by the two companies on July 10, 2018. The acquisition cost was JPY1.1bn plus all related acquisition expenses; details such as the amount of goodwill acquired have not yet been determined. It is important to note that this acquisition employed the earn-out method, so if certain conditions set out in the stock transfer agreement are met, Visionary may be required to make additional payments in three to five years. Furthermore, the company is steadily improving the performance of Shimizu Megane and Megane House, which it acquired previously.

Reference: Making Visionize a subsidiary:
On July 10, 2018, the company announced that it will make Visionize Co., Ltd. its subsidiary and also reorganize its subsidiaries through a company split. The agreement to make Visionize a subsidiary was signed on July 10, 2018, and the scheduled date of share transfer is August 31, 2018. The company has not disclosed the acquisition price. As the company had not factored in the impact of this transaction to the full-year consolidated earnings forecasts it released on June 14, 2018, it will determine the impact and promptly disclose any revision if necessary.

Visionize, established in January 2011, is an exclusive distributor in Japan for Marcolin S.p.A. (Italy), which designs, manufactures, and distributes global top brands' eyewear products. Leveraging this tie with Marcolin, Visionize has developed a solid customer base in the eyewear retail business. Its strengths include media and marketing activities that reinforce its brand power, and logistics such as import, quality control, and product delivery management. Operating five (four in Tokyo and one in Nagoya) Eyestyle stores (selling eyeglasses and sunglasses), this company designs its stores and develops products to appropriately seize the needs of fashion-conscious consumers, giving it an edge.

Visionary aims to create a growth area that can serve as its medium- to long-term business pillar, by combining the group's Me no Kenkou (eye health) platform with Visionize's customer base, collaborating in eye care services and brand product procurement, and jointly developing and operating value-added stores.

Visionize's earnings

(JPYmn)	FY12/15	FY12/16	FY12/17
Sales	854	1,137	1,211
Operating profit	111	317	287
Recurring profit	108	314	284
Net income	64	194	179

(JPYmn)	FY12/15	FY12/16	FY12/17
Net assets	141	336	515
Total assets	445	776	750
Book value per share (JPY'000)	709.9	1,682.3	2,579.9
Earnings per share (JPY'000)	321.8	972.4	897.6
Dividend per share	-	-	-

Source: Shared Research based on company data

Wholesale segment

A new segment, the Wholesale segment supplied goods for the various special events held at the LaLaport Toyosu shopping mall in Q1, reporting sales of JPY4mn and operating profit of JPY1mn for the quarter. With contributions from the consolidation of Visionize in August (Q2), the segment posted sales of JPY149mn and operating profit of JPY39mn in 1H.

On May 1, 2018, Visionary established Vision Wedge Co. Ltd. to help strengthen and expand its business base by using the expertise the group has built up in private brand goods, eye care services, and other areas to help the group transmit information and develop sales channels through a range of other industries and thereby uncover additional demand for eye care services. Along with the establishment of Vision Wedge, the Wholesale segment was established in Q1 FY04/19.

Vision Wedge: In May 2018, Visionary established Vision Wedge Co. Ltd as a consolidated subsidiary. The primary objectives of Vision Wedge are pre-M&A positioning and group inventory disposal. It will operate three businesses: 1) wholesale business: wholesaling focused on eyeglasses, sunglasses, and hearing aid related products; 2) consulting services: consulting services to support operation of eyeglass, contact lens, and hearing aid stores; and 3) eye care communication business: processing and repair of eyeglasses, staff training, and outsourcing of product management systems. Vision Wedge is well informed of the Me no Kenkou platform, and its projected earnings are factored into the medium-term management plan. Vision Wedge will essentially rely on inventory at Meganesuper, thus insusceptible to inventory risk.

E-commerce segment

For 1H FY04/19, the E-commerce segment achieved higher sales and higher earnings, with sales rising 23.1% YoY to JPY284mn and operating profit rising to JPY30mn. The growth in online sales reflects the company's ongoing efforts to improve the quality of service and add to the convenience of online shopping at the group's official shopping website as well as at the stores at online shopping malls such as Amazon, Rakuten, and Lohaco. During 1H, the company attracted more shoppers to its e-commerce site with the help of couponing, successful measures to attract more visitors from the company's corporate website, and strong sales at stores at online shopping malls. The company also moved forward with the construction of the infrastructure needed for its omnichannel strategy that aims to make best use of the strengthens of its brick-and-mortar stores as well as its e-commerce website, including the development of a smartphone app that along past customers to repurchase contact lens-related supplies with the touch of a single button, a store appointment reservation system using either the corporate website or LINE, and a digital channel that covers brick-and-mortar stores as well as the company's e-commerce website.

Other segment

In May 2017, the company establish Enhanlabo Co., Ltd. to undertake R&D and mass produce a wearable optical device called *b.g.* In anticipation of the start of mass production and sales in the spring of 2019, Enhanlabo is currently working together with partner companies to undertake field testing and is also developing sales channels. The upfront spending on this and various development-related expenses left the Other segment with an operating loss of JPY46mn in 1H FY04/19.

Q2 FY04/19 onward (as of Q1, for reference)

Initiatives for Q2 FY04/19: Already about halfway through Q2, the company is making steady progress. August absorbed the negative impact of heavy rains in Western Japan to come in ahead of plan, and performance as of early September was favorable despite the impact of a severe earthquake in Hokkaido, with just four stores seriously affected. Visionary expects the latter half of Q2 to produce similar results and plans to open nine next-generation stores during the quarter.

Initiatives for full year

In terms of initiatives for full-year FY04/19, those related to the next-generation stores and Visionize are worth noting. The next-generation format is intended to enhance not just short-term performance, but long-term business infrastructure. At a briefing in September 2018, President Naohiko Hoshizaki said the company looks to open at least 10 stores per quarter, including stores remodeled to the next-generation format, but that there may be a bottleneck in terms of educating employees in the advanced examination techniques required at the next-generation stores. The medium-term management plan remains unrevised, calling for 12 new stores and six relocated stores each year. President Hoshizaki says Visionize becoming a subsidiary has opened up a range of possibilities, including accelerated openings, double branding, and new brands. At a briefing planned for December 2018, the company intends to update its plans for store openings in the future, including formats, number of openings, and general direction of initiatives.

Performance in Q1 and the first part of Q2 has been ahead of the company's initial forecasts. Since the impact of exposure on Cambria Palace (TV Tokyo) and in other media was an unknown, Visionary did not factor it into its forecasts. After the company announced its commitment to eye care in FY04/15, ongoing media exposure has helped it change its brand image from discount retailer to eye care company, which appears to be giving a boost to the company's earnings. It is steadily increasing the ratios of recurring revenue business (including regular contact lens deliveries and Hyper guarantee premium insurance) and of various eye care services, and higher sales in the wholesale business have also contributed to earnings. Measures to improve the company's business portfolio and establish systems to limit the impact of weather on performance are making steady progress.

Synergies arising from Visionize becoming subsidiary

In addition, Visionary aims to achieve synergies by opening stores that couple its own brand with Visionize's Eyestyle and by offering products of Marcolin S.p.A. (Italy), which designs, manufactures, and distributes global top brands' eyewear products, and for which Visionize is an exclusive distributor in Japan. About 90% of Visionary's business has involved corrective lenses, while about 90% of Visionize's business involved non-corrective lenses, so by combining the two companies' strengths, Visionary expects to achieve synergies in both fashion and prescription eyewear. It will also be worth watching expansion of the wholesale business via wholesaling to the company's 386 retail stores (as of end July 2018). Furthermore, there are five stores (four in Tokyo and one in Nagoya) operating under the Eyestyle brand (selling eyeglasses and sunglasses).

M&A

Visionary has not changed its plan to actively pursue acquisition of wholesalers and other upstream M&A deals after making Visionize a subsidiary in August 2018.

Next-generation store format

As a result of surplus funds generated by the earnings recovery, the company is now in a better position to invest in remodeling stores. The Takadanobaba store, which reopened on November 23, 2017 after remodeling, has been transformed into a next-generation store that offers more extensive eye care services. The store is steadily building up a customer base, but as a result of remodeling, it can now attract customers seeking more high-end eyewear.

Takadanobaba store: Successful example

Sales at the Takadanobaba store grew 65.5% YoY in the period from November 2017 through April 2018 after completion of remodeling; eyewear sales were up 78.3% owing to an expansion of eye care services, and sales of hearing aids up 212%. Efforts to increase sales have also been apparent in unit prices, with the price of eyeglasses up 23.3% YoY from JPY38,803 to JPY47,854, and the price of hearing aids up 68% from JPY142,348 to JPY239,163. Shared Research notes that the store also enjoyed remarkable growth in the number of new customers, which was up 2.5x YoY.

Further, telephone inquiries from customers who watched the TV program aired in April 2018 are increasing, and we understand the company is steadily converting such calls into appointments for store visits. This has apparently also led to increased customer satisfaction thanks to reduced waiting times, while employee productivity has improved as a result of better allocation of store employees based on customer visit trends. The store has been renovated internally and externally, but the company is keeping remodeling costs down to around twice the cost of opening a new store (JPY15mn).

Takadanobaba store

Source: Company materials

Store exterior: Shift away from flashy promotions to appeal to target customer bases
Traditionally, the company used flashy sales promotions outside stores to give its weakening brand recognition a boost, but this had the negative effect of turning away consumers interested in higher-end eyewear. Given that its name recognition had increased and the store was located in an area likely to attract consumers who buy premium eyewear, the company changed the exterior of the first next-generation format store to cultivate new consumer segments and be recognized as a store that provides eye care. The interior layout and fittings were also updated so that they would appeal to target customer segments as well as express the brand image of sunglasses and frames. The company also made the most of the store's generous floor area by providing an eye care relaxation room, a hearing aid lab, and meeting rooms to offer extensive eye care services.

Could potentially convert roughly one-third of stores into next-generation stores
The company does not have a target number of stores to convert into next-generation stores, because the decision depends on the location and customer profile of each store. That being said, it appears that the company estimates that a third of its stores could be converted. At a briefing in June 2018, Visionary said it plans to convert about 20 stores to next-generation stores each year, and bring the share of such stores up to 20% by FY04/22. While Analyzing post-remodeling performance at the Takadanobaba store, the company implemented similar remodeling for other stores. As a result, the company achieved an increase of over 15% in unit prices and of over 10% in the retail conversion rate after completion of the remodeling, reflecting an increase in the share of new customers. We believe the company will monitor post-remodeling performance and aim to achieve further effects.

The company plans to convert a number of stores in areas with demand among middle-aged and older consumers that are likely to generate above average per-customer sales (currently JPY36,000–37,000). Remodeling has already been completed at several stores (four stores in FY04/18) and projects for completion by October 2018 are under way (total 13 stores; one in May, five in June, one in July, one in September, and five in October). We are positive on this development, because we think steady progress with remodeling could further enhance the business base of existing stores.

Strengthened eye care services
To convince customers that its products offer added value, Visionary Holdings is strengthening its eye care services: improving services for customers with color vision and low vision problems; offering perfect fitting services that require highly skilled technicians; expanding the number of subscribers to the Hyper guarantee insurance; and growing the home visit service, which saw a steady increase in the number of visits and sales (up 2.1x in 1H). These trends show growing awareness of its eye care services among consumers. The company also offers a paid eye care relaxation service at some stores, developed under the supervision of doctors/specialists, charging JPY1,000–3,000 for 10 minutes. These services are offered at both next-generation and conventional stores. The company is training employees to provide the service, adding 40 stores per month that offer the service, with a target of all stores by summer 2018.

Medium-term management plan

(JPYmn)		FY04/17 Cons.	FY04/18 Init. Est.	FY04/19 Target	FY04/20 Target	FY04/21 Target
Sales		17,892	20,630	23,030	25,620	28,670
	YoY	13.9%	15.3%	11.6%	11.2%	11.9%
Gross profit		11,778	13,428	14,850	16,363	18,087
	YoY	10.0%	14.0%	10.6%	10.2%	10.5%
	GPM	65.8%	65.1%	64.5%	63.9%	63.1%
SG&A expenses		11,355	12,728	13,720	14,763	15,857
	YoY	11.5%	12.1%	7.8%	7.6%	7.4%
	SG&A ratio	63.5%	61.7%	59.6%	57.6%	55.3%
Operating profit		423	700	1,130	1,600	2,230
	YoY	-19.2%	65.6%	61.4%	41.6%	39.4%
	OPM	2.4%	3.4%	4.9%	6.2%	7.8%
Recurring profit		337	600	1,030	1,500	2,130
	YoY	-20.2%	78.3%	71.7%	45.6%	42.0%
	RPM	1.9%	2.9%	4.5%	5.9%	7.4%
Net income		111	230	640	1,040	1,630
	YoY	-57.6%	107.7%	178.3%	62.5%	56.7%
	Net margin	0.6%	1.1%	2.8%	4.1%	5.7%
EBITDA		869	1,258	1,684	2,168	2,795
	YoY		44.8%	33.9%	28.7%	28.9%
	EBITDA margin	4.9%	6.1%	7.3%	8.5%	9.7%

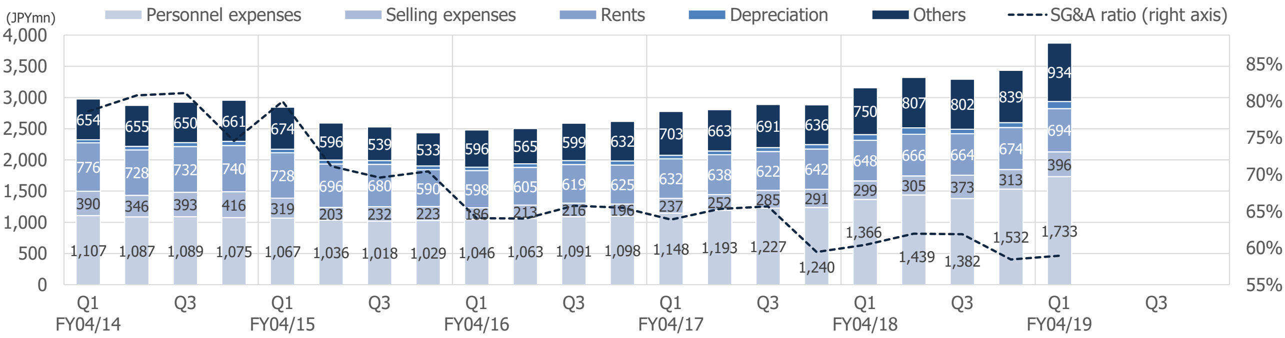
Key performance indicators (JPYmn)		FY04/17 Cons.	FY04/18 Init. Est.	FY04/19 Target	FY04/20 Target	FY04/21 Target
Meganesuper						
Comp. store sales YoY	Glasses	-1.1%	4.5%	4.0%	4.0%	4.0%
	Contact lenses	29.6%	16.5%	10.0%	10.0%	10.0%
	Hearing aids	0.5%	12.2%	4.0%	4.0%	4.0%
Store plans	Openings	19	12	12	12	12
	Relocation	7	6	6	6	6
Megane House						
Comp. store sales YoY	Glasses			5.0%	4.0%	4.0%
	Contact lenses			13.0%	15.0%	15.0%
	Hearing aids			4.0%	4.0%	4.0%

Enhanlabo (JPYmn)		FY04/17 Cons.	FY04/18 Init. Est.	FY04/19 Target	FY04/20 Target	FY04/21 Target
Sales			38	296	586	1,172
Operating profit			-10	55	162	402
	OPM		-26.3%	18.6%	27.6%	34.3%

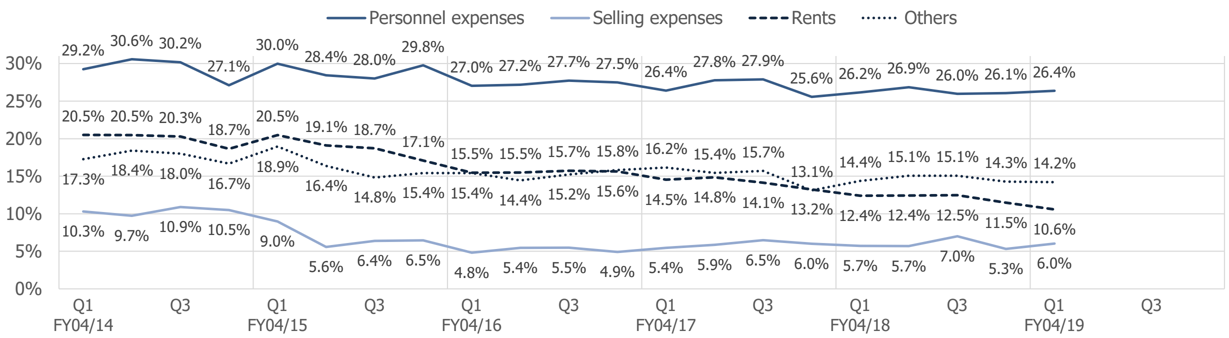
Source: Shared Research based on company data

Reference

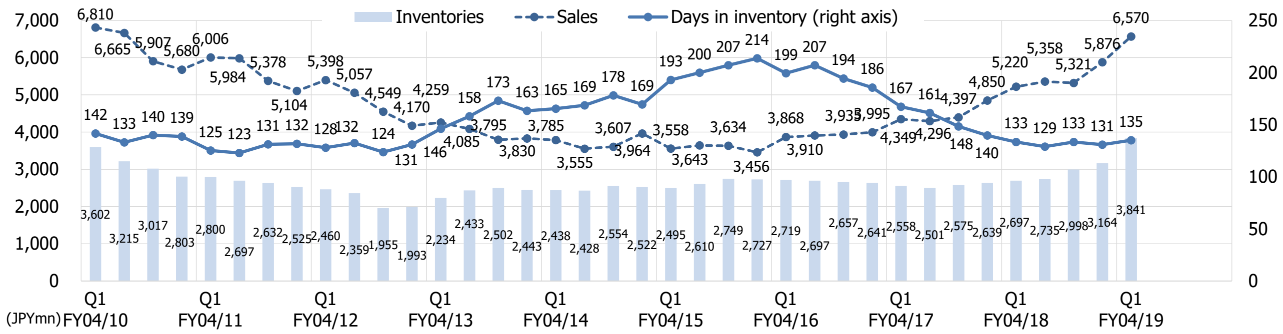
SG&A expenses and YoY change



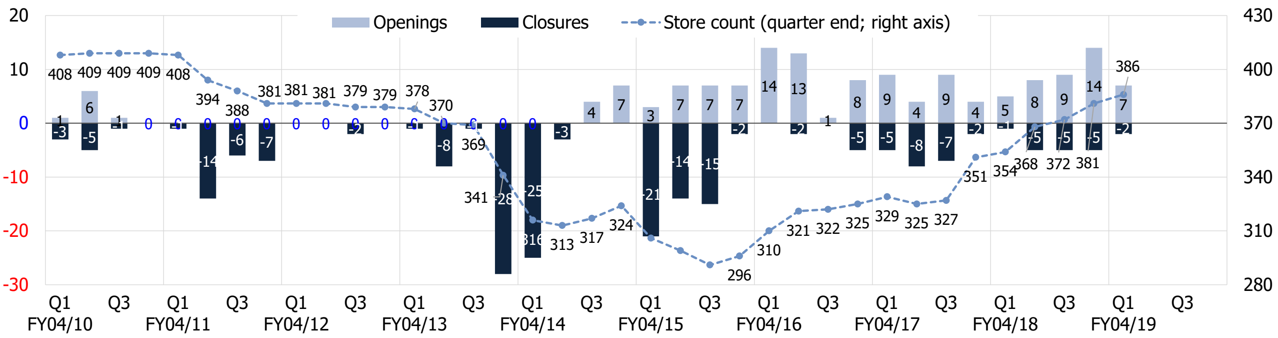
SG&A expenses ratio



Quarterly sales, inventory, inventory turnover (JPYmn, days)



Store openings, store closings, and store count as of quarter-end



Source: Shared Research based on company data
Note: From FY04/18, figures are consolidated figures that include Megane House and others.

This note is the most recent addition to the full report.

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