



Opinion on the Tender Offer for Descente Shares by Itochu

Announcement Regarding Expression of Opinion Opposing the Tender Offer for Descente Shares by BS Investment Corporation

This is an English translation of the original Japanese-language “Opinion on the Tender Offer for Descente Shares by Itochu” dated February 7, 2019 and is provided for reference purposes only. Readers are advised that the Company does not guarantee the accuracy of the content contained in this report. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.

February 7, 2019

DESCENTE LTD.

- 1. Executive Summary**
- 2. Current Situation of the Company**
- 3. Descente's High Reputation from Market and Shareholders**
- 4. Problems with Itochu's Proposal**
- 5. Composition of Board of Directors to be Proposed**

- 1. Executive Summary**
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Performance and Evaluation under Current Management

- Operating results steadily expanded since current President took over the position in June 2013.
 - Projected sales and ordinary income of FY2018 ⁽¹⁾ increased approximately 1.6 times and 1.8 times, respectively, compared with those before assuming office
 - Building a business base that does not rely on licensing business by expanding the in-house brands such as DESCENTE brand
 - Implement and consider measures to further enhance corporate value, such as business expansion in the Europe and Americas and business tie-ups with other companies
- As a result, our current management is highly acclaimed by shareholders and the capital market.
 - Since current President took over the position, stock price and shareholder returns have outperformed the benchmark of the market as a whole, increasing corporate value.
 - At the General Meeting of Shareholders, the Board of Directors was elected with a very high approval rating.

Opinion on the Tender Offer by Itochu

- A tender offer by Itochu will not contribute to the corporate value of the Company and the common interests of shareholders, but is likely to harm them.
 - Although a certain premium to the share price is offered, it sets an upper limit on the number of shares planned to be purchased and only a limited number of shares are guaranteed to be sold at the tender offer price. In reality, however, this means that Itochu effectively acquires control of the Company with minimum funds and imposes on other shareholders the management risks of the Company operated by Itochu.
- In addition, there are many material factual errors and misleading statements in the Tender Offer Notification by Itochu, and the Tender Offer is made based on improper disclosure of information and regarded unfaithful.
- All four outside directors and corporate auditors expressed their opposition to the Tender Offer as well.

We express our opinion opposing the tender offer by Itochu.
If you are a shareholder, we ask not to tender your shares in the Tender Offer.

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History of the Company



1935

1960

1970

1980

1990

2000

2010

2020

February, 1935

"Tsuruya", the predecessor of DESCENTE, was founded by Takeo Ishimoto.

1957

The brand "DESCENTE" was launched.



February, 1958

The company was reorganized to "Ishimoto Shoten Co., Ltd.", specializing in the manufacture and sale of sportswear.

September, 1961

The company changed its name to DESCENTE LTD.

1964

The "Munsingwear" brand was launched. (Trademark rights for Japan and other Asian countries obtained in 1984)



1977

The "arena" brand was launched. (Trademark rights for Japan and other Asian countries obtained in 1990)



April, 1979

"THE DESCENTE AND ISHIMOTO MEMORIAL FOUNDATION FOR THE PROMOTION OF SPORTS SCIENCE" was established

March, 1980

The company was listed on the First Section of the Tokyo Stock Exchange.

1980

The "le coq sportif" brand was launched in Japan. (Trademark rights for Japan and other Asian countries obtained in 1990)



1984

Due to an excessive inventory of 'Munsingwear', in the year ended July 1984, we posted an ordinary loss of JPY14 billion.

January, 1998

Construction of the new Tokyo Office building, located in Toshima-ku, Tokyo, was completed.

December, 1998

License Agreement with Adidas was terminated.

1999

The "umbro" brand was launched in Japan. (Trademark right for Japan obtained in 1999, for South Korea in 2013)



February 2004

LE COQ SPORTIF (NINGBO) CO., LTD. was established.

May, 2005

"Descente Health Management Research Center", specializing in providing preventive care services, was established.

March, 2012

Construction of the new Osaka Office building, located in Tennoji-ku, Osaka City, was completed.

2012

The "SKINS" brand was launched in Japan. (Trademark rights for Japan and other Asian countries obtained in 2012)



August, 2015

Acquired the inov-8 Group.

July, 2016

DESCENTE (CHINA) CO., LTD. was established.

September, 2016

DESCENTE JAPAN LTD. was established.

October, 2016

ARENA (SHANGHAI) INDUSTRIAL CO., LTD. was established.

April, 2017

A new Group structure was launched with DESCENTE LTD. as the global headquarters.

June, 2017

ARENA KOREA LTD. was established.

March, 2018

DESCENTE ATHLETIC AMERICAS INC. was established.

July, 2018

"DISC Osaka", a sports apparel research and development center, opened.

August, 2018

Concluded a comprehensive business alliance agreement with WACOAL HOLDINGS CORP. aiming to build strategic partnership and create new value.



October, 2018

"DISC Busan" a sports footwear research and development center, opened.

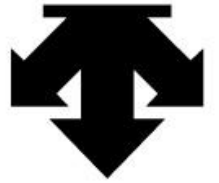
Brand Lineup and Areas



We have 14 brands of our owned and licensed, covering athletic, golf and outdoor categories.

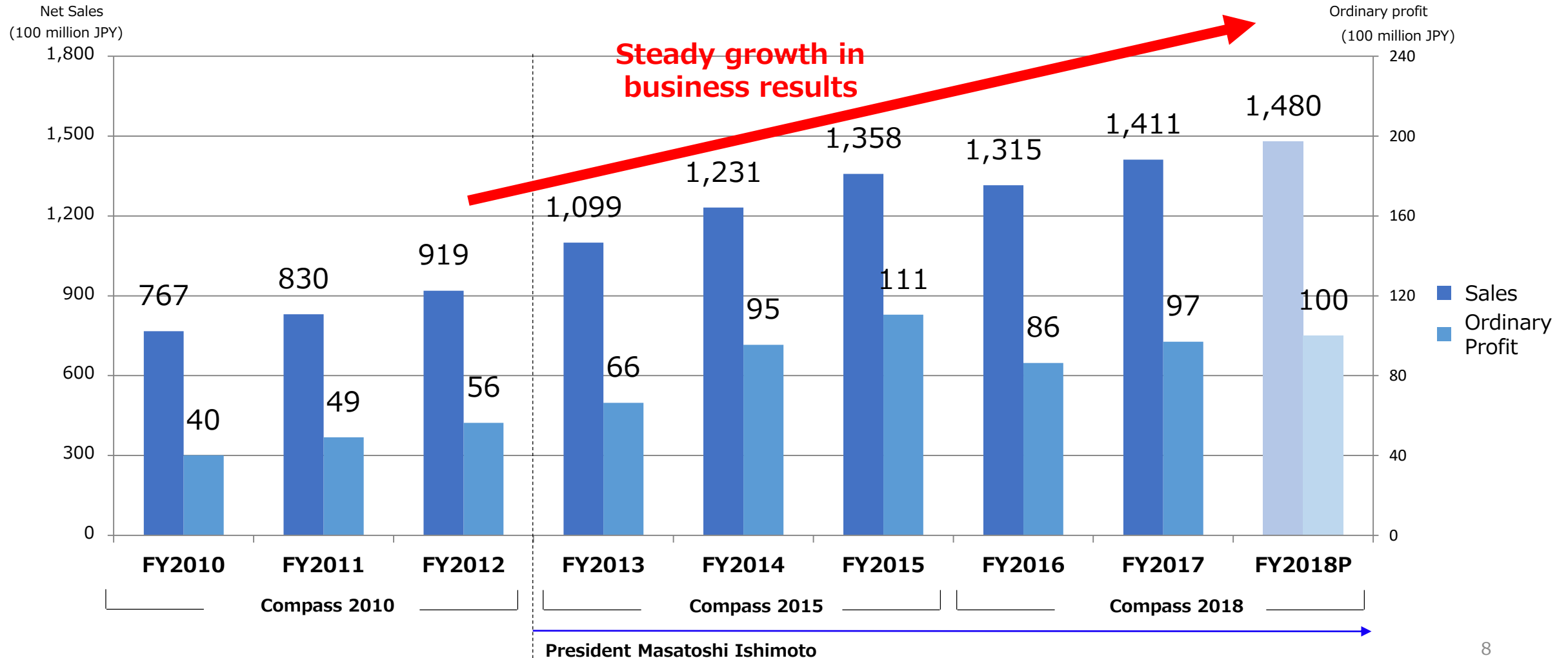
		Owned Brands							Licensed Brands								
Brand																	
Category (1)		Athletic	Athletic	Athletic		Athletic	Athletic	Athletic	Athletic	Athletic				Athletic			
		Golf		Golf	Golf						Golf	Golf			Golf		
		Outdoor											Outdoor				
Territory		No Territory Limitaion			Limited Territory				Japan Only								
Holding Area	Japan		●	●	●	●	●	●	●	●	●	●	●	●	●	●	
	Asia	South Korea	●	●	●	●	●	●	●								
		China	●	●	●	●	●		●								
		Other Asia	●	●	●	●	●										
	Europe		●	●													
	Americas		●	●													

Note: (1) Sportswear and related products other than golf and outdoor category are classified into athletic category.



Steady Performance (1): Sales and ordinary income both increased steadily after the inauguration of the current president

Under the leadership of current management, we achieved steady growth in earnings. Sales estimate of FY2018 increases approximately 1.6 times and ordinary profit increases approximately 1.8 times compared to FY2012.



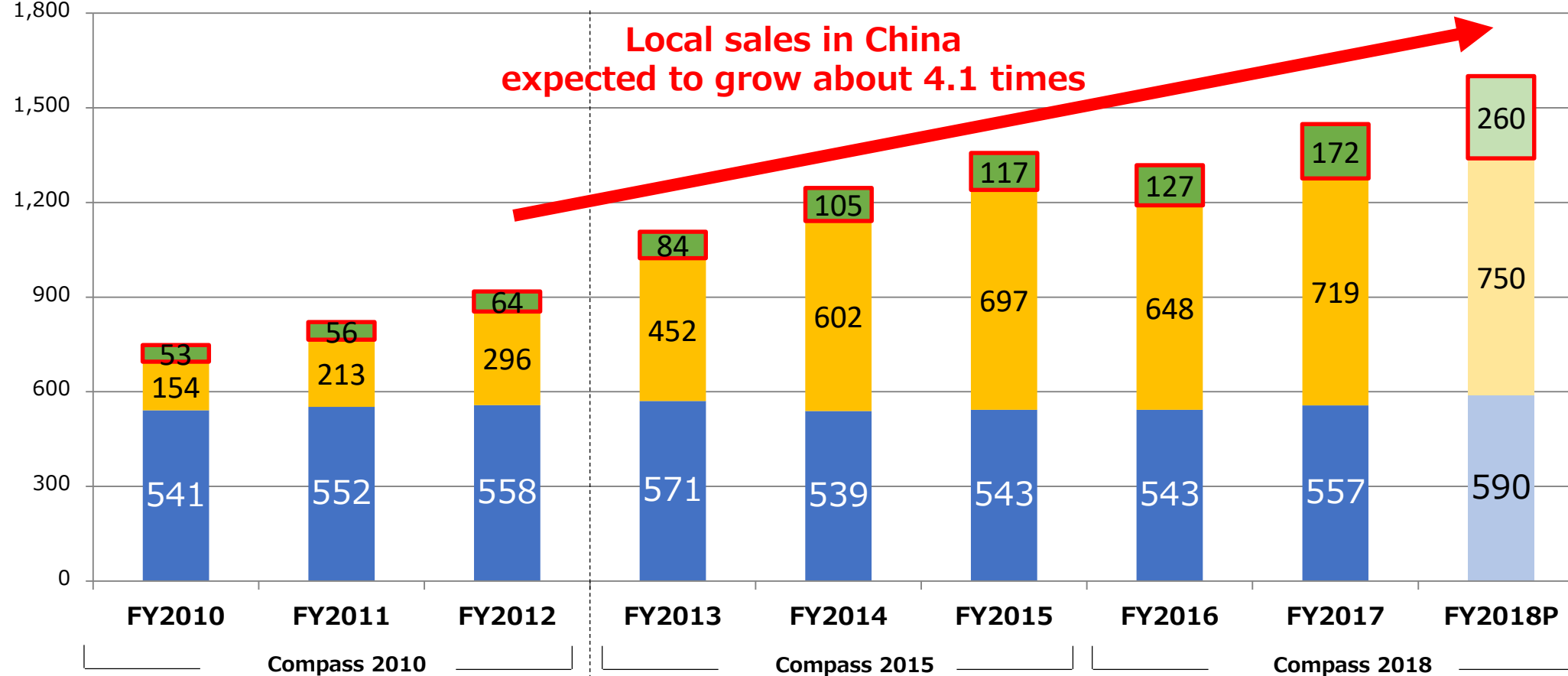
Steady Performance (2): Progress in Regional Diversification with China becoming the Third Pillar



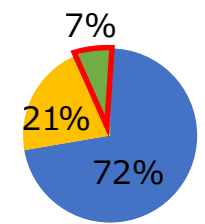
China Business steadily expanded, centering on joint ventures. Well balanced regional portfolio realized by steady China growth as the third pillar following Japan and Korea.

Sales in Japan, Korea and China (1)

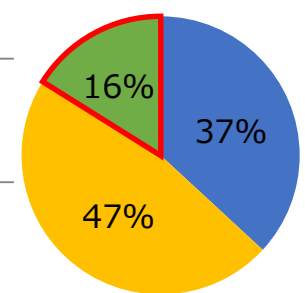
(100 million JPY)



FY 2010 (1)



FY 2018 P (1)



- China
- Korea
- Japan

Note:(1) Including local sales of equity-method affiliates. China includes Hong Kong

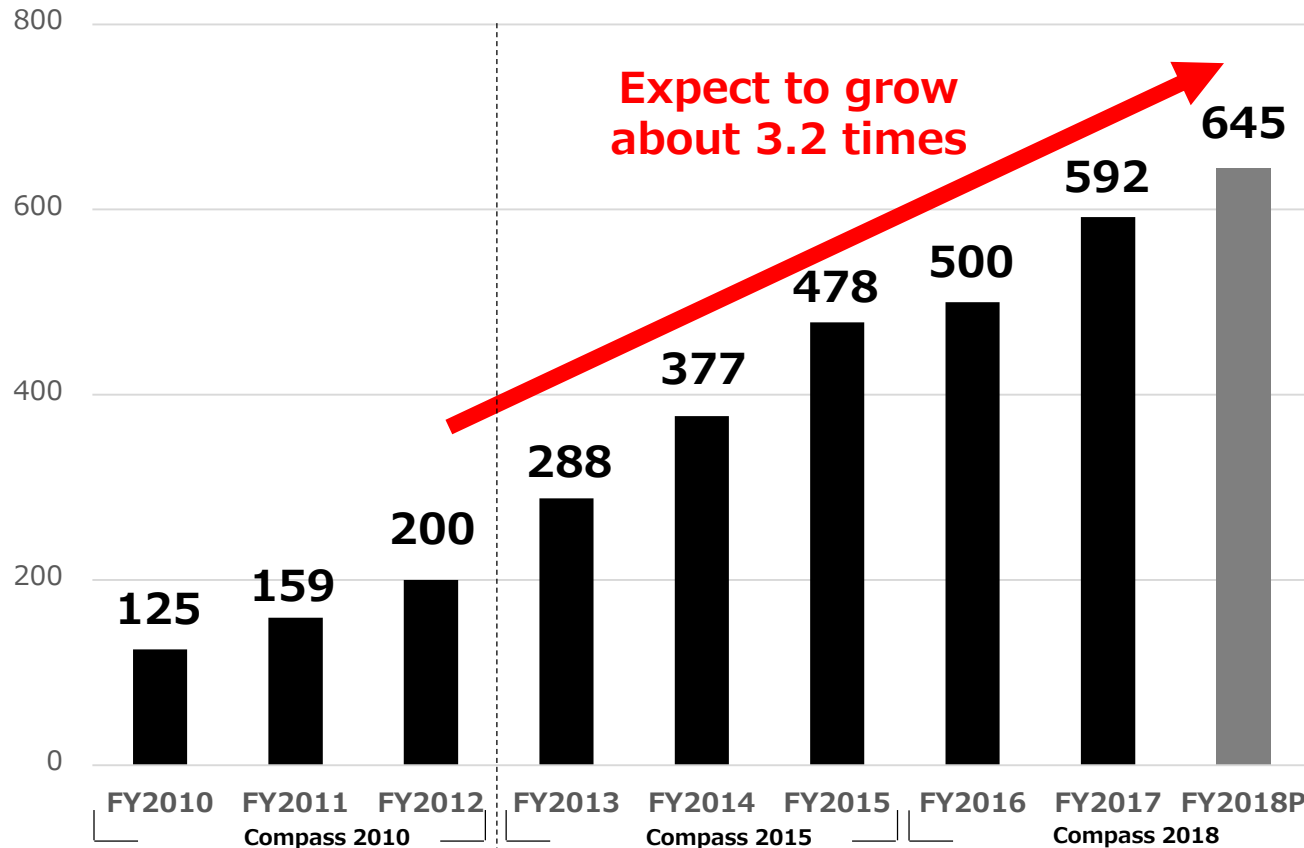
Steady Performance (3): Brand portfolio without dependence on insecure licensee business



“DESCENTE” spearheaded growth and our owned brands accounted for approximately 90% of consolidated sales.

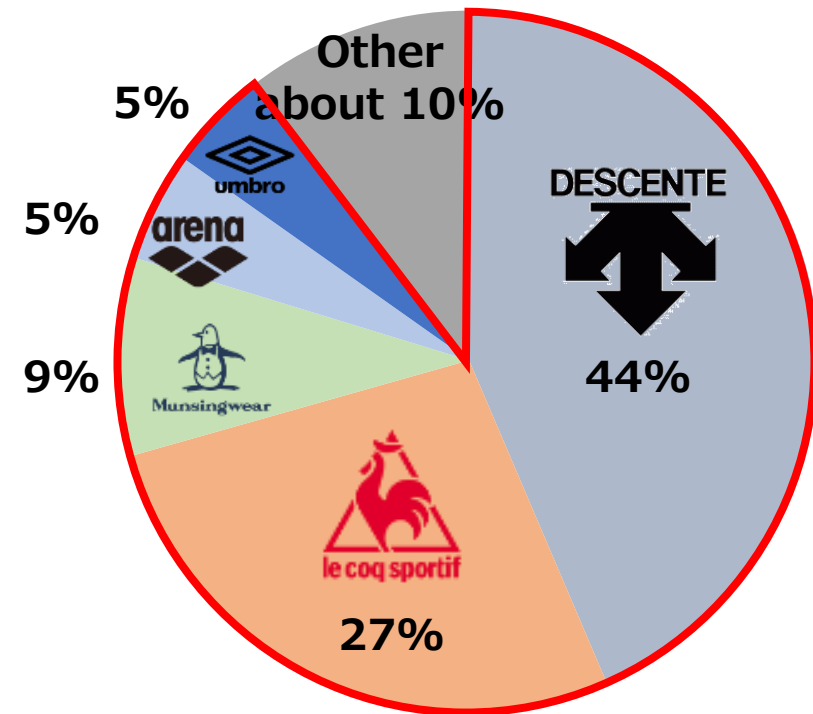
Sales of DESCENTE Brand

(100 million JPY)



President Masatoshi Ishimoto

Five Major Brands (incl. Limited Territory): about 90%



FY 2018 P
Net sales of JPY148 billion

Steady Performance (4): Implementation and consideration of measures to further enhance corporate value



In order to continue to provide society with the unique value of "To bring the enjoyment of sports to all" and to further enhance our corporate value, we will implement and consider measures such as business expansion in Europe/Americas markets and business tie-ups with other companies.

1 Area Strategy



Fostering the Fourth Pillar (Europe and Americas/ Southeast Asia)



2 Brand Strategy



Promotion of Global Marketing



3 Product Strategy



"Power of Craftsmanship in Manufacturing" of Apparel and Footwear



4 Innovation



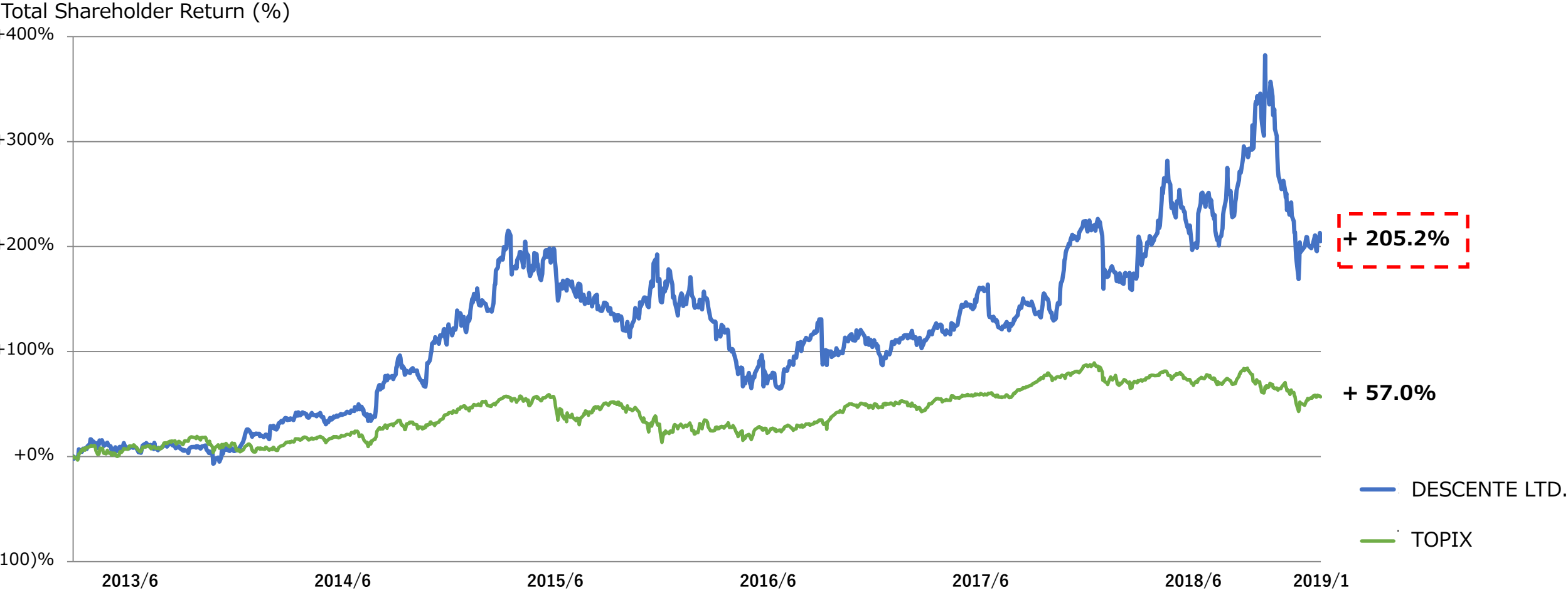
Innovation through alliance with wide variety of partners

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Since the current president taking office, we have achieved returns that far exceed those of the entire stock market.

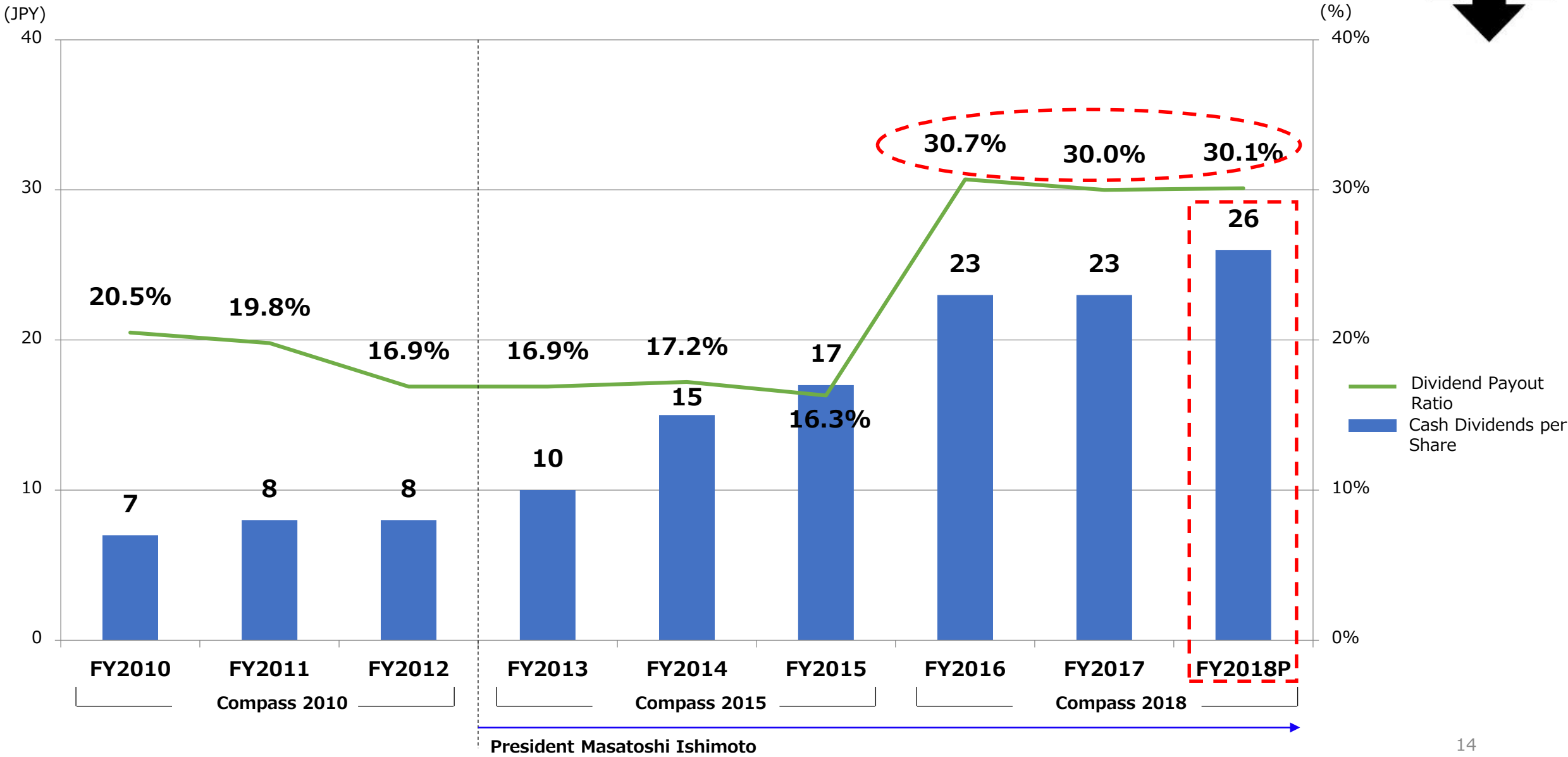


Since the current president taking office, the Company's total shareholder return ⁽¹⁾ has been well above the benchmark for overall stock market in Japan, and has exceeded + 200% ⁽²⁾.



Source: Capital IQ
Note: (1) Total investment return for shareholders, including capital gains and dividends
(2) June 19, 2013 to January 30, 2019

Projected FY2018 dividend per share is record high/stable dividend payout ratio maintained



The Company's Board Members Elected by High Approval Rate at Shareholders Meetings



Directors excluding those who had worked/are working at Itochu

#	Name	Job Title	Approval Rate ⁽¹⁾	Outside Director	ISS Recommendation ⁽²⁾	GL Recommendation ⁽²⁾
1	 Masatoshi Ishimoto	President and Representative Director	96.94%		For	For
2	 Yoshikazu Tanaka	Director, Senior Managing Executive Officer Chief Product Officer (CPO)	97.23%		For	For
3	 Hisashi Mitsui	Director, Managing Executive Officer	97.23%		For	For
4	 Hitoshi Haneda	Director, Managing Executive Officer Chief Strategy Officer (CSO)	97.23%		For	For
5	 Kenichi Tsujimoto	Director, Managing Executive Officer Chief Financial Officer (CFO)	97.23%		For	For
6	 Hoon-do Kim	Director, Managing Executive Officer	97.23%		For	For
7	 Masako Ii	Director	97.45%	✓	For	For
8	 Ungyong Shu	Director	97.45%	✓	For	For

Note: (1) Refer to the approval ratio at the Ordinary General Meeting of Shareholders held on June 21, 2018.

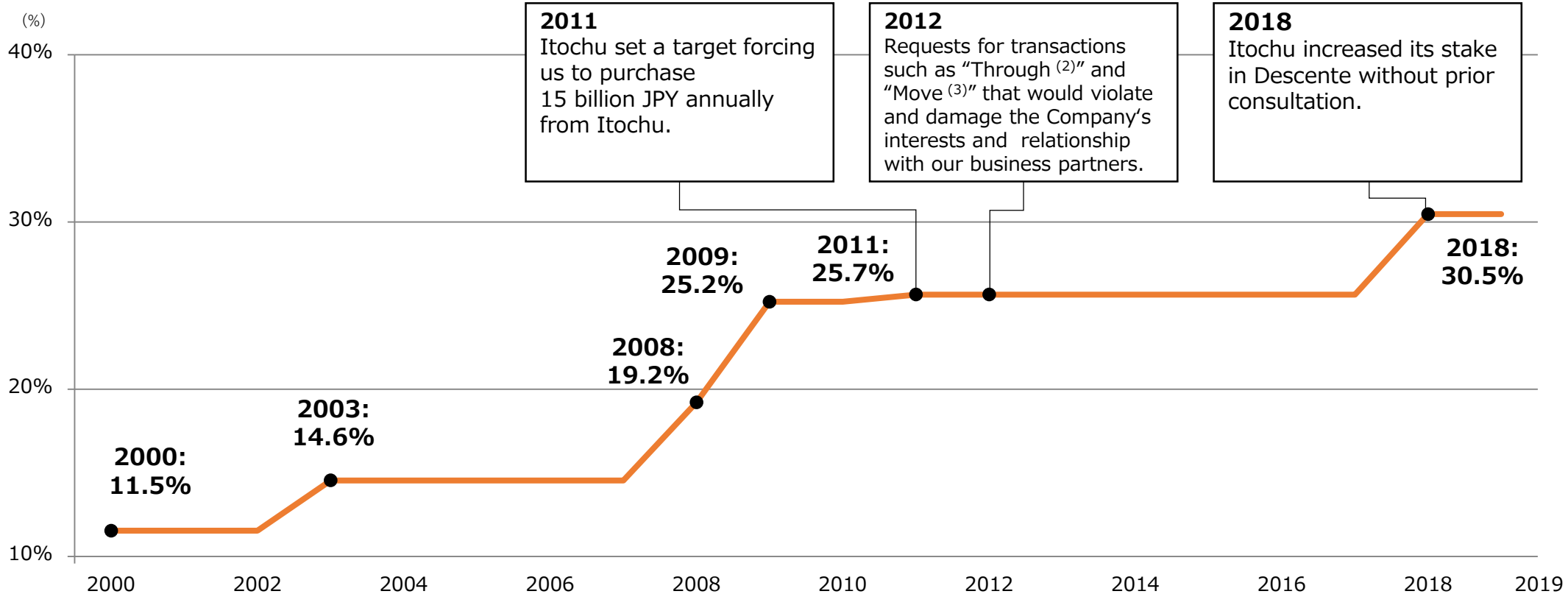
(2) Advices by ISS/Glass Lewis, Proxy Advisory Companies on the Election of Directors at the Ordinary General Meeting of Shareholders on June 21, 2018

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Past Developments to Date

In the past, expansion of purchase from Itochu had been forced in accordance with increase of the equity held by Itochu. There are concerns that the management system and policies giving priority to the interests of Itochu, which do not respect the common interests of its shareholders, will be imposed on the Company after the consummation of the Tender Offer.

Itochu's Equity in the Company ⁽¹⁾ (Since 2000)



Note: (1) Calculation is based on the number of issued shares after deducting treasury stock and shares less than one unit. The number of shares in each year are referred from the actual value in the most recent fiscal year as of the submission dates of the Report of Possession of Large Volume/Change Report.
 (2) Through: Transactions that Itochu cut in to purchase transactions between suppliers and us; Itochu purchase from suppliers and sell to us on the slip.
 (3) Transfers: Transactions conducted between another trading company and us to be changed to between Itochu and us in lieu of the trading company concerned.

Recent Developments



Itochu had not held any consultations or provided any follow-up information on the planned purchases of the Company shares in the summer and autumn of 2018. After that, in the midst of various discussions between the two companies since the autumn of 2018, the tender offer was launched without any prior notice at the end of January 2019.

Date and Time	Recent Developments (meetings between the Company and Itochu are underlined in bold.)
<u>Before July 2018</u>	<u>Executives of the Company and Itochu held multiple meetings</u>
July 6, 2018	Itochu Submits Change Report, the Company Shares Rises from 25.5% to 26.5% ⁽¹⁾
August 27, 2018	Itochu Submits Change Report, the Company Shares Rises from 26.5% to 28.3% ⁽¹⁾
October 15, 2018	Itochu Submits Change Report, the Company Shares Rises from 28.3% to 30.5% ⁽¹⁾
<u>2018 – December 10</u>	<u>Executives of the Company and Itochu held multiple meetings</u>
January 31, 2019	Suddenly announced that Itochu would conduct a tender offer of up to 40%, without prior consultation with the Company (Launch of the tender offer on the same day)

Major Reasons for Opposing Itochu's Tender Offer (1)

1) The Tender Offer uses Coercive Measures to Cause General Shareholders to Bear the Risk of Itochu's Management of the Company Without Proper Security

- The Tender Offer Price for the Tender Offer is to be the most recent market price plus a certain premium. However, there is a limitation on the number of shares to be purchased in the Tender Offer (9.56%). **Therefore, there is no guarantee that all the shares tendered will be sold at the Tender Offer Price.**
- Consequently, through the Tender Offer, while the shareholders will have the opportunity to sell a limited number of shares for a price that represents a certain premium, after that they will continue to hold the remaining majority of shares and **will bear the risk of ITOCHU's management of the Company as it will have obtained substantial control of the Company.**

2) While the Performance of the Company's Current Management is Regarded Highly, There is a High Possibility That After the Tender Offer the Company Will be Operated so That the Itochu Group's Interests are Prioritized, and the Company's Corporate Value is Damaged

- The Company's management has steadily improved its performance, so that we are proud to be **highly regarded by our shareholders and the capital markets.**
- **There are great concerns of the possibility of the Company's management structure and management policy being changed to prioritize the interests of Itochu** without considering the common interests of the shareholders. (Examples include the possibility that Itochu may coerce procurement transactions, that procurement from diverse routes may become difficult, and that good relationships with employees and business partners may be destroyed. See page 17/21)

Major Reasons for Opposing Itochu's Tender Offer (2)

3) Difficulty of Establishing Corporate Governance System for the Common Interests of the Shareholders after the Tender Offer

- While the Company is maintaining and strengthening its governance structure in consideration of the common interests of shareholders, if Itochu obtains substantial control of the Company through the Tender Offer, it has been concluded that **it is highly likely that the Board of Directors and other supervisory bodies that should carry out the checks and balances function in response to ITOCHU's conflicts of interest will fall into dysfunction.**
- The Company intends to **substantially reinforce the supervisory function of the Board of Directors by reforming the Company's management structure and making the majority of its directors independent outside directors** from the perspective of making the corporate governance system including management supervisory functions more advanced and transparent (see page 27).

4) The Tender Offer is an Insincere Proposal Conducted through Inappropriate Information Disclosure

- The indications by Itochu with respect to the Company's management issues constitute factual errors or misleading statements that distort the facts (see page 22).
- Each of the management measures raised by Itochu has already been implemented by the Company or would have an uncertain effect (see page 23 and 24).

5) The Outside Directors and Outside Statutory Auditors who are independent from Itochu and the Company support the opposing opinion.

- (see page 25)

Risk of restriction in choosing a business partner after completion of Tender Offer



The Company's strength is its ability to respond to the needs of consumers through cooperation with a variety of partners. However, if the degree of freedom in selecting partners is lost through expansion of purchase transactions with Itochu after the completion of the Tender Offer, the Company's corporate value may be impaired.

R & D



- Development of high-performance products to meet the needs of top athletes
- Further strengthen the development capabilities of apparel and shoes using the newly established R & D Center "DISC" in Japan and South Korea
- Joint development with external research institutions and manufacturers

Product Planning



- Product planning and design systems tailored to the needs of each brand and region

Sourcing



- In-house production system for high-function, short-cycle products
- External manufacturing partners tailored to the needs of each brand and area

Marketing



- Sports marketing such as contracts with top athletes / teams and sponsorship of international competitions
- Global and local marketing
- Customer retention through enhanced CRM

Sales and Marketing



- Expand and strengthen retail and self-managed stores, including directly-managed stores and shop-in-shops
- Sales network through collaboration with overseas partners
- Aggressive investment and expansion in EC

+

Strengthen competitiveness through collaboration and business tie-ups with diverse business partners

Issues raised by Itochu regarding the Company



Each indications is based on factual errors or misleading the facts.

Indications of Itochu	Details of Itochu's comments	Actual situation in the Company
1 Excessive Dependence on the South Korean Business	<ul style="list-style-type: none"> It is estimated the Company excessively depends on the South Korean business and it presumes the Japan business is actually in a state that is close to an operational deficit. 	<ul style="list-style-type: none"> Since the Company spun off DESCENTE JAPAN LTD., which specializes in the Japan business, a system to provide the right items at the right time has been established and business efficiency is improving, and by creating hits with highly value-added products such as Mizusawa Down, <u>the Japan business has significantly improved profitability over the past few years.</u> DESCENTE JAPAN LTD. recorded for the fiscal year ended March 2018, which was the first fiscal year after the spin-off, sales of JPY 50,693 million, <u>ordinary income of JPY 932 million, and net profit of JPY 962 million</u> (after payment of royalties to the Company).
2 Weakness of the Corporate Governance System	<ul style="list-style-type: none"> No sufficient deliberation at the meeting of the Board of Directors when executing a comprehensive business alliance agreement with Wacoal and a possibility that the contents of dialogue between the Company and Itochu were leaked. 	<ul style="list-style-type: none"> <u>The Company sufficiently deliberated on the business alliance with Wacoal after providing lawful and appropriate information to all of the directors at a meeting of the Board of Directors.</u> With respect to a possibility that the contents of dialogue between the Company and Itochu were leaked to a third party, not only is <u>the relevance with the corporate governance system unclear</u>, but in the first place, that indication by Itochu is <u>nothing more than a unilateral assertion based on speculation without any objective grounds.</u>
3 Possibility of the Current Management Disregarding Employees	<ul style="list-style-type: none"> The Company was discussing the privatization of the Company with a certain investment fund, and the Company would bear a large amount of debts as a result of the Privatization, so the current management is disregarding the employees of the Company. 	<ul style="list-style-type: none"> The Company is only conducting a preliminary consideration of the Privatization as part of its consideration of multiple strategic measures aimed at maximizing the Company's corporate value, and it has <u>not reached a stage where it would consider the specific terms of the transaction.</u> Even if the Company were to conduct a transaction such as the Privatization, <u>it would be based on an assumption that the Company would incur debt only to a reasonable extent that could be sufficiently repaid out of the Company's cash flow</u> in light of the Company's financial status. The Company's management <u>places great importance on having a good relationship with its employees</u>, so they can maximize their capabilities to develop, manufacture, and create highly value-added products.

Management Policy after the Completion of Tender Offer by Itochu (1)

Policies which have already been implemented by the Company or whose effects are unclear

Itochu's proposals and specific measures

Details of measures proposed by Itochu

Measures already implemented by the Company

1

a

Improvement of Marketing Operations through Organizational Reform

- Improving the efficiency of product planning operations by reviewing the division of labor and carrying out organizational reforms at the Company and DESCENTE JAPAN LTD. (wholly-owned subsidiary of the Company)

- The Company established DESCENTE JAPAN LTD. in September 2016, and a new system in which the Company is the Global Headquarters was launched in April 2017, and we have already seen [improved efficiency as a result of splitting the group management in the Global Headquarters and the Japan business](#).
- The Company has constantly reviewed matters such as work sharing between the Company and DESCENTE JAPAN LTD., and [efficiency is continuing to improve](#).

b

Conversion from the Current Business Model Mainly Consisting of Wholesaling Centering on Sports Chain Stores and Department Stores

- Further expand sales channels for select shops and SPA and so forth utilising Itochu's network
- Increase profits by strengthening and expanding directly-managed stores including EC, and improve management efficiency by thorough inventory control
- Gain market share from competitors by strengthening product lineups and reviewing pricing at directly-managed stores

- The Company incorporated the promotion of opening directly-managed stores as a measure in the Medium Term Management Plan and has already achieved considerable results such as opening seven "DESCENTE BLANC" stores, lifestyle proposal stores, and been proceeding with a "conversion from the current business model mainly consisting of wholesaling".
- The Company has also already implemented measures related to strengthening EC by, for example, establishing a Digital Marketing Strategy Office that is under the direct control of the President and creating an organization that specializes in EC, and also making EC an important area of cooperation in the comprehensive business alliance with Wacoal.

Reconstruction of Japan Business



Management Policy of Itochu after the completion of Tender Offer (2)

Policies which have already been implemented by the Company or whose effects are unclear

Itochu's proposals and specific measures

Details of measures proposed by Itochu

Measures already implemented by the Company

2

Reinforcing overseas business

c

Strengthen the China Business by Accelerating the Development of the China Market

d

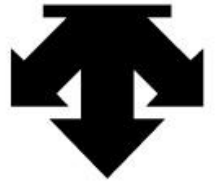
Sustainable growth of the South Korean Business

- Strengthening sales of winter sportswear, which is expected to expand rapidly in the lead-up to the 2022 Beijing Winter Olympics (With more than 20 years of experience in producing winter sportswear, Itochu and the Company are collaborating to promote product development for China.)
- Strengthen the sourcing system by utilizing the ASEAN production base (such as investment in VINATEX and strategic business alliance) of Itochu, which has a global network

- Building an environmentally friendly business model from a medium-to-long term perspective by utilizing the value chain centered on environmentally-friendly raw materials, which Itochu is actively promoting

- **China is becoming the third pillar after South Korea and Japan.**
- With respect to the DESCENTE brand in particular, the number of directly managed stores in China has surpassed 100 stores in around two years since development started, and **the Company has managed to acquire a position in China as a high-value-added sports brand.**
- Even though the Company's China business is centered on equity-method affiliates that are mainly joint ventures and in terms of accounting their sales are not consolidated with the Company, the Company has been able to **incorporate sufficient profits through equity in gains of affiliates, and it is planned that the China business will grow in the future.**

- **The Company has also already been implementing measures** to globally develop an environmentally friendly business model and to actively adopt environmentally friendly technologies and materials.
- The Company plans to continue to further increase its market share by expanding its product categories and targets in South Korea, and **the Company is starting to implement measures aimed at the next stage** by, for example, deploying the knowhow of the South Korea business in other countries.



All outside directors and outside statutory auditors independent from Itochu and the Company support the expression of opposing opinions

- If Itochu acquire a number of shares of the Company equivalent to the maximum number of shares to be purchased through the Tender Offer, Itochu will come to be in a position where it is both a business partner of the Company and a substantial controlling shareholder of the Company at the same time.
- That structure of a potential conflict of interest exists even now, but if Tender Offerors acquire substantial control over the Company as a result of the Tender Offer, the risk of a conflict of interest might be realized.
 - ✓ At the very least, Itochu have not sufficiently shown measures in the Tender Offer to address the concerns regarding the fair and equal treatment of shareholders and conflicts of interests described above, and the Independent Directors and Statutory Auditors are concerned that if Itochu change the management structure of the Company based on its own intentions, the effectiveness of governance of conflicts of interest with Itochu will be lost.
- It is noted that there is nothing particularly new in the measures proposed by Itochu and there is no significant difference from existing measures implemented by the Company.
 - ✓ even though there are major issues that need to be addressed by the Company, it can be said that the measures to improve the Company's corporate value are being evaluated to a certain extent.
- At the very least, it is not possible to find any business or economic reasonableness or necessity to demand a change to the management structure using overbearing and coercive means beyond disciplining the current management, which has achieved the above results.
- There is also an indication in the Tender Offer about the corporate governance of the Company including the background to the business alliance with Wacoal, but it should be noted that appropriate measures have been taken with the involvement of the Independent Directors and Statutory Auditors in light of the impact on both the corporate value of the Company and the common interests of its shareholders.

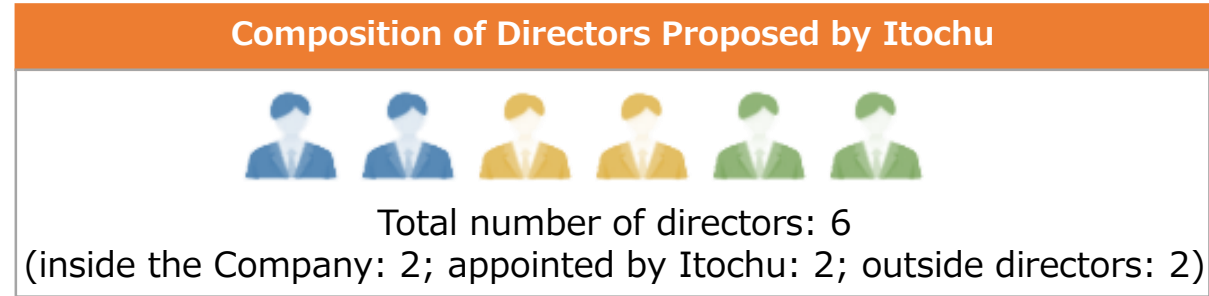
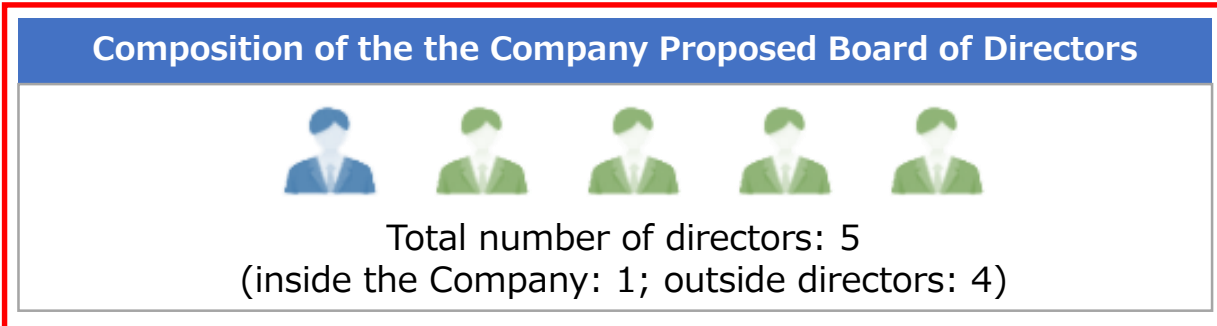
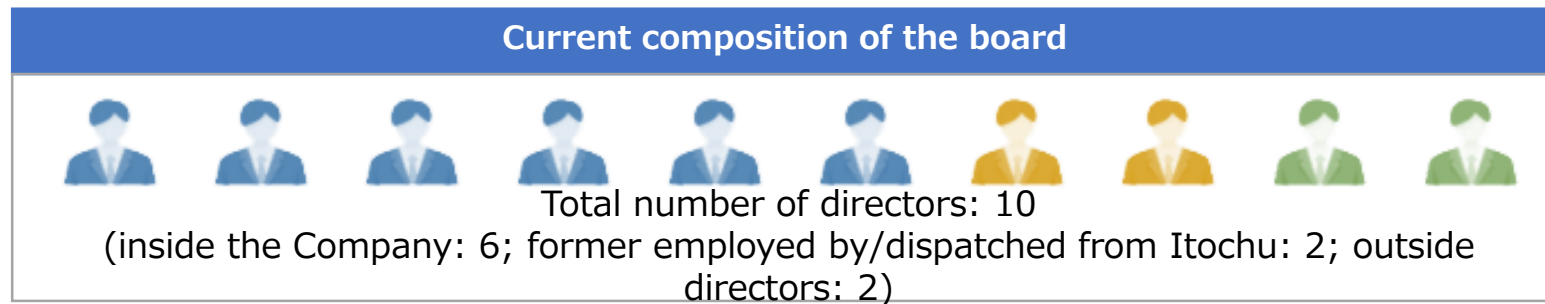
All the Independent Directors and Statutory Auditors judge that it is appropriate from the perspective of the corporate value of the Company and the common interests of its shareholders for the Board of Directors of the Company to express an opinion opposing the Tender Offer

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Further Reformation of the Company's Governance System (to be Proposed at the general meeting of shareholders)



The Company intends to substantially reinforce the supervisory function of the Board of Directors. Reduce the number of directors to five, four of whom are outside directors to shift to a more advanced and transparent governance structure



— Inside the Company Designated by Itochu : Outside Director

We express our opinion opposing the tender offer.

The Tender Offer by Itochu is an attempt to obtain substantial control of the Company for the minimum amount of capital and not only would that not enhance the Company's corporate value or the common interests of its shareholders, but there is significant risk that it would damage them.

To our shareholders:

We ask not to tender your shares in the Tender Offer.