

DESCENTE



Descente Group Midterm Management Plan D-Summit 2021

August 28, 2019

Descente Ltd.

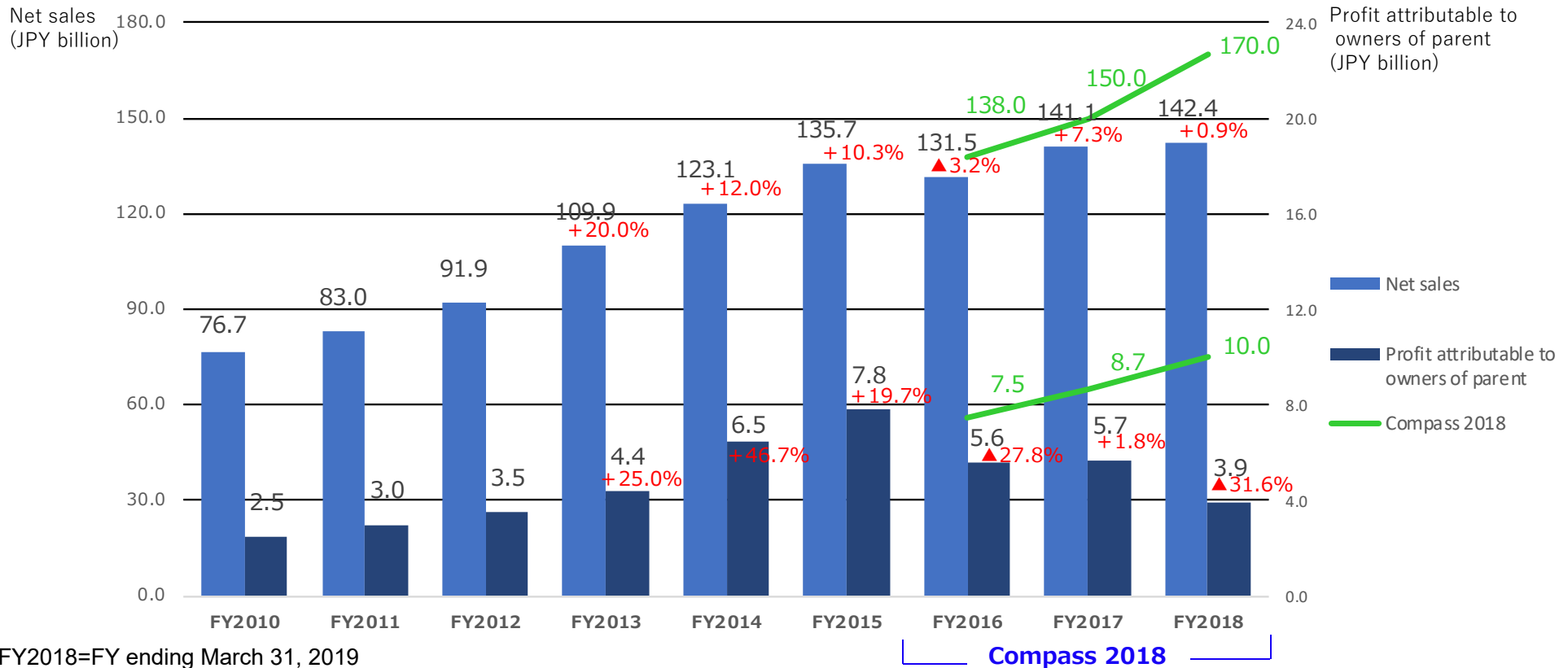


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- 1. Review of the previous midterm management plan**
 2. Environment surrounding the company and our strengths
 3. Next midterm plan D-Summit 2021
 - (1) From a quantitative perspective
 - (2) From a qualitative perspective

1.1. Changes in consolidated net sales and current net income



After peaking in FY 2015 profit growth was not achieved during the previous midterm management plan, Compass 2018.



Note: FY2018=FY ending March 31, 2019

1.2. Factors causing the differences between the results in FY2018 vs. Compass 2018 (Sales)



Sales of Descente and le coq sportif, significant brands in Asia, did not meet expectations. Also, the sales of licensed brands in the Japan market and global sales for inov-8 were weak.

FY2018

Unit : JPY billion

	JAPAN	ASIA	EU/USA	Total
DES	15.8	46.1	1.3	63.3
LCS	14.3	23.9		38.2
MSW	7.5	5.2		12.7
ARN	5.2	1.8		7.0
UMB	5.2	2.0		7.3
Others	11.7	0.0	2.2	13.9
Total	59.7	79.2	3.6	142.4

Compass 2018

Unit : JPY billion

	JAPAN	ASIA	EU/USA	Total
DES	13.5	55.0	1.5	70.0
LCS	14.5	32.5		47.0
MSW	8.9	7.1		16.0
ARN	5.4	2.6		8.0
UMB	6.5	2.5		9.0
Others	15.4	0.1	4.5	20.0
Total	64.2	99.8	6.0	170.0

FY2018 vs Compass 2018

Unit : JPY billion

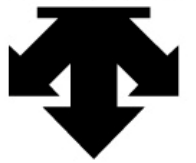
	JAPAN	ASIA	EU/USA	Total
DES	2.3	-8.9	-0.2	-6.7
LCS	-0.2	-8.6		-8.8
MSW	-1.4	-1.9		-3.3
ARN	-0.2	-0.8		-1.0
UMB	-1.3	-0.5		-1.7
Others	-3.7	-0.1	-2.3	-6.1
Total	-4.5	-20.6	-2.4	-27.6

Note: FY2018=FY ending March 31, 2019

1.3. Compass 2018 Review of the key strategies



Key items	Achievements and issues
I. Develop consistent brand strategies at a global level	<p>Reviewed and organized global marketing rules and brand manuals for each brand. →Define global and local function allocation and continue reviewing and organizing operations related to reinvestment in brands.</p>
II. Enhance the source of our competitive strength and manufacturing capabilities	<p>Set up R&D centers in Japan (apparel) and Korea (shoes) Expanded our own factories, Mizusawa factory, and Yoshino factory. →Develop and launch high functional products and develop SCM that includes external suppliers</p>
III. Promote launch of directly managed stores and independent management stores .	<p>Made domestic sales staff regular employees and controlled inventory based on sell through. →Upgrade IT to increase E-Commerce sales and focus on profitability in directly-managed store business.</p>
IV. Develop management infrastructures and logistics system that support global business growth.	<p>Started introducing global headquarters systems in line with the reorganization of the group. Set up JVs between Anta and Descente and Symphony and Arena in China and Dongin and Arena in Korea. →Improve the efficiency of procurement related operations and realize cost reductions.</p>
V. Increase organizational power by developing individual capabilities.	<p>Promoted preparation to establish personnel grade and review evaluations and compensation systems based on corporate founding principles →Develop global resources to succeed on the global stage and prepare to accept overseas employees.</p>



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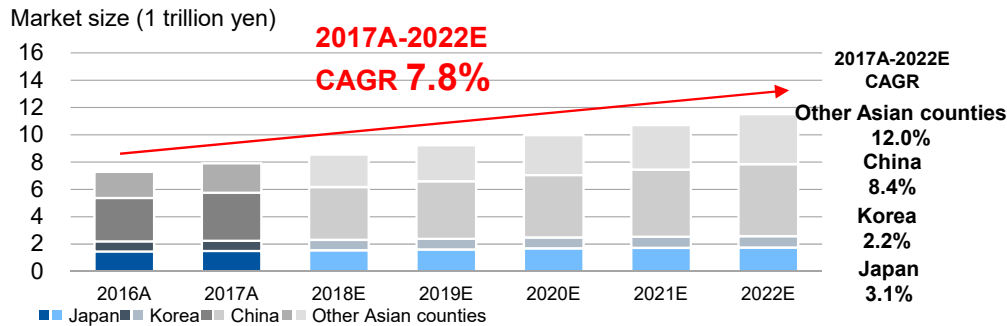
2.1. Changes in sportswear market size by region



Growth rates are high in China and Southeast Asia. The Asian market is expected to become larger than the European market.

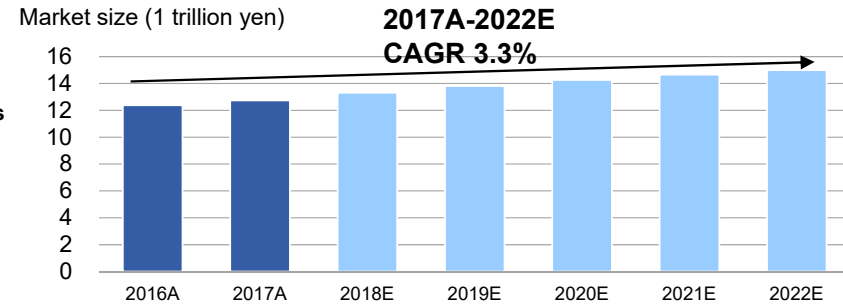
Asia

Growth rate is expected to be about 8% a year led by China.



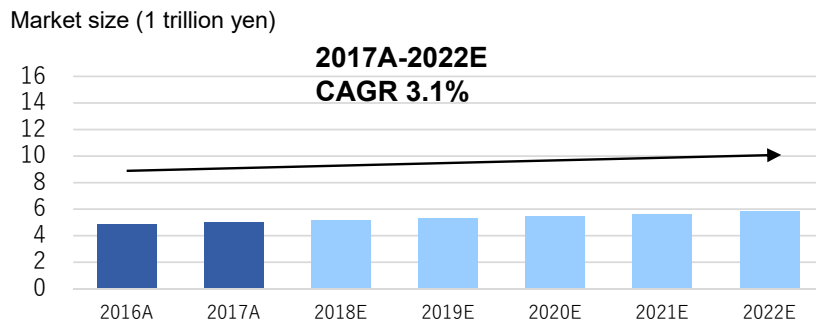
North America

Growth rate is expected to be about 3% a year.



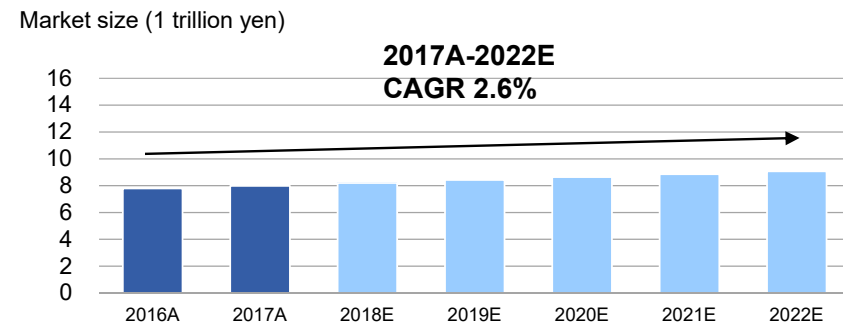
Others

Growth rate is expected to be about 3% a year.



Europe

Growth rate is expected to be about 3% a year.



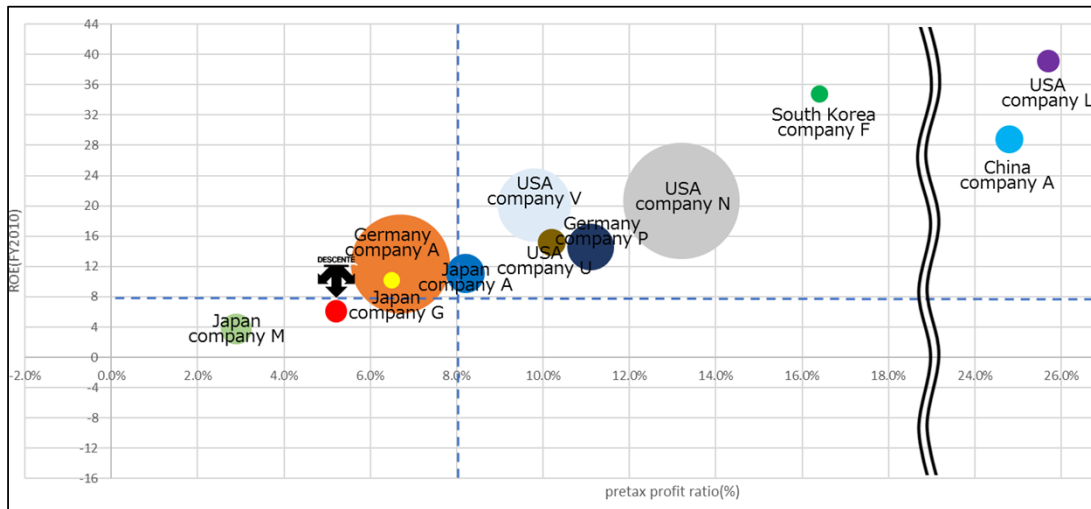
2.2. Global Industry Competition



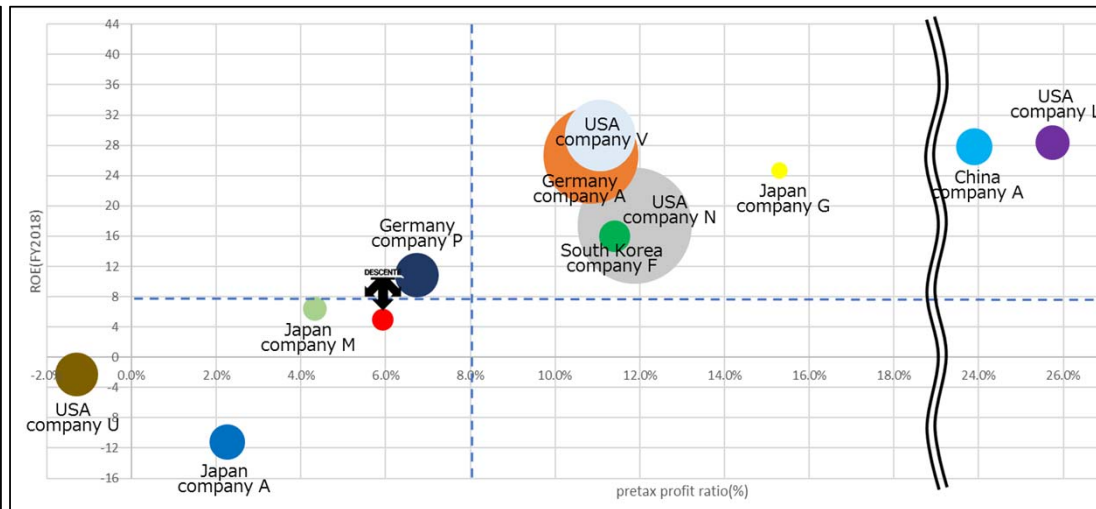
Top tier companies (with more than 8% pretax profit ratio and more than 8% ROE) have established their earning base with high profit margins by focusing on directly managed stores in home markets.

Competition status (Sales=area of circle, Pretax profit ratio = horizontal axis, ROE = vertical axis)

(FY 2010)



(FY 2018)



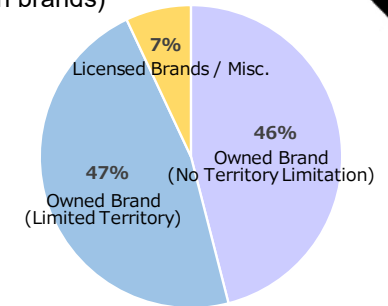
2.3. Our Strengths



▼ High sales percentage with house brands

- Having several house brands ensures a wide range of sports activities and customer segments can be covered.
- Sales of house brands (including brands with limited territory) are more than 90% of total sales

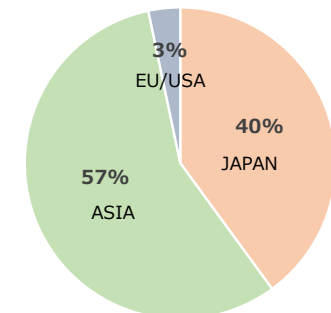
(Sales percentage of our own brands)



▼ High sales percentage outside Japan

- Sales in Asia and elsewhere account for about 60% of turnover.

(Sales percentages by area)



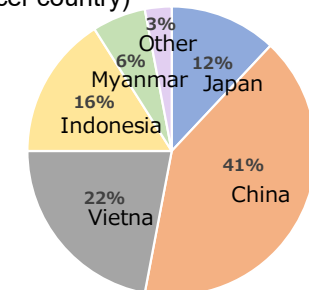
▼ Own 4 factories in Japan

- Excellent capability for manufacturing high value-added products and for quick-delivery.

▼ Growth speed and potential in China market

- 15% of our total consolidated net sales are currently generated in China, which is now established as the third largest pillar after Japan and Korea.
- Sales in China are expected to exceed Japan and Korea in the near future and become our largest market.

(Percentage of production of Japan business as a producer country)





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3.(1).1. Financial plan for the fiscal year ending March 2020 (Consolidated)



Consolidate management resources in the three markets of Japan, Korea, and China.

(Unit: JPY million)	FY2017	FY2018	FY2019	
			Guidance	YoY
Net sales	141,124	142,443	144,000	+1%
Operating income	9,596	7,935	8,000	+1%
(%)	6.8%	5.6%	5.6%	-
Ordinary income	9,698	8,458	8,200	-3%
(%)	6.9%	5.9%	5.7%	-
Profit attributable to owners of parent	5,771	3,944	5,300	+34%
(%)	4.1%	2.8%	3.7%	-

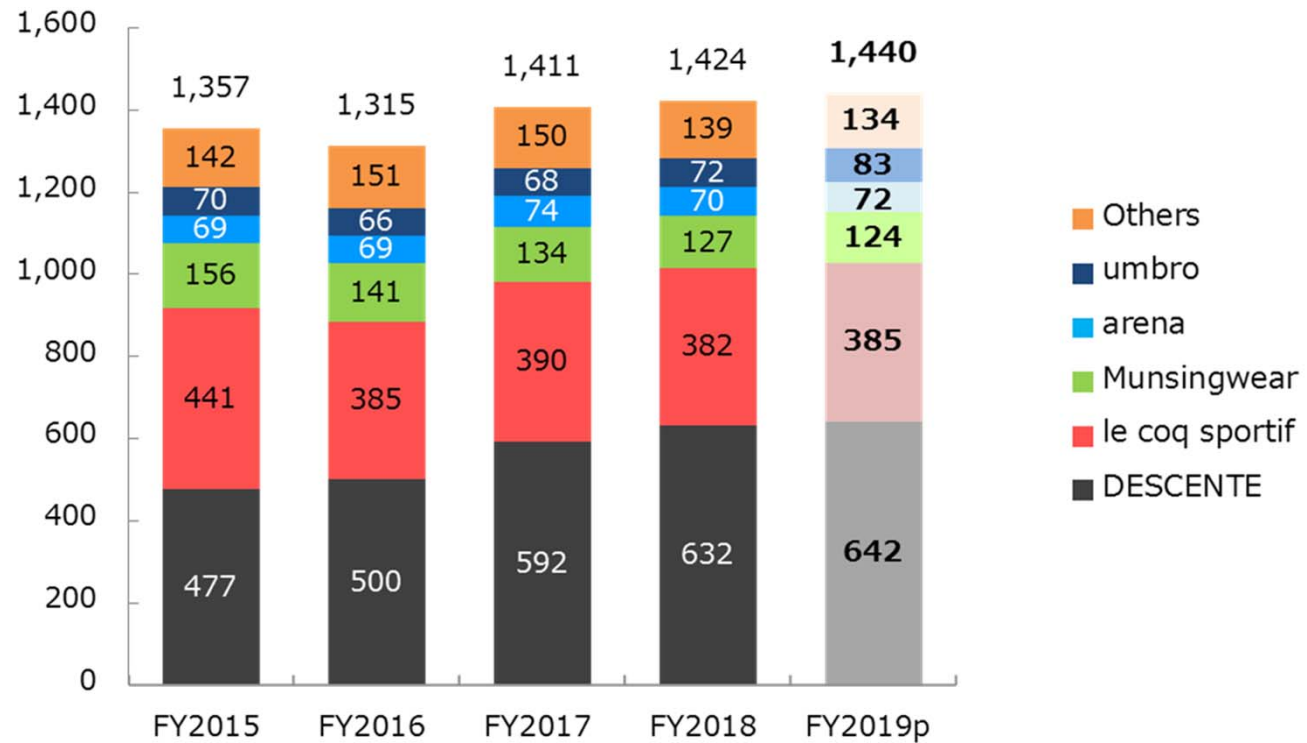
Planned exchange rates: USD 109.80, 100 KEW 9.70, CNY 15.90, HKD 14.00, SGD 80.50, GBP 140.20

3.(1).2. Sales plan by brand in the fiscal year ending March 2020 (Consolidated)



Anticipate an increase in revenue with Descente as the main driver

(Unit: JPY 0.1billion)



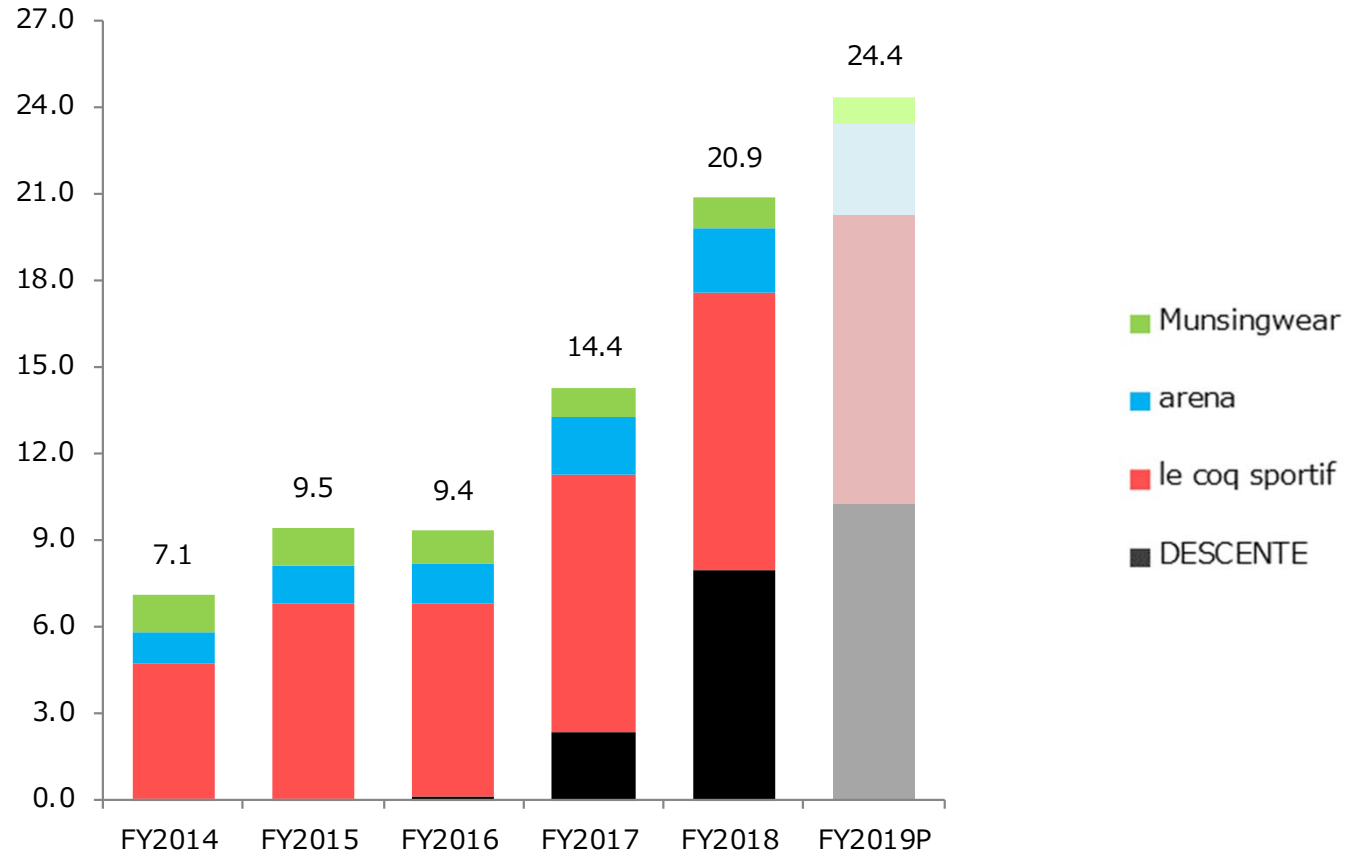
Note: FY2018=FY ending March 31, 2019

3.(1).3. Sales plan in China* (excluding HK, Taiwan, and Macao)



Expand sales significantly with Descente as the main driver

(Unit: JPY billion)



Sales in China*
 = Sales of subsidiaries in China
 + Sales of equity method affiliates in China
 - Sales of subsidiaries in China
 for equity method affiliates in China .

Note: FY2018=FY ending March 31, 2019

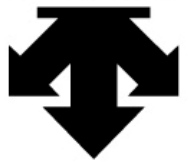
3.(1).4. Dividend and dividend payout ratio



Target stable dividends with a payout ratio of around 30%

(Unit: JPY Million)	FY2015	FY2016	FY2017	FY2018	FY2019 Plan
Dividends	1,280	1,732	1,733	1,960	1,658
Amount/share	JPY17.0	JPY23.0	JPY23.0	JPY26.0	JPY22.0
Profit attributable to owners of parent (Consolidated)	7,870	5,650	5,771	3,944	5,300
Payout ratio	16.3%	30.7%	30.0%	49.7%	31.3%

Note: FY2018=FY ending March 31, 2019



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3.(2).1. Key strategies for the next midterm management plan D-Summit 2021



Implement the following key strategies to continue providing our unique social value, “the enjoyment of playing sports,” and improve our company’s value further.



X



X



3.(2).2. D-Summit 2021 Key strategy I: Enhance our manufacturing capabilities



Started the operations of 2 R&D centers with the aim of enhancing the source of our competitive strength and manufacturing capabilities

DISC Osaka (July 2018~)



DISC Busan (October 2018~)



DISC = Descente Innovation Studio Complex (R&D Center)
DISC Osaka is responsible for R&D for apparel and DISC Busan for shoes

3.(2).3. D-Summit 2021 Key strategy II: Consolidate in Asia



Consolidate resources in Japan, Korea, and China

- **Japan: Profitability improvement and cost reduction**
- **Korea: Sales expansion of the shoe business**
- **China: Enhance engagement with Anta for the Descente brand**



DESCENTE TOKYO
(Japan)



DESCENTE Myeong-dong Flagship Store
(Korea)



Shanghai iapm DESCENTE Store
(China)

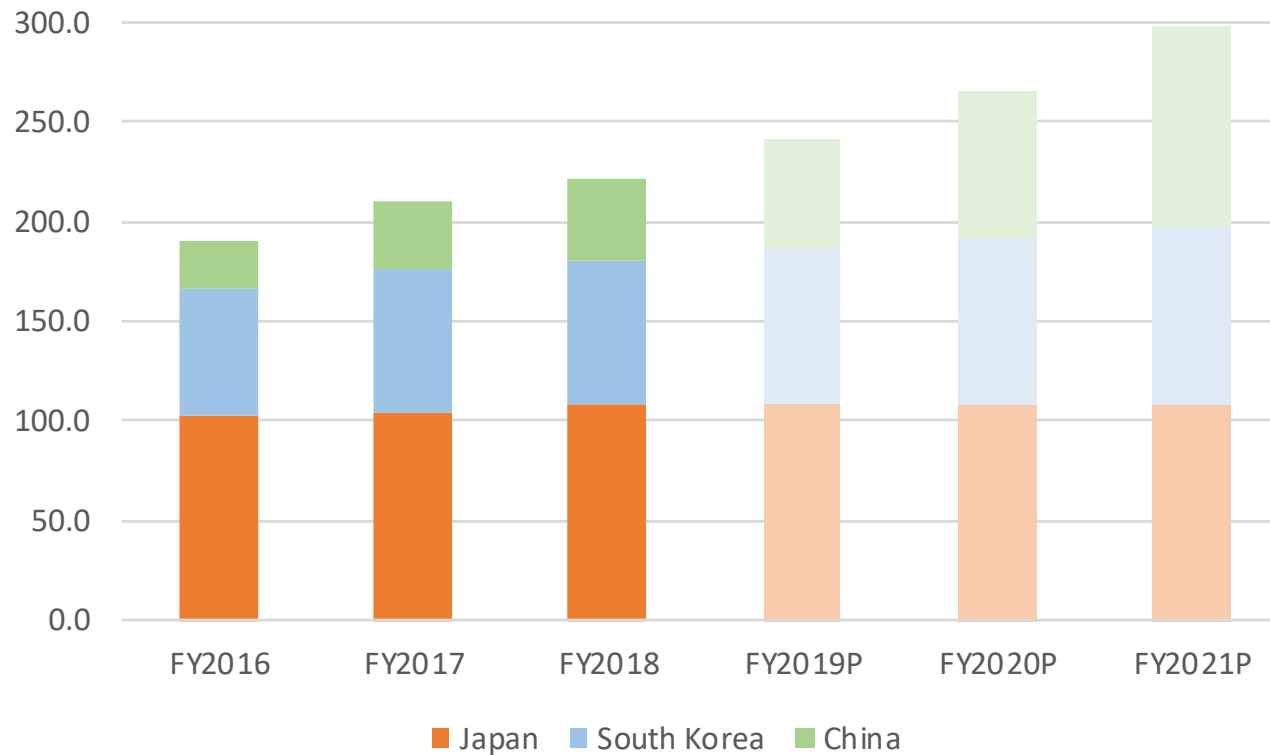
3.(2).4. Retail store* sales transitions in Japan, Korea, and China



Expand local sales in China business and establish a stable earnings base.

Retail store* sales transitions (calculated based on wholesale sales by retail store)

(Unit: JPY billion)



3.(2).5. D-Summit 2021 Key strategy III: Improve profitability of Japan business



- Improve profitability by expanding sales of independently managed stores
- Further expand the sales percentage of e-commerce
- Strategically review expenses by a taskforce under the umbrella of CFO





(Reference) Sustainability Vision

1. Some activities in Japan



We accelerate our challenge to achieve the new sustainability demanded around the world based on our corporate philosophy of providing everyone with the enjoyment of playing sports

- **Healthy Kids' Sports Event**

Descente has held this event every year since 2006 as a social contribution activity to encourage children to experience the pleasure of exercise and competition and to develop the habit of playing sports. Over 37,000 children have participated in the event so far.

- **Sponsor of NPO Japan Blind Marathon Association**

Through donations to the Association Descente contributes to the development of athletic performance and escort runners as the Association prepares for participation in the 2020 Paralympics and organizes competitions with its goal of realizing normalization.

- **Sponsor of Mejiro Road Race**

Descente started sponsoring the Mejiro Road Race to promote the revitalization of the area and interaction with the community when its Tokyo office was relocated to Mejiro in 1998. In recognition of the continuous support on this race, Descente has been certified as a Tokyo Sports Promotion Company for four consecutive years by the Tokyo Sports Promotion Company Certification Program established by Tokyo prefecture in 2015.

- **Sponsor of World Children's Baseball**

Descente sponsors this annual baseball fair initiated by Sadaharu Oh and Hank Aaron to diffuse and promote baseball throughout the world, and at the same time, to widen the circle of friendship and goodwill among children around the world.

2. Examples of activities overseas



Engagements of the Descente Sports Foundation (Korea)

The Descente Sports Foundation has engaged in sports-related non-profit projects since its establishment in 2013, through Move Sport - supporting middle and high-school students in financial need; Move Kids - supporting sports education in schools; Move Sport Park - supporting the establishment of sports facilities, including baseball fields and futsal parks; Move Share - supporting children in financial need with sports education and experiences; and Move Support - providing sports equipment to developing countries. The total contribution as of the last fiscal year was 9.9 billion Korean Won.



Sports facility establishment support project



Sports activity support project for children



Provision of sports equipment to developing countries

3. Engagements for sustainability



Aims for this fiscal year: Identify key issues (materiality) on sustainability from the perspective of environment, society, and governance (ESG).

Engagements so far

[Environment]

- **Recycle operation — make new products from recycled products**

Carry out recycling activities under the Descente brand from 2020 including the collection of goods, mainly products in specific categories.

- **Enhance traceability of down materials**

Acquired Downpass for down materials to be used for Descente brand's Mizusawa Down products from 2020.

- **Environment protection campaign**

Support environment protection campaigns through Save The Penguin under the Munsingwear brand.

[Social]

- **Sports promotion**

Support the establishment of sport facilities and places to enjoy sports and carry out various activities for education and health improvement mainly in Japan and Korea

- **Diversity promotion**

Promote female advancement with the aim of increasing the number of women in management-level positions to 20 and L-grade (candidates for management-level) to 30 by 2020.

[Governance]

- **Board of directors**

One third of the board to be made up of external independent executives

- **Nomination/ Compensation Committees (voluntary committees)**

Voluntary Nomination/ Compensation Committees to be set up consisting of a majority of external independent executives as an advisory body to the board.