

To our shareholders

DESCENTE LTD.

Security code : 8114

INTERIM BUSINESS REPORT 2019

April 1, 2019 - September 30, 2019



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"TU ES NOTRE
MAILLOT"



PRESIDENT'S MESSAGE



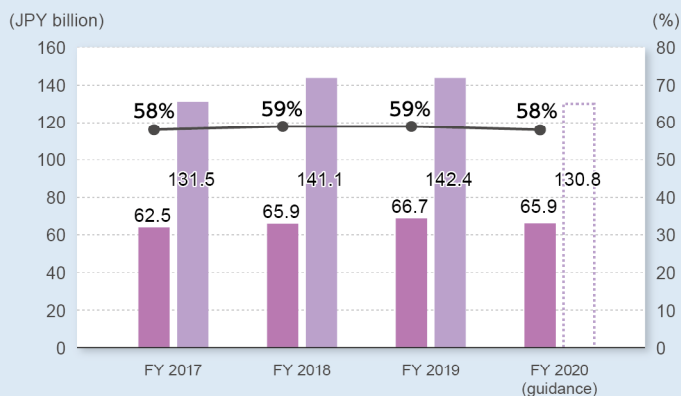
DESCENTE LTD.
President Shuichi Koseki

New medium-term management plan D-Summit 2021 started. We will accelerate business expansion in China.

Tell us about the operating results for FY2019 2Q

In 2Q of the fiscal year ending March 31, 2020 (FY2019), net sales were ¥65,926 million (-1.3% YoY), operating income was ¥2,638 million (-8.2% YoY), ordinary income was ¥2,906 million (-9.7% YoY) and quarterly profit attributable to owners of parent was ¥2,210 million (-3.5% YoY). Compared to the initial plan for FY2019 2Q, both sales and profits exceeded the plan. However, because reporting for the fiscal first half for our South Korea subsidiary covered the period from January to June 2019, these results do not reflect the impact of sluggish sales in South Korea that started in July. DESCENTE's business in South Korea, the market that makes the greatest contribution to management profit, continued to face challenging conditions in July and beyond. Accordingly we have revised our earning forecast. We are unable to predict the timing of recovery, and believe it will be a protracted affair.

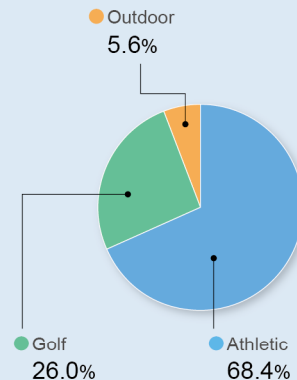
◆ Net Sales Transition and Overseas Sales Ratio



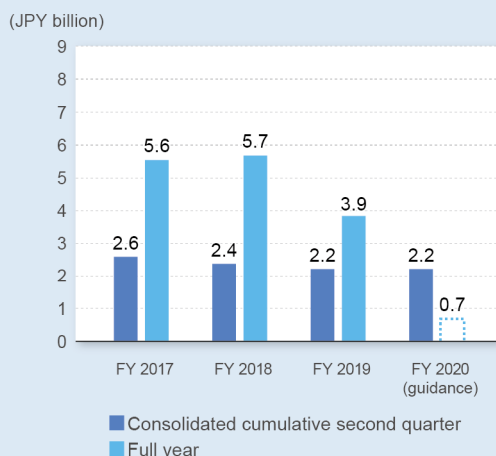
■ Consolidated cumulative second quarter(Left axis) ■ Full year(Left axis)
 ● Overseas Sales Ratio(Right axis)
 *Net sales is based on the location of the customer, and classified according to country and area

◆ Net Sales by Item

(Consolidated cumulative second quarter)



◆ Profit Attributable to Owners of Parent



◆ Full-year Consolidated Earnings Forecast

	FY 2020 (Revised Plan)	FY 2019
Net sales (JPY billion)	130.8	142.4
Operating income (JPY billion)	1.1	7.9
Ordinary income (JPY billion)	1.2	8.4
Profit attributable to owners of parent (JPY billion)	0.7	3.9
EPS (JPY)	9.28	52.31

Five months have passed since you assumed the post of president; what issues do you face, and how do you plan to address them?

At the time our previous medium-term management plan was launched in 2015 (the fiscal year ended March 31, 2016), South Korea was leading DESCENTE's soaring numbers, and our plan called for further business growth and expansion into more global markets, including Europe, Americas, and Southeast Asia. While I was not involved in DESCENTE's management at the time, I felt there was some risk in being dependent on a single market. Major, well-known brands already have a presence in markets in Europe and Americas, and expanding the business there would be both difficult and time-consuming. In Southeast Asia, there is little need for the kind of winter clothing DESCENTE specializes in, so in terms of earnings, that leaves Japan, South Korea and China as our main markets. In Japan, growth in the market itself is difficult, and improving profit margins while taking share from competitors is also challenging. Given our brand's name recognition and our confidence in the quality of our products, however, I believe in future we will be better off focusing on selling our own products ourselves, increasing the ratio of sales from directly managed stores. In the end, our goal is to generate strong earnings in the three major Asian markets of Japan, South Korea and China, and establish solid management that will enable us to make up for poor conditions in any one of those markets with earnings from the others.

Shoes have comprised about 15% of net sales in recent years. Major brands dominate the shoe market and the reality is that compared to apparel, research and development is time consuming and growing market share is more difficult. We are however exploring possibilities through a variety of methods, including developing products specifically for the Asian market. A group of talented personnel has work together at DISC BUSAN, the shoe R&D center we established in 2018, to engage in that R&D effort. We plan to gradually introduce products developed at DISC BUSAN beginning in the latter half of 2020. We are not simply developing shoes, but products that emphasize the uniqueness of DESCENTE.

What are your thoughts on D-Summit 2021 , the new medium-term management plan for FY2019 to FY2021?

D-Summit 2021 comprises three key strategies: I. Enhancing our manufacturing capabilities; II. Consolidating in Asia; and III. Improving the profitability of our Japan business. First, manufacturing remains the source of our competitiveness, and we continue to develop and commercialize high-end products together with top athletes and materials suppliers. That said, I think that in working to become an even stronger company, we need to further refine this strategy rather than allowing ourselves to be satisfied with the status quo. Mastering the level of product craftsmanship required by top athletes leads to better products for the general public, which will contribute to further enhancing our brand value by building our reputation not only in Japan, but with our joint venture partners in China.



"DESCENTE" brand "MOTION KNIT"
created by the China design team

PRESIDENT'S MESSAGE

In terms of consolidating in Asia, DESCENTE has already begun by generating significant earnings in South Korea. Due to the current political problems, it is essential that we adjust our product mix there, ensure we retain customers there who are already avid fans of our products, and avoid any brand obsolescence to continue to post solid earnings. China's sporting goods market, meanwhile, is three to four times the size of Japan's, and is thus the market that requires our greatest focus. What matters for business in China is how-and how well-we partner with strong local companies. We will leverage the ability of our partner companies to open new stores as we accelerate our efforts to expand our market there.

With regards to domestic earnings, as noted earlier the key to improving profitability will be to increase the ratio of sales from directly managed stores. Strengthening e-commerce will be an important part of that effort. Currently, net sales from our own e-commerce platform represent just 4% of overall sales in Japan. Our goal is to expand this significantly, but I do not think we can do this completely on our own, and we are now planning strategies which will include harnessing strong external sources.

Finally, what message do you have for your shareholders?

I spent more than 20 years working in China, and have always set great store in the Chinese expression, "bu po bu li," which means you cannot build something new without tearing down the old. Today, the lifespan of a business is growing shorter and shorter; some say that the average lifespan of a company today is just 20 years or so. In these fast-changing times, a business that clings to old ways or fails to notice the changes taking place around it cannot survive. We are determined to shake up the status quo. While the sluggish sales in South Korea will have a big impact on this fiscal year, we want to take advantage of that challenge to come together to improve profitability in Japan and accelerate our efforts to expand our business in China. If DESCENTE can develop a business structure that allows us to achieve a good balance of sales between Japan, South Korea and China, I believe we will stabilize in terms of profitability as well, and in the near future be positioned to post our highest earnings ever.



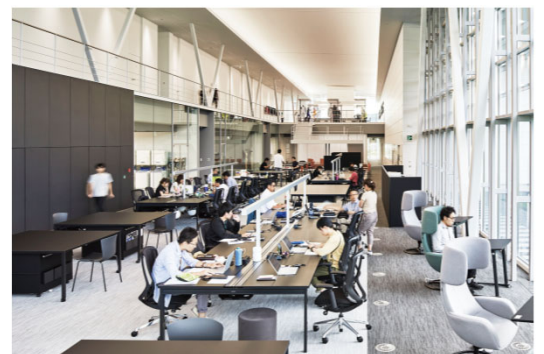
Descente factory in Japan producing sophisticate products



TOPICS

DISC OSAKA R&D Site Awarded the 32nd Nikkei New Office Promotion Award

DISC OSAKA, the apparel R&D site which opened in Ibaraki City, Osaka last year, has won the 32nd Nikkei New Office Promotion Award, which recognizes comfortable, functional office space. Features of the facility include an atrium workspace with fewer columns and walls and glass-walled laboratories with optimum visibility to maximize opportunities for interpersonal interaction, collaboration and the exchange of ideas and to allow for both creative thinking and a sense of speed in manufacturing. The facility was also recognized for offering a “random daily desk assignment system” that encourages interaction across departments, and for providing a site for the creation of new products and ideas in terms of both the tangible and intangible environment.



"DISC OSAKA" work space

Photo by: Takenaka Corporation

**New Agreements for DESCENTE with North American National Teams
Aiming for Further Enhancement of Brand Value**

In 2019, the DESCENTE brand entered into supply agreements with Speed Skating Canada and with USA Triathlon. Both are powerful teams with medalists in their ranks, and are expected to deliver significant brand PR through their performance in international competition. These agreements are also intended to build DESCENTE's presence in Japan, China and South Korea as a sports brand of choice for world-class athletes through promotions linked with these team uniforms, with the goal of further enhancing brand value and expanding sales.



Speed Skating Canada
Long track racing suit

**Rugby World Cup Japan 2019
The French National Team wears le coq sportif**

This uniform, modeled in vivid blue after the French flag, features the logo first used by the French Rugby Federation at its founding in 1905. In a nod to the host country, it is designed to resemble Japanese armor, while the arc across the chest expresses the rising sun. Replica jerseys and other related products have also been developed, with the replicas nearly selling out after the first match. This contributed significantly to enhancing brand appeal, including a doubling of net sales at directly managed stores.



The French national rugby team jersey

Initiatives of the Descente Sports Foundation in Korea

Since its founding in 2013, the Descente Sports Foundation (Korea) has had as its mission the creation of an environment that “brings the enjoyment of sports to all,” and through a variety of sports-based social contribution projects, has contributed a cumulative total in excess of 9.9 billion Korean Won. In 2018, the Foundation led a number of projects to support sports activities for children, including soccer classes for 100 children in public welfare facilities at its Move Futsal Park, and provided sports equipment to developing countries.



Children participating in soccer class

FEATURE

DESCENTE as Seen by its Outside Directors

In June 2019, Nobuo Sayama, Representative Director & Partner, Integral Corporation and Chairman of the Board, Skymark Airlines Inc.; and Kozo Takaoka, Representative Director, President & CEO of Nestlé Japan Ltd., were elected outside directors of DESCENTE LTD. Both have exhibited outstanding management skills as corporate leaders and have strong track records. We asked for their opinions from a variety of angles to contribute to the further growth of the Company.



Nobuo Sayama
Outside Director, DESCENTE LTD.
Representative Director & Partner, Integral Corporation

Born 1953 in Kyoto. Graduated from Rakusei Senior High School and the Department of Macromolecular Science, School of Engineering, Kyoto University. Obtained an MBA from New York University. Completed a doctoral program (PhD) at the Tokyo Institute of Technology Graduate School of Decision Science and Technology. After working at Teijin Limited and The Mitsui Bank, Ltd. (now Sumitomo Mitsui Banking Corporation), involved in the joint establishment of three new companies. Assumed current position in 2008. Also serves as Chairman of the Board, Skymark Airlines Inc., and as a visiting professor at Kyoto University and Hitotsubashi University.



Kozo Takaoka
Outside Director, DESCENTE LTD.
Representative Director, President & CEO, Nestlé Japan Ltd.

Born 1960 in Osaka. Joined Nestlé Japan Ltd. after graduating from Graduate School of Business Administration, Kobe University. After working in brand management and other positions, appointed Marketing Director, then President at Nestlé Confectionery K.K. Named Executive Vice President, Beverage Business Group, Nestlé Japan Ltd. before assuming current position in 2010.

Four months have passed since you assumed your posts as outside directors. What are your impressions of DESCENTE LTD. (“DESCENTE”) thus far?

(Sayama) I play golf, and have long been a fan of LANVIN SPORT apparel without knowing it was in DESCENTE’s brand portfolio. Since being appointed outside director, I have consciously chosen from amongst DESCENTE brand’s for my apparel. Through those products, I have come to realize how very high the quality of the materials and craftsmanship is, but at the same time, I also sense the potential for increasing that quality even further. To put it another way, I think the company has not yet realized its full power, and has room to expand, room for further growth.

(Takaoka) I also play golf, and regularly wear Munsingwear products, but was not aware DESCENTE handled the brand. In swimming, I was also familiar with arena, but again, was surprised to learn only after my appointment that it is a DESCENTE’s brand. While DESCENTE is a recognized company name, I think the individual brands have yet to be tied to that name. Clarifying that connection would allow for higher-level marketing and could lead to an increase in profitability.

(Sayama) Certainly, matching the company name to the brand name might not matter to the average user, but equating the business with the brand is important to investors.

(Takaoka) It can be difficult to strengthen corporate branding through advertising, so a good approach might be to strengthen PR that focuses on establishing a new communication strategy, with news issued by the company itself, which can then be picked up by the media and serve to improve name recognition. That said, in terms of products, I think DESCENTE already delivers overwhelmingly high quality through its research into sports and related biomechanics and its ability to manufacture products in response to the needs of athletes.

You spoke highly of DESCENTE’s product quality, but do you think continuing to strengthen our manufacturing capabilities will lead to a stronger company overall?

(Sayama) Apparel is the first thing that comes to mind when one thinks of DESCENTE, but I think the company needs to take a close look at how they can grow in other fields, including shoes. If DESCENTE can come up with shoes of a high enough quality to allow them to close in on other top brands, I think it could create potential for enormous growth. Given the high level of its manufacturing capabilities, I think DESCENTE basically has a lot of potential for expansion into new areas.

(Takaoka) In Japan's mature market, attempting to seek growth opportunities by expanding and extending a brand is an outdated approach; I think that going forward, the question will be how you change your sales channels. I believe that accelerating a shift to digital and investing in e-commerce ("EC") are more important. What will also no doubt matter will be not what kind of products you make, but how you get those products to your customers. As both a manufacturer and retailer, the effective use of EC will enable DESCENTE to grow its sales. Conversely, there is the fear that unless EC comes to represent 50 percent or more of overall sales in the next 10 to 15 years, DESCENTE's business model will remain unchanged will be unable to make a significant change. EC presents a problem in terms of trying on clothes, but by incorporating advances in tools that, for instance, allow a user to measure their size with nothing but a smartphone, I do not think this will be a significant issue.

(Sayama) When coming out with new products, you need to allow customers to actually pick up the product in a real store in order to convey its quality. Customers who have used a product even once, however, have already gotten the message about its quality and no longer need a real store when making their next purchase -EC is enough. Real stores come with a high cost, and achieving a good balance between real stores and EC can generate further profits.

As you have pointed out, expanding the shoe business and strengthening EC are both ongoing issues for DESCENTE, and we are working to come up with concrete measures to address them. We hope you will continue to advise us on any future actions. In the meantime, what other areas of improvement do you see?

(Sayama) This was true for me when I worked for a major corporation, and I think it's true for big companies in general in Japan, but for companies as a whole there seems to be little awareness of the need to make a profit. For instance, few people seem to think about doing whatever they can to lower costs even a little, and tend to think more about using as much of a company's money as possible -whether to boost staffing within their group or to increase R&D fund expenses. As a result, few people give serious consideration to the question of how to make a profit. I think that in general, companies are stronger if they can create a culture in which individual employees are cost-conscious and focused on even small increases in profit. I hope DESCENTE's own employees will have more opportunities to discuss what kind of company they want DESCENTE to be in the future, and to consider how to go about making DESCENTE a top-earning company. I also think that the most important thing for a company is to increase employee satisfaction. I believe that as employee satisfaction rises, so does earning power. If employees enjoy their work and take pride in what they are doing, you will have a company in which employees naturally put their whole effort into their work.

This creates a positive cycle, with partners, customers and others in the company's orbit pulled in by its hard-working example. If you build a company where employees enjoy and devote their energy to their work, I think the company's earning power will rise as a result.

(Takaoka) Cost-consciousness is a must. Nestlé Japan Ltd. is a foreign-owned company, and we work each year to significantly lower costs regardless of whether or not we make a profit.

Japanese companies place their emphasis on revenue, which makes them less aware of profit, one point on which I think there is still room for improvement.

Certainly in recent years, DESCENTE has focused on its DISC (R&D sites) and other capital investments. Going forward, we need to shift that focus to making the most of those resources and generating earnings. In closing, what are your views on shareholder equality?

(Sayama) The role of the outside director is to express opinions that will enhance DESCENTE's corporate value. While ITOCHU Corporation is a 40% shareholder*, other shareholders represent the remaining 60%. We also need to consider their positions in deciding whether or not something is necessary for DESCENTE and express our opinions accordingly. That said, in the end I think my mission is to act based on what I believe are the correct standards for determining what is best for DESCENTE and the people who work there.

(Takaoka) In the unlikely event major shareholders prioritize their own interests over those of DESCENTE or its minority shareholders, I think we have a duty to restrain them. That obligation, however, is something all directors of the company, and not just the outside directors, must fulfill. Still, the fact remains that the boards of most Japanese companies fail to fulfill that function. There are things DESCENTE still needs to do. I have expressed the opinion that to strengthen corporate governance, the company needs to do more to separate management supervision from operational execution, including by considering a move to restructure as a company with committees.

Thank you for your valuable opinions.

* Number of shares of ITOCHU Corporation and its subsidiary BS Investment Corporation (as of September 30, 2019)

Financial Information

(JPY: Million)

Quarterly Consolidated Balance Sheet

Subject	2019/3/31	2019/9/30
Assets		
Current assets	78,051	71,540
Non-Current	37,705	41,178
Tangible non-current assets	24,910	28,385
Intangible non-current assets	2,701	2,644
Investments and other assets	10,093	10,147
TOTAL ASSETS	115,756	112,718
Liabilities		
Current liabilities	29,527	26,193
Non-Current liabilities	7,783	10,127
TOTAL LIABILITIES	37,310	36,320
Net assets		
Shareholder's Equity	76,115	76,412
Capital stock	3,846	3,846
Capital surplus	25,281	25,316
Retained earnings	47,632	47,882
Treasury Shares	△643	△632
Accumulated other comprehensive income	2,330	△14
Valuation difference on available-for-sale securities	739	804
Deferred gains or losses on hedges	△4	16
Foreign currency translation adjustment	1,607	△844
Remeasurements of defined benefit plans	△11	8
TOTAL NET ASSETS	78,446	76,398
TOTAL LIABILITIES AND NET ASSETS	115,756	112,718

Quarterly Consolidated Profit and Loss Statement

Subject	2018/4/1 ~2018/9/30	2019/4/1 ~2019/9/30
Net Sales	66,768	65,926
Cost of sales	29,342	28,497
Gross profit	37,426	37,429
Provision for sales returns	93	167
Gross profit - net	37,332	37,262
SG&A expenses	34,459	34,623
Operating profit	2,873	2,638
Non-operating income	518	556
Non-operating expenses	171	288
Ordinary profit	3,219	2,906
Profit before income taxes	3,219	2,906
Income taxes-current	998	789
Income taxes-deferred	△70	△93
Quarterly Profit	2,291	2,210
Quarterly profit attributable to owners of parent	2,291	2,210

Quarterly Consolidated Cash Flow

Subject	2018/4/1 ~2018/9/30	2019/4/1 ~2019/9/30
Cash flow from operating activities	2,324	3,474
Cash flow from investment activities	△4,766	△1,234
Cash flow from financing activities	△2,109	△3,658
Effect of exchange rate changes on cash and cash equivalents	△898	△994
Net increase (decrease) in cash and cash equivalents	△5,449	△2,412
Cash and cash equivalents at beginning of the financial year	27,369	27,229
Cash and cash equivalents at the end of the period	21,920	24,817

ABOUT US

DESCENTE group offer high-quality and high-performance sporting goods by 14 brands, including the house brand "DESCENTE".

Each brand is conducting their own marketing and challenging the improvement of brand's value for the pleasure of everyone from top athletes to recreational and leisure enthusiasts.

Corporate Philosophy

To bring the enjoyment of sports to all

Sport is based on the idea of enjoyment through movement of the body and competing; and it is through sports that DESCENTE contributes to life being lived -by everyone- to the full.

Corporate Slogan

Design for Sports

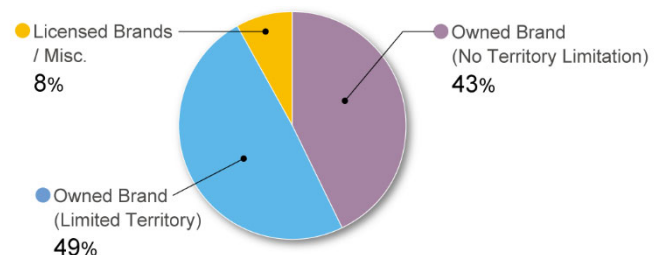
Origin of the Corporate Name and Logo



Descente is the French term for downhill skiing. The logo represents the three basic skiing techniques of schussing, traversing and sliding. It embodies our quest to be the best in all we do and our focus on the future.

Brand Lineup

(As of September 30, 2019)



Owned Brands (No Territory Limitation)

Brands that Descente group is the owner of the trademark



Owned Brands (Limited Territory)

Brands that Descente group is the owner of the trademark in limited country and area



Licensed Brands/Others

Brands that Descente develop based on the license agreement, etc.



Company Profile

DESCENTE LTD.

Founded	February, 1935
Incorporated	February, 1958
President	Shuichi Koseki
Capital	¥3.8 billion
Turnover	¥142.4billion (FY ended March 2019, Consolidated)
Employees	Consolidated 3,507 / Non-consolidated 250 (As of September 30, 2019)
Business	Manufacture and sales of sportswear and related articles
Office	
Tokyo Office	1-4-8 Mejiro, Toshima-ku, Tokyo 171-8580 TEL. +81-3-5979-6006 (HR/Administration, Tokyo)
Osaka Office	1-11-3 Dogashiba, Tennoji-ku, Osaka 543-8921 TEL. +81-6-6774-0365 (Administration/Secretariat, Osaka)

Executives

President and Representative Director Shuichi Koseki	Outside Director Nobuo Sayama*
Director and Senior Managing Executive Officer Hoon-Do Kim	Outside Director Kozo Takaoka*
Director and Managing Executive Officer Akira Tsuchihashi	Auditor (full-time) Masatsugu Morimitsu
Director and Managing Executive Officer Norio Ogawa	Auditor (outside) Katsumi Ota*
	Auditor (outside) Koichi Yoshioka*

* All Directors (outside) and Auditors (outside) are designated as independent Directors or independent Auditors specified by the TOKYO Stock Exchange in Japan.

Subsidiary Companies

◆ Consolidated Subsidiary Companies

DESCENTE JAPAN LTD. (Tokyo)
Sales of sportswear and related articles

DESCENTE APPAREL LTD. (Osaka)
Manufacture of sportswear and related articles

BEN-GENERAL CORPORATION (Osaka)
Sales of sportswear and related articles

BEIJING DESCENTE CO., LTD. (Beijing, China)
Manufacture of sportswear and related articles

SHANGHAI DESCENTE COMMERCIAL CO., LTD. (Shanghai, China)
Sales of sportswear and related articles

HONG KONG DESCENTE TRADING, LTD. (Hong Kong, China)
Sales of sportswear and related articles

DESCENTE KOREA LTD. (Seoul, South Korea)
Sales of sportswear and related articles

DESCENTE GLOBAL RETAIL LTD. (Seoul, South Korea)
Sales of sportswear and related articles

SINGAPORE DESCENTE PTE. LTD. (Singapore)
Sales of sportswear and related articles

DESCENTE MOUNTAIN AMERICAS
*DESCENTE MOUNTAIN AMERICAS's registered name is DESCENTE NORTH AMERICA INC. (Utah, United States)
Sales of sportswear and related articles

DESCENTE ATHLETIC AMERICAS INC. (Georgia, United States)
Sales of sportswear and related articles

INOVEIGHT LTD. (Cumbria, England)
Sales of sportswear and related articles

◆ Affiliated Companies Accounted for under the Equity Method

LE COQ SPORTIF (NINGBO) CO., LTD. (Ningbo, China)
Sales of sportswear and related articles

DESCENTE (CHINA) CO., LTD. (Shanghai, China)
Sales of sportswear and related articles

ARENA (SHANGHAI) INDUSTRIAL CO., LTD. (Shanghai, China)
Sales of sportswear and related articles

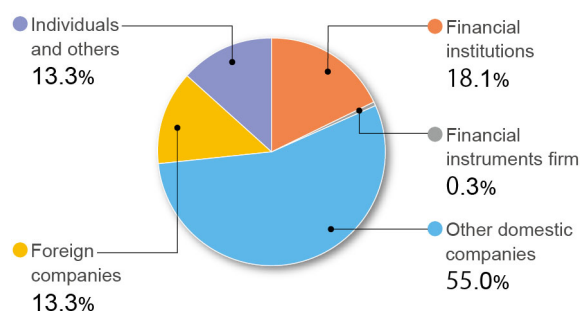
ARENA KOREA LTD. (Seoul, South Korea)
Sales of sportswear and related articles

SHAREHOLDER INFORMATION

Number of shares and shareholders

(As of September 30, 2019)

Number of shares authorized for issuance	160,000,000
Number of shares issued	76,924,176
	(including 1,489,709 own shares)
Number of shareholders	4,900



Principal shareholder

(As of September 30, 2019)

Name	Shareholdings (Thousands)
ITOCHU Corporation	22,954
BS Investment Corporation	7,210
UBS AG HONG KONG	3,465
Nippon Life Insurance Company	3,238
TEIJIN FRONTIER Co., Ltd.	2,465
Sumitomo Mitsui Banking Corporation	2,110
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,818
THE DESCENTE AND ISHIMOTO MEMORIAL FOUNDATION FOR THE PROMOTION OF SPORTS SCIENCE	1,652
Kazuyuki Ishimoto	1,600
TOYOBO STC CO., LTD.	1,594

Cover Photo :
The French National Rugby Team

