Summary of Financial Statements of the Third Quarter Ended December 31, 2020 [Japan GAAP] (Consolidated)

February 5, 2021

Name of the Company: DESCENTE LTD.　Listed Exchange: TSE
Code No.: 8114　URL: https://www.descente.co.jp
Representative: Shuichi Koseki, President and Representative Director
Person responsible for inquiry: Akira Tsuchihashi, Director, Managing Executive Officer　(TEL)+81-6-6774-0365
Scheduled Date of Submission of Quarterly Report: February 9, 2021
Scheduled Date of Dividend Payments: -
Preparation of Supplementary Financial Statements: Yes
Holding of Financial Results Briefing: None

(Note: Amounts less than one million yen are rounded down)

1. Consolidated Results for the Third Quarter Ended December 31, 2020 (April 1, 2020 – December 31, 2020)

(1) Consolidated operating results (cumulative) (%, YoY)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%
3Q ended December 31, 2020	66,638	△28.2	△2,454	–	△1,775	–	4,828	172.8
3Q ended December 31, 2019	92,868	△8.0	1,679	△64.0	2,091	△58.5	1,770	△37.5

(Note) Comprehensive income　3Q ended December 31, 2020 ¥3,264 million (-%)　3Q ended December 31, 2019 △¥1,833 million (-%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
3Q ended December 31, 2020	64.00	–
3Q ended December 31, 2019	23.47	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Yen in millions	Yen in millions	%
3Q ended December 31, 2020	107,097	75,493	70.5
FY ended March 31, 2020	108,504	72,193	66.5

(Reference) Equity　3Q ended December 31, 2020: ¥75,493 million, FY ended March 31, 2020: ¥72,193 million

2. Dividends

	Annual cash dividend per share				
	End of the 1st quarter	End of the 2nd quarter	End of the 3rd quarter	End of the 4th quarter	Total
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2020	–	0.00	–	0.00	0.00
FY ending March 31, 2021	–	0.00	–		
FY ending March 31, 2021 (Forecast)				–	–

(Note) Considering the situation of borrowing from financial institutions due to sluggish business condition by COVID-19 infection, the year-end dividends for the fiscal year ending March 31, 2021 are undecided at this time and will be announced promptly after making decision.

3. Consolidated earnings forecast for the fiscal year ending March 31, 2021 (April 1, 2020 - March 31, 2021)

(%, YoY)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		EPS
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen
Full Year	96,000	△22.9	△2,000	–	△1,200	–	5,000	–	66.27

(Note)Revisions to earnings forecasts published most recently: Yes

*Notes

(1) Changes in significant subsidiaries during the quarterly fiscal year: None

(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

New: None Exclusion: None

(2) Application of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

(Note) See Appendix page 11 "(3) Notes to Quarterly Consolidated Financial Statements" for details

(3) Changes in accounting policies and accounting estimates, and restatements

1. Changes in accounting policies associated with revision of accounting standards: None
2. Changes in accounting policies other than 1: None
3. Changing in accounting estimates: None
4. Restatements: None

(4) Number of shares issued and outstanding (common stock)

1. Number of shares issued and outstanding at the end of fiscal year (including treasury stock):	3Q ended December 31, 2020	76,924,176	FY ended March 31, 2020	76,924,176
2. Number of treasury stock at fiscal end:	3Q ended December 31, 2020	1,467,517	FY ended March 31, 2020	1,489,862
3. Average number of shares during the term:	3Q ended December 31, 2020	75,447,672	3Q ended December 31, 2019	75,421,232

Note: Summary of quarterly financial statement is not subject to auditing procedures by independent auditors or auditing firms.

Note: Explanation of appropriate use of business performance forecasts and other special items

(Notes on future descriptions)

The earnings forecasts in this document are based on the current information and certain assumptions that are considered reasonable, and actual results may vary greatly depending on various factors. Prerequisites for earnings forecast or notes for using it, please refer to "(3) Explanation of Future Forecast Information such as Consolidated Performance Forecasts" on Appendix page 5.

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1. Qualitative Information on the Quarterly Consolidated Performance

(1) Explanation of Operating Results

In the first nine months of FY2020, the business environment was difficult, particularly in Japan and South Korea, where the spread of COVID-19 infection led to a decline in consumer purchasing motivation and the cancellation or scaling back of various events and competitions. In Japan, sales had been on a recovery trend after bottoming out from April to June, 2020, but it has been declining again due to a drop in consumer purchasing sentiment following the re-expansion of COVID-19 from December. On the other hand, in response to the drastic changes in social life, we are proceeding digital marketing by renewing our EC platform, disseminating information through the inhouse digital media that launched this fiscal year, and implementing communication with consumers using a membership application, brands and contract athletes' SNS, etc. In South Korea after being severely affected by the spread of the COVID-19 in February, 2020 there were signs of recovery for a while, but the business condition remains difficult as the second and third waves of COVID-19 infection continued to spread intermittently.

Sales for the first nine months of FY2020 decreased to ¥66,638 million (down 28.2% YoY) due to the impact of the spread of COVID-19, in addition to a decrease in sales of approximately ¥2.8 billion as a result of the conversion of the Europe/Americas businesses from business development through subsidiaries to wholesale operations. However, looking in this third quarter alone, the impact of COVID-19 has eased in Japan, and domestic sales are flat year on year and showing a recovery trend. Gross profit decreased by ¥15,708 million year on year due to a decrease in sales. SG&A expenses decreased by ¥11,574 million year on year due to the following factors: a reduction in SG&A expenses incurred by subsidiaries in Europe and the US that were suspended business or sold shares in FY2019: a reduction in marketing expenses in Japan as a result of the ongoing review of advertising and sales promotion expenses and marketing activities tailored to the COVID-19 disaster: a reduction in SG&A expenses as a result of business efficiency improvements and a reduction of sales commissions linked to sales in South Korea. However, they are insufficient to offset the significant decrease in gross profit, resulting in an operation loss of ¥2,454 million year on year.

An equity method affiliate, Descente China Holding Limited (hereinafter "DCH"), was affected by COVID-19 in the first quarter, but has been performing well since April, with sales expanding by 150% year on year, including a doubling of EC sales from the previous year. As a result, non-operating income increased, but we could not make up for the operating loss, resulting in an ordinary loss of ¥1,775 million.

Profit attributable to owners of parent increased year on year due to the third quarter gain on change in equity (extraordinary income) of ¥6,419 million resulting from the execution of a series of transactions accompanying the reorganization of the joint venture company in China, as stated in the "Notice regarding Agreement relating to the Reorganization of the Joint Venture Company in China and posting of extraordinary income" released July 15, 2020.

As a result of these, for the first nine months of FY2020, net sales were ¥66,638 million (down 28.2% YoY), operating loss was ¥2,454 million (previous year: operating income of ¥1,679 million), ordinary loss was ¥1,775 million (previous year: ordinary income of ¥2,091 million), and net income attributable to owners of the parent was ¥4,828 million (up 172.8% YoY).

The business results of the reportable segment are as follows. The fiscal year end of major overseas subsidiaries is December, and the business results for each segment do not include figures for equity method affiliates.

(Net Sales by Segments)

Segment	Net Sales (Yen in millions) (year on year)	Segment Income or Loss (Yen in millions)
Japan	33,138 (△22.9%)	△1,807 (Previous year: ¥369 million)
South Korea	30,407 (△29.3%)	△643 (Previous year: ¥1,786 million)
China	2,865 (△25.8%)	32 (Previous year: ¥1 million)
Others	227 (△92.5%)	△74 (Previous year: △¥422 million)
Adjustments	—	38 (Previous year: △¥54 million)
Total	66,638 (△28.2%)	△2,454 (Previous year: ¥1,679 million)

(Japan)

In the third quarter alone, sales were flat year on year and on a recovery trend. However, sales at real stores fell in the first nine months due to temporary store closure from April to May and a decrease in the number of inbound customers. Inhouse EC was completely renewed in November, 2020 with the aim of expanding its business and strengthening sales capabilities, and inhouse EC sales for the first nine months of FY2020 growing by 140% year on year. However, even with the inclusion of ongoing efforts to reduce advertising and sales promotion costs and other SG&A expenses, this was not enough to offset the decrease in real store sales caused by the temporary closure. Therefore, sales and profits decreased significantly.

(South Korea)

The significant impact of COVID-19 from January to March, 2020, followed intermittently by the second and third wave of the spread of COVID-19, the closure of fitness clubs, the shortened opening hours of stores and other restrictions, the consumer purchasing motivation dropped, resulted in a decline in sales during the first nine months of FY2020. Although we implemented new measures such as the launch of online-only products, and reduction of SG&A expenses through operational efficiencies and decrease in sales commissions linked to sales, sales and operating income decreased significantly.

(China)

In the operations of consolidated subsidiaries SHANGHAI DESCENTE COMMERCIAL CO., LTD and HONG KONG DESCENTE TRADING, LTD, which are recorded in segment profit and loss in China, sales fell, especially in Hong Kong, due to the re-strengthening of epidemic prevention measures for COVID-19 in July. However, the above two companies reduced SG&A expenses through the closure of unprofitable stores and the branch office, resulting in decrease in sales and increase in profits in the China segment.

Although not included in the segment results, DCH, an equity method affiliate, increased in both sales and profits and remains strong.

(Others)

Although net sales decreased year on year due to the withdrawal of INOVEIGHT Group and the suspension of the business of DESCENTE ATHLETIC AMERICAS INC., DESCENTE NORTH AMERICA INC., and SINGAPORE DESCENTE PTE. LTD., a decrease in fixed and variable costs at the above subsidiaries resulted in a lower loss.

Net sales by items are as follows.

(Net sales by item)

Item	Net sales (Yen in millions)	Composition Ratio (%)	Year on year (%)
Athletic wear and related products	42,843	64.3	△29.7
Golf wear and related products	19,378	29.1	△19.2
Outdoor wear and related products	4,416	6.6	△44.4
Total	66,638	100.0	△28.2

(Note) The above amounts do not include consumption tax, etc.

(Athletic Wear and Related Products)

In the "umbro" business in South Korea, sales increased due to strong sales of lifestyle products such as the sneakers "TOBY", but overall sales in the athletic category were ¥42,843 million (down 29.7% YoY) affected by a decrease in sell-through due to the spread of COVID-19 in all areas.

(Golf Wear and Related Products)

Due to the growing popularity of golf as an outdoor sport even in the COVID-19 pandemic, sales of "DESCENTE" increased year on year in both in Japan and South Korea during the three months of the third quarter. In Japan, sales of "DESCENTE" also increased year on year during the first nine months of FY2020. In addition, EC sales in Japan and China were significantly higher than in the previous fiscal year. However, sales in the golf category were ¥19,378 million (down 19.2% YoY) due to a decrease in sell-through at real stores caused by the spread of COVID-19.

(Efforts as DESCENTE Group)

As another topic, we announced on July 15, 2020 about the reorganization of a joint venture company, DCH, that handles the "DESCENTE" brand business in China. Through the newly established trademark management company, DCH will hold the trademark rights etc. of the "DESCENTE" brand to further accelerate and expand future business in China. We will increase our investment ratio in DCH from 30% to 40%, and increase equity in earnings of Chinese business under the "DESCENTE" brand.

We launched the inhouse digital media "ULLR MAG." for strengthening DTC (Direct to Consumer) business to improve profitability of Japanese business. "Improving profitability of Japan business" is one of priority strategies in our midterm management plan "D-Summit 2021" announced in August 2019. In order to deepen communication with a wider range of customers, we will not only introduce products, but also provide valuable information to help customers lead enriching lives through our inhouse digital media.

In November, 2020, our inhouse EC "DESCENTE STORE ONLINE" was completely renewed with more product information, improved search navigation, and the new system that shortens the time between order and delivery. We will continue our efforts to achieve omni-channel and strengthen our DTC business.

As an initiative to promote digital transformation (DX), we switched our groupware in Japan in April 2020, enabling web conferencing and telecommuting, and we continued to operate without major disruption even during the state of emergency declaration.

Furthermore, in line with our priority strategy of "Enhance our manufacturing capabilities", we launched CORE COOLER under the "DESCENTE" brand, which provides cooling effect by cooling the palm of the hand, and REI GRAB gloves, arm covers and neck coolers under the "umbro" brand, which provides cool feeling when worn and prevents sunburn. CORE COOLER was picked up by various media which focused on the social problem of heat stroke caused by summer exercise under COVID-19, and the first sale of it was sold out on own EC site and additional sales were conducted.

As a new initiative, we started to sell "DESCENTE ATHLETIC MASK", which reduces breathlessness and dampness and can be worn comfortably even during physical exercise. In order to reach more customers, the mask was also sold at Family Mart stores all over Japan. It was well received, with additional sales at our inhouse EC and directly managed stores. We will continue to focus on developing products that provide comfort in a variety of environments by leveraging our expertise as a sports manufacturer.

As part of our sustainable efforts based on the "D-Summit 2021", we are committed to reduce the environmental impact, provide sports opportunities, and further improve the safety and quality of our products. As an initiative to reduce the environmental impact, we have started collecting products regardless of brand in collaboration with "BRING" promoted by JEPLAN, INC. at "Marmot" brand directly managed stores. In March 2020, we began supplying 100% of the electricity used at DESCENTE APPAREL LTD.'s Mizusawa Factory from renewable energy sources, and we have also begun supplying electricity from renewable energy sources to other domestic offices.

In addition, as a new initiative of our social contribution project Sukoyaka Kids Sports School to improve the physical fitness of children whose exercise opportunities are decreasing in COVID-19 pandemic, we collaborated with the Board of Education of the City of Sendai to provide a video of a gymnastics program for all elementary schools and special needs schools in Sendai City. In order to pursue "quality and safety", which is one of our competitive advantages, from this season (20FW), we have promoted manufacturing that customers can be worn with more confidence by using traceable down that has acquired DOWNPASS(*) certification for Mizusawa Down, one of our main products. In addition, for the purpose of improving product safety and quality, we held the Quality Defect Exhibition following last year to share the recent cases of quality defects in our products with our suppliers, aiming to improve the accuracy of our internal measures to prevent recurrence and the product quality of the sports apparel industry. Based on our corporate philosophy of "To bring the enjoyment of sports to all", we will continue to take on the challenge of reducing environmental impact and producing safe and high-quality products that will lead to the solution of social issues through sports.

(*) The DOWNPASS e.V. standard guarantees that the feathers are ethically raised and harvested in accordance with animal protection standards and that high quality standards are maintained.

(2) Explanation of Financial Position

(Analysis of the status of assets, liabilities, and net assets)

As of the end of the consolidated third quarter ended December 31, 2020, total assets decreased ¥1,406 million from the previous fiscal year to ¥107,097 million.

Currents assets decreased ¥4,507 million to ¥63,508 million. This is mainly due to a decrease in cash and deposits of ¥5,192 million, a decrease in notes and accounts receivable-trade of ¥1,261 million, and an increase in merchandise and finished goods of ¥1,703 million.

Non-current assets increased ¥3,100 million to ¥43,589 million. This is mainly due to an increase in investment securities of ¥7,390 million, a decrease in guarantee deposits included in other in investments and other assets of ¥913 million, a decrease in property, plant and equipment of ¥2,232 million.

Total liabilities decreased ¥4,707 million to ¥31,604 million. This is mainly due to a decrease in notes and accounts payable-trade of ¥3,464 million, a decrease in accounts payable included in other in current liabilities of ¥1,758 million, an increase in income taxes payable of ¥1,462 million, and a decrease in lease obligation included in other in non-current liabilities of ¥1,242 million.

Net assets increased ¥3,300 million to ¥75,493 million. This is mainly due to an increase in retained earnings of ¥4,828 million and a decrease in foreign currency transaction adjustment of ¥1,538 million.

As a result, the equity ratio increased 4.0% to 70.5%.

(3) Explanation of Future Forecast Information such as Consolidated Performance Forecasts

Our midterm management plan, “D-Summit 2021”, covering the 3-year period from the fiscal year ended March 31, 2020 to the fiscal year ending March 31, 2022, sets out the key strategies of “Enhance our manufacturing capabilities”, “Consolidate in Asia” and “Improving profitability of Japan business”, and aims to further enhance corporate value by continuing to provide society with unique values based on our corporate philosophy of “To bring the enjoyment of sports to all”. With regard to the consolidated earnings forecast for the fiscal year ending March 2021, sales are expected to be lower than the previous forecast mainly in South Korea in the last six months of FY2020 due to continued sluggish sales by the re-expansion of COVID-19. In Japan as well, although it has been on a recovery trend since July 2020, the recovery is expected to be delayed from December due to the re-expansion of COVID-19 infection. Regarding operating income, DESCENTE JAPAN LTD., which operates businesses for Japanese domestic market, and our Chinese business were in the black during the third quarter alone, but for the full year, the significant decrease in gross profit due to the decrease in sales could not be offset by the reduction of SG&A expenses. Therefore, it is expected to be lower than the previous earnings forecast.

Due to the strong performance of DCH, our joint venture in China, the equity method investment income is expected to exceed but this will not enough to offset the decrease in operating income and ordinary income is expected to be lower than the previous earnings forecast. Regarding net profit attributable to owners of parent is expected to remain unchanged from the previous forecast because of above-mentioned factors, as well as the higher expected gain on change in equity (extraordinary income) of ¥6,419 million, which was recorded due to the restructuring of DCH, despite the expected recording of expenses related to the voluntary retirement in the fourth quarter. For details, please refer to the “Notice of Revision to Full-Year Earnings Forecast” released on February 5, 2021.

Revision to Consolidated Earnings Forecasts for the full year ending 31 March, 2021 (April 1, 2020 to March 31, 2021)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Net income per share
	Yen in million	Yen in million	Yen in million	Yen in million	Yen
Previous forecast (A) (As of July 15, 2020)	101,000	500	550	5,000	66.29
Current forecast (B) (As of February 5, 2021)	96,000	△2,000	△1,200	5,000	66.27
Changes in amount (B-A)	△5,000	△2,500	△1,750	–	
Rate of change (%)	△5.0	–	–	–	
(Reference) Previous FY result (FY ended March 31, 2020)	124,561	379	456	△2,481	△32.90

(Note) The above forecasts are calculated based on information currently available. Accordingly, actual results may differ from these forecasts due to various factors.

2. Quarterly Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Yen in millions)

	FY2019 (March 31, 2020)	3Q FY2020 (December 31, 2020)
Assets		
Current assets		
Cash and deposits	20,309	15,117
Notes and accounts receivable - trade	17,319	16,058
Merchandise and finished goods	26,575	28,279
Work in process	195	137
Raw materials and supplies	726	636
Other	3,006	3,377
Allowance for doubtful accounts	△118	△98
Total current assets	68,015	63,508
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	11,485	10,995
Other	16,265	14,522
Total property, plant and equipment	27,750	25,518
Intangible assets	2,961	2,541
Investments and other assets		
Investment securities	3,003	10,394
Other	6,828	5,190
Allowance for doubtful accounts	△55	△54
Total investments and other assets	9,777	15,530
Total non-current assets	40,488	43,589
Total assets	108,504	107,097
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,648	13,184
Short-term borrowings	1,436	2,500
Current portion of long-term borrowings	225	95
Income taxes payable	38	1,500
Provision for bonuses	965	464
Provision for sales returns	837	876
Other	8,625	6,584
Total current liabilities	28,776	25,206
Non-current liabilities		
Long-term borrowings	295	355
Retirement benefit liability	968	1,303
Other	6,270	4,738
Total non-current liabilities	7,534	6,398
Total liabilities	36,311	31,604

(Yen in millions)

	FY2019 (March 31, 2020)	3Q FY2020 (December 31, 2020)
Net assets		
Shareholders' equity		
Share capital	3,846	3,846
Capital surplus	25,316	25,344
Retained earnings	43,190	48,018
Treasury shares	△633	△624
Total shareholders' equity	71,719	76,584
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	373	400
Deferred gains or losses on hedges	13	△34
Foreign currency translation adjustment	218	△1,320
Remeasurements of defined benefit plans	△131	△136
Total accumulated other comprehensive income	473	△1,091
Total net assets	72,193	75,493
Total liabilities and net assets	108,504	107,097

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

Third Quarter ended December 31, 2020 (accumulated)

(Yen in millions)

	3Q FY2019 (April 1, 2019 - December 31, 2019	3Q FY2020 (April 1, 2020 - December 31, 2020)
Net sales	92,868	66,638
Cost of sales	41,535	31,331
Gross profit	51,332	35,306
Provision for sales returns	357	39
Gross profit - net	50,975	35,266
Selling, general and administrative expenses	49,296	37,721
Operating profit (loss)	1,679	△2,454
Non-operating income		
Interest income	282	128
Dividend income	83	70
Share of profit of entities accounted for using equity method	200	233
Foreign exchange gains	25	64
Subsidy income	―	298
Other	138	179
Total non-operating income	731	975
Non-operating expenses		
Interest expenses	222	72
Loss on retirement of non-current assets	72	165
Other	23	59
Total non-operating expenses	319	296
Ordinary profit (loss)	2,091	△1,775
Extraordinary income		
Gain on change in equity	―	6,419
Gain on sales of shares of subsidiaries and associates	―	460
Gain on sales of investment securities	―	403
Gain on sales of non-current assets	―	251
Total extraordinary income	―	7,535
Extraordinary losses		
Loss on valuation of investment securities	―	62
Total extraordinary losses	―	62
Profit before income taxes	2,091	5,698
Income taxes - current	417	1,499
Income taxes - deferred	△96	△630
Total income taxes	321	869
Profit	1,770	4,828
Profit attributable to owners of parent	1,770	4,828

Quarterly Consolidated Statements of Comprehensive Income

Third Quarter ended December 31, 2020 (accumulated)

(Yen in millions)

	3Q FY2019 (April 1, 2019 - December 31, 2019	3Q FY2020 (April 1, 2020 - December 31, 2020)
Profit	1,770	4,828
Other comprehensive income		
Valuation difference on available-for-sale securities	236	26
Deferred gains or losses on hedges	△7	△48
Foreign currency translation adjustment	△3,624	△1,486
Remeasurements of defined benefit plans, net of tax	28	△4
Share of other comprehensive income of entities accounted for using equity method	△235	△52
Total other comprehensive income	△3,603	△1,564
Comprehensive income	△1,833	3,264
(Breakdown)		
Comprehensive income attributable to owners of parent	△1,833	3,264

(3) Notes to Quarterly Consolidated Financial Statements

(Going Concern Assumptions)

None

(Significant Changes in Shareholders' Equity)

None

(Application of Accounting Treatment Specific to the Preparation of Quarterly Consolidated Financial Statements)

For some consolidated subsidiaries, the tax expense is calculated by rationalizing the effective tax rate after the application of tax effect accounting to income before income taxes for the fiscal year including the third quarter, and multiplying the net income before taxes by the estimated effective tax rate.

Income taxes of the consolidated subsidiaries are included in the income tax-current.

(Segment Information)

I Previous Third Quarter ended December 31, 2019 (April 1, 2019 – December 31, 2019)

1. Information about Net Sales, Profit (Loss) by Reportable Segment

(Yen in millions)

	Reportable Segments					Adjustments (Notes1)	Amount of Shown on Consolidated Income Statements (Notes2)
	Japan	South Korea	China	Others	Total		
Net Sales							
Sales to External Customers	42,975	42,989	3,861	3,042	92,868	–	92,868
Intersegment Sales of Transfers	3,415	593	80	125	4,215	△4,215	–
Total	46,390	43,582	3,942	3,167	97,083	△4,215	92,868
Segment Income (Loss)	369	1,786	1	△422	1,734	△54	1,679
Other Items							
Equity in earnings of affiliates	–	177	107	–	284	△83	200
Investments in equity-method Affiliate	–	308	1,925	–	2,234	–	2,234

(Note1) Segment income (loss) adjustment of △¥54 million includes intersegment transaction elimination of ¥29 million and inventory unrealized income adjustment of △¥84 million.

(Notes2) Segment income (loss) is adjusted for operating income reported in the quarterly consolidated statements of income.

II Current Third Quarter ended December 31, 2020 (April 1, 2020 – December 31, 2020)

1.Information about Net Sales, Profit (Loss) by Reportable Segment

(Yen in millions)

	Reportable Segment					Adjustments (Note1)	Amount of Shown on Consolidated Income Statements (Note2)
	Japan	South Korea	China	Others	Total		
Net Sales							
Sales to External Customers	33,138	30,407	2,865	227	66,638	–	66,638
Intersegment Sales of Transfers	1,815	305	15	2	2,139	△2,139	–
Total	34,954	30,712	2,880	229	68,777	△2,139	66,638
Segment Income (Loss)	△1,807	△643	32	△74	△2,493	38	△2,454
Other Items							
Equity in earnings of affiliates	–	△108	378	–	269	△35	233
Investments in equity-method Affiliate	–	201	8,687	–	8,889	–	8,889

(Note1) Segment income (loss) adjustment of ¥38 million includes intersegment transaction elimination of ¥3 million and inventory unrealized income adjustment of ¥34 million.

(Notes2) Segment income (loss) is adjusted for operating income reported in the quarterly consolidated statements of income.

2. Matter Related to Changes in Reportable Segments

In recent years, the importance of our business in South Korea and China has increased, therefore the Company has changed its reportable segments up to FY2019 Asia to South Korea, China and Others from the 1Q of FY2020.

As a result of the resolution to liquidate all U.S. and European subsidiaries that were included Europe/Americas segment until FY2019 the importance of the business of Europe/Americas subsidiaries has declined. As a result, the business of Europe/Americas have been included in Others.

Segment information for the 3Q of FY2019 is prepared by the segment classification method after the change.

(Business Combination)

Business Divestitures

DESCENTE LTD. (“the Company”) resolved to transfer 90% of the shares of Descente China IP Limited (“DC-IP”) to Descente China Holding Limited (“DCH”) in kind and transferred the shares on December 18, 2020.

1. Outline of Business Divestitures

(1) Name of destination company

Descente China Holding Limited

(2) Details of the divested business

DC-IP shares (Trademark holding company)

(3) Main Reasons for Business Divestitures

As the Company’s flagship brand, “DESCENTE” is the Company’s most focused brand, and expanding its global reach is one of its medium-term priority strategies. As part of this, the Company established DCH in June 2016, with Andes Sports Products Limited (“Andes”), a subsidiary of Anta Sports Products Limited (“Anta”) owning 60%, Descente Global Retail (“DGR”) 30% and Itochu Textile Prominent (Asia) Limited 10% to develop the brand in Mainland China. Since then, DCH has succeeded in expanding direct sales of the brand in China under the leadership of Anta, and as of December end 2019, opened 136 stores across Mainland China, achieving profitability in FY2019, a year earlier than initially planned.

While the Company aims to expedite growth in China as a key pillar following its South Korean business, and in view of Anta's track record of expanding and developing multiple brands, it was decided that DCH’s ownership of “DESCENTE” trademark rights for China through DC-IP would further promote acceleration and expansion of the business in China. As such, the Company will raise its stake in DCH by 10%, from 30% to 40%.

(4) Date of Business Divestitures

December 18, 2020

(5) Outline of the transaction including legal format

Contributions in kind in which consideration received was solely shares

The contribution in kind was carried out using the following scheme.

1. Immediately after newly establishing DC-IP, the trademark rights (no book value) were transferred in kind.
2. The Company transferred 90% of DC-IP’s shareholding to DCH in kind. As a result, the Company acquired additional 10% of the shares of DCH, an affiliated company.

2. Outline of accounting treatment

The accounting was conducted in accordance with “Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Statement No.7, September13, 2013) and the “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan, Guidance on Accounting Standards No10, January 16, 2019), it was treated based on the accounting treatment of the divesting company in business divestitures. As a result, the difference between the consolidated book value of DC-IP shares invested in kind and the market value of ¥6,419 million was recorded in extraordinary income as gain on change in equity. In addition, the difference between the market value of the additionally acquired DCH shares and equity method book value of ¥5,138 million was recorded in investment securities.

3. Reporting segment that included a divested business

China segment

4. Approximate amount of income or losses related to the business divested recorded on the quarterly consolidated statement of income for the consolidated period under review

The profit and loss included in the consolidated statement of income is negligible because DC-IP does not perform operating activities.

3. Supplemental Information

Overseas Sales

Previous Third Quarter ended December 31, 2019 (April 1, 2019 – December 31, 2019)

(Yen in millions, %)

	South Korea	China	Others	Total
Ⅰ Overseas Net Sales	42,522	5,216	4,273	52,011
Ⅱ Consolidated Net Sales				92,868
Ⅲ Percentage of overseas net sales in consolidated net sales	45.8	5.6	4.6	56.0

Current Third Quarter ended December 31, 2020 (April 1, 2020 – December 31, 2020)

(単位：百万円、%)

	South Korea	China	Others	Total
Ⅰ Overseas Net Sales	29,255	4,629	1,674	35,559
Ⅱ Consolidated Net Sales				66,638
Ⅲ Percentage of overseas net sales in consolidated net sales	43.9	6.9	2.5	53.4

(Note) Net sales are based on the customer's location and classified into countries or regions.