



President & CEO  
Kiyoshi Yasuno

## Belluna Co., Ltd. (9997)



### Company Information

Market	TSE 1st Section
Industry	Retail (commerce)
President	Kiyoshi Yasuno
HQ Address	4-2 Miyamoto-cho, Ageo-shi, Saitama
Year-end	End of March
Homepage	<a href="https://www.belluna.co.jp/">https://www.belluna.co.jp/</a>

### Stock Information

Share Price	Number of Shares Issued		Total Market Cap	ROE (Actual)	Trading Unit
¥732	97,244,472 shares		71,182 million	10.8%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥16.00	2.2%	¥107.99	6.8x	¥1,028.56	0.7x

\*The share price is the closing price on June 20.

\*Number of Shares Issued, ROE, DPS, EPS and BPS are actual results of the FY 3/19.

### Earning trends

Fiscal Year	Net Sales	Operating Income	Net Income	Net Income	EPS	DPS
March 2015 (Actual)	120,689	6,376	10,052	6,394	65.77	12.50
March 2016 (Actual)	131,742	8,366	7,105	3,544	36.45	12.50
March 2017 (Actual)	146,083	10,882	12,188	5,802	59.68	12.50
March 2018 (Actual)	161,673	13,008	13,248	9,665	99.41	12.50
March 2019 (Actual)	177,648	12,005	15,309	10,343	106.39	15.00
March 2020 (Forecast)	185,000	14,000	15,000	10,500	107.99	16.00

\* Unit: Million yen

\*Net income is profit attributable to owners of parent. Hereinafter the same shall apply.

This report outlines Belluna, the financial results for the term ended March 2019 and management policy and activities of the fourth management plan, etc.

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<Reference: Regarding Corporate Governance>

## Key Points

- The sales for the term ended March 2019 were 177.6 billion yen, up by 9.9% year-on-year, led by the Specialty Mail Order and Retail Store Sales businesses. The sales of the General Mail Order business declined. Operating income was 12 billion yen, down by 7.7% year-on-year. The Specialty Mail Order business increased profit, but operating income fell due to the increase in distribution and medium costs, M&A-related expenses, etc. Ordinary income was 15.3 billion yen, up 15.6% year-on-year thanks to the contribution of gain on valuation of derivatives. Both sales and profit were below their respective estimates.
- It is estimated that sales will grow by 4.1% year on year to 185 billion yen and operating income will rise 16.6% year on year to 14 billion yen. Sales are expected to increase in all segments, except for the General Mail Order business. Profit is expected to decrease for the General Mail Order business due to catalog paper costs, while profit is expected to increase in all other segments, particularly the Specialty Mail Order and Retail Store Sales, and the Property business. The dividend amount is estimated at 16.00 yen per share, up by 1.0 yen per share from the previous term. Payout ratio is estimated at 14.8%.
- In the third management plan ended by the term ended March 2019, target sales and ROE were achieved 1 year ahead. However, the target operating income was not achieved.
- After achieving record-high sales and profit in the third management plan, the company will incorporate changes in the external environment in the fourth management plan, and promote expanding and strengthening its 4 main businesses through “the stable growth of General Mail Order business,” “expansion of the Specialty Mail Order business,” “expansion and profitability improvements of the Retail Store Sales business,” and “expansion of the Property business, particularly profitable hotels.” The company will aim for revising upwardly estimates, while laying the groundwork to steadily achieve its goals, which are achieving sales of 220 billion yen, an operating income of 20 billion yen, ROE of 10% or more in the term ending March 2022, the final year of the management plan.
- Looking at the results of only the term ended March 2019, the sales and profit of the General Mail Order business decreased due to the change in the external environment such as the increase in shipping costs, and the company did not achieve the target sales or operating income. However, looking at the last 3 years of the third management plan, the company has been steadily showing results such as achieving the target sales and ROE 1 year ahead, strengthening the network of General Mail Order business, and rapidly growing the Specialty Mail Order. In the fourth management plan, we would like to pay attention to how the company implements business policies while conditions are against the core General Mail Order business, and the progress of expanding the Specialty Mail Order business overseas, which is expected to outperform the General Mail Order business in profit and become the cash cow for the company.

## 1. Company Overview

Belluna is a leading general catalog retailer. In addition to the mail-order business specializing in some genres, this company operates the Retail Store Sales Business, the Solution Business for providing corporations with its know-how and infrastructure that have been nurtured through its mail-order business, and so on. Its strengths and characteristics include a database of customers who are mainly married women, and stable profitability and growth potential based on portfolio management. It also conducts M&A actively.

### 1-1 Corporate History

In 1968, Mr. Kiyoshi Yasuno, who is currently the representative director and president of the company, started the business of selling seals door-to-door under the name of “Yukado.” Then, starting with the mail-order sale of clothes, the company started dealing in food products, cosmetics, etc. While operating the Specialty Mail Order Business, the company has enriched its business portfolio, including the Finance Business, Property Business, Retail Store Sales Business, Solution Business, etc. targeted at mail-order customers. In March 2000, the company was listed on the first section of the Tokyo Stock Exchange. Belluna actively conducts M&As to fortify the business base.

### 1-2 Management Philosophy

#### ◎Management Philosophy

Origin of our business	To contribute to our customers' lifestyle and happiness, by taking an international perspective to be the first company to provide a wide range of customers across the nation with an abundance of food, clothing, lifestyle and recreational products and services, with superior systems and planning for improved convenience, economy, fashion and assortment.
Ideal employees of our company	Our employees approach challenges with a cheerful and positive attitude, to do whatever possible to proactively improve customer satisfaction and broaden their abilities, in order to always maintain the confidence of our customers.
Ideal state of our company	We aim to develop overwhelming superiority as we compete with other companies in the areas of food, clothing, lifestyle and recreational goods and services, and with an image of stability, growth, continuity, and profitability to become an excellent company that attracts capable personnel and makes a contribution to society.

In addition, Belluna set “Basic Mind,” which describes the mindset of Belluna’s employees, and “Basic Action,” which is a code of conduct. Basic Mind, which is composed of “the awareness as a party involved,” “the awareness of profit,” “a sense of playing a game,” “positive thinking,” and “the willingness to grow,” and Basic Action, which is composed of “use of others,” etc., are what the employees of Belluna should return back to when facing a challenging problem.

### 1-3 Market Environment

According to “Commercial Statistics Table in 2014—Statistics for each business category (retail)” announced by the Ministry of Economy, Trade and Industry on March 9, 2016, the annual sales of products via mail order, catalogs, and the Internet amount to 3.9 trillion yen.

Detailed statistics have not been checked, but it seems that the catalog retail market has recently shrunk 1-2%, as competitors in the general mail-order field suffered a significant drop in sales while the online shopping market has grown rapidly.

Amid this situation, the General Mail Order Business segment of Belluna, in which catalog retail accounts for 80% of total sales although it is concentrating on online shopping business, increased sales 4.5% in the term ended March 2018, achieving an annual sales growth rate of 4.3% in the past 3 years and expanding its market share steadily.

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◎Comparison of major mail-order companies

Code	Corporate name	Sales	Sales growth rate	Operating income	Profit growth rate	Operating income ratio	ROE	Market cap	PER	PBR
3092	ZOZO	136,000	+14.9%	32,000	+24.7%	23.5%	28.6%	592,747	25.8	25.8
4921	Fancl	131,000	+6.9%	15,000	+21.1%	11.5%	12.8%	377,633	34.1	5.8
4927	Pola Orbis HLD	241,000	-3.0%	40,500	+2.5%	16.8%	4.3%	708,030	26.8	3.7
8005	Scroll	75,000	+5.4%	1,900	+11.9%	2.5%	3.0%	12,186	9.2	0.6
8165	Senshukai	94,000	-17.1%	-700	-	-	-23.6%	13,997	2.0	0.3
9997	Belluna	185,000	+4.1%	14,000	+16.6%	7.6%	10.8%	75,267	7.2	0.8

\* Unit: Million-yen, yen

\*Sales and operating income are the values estimated by the company for this term.

\*ROE is the actual result of the previous term.

\*Market Cap, PER and PBR are the values calculated from the closing prices on June 12, 2019.

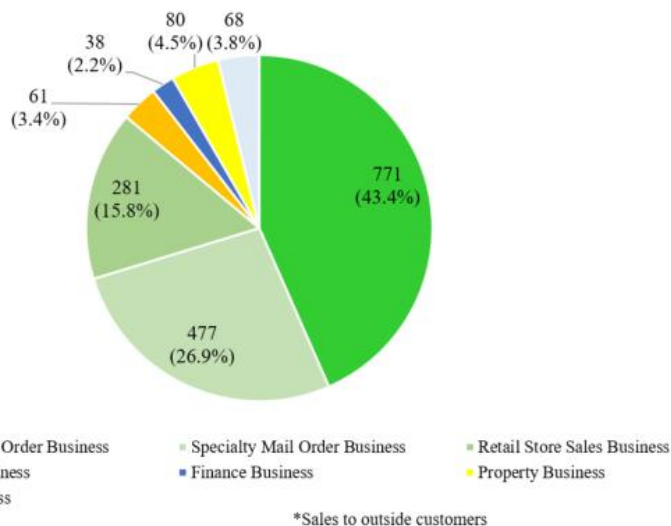
Compared with Scroll and Senshukai, which are competitors in the general mail-order field, Belluna has large sales and market cap, and high profit ratio and capital efficiency.

1-4 Business Contents

(1)Segments

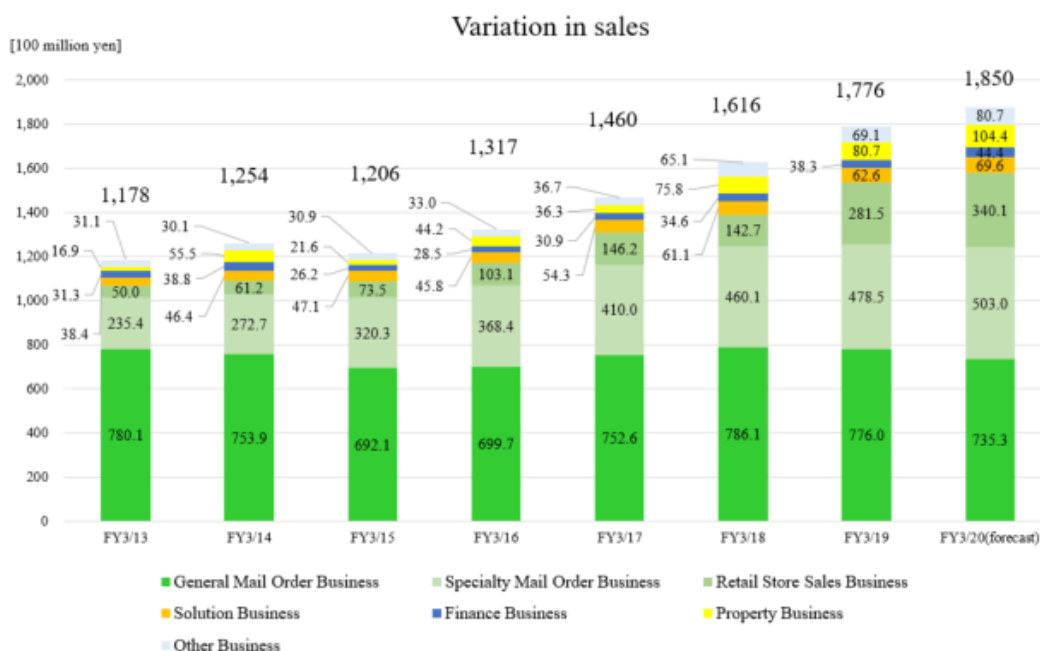
Belluna operates seven business segments: General Mail Order Business, which is its core business, Specialty Mail Order Business, Retail Store Sales Business, Solution Business, Finance Business, Property Business, and Other Business. The General Mail Order and Specialty Mail Order businesses account for about 70% of total sales.

Sales composition by segment  
(Term ended Mar. 2019; unit: 100 million yen)



(Produced by Investment Bridge with reference to the material of Belluna.)

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(Produced by Investment Bridge with reference to the material of Belluna)

## ① General Mail Order Business

### ◎ Outline

The company receives orders for and sells apparel, fashion goods, interior accessories, etc. via catalogs, flyers, and the Internet.

(Major catalogs)



(Taken from the website of Belluna)

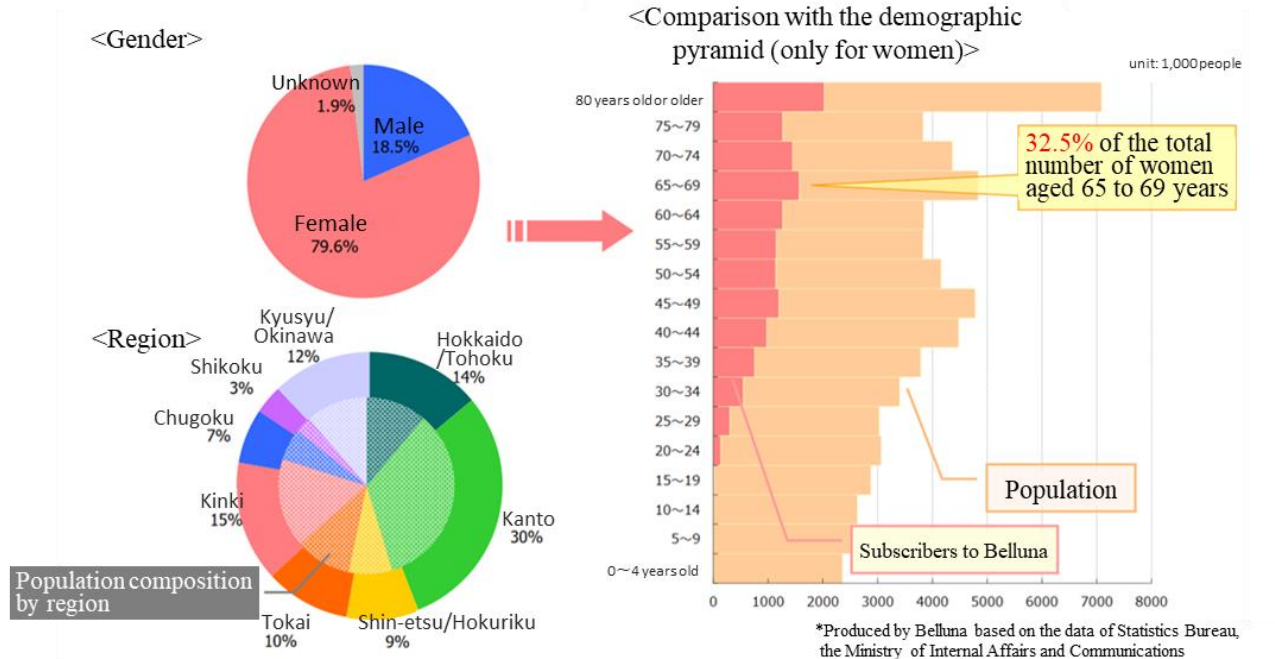
### ◎ Attributes of subscribers

As of the end of March 2019, the number of subscribers is about 19.6 million, and married women in their 40s or older account for about 80% of them.

The subscribers aged 65 to 69 years, who are major married women, make up 32.5% of the population of this age group in Japan, indicating an overwhelming market share.



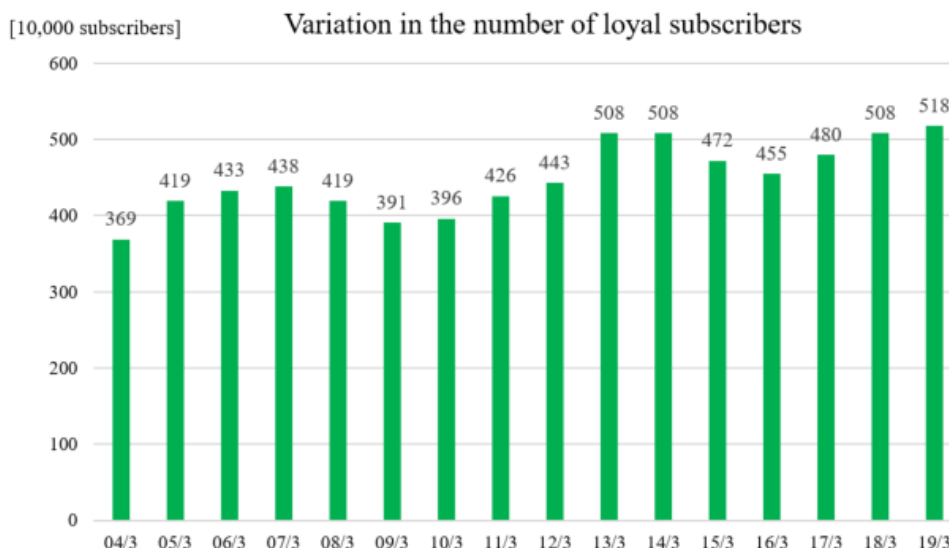
Characteristics of subscribers  
(as of the end of Mar. 2019)



(Taken from the reference material of the company)

The number of loyal subscribers, who are defined as subscribers who have purchased products within 2 years after registration, was 5.18 million in the term ended March 2019.

Despite some fluctuations, it is steadily increasing.



(Produced by Investment Bridge with reference to the material of Belluna)

Belluna employs about 70 merchandiser, and offers more fashionable products than leading supermarkets and women’s apparel shops. In addition, the company offers a variety of unrivaled catalogs targeted at customers in their 50s to 70s. Accordingly, it won overwhelming support from married women.

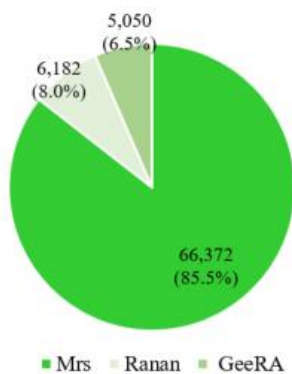
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◎Customer segments

Female customer segments are divided into three ones: “Mrs” for customers in their 50s or older, “Ranan” for customers in their 40s, and “GeeRA(former Ryu-Ryu)” for customers in their 30s. The company offers products tailored for the preferences and needs of each age group.

Sales composition  
(the term ended Mar. 2019; unit: million yen)

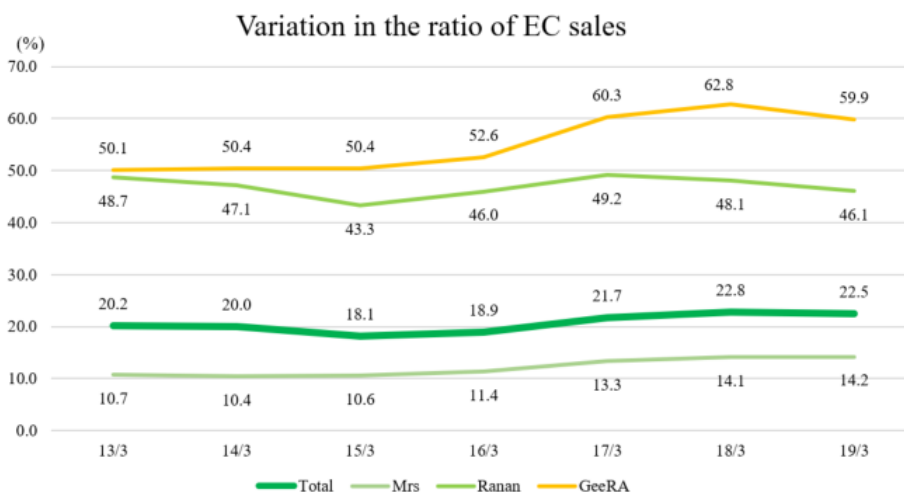


(Produced by Investment Bridge with reference to the material of Belluna.)

◎Efforts for developing e-commerce

Catalogs are primary sales channels, but the company has been striving to promote online shopping in recent years, which results in the steadily growing ratio of EC sales.

For “GeeRA” targeted at customers in their 30s, the sales via e-commerce (EC) now account for over 60%.



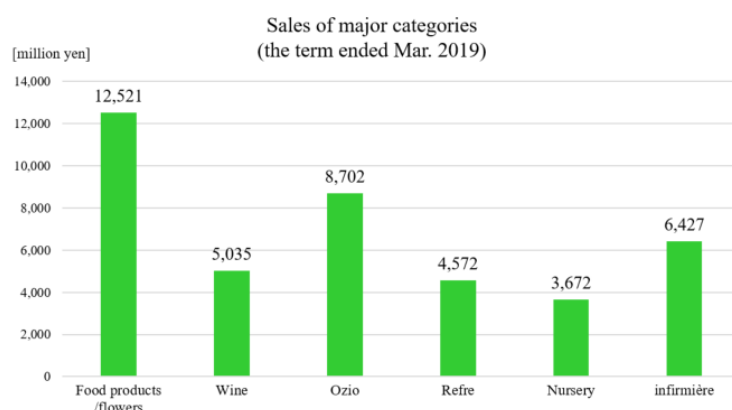
(Produced by Investment Bridge with reference to the material of Belluna)

②Specialty Mail Order Business

By specializing in specific genres, the company adds characteristics to its product lineup, prices, and services. Therefore, the company can retain customers easily, and receive orders from repeat customers.

Main genre	Catalog/website	Outline
Food products, flowers, and wine	Belluna Gourmet	Belluna handles food products and flowers. In addition to the sale of individual products, it offers a “periodic distribution service” for delivering products to subscribers every month, a “gift service” for mid-summer gifts, and so on.

	My Wine CLUB	Belluna directly imports wines that are rare in Japan, and won the largest share in the mail-order market for wine in Japan for 10 consecutive years (fiscal 2008 to fiscal 2017).
<b>Cosmetics</b>	Ozio	Belluna deals in cosmetics and supplements, such as facial washes, skin lotions, and milks, for which safety is pursued.
	Nachulife	All-in-one cosmetics are mainly handled. Especially, the company offers products composed of mainly skin-friendly plant ingredients.
<b>Supplements</b>	Refre	Under the concept: “Tomorrow’s body, today’s body,” Belluna deals in healthy food products and supplements made from ingredients selected rigorously after many quality tests. In 2013, the company established Refre Laboratory, to secure the safety of food and the quality of products, prevent health hazards, and so on.
<b>Mail order for nurses</b>	Nursery infirmière	Belluna operates “Nursery,” which offers products at reasonable prices, and “infirmière,” whose attractive features are its rich product lineup and collaborative products with other brands. It has an overwhelming share in the mail-order market for nurses.



(Produced by Investment Bridge with reference to the material of Belluna)

### ③Retail Store Sales Business

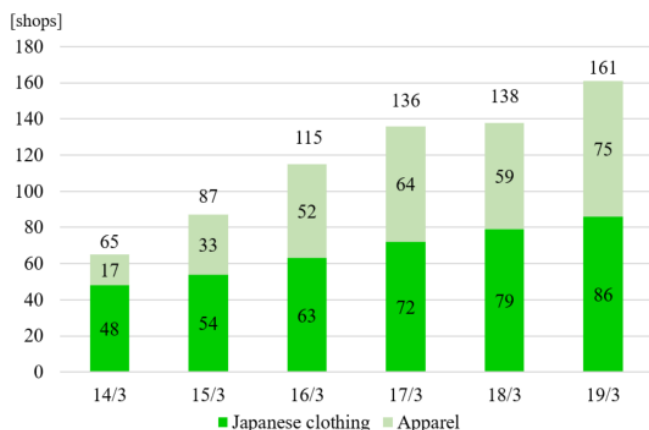
Aiming for a synergistic effect between the mail-order, online, and physical store sales channels, the company is targeting customers who are unreachable by mail-order by placing kimono and apparel stores in shopping centers and shopping malls.

In Japanese clothing field, the company operates “BANKAN” and “Wamonoya,” which sell kimono and Japanese clothing-related products. In addition to them, Sagami Group Holdings Co., Ltd., a seller of jewelry and other goods, was reorganized into a consolidated subsidiary in Jun. 2018.

Sagami Group Holdings runs stores under the two brand names “Sagami” and “Tokyo Masuiwaya.” They possess abundant knowledge and know-how about kimono culture and how to handle kimono, and excel in helping customers get dressed. Apparel stores BELLUNA offer casual clothes at low prices, targeted mainly at women in their 40s and 50s. The store area is about 30 tsubo (≒ 100 m<sup>2</sup>) for Japanese clothing stores, and 80 to 100 tsubo (≒ 265 to 330 m<sup>2</sup>) for apparel stores. The Japanese clothing stores are highly profitable, because there is a high average spending per customer. As of the end of March 2019, there were 86 Japanese clothing stores (not including Sagami and Tokyo Masuiwaya) and 75 apparel stores. The total number of stores was 161.



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(Produced by Investment Bridge with reference to the material of Belluna)

④Solution Business

By utilizing the know-how and infrastructure that have been nurtured through the mail-order business for many years, Belluna offers the “service of enclosing promotional flyers” and the “mail-order agency service” to corporations.

In the service of enclosing promotional flyers, the company encloses the flyers, product samples, etc. of client companies with products and catalogs and ships them to customers, by utilizing its enormous customer database. It is possible to narrow down target customers according to the needs of client companies. Accordingly, client companies can expect effective sales promotion.

“The mail-order agency service” is to offer a series of functions, including the infrastructure and know-how of Belluna, to enterprises that sell products by mail order. Belluna comprehensively undertakes the tasks of managing stocks at distribution warehouses, operating call centers, and shipping products to customers.

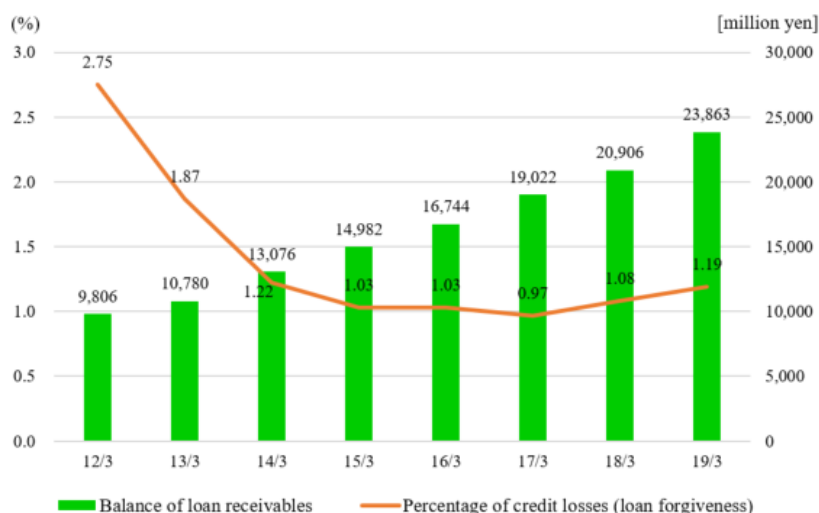
Even enterprises that are starting the mail-order business do not need to prepare their own infrastructure, and they can offer products and services swiftly at low prices.

⑤Finance Business

It is a consumer finance business utilizing the database developed through the mail-order business.

The company mainly introduces loans to mail-order customers by enclosing flyers, etc. Since the company possesses the data of the past purchases and payments by customers, credibility is high and the balance of loan receivables is expanding steadily, while the percentage of credit losses is low compared with other companies.

Its profitability is high, partially because the cost for reeling in borrowers is low as mail-order customers are targeted.



(Produced by Investment Bridge with reference to the material of Belluna)

## ⑥Property Business

The company leases real estate, such as office buildings, operates hotels, and so on.

## ⑦Other Business

The company operates the wholesale business targeted at department stores and co-op shops, and the insurance business.

### 1-5 Characteristics and Strengths

#### ①Customer database and know-how mainly for married women, which have been nurtured through the mail-order business for about 40 years

As mentioned in the section of business contents, about 80% of over 19 million subscribers of Belluna are married women in their 40s or older.

Belluna's female subscribers aged 65 to 69 years, who are dominant among married women, account for 32.5% of the population of this age group in Japan.

The competitive customer database and know-how, which have been developed through the mail-order business for about 40 years, are significant features that contribute to the creation of corporate value.

In the mail-order sale business, which is its mainstay, Belluna won strong support from married women by proposing products that can meet their needs based on the requests from customers, etc. grasped through sales and purchase activities and questionnaire surveys.

In the finance business, the company earn sales and profit stably by utilizing its database. In the solution business, the company creates new business opportunities by offering its customer database, know-how, and infrastructure.

#### ②Stable profitability and growth potential based on portfolio management

Another characteristic of Belluna is the business model called "portfolio management," which actualizes stable growth potential and profitability by conducting business in a multifaceted manner while utilizing its managerial resources nurtured through the mail-order business.

Based on this business model, the company disperses the risks of changes in social situations and economic trends, allows each business to exert its strengths as a mainstay, brings out the synergy among businesses, and actualizes stable profitability and growth potential.

### 1-6 Shareholder Return

Belluna determines dividends while considering its business performance and strategic investments for mid-term growth. This term(FY3/20), the company plans to pay 16 yen/share, up 1 yen/share from the previous year.

The company has been implementing a shareholders' benefit plan, and gives benefits twice a year to shareholders who hold 100 or more shares as of the end of March and the end of September every year. For the purposes of expressing gratitude to shareholders and deepening shareholders' understanding, the company announced the enrichment of the shareholders' benefit plan in November 2017, adding complimentary coupons that can be used in Belluna Net. There is no revision to the criteria for receiving shareholders' benefits, the date of issuance of coupons, or their effective periods.

	100 to 499 shares	500 to 999 shares	1,000 or more shares
Shareholders can choose any of the following: "General mail-order coupon," "Coupon exclusively for online shopping," and "Belluna's product (food product/wine)"	Worth 1,000 yen	Worth 3,000 yen	Worth 5,000 yen
Accommodation coupon of Urabandai Lake Resort	1 coupon	2 coupons	4 coupons
Accommodation coupon of Le Grand Kyu Karuizawa	1 coupon	1 coupon	1 coupon

\*The accommodation coupon of Le Grand Kyu Karuizawa is distributed once a year (issued in early December).

## BRIDGE REPORT



## 1-7 ROE analysis

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
<b>ROE (%)</b>	<b>10.0</b>	<b>8.4</b>	<b>4.4</b>	<b>7.0</b>	<b>10.9</b>	<b>10.8</b>
Net Income Margin (%)	5.59	5.30	2.69	3.97	5.98	5.82
Total Asset Turnover (times)	1.02	0.85	0.84	0.86	0.86	0.87
Leverage (times)	1.75	1.85	1.97	2.06	2.12	2.13

In the term ended March 2019, due to the increase in the ratio of net income to sales, ROE consecutively exceeded 10% over 2 terms. The goal of the third management plan to achieve ROE of 8% or more was achieved 1 year ahead. The goal of the fourth management plan is to achieve ROE of 10% or more by the end of the final year of the plan in the term ending March 2022.

## 2.Fiscal Year March 2019 Earnings Results

## (1)Consolidated Business Results

	FY3/18	Ratio to sales	FY3/19	Ratio to sales	YoY	Ratio to estimates
Sales	161,673	100.0%	177,648	100.0%	+9.9%	-1.3%
Gross profit	89,897	55.6%	101,364	57.1%	+12.8%	-
SG&A expenses	76,889	47.6%	89,359	50.3%	+16.2%	+2.7%
Operating income	13,008	8.0%	12,005	6.8%	-7.7%	-20.0%
Ordinary income	13,248	8.2%	15,309	8.6%	+15.6%	-1.2%
Net income	9,665	6.0%	10,343	5.8%	+7.0%	-1.5%

\*Unit: Million yen

\*Net income is profit attributable to owners of parent.

## Sales increased, and operating income declined, while ordinary income increased year on year.

Sales were 177.6 billion yen, up by 9.9% year-on-year, led by the Specialty Mail Order and Retail Store Sales businesses. The sales for the General Mail Order business declined.

Operating income was 12 billion yen, down by 7.7% year-on-year. The Specialty Mail Order business increased profit, but operating income fell due to the increase in distribution and medium costs, M&A-related expenses, etc. Ordinary income was 15.3 billion yen, up by 15.6% year-on-year thanks to the contribution of gain on valuation of derivatives. Both sales and profit were below their respective estimates.

## (2)Trend of each segment

	FY3/18	Composition Ratio	FY3/19	Composition Ratio	YOY	Ratio to estimates
<b>Sales</b>						
General Mail Order Business	78,614	48.6%	77,603	43.7%	-1.3%	-7.6%
Specialty Mail Order Business	46,005	28.5%	47,852	26.9%	+4.0%	-5.1%
Retail Store Sales Business	14,265	8.8%	28,146	15.8%	+97.3%	+68.1%
Solution Business	6,112	3.8%	6,257	3.5%	+2.4%	-0.1%
Finance Business	3,457	2.1%	3,829	2.2%	+10.8%	-0.3%
Property Business	7,582	4.7%	8,072	4.5%	+6.5%	-35.5%
Other Business	6,511	4.0%	6,912	3.9%	+6.2%	-6.9%
Adjustments	-875	-	-1,026	-	-	-
Total	161,673	100.0%	177,648	100.0%	+9.9%	-1.3%

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Operating income						
General Mail Order Business	4,263	5.4%	3,816	4.9%	-10.5%	-12.4%
Specialty Mail Order Business	2,662	5.8%	3,260	6.8%	+22.5%	-12.1%
Retail Store Sales Business	1,157	8.1%	1,000	3.6%	-13.6%	-1.0%
Solution Business	2,370	38.8%	2,272	36.3%	-4.1%	-1.3%
Finance Business	1,567	45.3%	1,759	45.9%	+12.3%	+0.6%
Property Business	1,036	13.7%	244	3.0%	-76.4%	-86.0%
Other Business	220	3.4%	237	3.4%	+7.7%	-41.5%
Adjustments	-270	-	-586	-	-	-
Total	13,008	8.0%	12,005	6.8%	-7.7%	-20.0%

\*Unit: Million yen

\*The composition ratio of income means the ratio of income to sales.

#### ◎General Mail Order Business

Sales and profit declined.

Sales decreased due to postponing of the catalog's issuance, etc. Furthermore, profit fell due to increased shipping fees and medium costs. Both sales and profit were below their respective estimates.

#### ◎Specialty Mail Order Business

Sales and profit grew.

The sales in the cosmetics business and the mail-order business targeting nurses were favorable. The profit increased thanks to the improved profitability in the healthy food product business (refre) and the mail-order business targeting nurses. Both sales and profit were below their respective estimates.

#### ◎Retail Store Sales Business

Sales grew and profit decline.

Sales increased thanks to the consolidation of Sagami Group Holdings Co., Ltd., however, profit decreased because of the expenses associated with the opening of new stores, etc. Sales exceeded the estimates, while profit did not.

#### ◎Solution Business

Sales grew and profit declined.

The performance of the service in enclosing promotional flyers was sluggish due to reduction of the transactions with major clients. However, the mail-order agency service has performed well and sales increased. On the other hand, profit decreased due to the upfront investments, etc. to launch the re-employment support service targeting nurses.

Both sales and profit were below their respective estimates.

#### ◎Finance Business

Sales and profit rose.

The balance of loan receivables in the domestic consumer finance business increased. Sales was below its estimates, while profit exceeded it.

#### ◎Property Business

Sales grew and profit declined.

While sales increased thanks to the opening of new hotels, profit decreased because of the expenses associated with starting the business operations.

Both sales and profit were below their respective estimates.

## BRIDGE REPORT



## ◎Other Business

Sales and profit rose.

Sales of the wholesale business grew, but both sales and profit fell short of estimates.

**(3)Financial Condition and Cash Flows**

## ◎Main BS

	End of March 2018	End of March 2019		End of March 2018	End of March 2019
Current assets	89,989	99,244	Current liabilities	42,331	53,463
Cash and deposits	22,747	22,071	Trade payables	18,381	17,093
Trade receivable	10,009	9,739	Short-term interest-bearing debts	7,652	14,368
Inventories	19,227	22,319	Noncurrent liabilities	60,556	59,790
Noncurrent assets	105,956	114,542	Long-term interest-bearing debts	55,472	55,339
Property, plant and equipment	75,549	83,204	Total liabilities	102,888	113,253
Intangible assets	11,737	11,253	Net assets	93,058	100,533
Investments and other assets	18,670	20,084	Retained earnings	71,809	80,816
Total assets	195,946	213,786	Total liabilities and net assets	195,946	213,786

\*Unit: Million yen

Total assets increased by 17.8 billion yen to 213.7 billion yen thanks to the increase in property, plant and equipment, etc. associated with the M&A of Sagami Group Holdings Co., Ltd., etc. Total liabilities increased by 10.3 billion yen to 113.2 billion yen due to the increase in short-term loans payable, etc. Net assets increased by 7.4 billion yen to 100.5 billion yen due to the increase in retained earnings and such. As a result, capital-to-asset ratio decreased by 0.4 points from the end of the previous term to 46.7%.

## ◎Cash Flows

	FY3/18	FY3/19	YOY
Operating CF	8,924	8,558	-366
Investing CF	-12,853	-12,724	+129
Free CF	-3,929	-4,166	-237
Financing CF	6,942	3,577	-3,365
Balance of cash equivalents	22,028	21,351	-677

\*Unit: Million yen

The surplus of operating cash flow shrank as the loss on valuation of derivatives was converted to valuation gains, etc. Investing cash flow remained almost unchanged.

The surplus of financing CF shrank as there were no longer proceeds from issuance of bonds in the previous term. The cash position declined.

**3.Fiscal Year March 2020 Earnings Estimates****(1)Full-year Earnings Estimates**

	FY 3/19	Ratio to sales	FY 3/20 (Est.)	Ratio to sales	YOY
Sales	177,648	100.0%	185,000	100.0%	+4.1%
Operating income	12,005	6.8%	14,000	7.6%	+16.6%
Ordinary income	15,309	8.6%	15,000	8.1%	-2.0%
Net income	10,343	5.8%	10,500	5.7%	+1.5%

\*Unit: Million yen

\*The estimated values are those announced by the Company. Net income is profit attributable to owners of parent.

## BRIDGE REPORT



Sales and profit are expected to increase

Sales are expected to be 185 billion yen, increased by 4.1% year on year and operating income is expected to be 14 billion yen, increased by 16.6% year on year.

Dividend is expected to be 16.00 yen/share, increased by 1.0 yen/share. The expected payout ratio is 14.8%.

**(2) Trends of each segment**

	FY 3/19	Composition ratio	FY 3/20 (EST.)	Composition ratio	YOY
<b>Sales</b>					
General Mail Order Business	776.0	43.7%	735.3	39.7%	-5.3%
Specialty Mail Order Business	478.5	26.9%	503.0	27.2%	+5.1%
Retail Store Sales Business	281.5	15.8%	340.1	18.4%	+20.8%
Solution Business	62.6	3.5%	69.6	3.8%	+11.2%
Finance Business	38.3	2.2%	44.4	2.4%	+15.9%
Property Business	80.7	4.5%	104.4	5.6%	+29.3%
Other Business	69.1	3.9%	80.7	4.4%	+16.8%
Adjustments	-10.3	-	-27.5	-	-
Total	1,776.5	100.0%	1,850.0	100.0%	+4.1%
<b>Operating income</b>					
General Mail Order Business	38.2	4.9%	29.0	3.9%	-24.1%
Specialty Mail Order Business	32.6	6.8%	36.7	7.3%	+12.6%
Retail Store Sales Business	10.0	3.6%	13.6	4.0%	+36.0%
Solution Business	22.7	36.3%	23.8	34.2%	+4.8%
Finance Business	17.6	45.9%	19.8	44.6%	+12.5%
Property Business	2.4	3.0%	15.2	14.6%	+533.3%
Other Business	2.4	3.4%	4.5	5.6%	+87.5%
Adjustments	-5.9	-	-2.4	-	-
Total	120.1	6.8%	140.0	7.6%	+16.6%

\*Unit: 100 million yen

\*The composition ratio of income means the ratio of income to sales.

Sales are expected to increase in all segments, except for the General Mail Order business.

Profit is expected to decrease for the General Mail Order business due to catalog paper costs, however, profit is expected to increase in all other segments, particularly, the Specialty Mail Order, Retail Store Sales, and the Property business.

**4. Review on the third management plan**

Regarding the third management plan finished in the term ended in March 2019, the company self-evaluates itself as below.

**(1) Numerical goal**

	Final FY Target	Achievement	
Sales	160 Billion Yen (CAGR +6.9%)	177.6 Billion Yen (CAGR +10.5%)	Achieved
Operating income	16 Billion Yen (CAGR +20.6%)	12 Billion Yen (CAGR +12.8%)	Unachieved
ROE	More than 8%	10.9%	Achieved

Sales and ROE has been achieved one year ahead while operating income was not achieved.



## (2) About the four main businesses

### ① Stable growth of the General Mail Order business

Despite the unexpected changes to the external environment such as the increase in shipping costs, the company has proactively taken steps to strengthen the network, resulting both sales and profit grew.

### ② Expanding the Specialty Mail Order business

The measures for developing products, strengthening the network, etc. particularly for the gourmet business, the wine business, the cosmetics mail-ordering business, and the mail-order business targeting nurses were successful, and the Specialty Mail Order business experienced substantial growth.

### ③ Expanding the Retail Store Sales by opening new stores

The number of stores of the Japanese clothing business, BANKAN Wamonoya has expanded to 86 and the company acquired Sagami Group Holdings Co., Ltd. through M&A.

The apparel stores business restored profitability and increased the number of stores to 75.

### ④ Strengthening the Property business

The company managed to lay the groundwork for the fourth management plan because the leasing business expanded the number of hotels to 7 and achieved stable profit increase.

## 5. The fourth management plan: Management policy and activities

The company plans to implement measures for each business according to the current business environment described below.

### (1) The management environment

The company will set a management policy that is able to flexibly respond to changes in the external environment such as the prevailing deflation mindset, the advance of the Internet, the increase of delivery service ("takkyubin") and shipping costs, by changing the internal environment such as "expansion of single item sales including Ozio, Nursery, and wine," "developing each portfolios," and "recovery of the hotel business."

### (2) The fourth management plan

#### ① Positioning

After achieving record-high sales and profit in the third management plan, in the fourth management plan, the company will incorporate changes in the external environment and lay the groundwork to achieve its goals.

The company will aim for revising upwardly estimates, while steadily achieving its sales and profit goals.

#### ② Numerical goal

	Final FY target
Sales	220 billion yen (CAGR +7.4%)
Operating income	20 billion yen (CAGR +18.5%)
ROE	Ensure more than 10%

### (3) Measures for the four main businesses

The company will work towards expanding and strengthening its 4 main businesses through "the stable growth of General Mail Order business," "expansion of the Specialty Mail Order business," "expansion and profitability improvements of the Retail Store Sales business," and "reinforcement of the Property business, particularly the profitable hotels."

#### ① Stable growth of the General Mail Order business

Sales and profit decreased due to the increase in delivery, shipping, and paper costs causing the company to hit a plateau this term, however, from the next term onwards, the company will overcome challenges of the external environment and achieve growth.

### ◎Expansion of catalog retail

The company aims to achieve sales of 100 billion yen in the fourth and fifth management plans, by working towards “providing products for a wide range of customers from people in their 20s to 70s,” “strengthening the men’s underwear business,” and “developing products that reflect the characteristics of Belluna.”

### ◎Upgrading of online shops

The company will work on creating a winning strategy specialized for businesses aimed at women and young generation.

Regarding the “Belluna website for Mrs.,” the company set the goals of increasing online-shop-limited products, expanding the mainstay products, strengthening featured contents specialized in Mrs, and stopping depending on sales.

As for the “Ryu-Ryu mall” targeting at young customers, the company will focus on increasing the number of opened shops (expanding products' tastes and product numbers) and strengthening their product selection capabilities as well as their ability to make proposals of their recommendations to customers.

The “RyuRyu mall”, a fashion EC mall, targeting young customers opened in June 2019.

The concept behind it is to develop a plethora of sizes aimed at young customers in their 20s to 30s and take advantage of the company’s experience in developing products including abilities of selection and recommendation to customers.

Starting with 40 shops, the company aims to expand the number of shops to 70 by the end of the term ending March 2020.

It aims to achieve a product handling volume of 10 billion yen.

### ◎Synergetic effects among catalogs, the Internet, and shops

The synergistic effects due to collecting and utilizing a list of users will increase response in the mail-order business, improve CVR in the online business, and enhance sales at physical stores.

Additionally, there is a merit in being able to offset the burden of expenses for effective TV commercials through sales growth.

### ②Expansion of the Specialty Mail Order business

By polishing their products development capabilities and increasing EC ratio, the company can achieve both profitability and growth. Moreover, they will proactively proceed with overseas expansion for building a new profitability pillar and achieving the objectives earlier than expected.

### ◎Cosmetic mail-order “Ozio”

By continuously developing and nurturing hit products, which would become pillars for the domestic market, a high level of growth and profitability can be maintained.

In the overseas market, Ozio Taiwan achieved full-year profitability. The company is considering expansion of business from Taiwan to all countries in Asia.

### ③Expansion of the Retail Store business and improving profitability

#### ◎Japanese clothing stores

The company aims to achieve overwhelming sales and profit to be No.1 in Japan by demonstrating the synergetic effects of BANKAN Wamonoya and the Sagami Group.

#### ◎BANKAN Wamonoya

In the fourth management plan, the company aims to achieve growth and profitability and become No.1 in the Japanese clothing industry by utilizing its ability to cultivate new markets.

#### ◎Sagami Group Holdings Co., Ltd.

The company will take the following measures to restore profitability and growth:

-Perception reforms: fostering a sense of ownership, positive thinking, game style, desire for growth, and profit awareness.

-Measures to acquire new customers: the company will work on educating customers, increasing in Yukata sales, offering Komon (fine patterns) or solid color fabrics, proposing Kimono as casual wear, etc.

-Aiming for reviving the kimono culture.

### ◎Apparel shops

The company will shift to pursuing growth steadily. It will reduce the speed of opening new shops down by 15 to 20 annually.

### ④Strengthening the Property business with a focus on profitable hotels

The company will acquire stable profit in the domestic leasing business led by the performance of the promising hotel business

Below are the hotel opening achievements and plans

(Hotel opening achievements)

Region	Facility name	No. of rooms	Hours of operation
Okinawa	Hotel Hamahigajima Resort	29	May 2013
Fukushima	Urabandai Lake Resort	324	October 2015
Nagano	Le Grand Kyu Karuizawa Hotel	43	July 2016
Kyoto	Kyoto Granbell Hotel	105	July 2017
Nagano	Le Grand Karuizawa Hotel & Resort	58	July 2018
Sri Lanka	Le Grand Galle Hotel	57	July 2018
Maldives	The Westin Maldives Miriandhoo Hotel & Resort	70	October 2018

(To be opened)

Region	Facility name (tentative)	No. of rooms	Hours of operation
Osaka	Osaka East Umeda Hotel	117	June 2020(est.)
Sri Lanka	Granbell Hotel Colombo	292	September 2020(est.)
Osaka	Osaka Honchou Hotel	194	January 2021(est.)
Hokkaido	Sapporo Hotel	236	January 2021(est.)
Hokkaido	Sapporo Susukino Hotel	300	May 2021(est.)

There are no new openings this term, but the company plans to open 4 hotels in FY 3/2021, 1 hotel in FY 3/2022, all of which are accommodation-specialized types.

### (4)Numerical goals by segment

	FY3/19	FY3/20	FY3/21	FY3/22	CAGR
<b>Sales</b>					
General Mail Order Business	776.0	735.3	753.8	811.1	+1.5%
Specialty Mail Order Business	478.5	503.0	533.5	603.5	+8.0%
Retail Store Sales Business	281.5	340.1	365.3	410.8	+13.4%
Solution Business	62.6	69.6	73.6	82.2	+9.5%
Finance Business	38.3	44.3	49.9	56.8	+14.0%
Property Business	80.7	104.4	159.0	181.0	+30.9%
Other Business and Adjustments	58.8	53.3	65.0	54.6	-2.4%
<b>Total</b>	<b>1776.5</b>	<b>1,850.0</b>	<b>2,000.0</b>	<b>2,200.0</b>	<b>+7.4%</b>
<b>Operating income</b>					
General Mail Order Business	38.2	29.0	38.1	47.8	+7.8%
Specialty Mail Order Business	32.6	36.7	41.7	51.4	+16.4%
Retail Store Sales Business	10.0	13.6	17.8	25.1	+35.9%
Solution Business	22.7	23.8	28.7	31.4	+11.4%
Finance Business	17.6	19.8	21.9	26.3	+14.3%
Property Business	2.4	15.2	24.0	31.3	+135.4%
Other Business and Adjustments	-3.4	2.0	-2.2	-13.2	-
<b>Total</b>	<b>120.1</b>	<b>140.0</b>	<b>170.0</b>	<b>200.0</b>	<b>+18.5%</b>

\*Unit: 100 million yen and %. CAGR(compound average growth rate) are values starting from FY3/19 March to FY3/22 March.

## 6. Conclusions

Looking at the results of only the term ended March 2019, the sales and profit of the General Mail Order business decreased due to the change in the external environment such as the increase in shipping costs, and the company did not achieve the target sales or operating income. However, looking at the last 3 years of the third management plan, the company has been steadily showing results such as achieving the target sales and ROE 1 year ahead, strengthening the network of General Mail Order business, and rapidly growing the Specialty Mail Order. In the fourth management plan, we would like to pay attention to how the company implements business policies while conditions are against the core General Mail Order business, and the progress of expanding the Specialty Mail Order business overseas, which is expected to outperform the General Mail Order business in profit and become the cash cow for the company.

### <Reference: Regarding corporate governance>

#### ◎Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	9 directors, including 2 external ones

#### ◎Corporate Governance Report

Last Update: December 20, 2018.

#### <Basic policy>

Our basic policy for corporate governance is to streamline business operation by allowing operating officers to have the authority and responsibility for their businesses under the policy determined by the board of directors, and establish compliance systems and effective management systems by enhancing the fairness and transparency of business administration. In addition, we organized a compliance committee inviting outside intellectuals, granting it authority, so that a third party's viewpoint would be reflected in management decisions.

#### <Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
<Supplementary Principle 1-2-(4)>	Taking shareholder composition into account, we post English convocation notices on our website to make it easier for shareholders to examine items on the agenda, whether they are from Japan or overseas. We will consider using an electronic voting platform in the future.
<Supplementary Principle 4-10-(1)>	We currently have two independent outside directors. The independent outside directors express their opinions and provide advice as necessary to both individual directors and the Board of Directors, utilizing their specialized knowledge and extensive experience. From now on, we will consider setting up a voluntary organization whose main members consist of independent outside directors if necessary.
<Supplementary Principle 4-11-(3)>	As for the analysis and evaluation of the effectiveness of the board of directors, we will keep discussing concrete evaluation methods, etc. from the viewpoint of upgrading the functions of the board of directors.

## &lt;Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)&gt;

We disclose the compliance with each principle of the corporate governance code under “Our Efforts Towards the Corporate Governance Code” at the following company website (corporate governance).

Principles	Disclosure contents
【Principle 1-4】	In order to foster good business relations with business partners and carry out business smoothly, we may hold their shares as requested by them. We judge whether or not to invest while comprehensively considering the benefits to our corporate group due to the strengthening of business relations, investment amounts, etc. As for the exercise of voting rights, we check whether proposed bills would degrade shareholder value, and consider the situations of target companies for investment, etc.
【Basic principle 5】	In order to contribute to sustainable growth and the mid/long-term improvement of corporate value, we recognize that we should have constructive dialogues with shareholders also outside general meetings of shareholders and explain our management policy to shareholders clearly and understandably, to win the understanding of shareholders. Therefore, we strive to proactively have dialogues with investors by developing IR systems and holding individual IR meetings and sessions for briefing our company to individual investors in addition to the results briefing session held twice a year, so that they will understand our company more deeply.

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