



President Toshiaki Ishii

NARUMIYA INTERNATIONAL Co., Ltd. (9275)



Corporate Information

Exchange	TSE 1 st Section
Industry	Retail Business (Commerce)
President, representative	Toshiaki Ishii
Address	2-4-1 Shibakoen, Minato-ku, Tokyo
Year-end	February
URL	http://www.narumiya-net.co.jp/

Stock Information

Share Price	Shares Outstanding		Total Market Cap	ROE (Actual)	Trading Unit
¥575	10,122,830 shares		¥5,814 million	23.0%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
TBD	-	TBD	-	¥428.24	1.3 times

*The share price is the closing price on April 30. Each figure was taken from the brief report on results for the term ended Feb. 2020. The earnings forecast for this term is still to be determined.

Earnings Trends

Fiscal Year	Net Sales	Operating Profit	Ordinary Profit	Net Income	EPS	DPS
Feb. 2017 (Actual)	23,474	1,157	892	708	74.99	-
Feb. 2018 (Actual)	26,954	1,404	1,280	760	80.43	-
Feb. 2019 (Actual)	29,700	1,625	1,505	926	94.94	31.00
Feb. 2020 (Actual)	32,962	1,664	1,622	999	99.29	34.00
Feb. 2021 (Estimate)	-	-	-	-	-	-

*Unit: Million yen, yen. Earnings forecast for FY February 2021 is to be determined. The results for the term ended February 2017 and the term ended February 2018 are consolidated, and the results for the term ended February 2019 are non-consolidated, net income and EPS are the values after the adjustment of a gain on extinguishment of tie-in shares of 875 million yen. The results for the term ended February 2020 and the term ending February 2021 are consolidated. As for DPS (dividend per share), only the amounts after listing are indicated.

This report outlines Narumiya International Co., Ltd. and includes the fiscal year ended February 2020.

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Key Points

- Narumiya International plans and manufactures clothes for babies, toddlers, and juniors*, and sells them via department stores, shopping centers (SCs), and e-commerce. As its characteristics and strengths, the Company handles a broad range of brands for each sales channel, and possesses top-class brand power, merchandising capability, excellent customer assets, etc. The Company aims to grow further by expanding shopping center (SC) channels and e-commerce, cultivating the Chinese market, offering intangible services, and so on. (babies and toddlers: 0 to 7 years old; juniors: 8 to 15 years old)
- For the term ended Feb. 2020, sales and profit grew. Sales were 32,962 million yen, up 11.0% year on year. The sales via shopping centers (SCs) and e-commerce (EC) increased by double digits, indicating healthy performance. The sales from existing stores grew 1.9% year on year. The sales from all stores rose 7.8% year on year. Operating profit was 1,664 million yen, up 2.5% year on year. SG&A expenses, including rents that depend on sales and costs for distributing products via other company's online shops, augmented 12.7% year on year, but it was offset by the sales growth and the improvement in gross profit rate. The goodwill amortization of Heartfeel Co., Ltd. was 45 million yen. (Since the results for the term ended Feb. 2019 are non-consolidated and the results for the term ended Feb. 2020 are consolidated, the rate of change is just for your reference.)
- Due to the spread of the new coronavirus, sales at stores dropped considerably in March and April. The sales via e-commerce (EC) are healthy. Sales are still affected by the voluntary restraint of going out, the temporary closure and shortening of business hours of commercial facilities, and so on. The consolidated earnings forecast for the term ending Feb. 2021 has not been announced because it is difficult to conduct rational estimation. The company plans to announce it in the future as soon as it becomes able to conduct appropriate and rational estimation.
- We interviewed President Ishii about the points of the results in the previous term, the impact of the new coronavirus, their countermeasures against it, the progress of their growth strategy, etc.
- The degree of the impact of the new coronavirus is still unclear, so investors have no choice but to wait for the results in the first quarter. As mentioned by President Ishii, there exist some positive factors although the recent situation is severe, as the company is pursuing growth by entering the fields from which its competitors withdrew through appropriate marketing and acquiring new brands through M&A, under the basic strategy of earning profits as a survivor in Japan, where the birthrate is declining.
- President Ishii considers that there may emerge new business chances although consumer behavior may change negatively after the spread of the new coronavirus subsides and a turning point is whether or not to meet consumer needs after marketing. In this situation, the strengthening and enrichment of the e-commerce (EC) channel would be a key to the acceleration of growth rate in the short, medium, and long terms.

1. Company Overview

Narumiya International plans and manufactures clothes for babies, toddlers, and juniors, and sells them via department stores and directly managed shops in shopping centers (SCs). Its e-commerce, too, is rapidly growing. As of 2019, the number of brands is about 20. As its characteristics and strengths, the Company handles a broad range of brands for each sales channel, and possesses top-class brand power, merchandising capability, which enables the successful operation of two sales channels, excellent customer assets, etc.

The Company aims to grow further by expanding shopping center (SC) channels and e-commerce, cultivating the Chinese market, offering intangible services, and so on.

【1-1 Corporate History】

Its predecessor is the Japanese clothes wholesaler Narumiya Orimono, which started business in Hiroshima in 1904. In 1952, Narumiya Orimono Co., Ltd. was established. In 1979, its headquarters was opened in Aoyama, Tokyo, and the Company was renamed Narumiya Co., Ltd. It expanded business throughout Japan, and after Company split-up and business transfer, the corporate name was changed to Narumiya International Co., Ltd. in August 1995. Its business grew, as the Company sold mainly colorful fashion items and products with original mascots, such as “mezzo piano” and “ANGEL BLUE” at directly managed shops in department stores and wholesaled them to specialized shops. It opened shops actively in department stores and fashion buildings throughout Japan, and in March 2005, it was listed in the JASDAQ market.

However, the Company failed to swiftly break away from the dependence on department stores and change its brand concept. Then, its sales and profit declined from the fiscal year in which it was listed in the stock market. Under the guidance of new shareholders, it cultivated new sales channels, established new companies, conducted M&A, entered the Chinese market, withdrew unprofitable brands, relocated the headquarters, and strived to reduce fixed costs, such as personnel expenses, but its performance did not recover. In order to promote speedy structural reform, the Company was delisted in March 2010.

After the delisting, Mr. Toshiaki Ishii, the former president of Adastria Co., Ltd. (1st section of TSE, 2685), was brought on board, in order to recover the business performance.

Mr. Ishii, who was appointed as representative director / chief executive officer / president in June 2010, started selling the toddler’s size products of the brand “petit main” at shopping centers in March 2011, renewed EC systems, shifted from department stores to shopping centers, and concentrated managerial resources into e-commerce, to upgrade its business portfolio.

In addition, the Company proceeded with the reform of its procurement system, effective cost reduction, etc. and succeeded in reforming its business structure, recovering its performance steadily.

In September 2018, it was listed in the second section of Tokyo Stock Exchange, and then listed in the first section of TSE in September 2019.

After the delisting, the Company underwent the transfer of shares, absorption-type merger, the change of the corporate name, etc. due to the replacement of shareholders, and in March 2018, the current Narumiya International Co., Ltd. was established. This is different in form from that before the delisting.

【1-2 Management philosophy】

Narumiya International upholds the following vision, mission, and value.

Vision	To become an enterprise that will be loved by all generations
Mission	To create “a moment,” “a lifestyle,” and “a future” through creative business activities
Value	Each employee takes action as a professional.

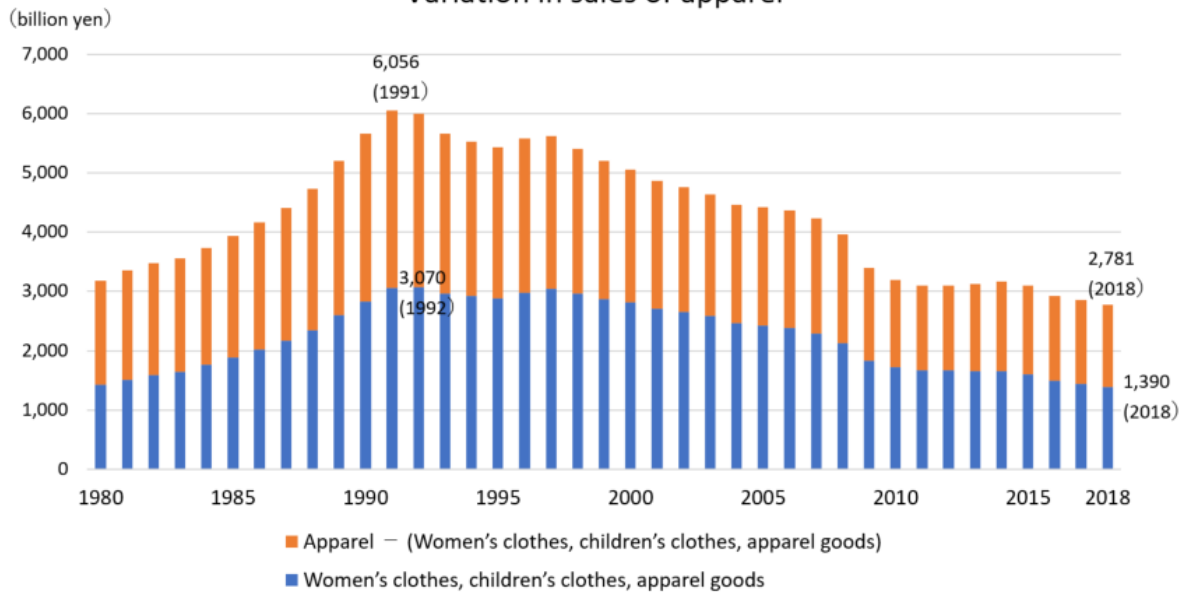
【1-3 Market environment】

According to Current Survey of Commerce: Sales of each product at department stores and supermarkets by the Ministry of Economy, Trade and Industry, the sales of clothes at department stores have been declining since the peak in the early 1990s, and the total sales of clothes, the sales of women’s clothes, children’s clothes, and apparel goods in 2018 were 45% of their respective peak sales.

The environment surrounding department stores is severe, due to the progress of deflation, the changes in consumer mind, etc. and it is

difficult to expect that it will improve considerably in the future.

Variation in sales of apparel

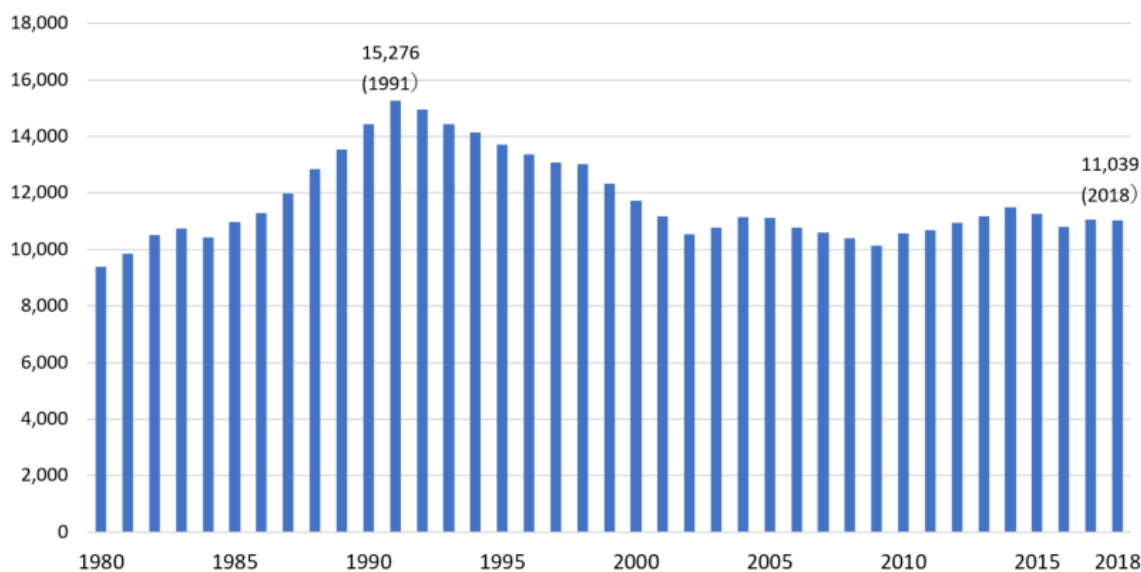


* This graph was produced with reference to the sales at department stores reported in "Current Survey of Commerce: Sales of each product at department stores and supermarkets" by the Ministry of Economy, Trade and Industry.

However, according to the commercial sales in each business category (retail) in Current Survey of Commerce, the sales of "textiles, clothes, and articles of daily use" in 2018 have decreased to around 70% of the peak in 1991, but have bottomed out and have been on a plateau.

Simple comparison is impossible, but it can be inferred that sales channels other than department stores have been healthy.

Variation in sales of textiles, clothes, and articles of daily use

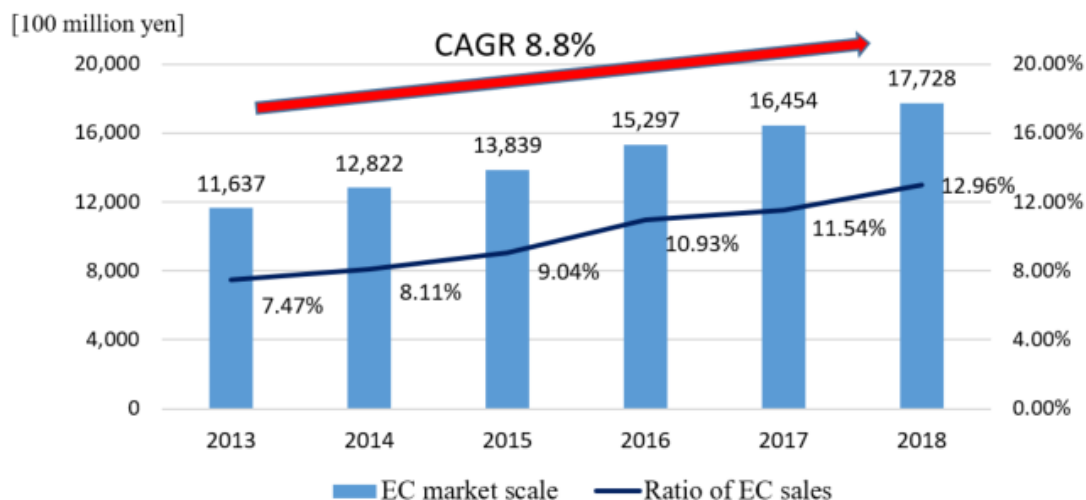


Source: "Current Survey of Commerce: commercial sales in each business category--retail" by the Ministry of Economy, Trade and Industry.

On the other hand, according to "E-commerce Market Survey" by the Ministry of Economy, Trade and Industry, the scale of the BtoC-EC market for "clothes, apparel goods, etc." in 2018 was 1,772.8 billion yen, up 7.7% year on year. Since 2013, CAGR has grown 8.8%. In addition, the ratio of EC sales (the ratio of the EC market scale to the scale of all markets of commercial transactions, including those

by phone, fax, e-mail, and face-to-face) has steadily grown, and the weight and importance of EC in the apparel market are expected to increase further.

Scale of the BtoC-EC market for “clothes, apparel goods, etc.” and the ratio of EC sales



*“E-commerce Market Survey” by the Ministry of Economy, Trade and Industry

【1-4 Business description】

Narumiya International handles clothes for babies and kids in the format of SPA (specialty store retailer of private label apparel).

(1) Brands the Company handles

For respective sales channels, the Company offers the following brands for babies, toddlers, and juniors.

As of February 2020, the number of brands is 14 for babies or toddlers and 7 for juniors, that is, a total of 21.

① Major brands for babies and toddlers (0 to 7 years old)

㊦ Department stores

 	<p>This brand has romantic and sweet tastes, so that each girl can become cuter than anyone else. It offers a broad range of clothes, including casual and formal dress.</p>
 	<p>“klädskåp” is a Swedish word meaning “a wardrobe.” The theme of this brand is “clothing-based education,” which means the nurturing of mind through clothes.</p>

BRIDGE REPORT



.....SENSE OF WONDER.....



This brand was born for paying homage to the sensitivity to the wonders of nature and life. Based on natural colors, they design clothes in the motif of familiar nature, including seasonal flowers and fruits. It is characterized by adorable, but not too soft details. The organic cotton certified strictly by the U.S. is used for achieving a supple taste and a comfortable texture.

© SC brands

petit main



This is a brand for girls and boys that offers trendy fashion combined with childishness at affordable prices. Customers can enjoy coordinates linked with the lineup for ladies “LIEN,” which is targeted at active women, including mothers.

b.ROOM



This is a unisex brand that offers comfortable, relaxing casual wear.

LIEN

petit main






“LIEN,” which is derived from a word meaning “a bond,” suggests simple, clear items lightly combined with trends with freewheeling styling. Its clothes blend into the lifestyle scenes of active women, including mothers, and enrich the connections between adults and children and also with beloved ones.

BRIDGE REPORT





◎ Licensed brands

<p>ANNA SUI </p> 	<p>This is a brand of ANNA SUI for children's clothes, whose keywords are "dreamy," "classic elegance," and "sweet grunge."</p>
<p>kate spade NEW YORK</p> 	<p>Kate Spade New York, which was established in New York in 1993, is a lifestyle brand that handles handbags, apparel, jewelry, shoes, children's wear, gifts, etc. This admires daily personal styles with optimistic, feminine approaches, and supports women who possess a youthful spirit and overflowing confidence.</p>

(Taken from the website of Narumiya International)

② Major brands for juniors (8 to 15 years old)


◎ Department stores

<p>mezzo piano <i>Junior</i></p> 	<p>This brand is for brilliant, romantic girls. Products range from elegant styles to trendy, casual styles.</p>
<p>pom ponette j u n i o r</p> 	<p>This is a casual brand with a French taste. It suggests refined daily & school wear with monotone and pastel colors combined with trends.</p>

BRIDGE REPORT




BLUE CROSS
- 9 6 4 -



This is a brand for boys who wear clothes designed by mixing American casual styles and current trends in a cheerful, yet cool manner.

◎ SC brand

Lovetoxic



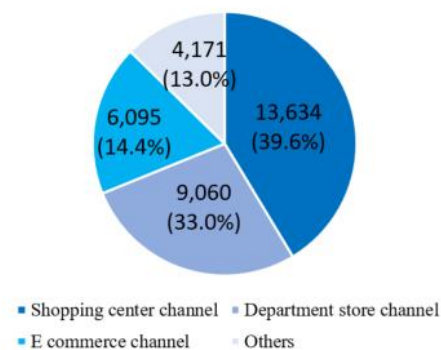
This is a brand for cheerful girls who dress while mixing American casual, rock, and girlish styles.

(Taken from the website of Narumiya International)

(2) Sales channels

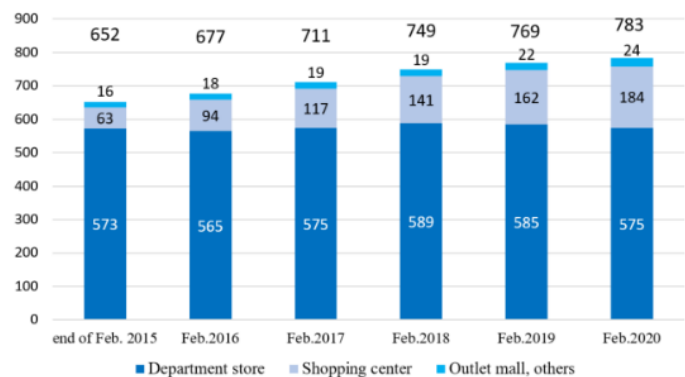
As mentioned in the section of the corporate history, the Company had been selling products via department stores, but is aggressively cultivating the channels of shopping centers (SCs) under the lead of President Ishii, who has strong connections with SCs and some achievements. In the term ended February 2019, the sales from the SC channel exceeded the sales from the department store channel for the first time. In addition, the Company is actively strengthening the e-commerce channel.

Sales composition by each sales channel(FY2/20)



* Unit : million yen

Variation in the number of direct sales shops

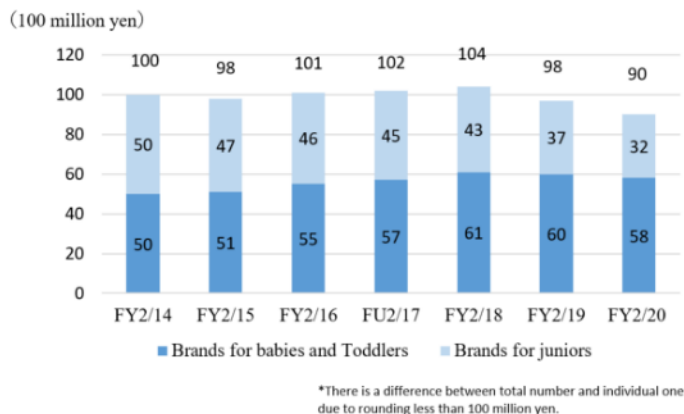


① Department stores

The Company sells products mainly at leading department stores in urban areas. In 1985, it entered the field of children’s clothes with the brand “MINI-K,” which offers clothes for mainly babies and toddlers, and in 1988, it launched “mezzo piano,” which is one of the major brands. In 1991, it released ANGEL BLUE, the first brand for juniors. It cultivated the new market of juniors’ clothes, and released

new brands one after another. Since it is unlikely that the department store market will grow considerably, the Company plans to improve profitability while maintaining the current condition.

Trend of sales by department store channel

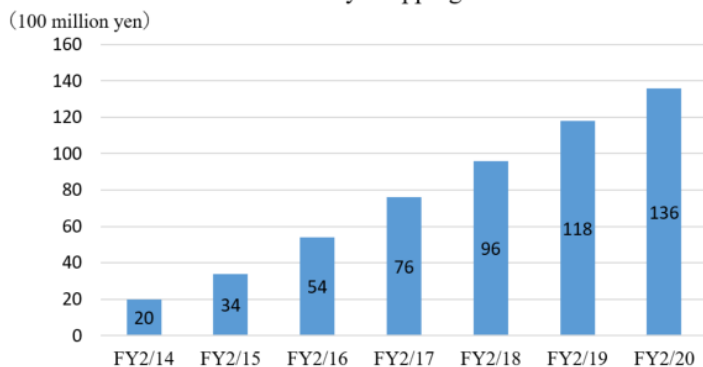


② Shopping centers

In 2005, the first shop in a shopping center was opened. The Company directly runs shops in shopping centers in urban and suburban areas, such as AEON MALL and LaLaport.

In 2009, it released “Lovetoxic,” a brand for juniors, which offers products at lower prices than the apparel brands in department stores. In 2011, it debuted “petit main,” a low/medium-priced brand for shopping centers like Lovetoxic. The unisex brand “petit main” is targeted at mainly boys and girls aged 0 to 7 years.

Trend of sales by shopping center channel



③ Outlet malls

In 2006, the Company opened the first outlet in “Rinku Premium Outlets.” It directly runs shops in suburban outlet malls, such as Mitsui Outlet Park and Premium Outlets.

④ E-commerce

In 2008, the Company started concentrating on e-commerce on a full-scale basis, and opened NARUMIYA ONLINE as a directly managed online shop.

In addition to its original website, Narumiya International sells products via other online shopping sites, such as ZOZOTOWN, Rakuten, and Amazon, with the aim of improving convenience for customers and popularizing its brands.

The ratio of EC sales was 19% in the term ended February 2020.

The ratio of sales from its original EC site was 46% in the term ended February 2020. The Company aims to increase the ratio to 60% in the term ending February 2022.

The number of customers who purchased products at EC sites was about 490,000 in the end of February 2020. ID integration with real stores contributed to this significant increase.

BRIDGE REPORT

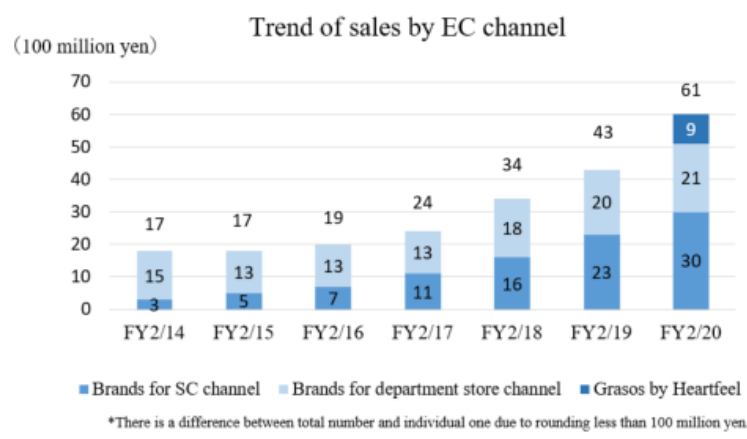


In August 2018, the Company started selling products via Tmall, the world’s largest BtoC-EC site operated by the Alibaba Group in China, by licensing out distributorship to a Chinese enterprise.

The sales of “petit main,” which is the primary brand of the Company, on November 11, 2018 (Singles’ Day) reached around 30 million yen, and got ranked in the 367th place in the category of children’s clothes, although the Company participated in it for the first time. Then, its rank surged to 187th place in 2019. In Japan, the average daily sales of “petit main” are about 1 million yen.

In March 2019, the Company acquired all shares of Heartfeel Co., Ltd., which plans and sells mainly casual wear for boys, and reorganized it into a subsidiary. The ratio of e-commerce sales of Heartfeel is over 90%, as Heartfeel specializes in e-commerce.

As Narumiya International specialized in brands for girls, this acquisition would enrich its brand portfolio and enhance its e-commerce.



⑤ Other

The Company wholesales products to local department stores and specialized apparel shops, and offers the license to use its brand trademarks.

(3) Activities for new businesses: the House Studio business

As Narumiya International has been manufacturing and selling clothes for children, it aims to evolve into a kids’ lifestyle company by providing not only materials (clothes), but also experiences (services).

As the first step, it formed a business tie-up with the photo studio LOVST, and opened the photo studio LOVST BY NARUMIYA in MARINE & WALK YOKOHAMA in September 2018. This service is to take pictures of daily scenes and life events as memories after choosing from 300 clothes for kids. It is expected that there will be synergy with the existing business, including the purchase of clothes after the rental for photo shooting. The number of customers and average spending per customer are growing steadily.

LOVST x NARUMIYA
PHOTO STUDIO INTERNATIONAL

- Increasing its popularity as a photogenic house-studio
- Smash cakes are becoming very popular

LOVST BY NARUMIYA

Topics in the first half of FY 2/20

- Price per customer increases steadily
 - ¥25,000 (2/19)
 - ¥42,000 (8/19)
- Number of customers increases steadily
 - 1,800 people cumulatively as of the end of Aug. 2019

(Taken from the reference material of the Company)

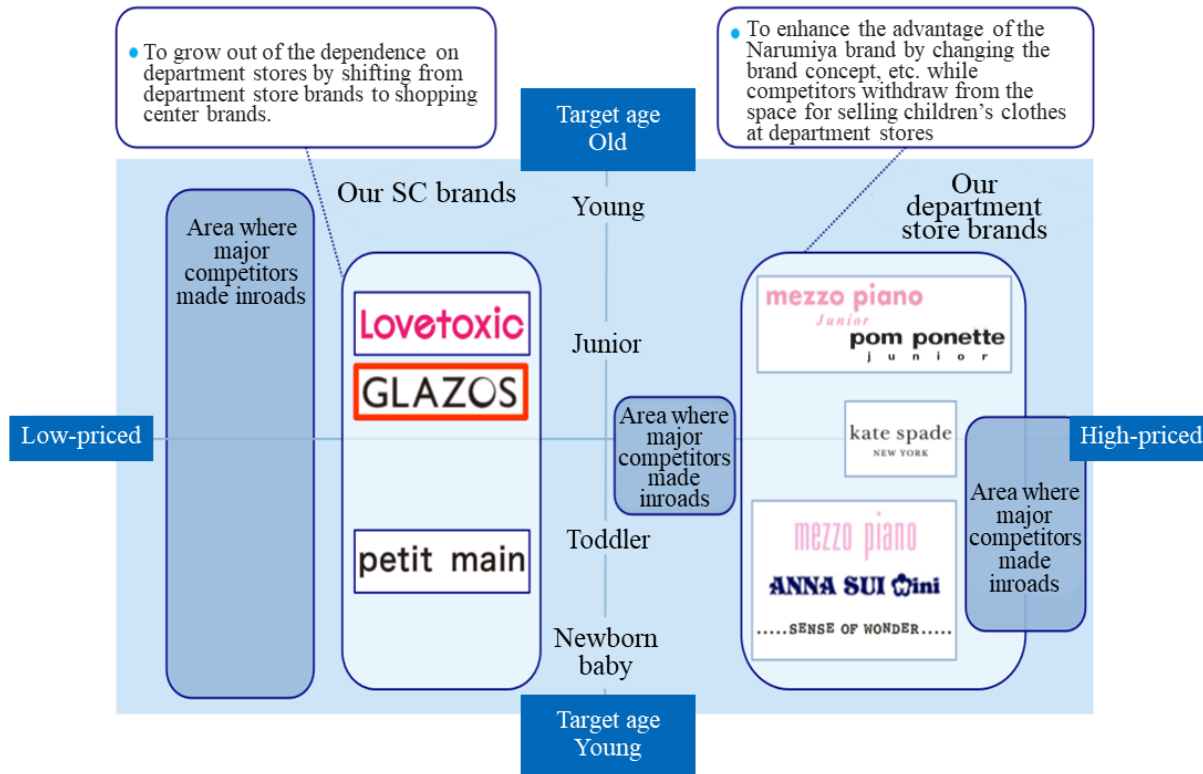
[1-5 Characteristics and Strengths]

(1) Multi-channel and multi-brand strategies

As unique characteristics and strengths, Narumiya International handles a variety of brands suited for respective sales channels, including department stores, shopping centers, and e-commerce, which are used in a well-balanced manner.

The Company covers a wide range of age groups, from babies to juniors (0 to 15 years old), and prices, and can distribute not only longtime sellers, but also trendy products timely through appropriate channels.

It plans to establish several differentiated brands and cover uncultivated areas in each sales channel, by utilizing M&A like the case of Heartfeel.



Note: Schematic diagram by the Company

(Taken from the reference material of the Company)

(2) Merchandising capability that enables the utilization of 2 sales channels

Department stores and shopping centers (SCs) have different customer segments and needs, so it is necessary to operate brands suited for respective sales channels. In addition, supply chains are totally different between them as shown below, so it is not easy to expand business from department stores to SCs or from SCs to department stores.

(Characteristics of supply chains of each sales channel)

Sales channel	Characteristics of supply chains	Lead time
Department stores	For providing high-priced products, supply chains can produce high-quality products worth more than the price in small lots.	Long
Shopping centers (SCs)	For providing low/medium-priced products, supply chains can achieve both high-fashion apparel and cost performance.	Short

In the contrast, Narumiya International has already established a system for supply chain management for both channels: department stores and SCs.

Since it possesses merchandising capability that enables the utilization of the two channels, it can decentralize revenue sources. This is a noteworthy strength.

Especially, we would like to pay attention to the Company's competitive advantage in the SC chain, which is considered as the strongest growth driver.

The Company can grasp the trends of children's wear when necessary, by utilizing its advanced planning capability and network for collecting information on the trends and brands inside and outside Japan, and can distribute more hot-selling products in the middle of a season, based on its robust network for procuring products from various trading companies.

With its flexible planning, manufacturing, and selling systems, which allow them to distribute products in a short period of time, Narumiya International can reduce the loss of opportunities and pursue the maximization of sales.

(3) Top-class brand power

Its brands are characterized by not only the variety but also their high quality.

In "Senken Kids' Fashion Award in Fiscal 2019" hosted by the leading industrial newspaper "Senken Shimbun," "petit main" won the first place in the SC section and "Lovetoxic" received an award in the section of juniors' wear. Also "mezzo piano junior" received an award in the section of juniors' wear at department stores, and "X-girl STAGES" receive an award in the section of toddlers' wear at department stores. In this way, they are recognized as top-class brands.

(4) Excellent customer assets

As the Company has nurtured the top brands for children's clothes for many years, the loyalty* of its customers is extremely high.

These customer assets are the stable base for sale and allow the Company to meet their needs and develop new brands or new businesses. Accordingly, they are essential intangible assets that constitute its corporate value.

*Loyalty of customers: This means "trust" and "affection" toward a specific brand, product, or service.

2. Earnings Results

【2-1 Fiscal Year ended February 2020 Earnings Results】

(1) Overview of profit and loss

	FY 2/19	Ratio to sales	FY 2/20	Ratio to sales	YOY	Difference from expectations
Net sales	29,700	100.0%	32,962	100.0%	+11.0%	-0.1%
Gross profit	15,937	53.7%	17,793	54.0%	+11.6%	-0.6%
SG&A expenses	14,312	48.2%	16,128	48.9%	+12.7%	-0.4%
Operating profit	1,625	5.5%	1,664	5.1%	+2.5%	-2.8%
Ordinary profit	1,505	5.1%	1,622	4.9%	+7.8%	-1.5%
Net income	926	3.1%	999	3.0%	+7.8%	-0.8%

*Unit: Million yen. FY2/19 is the amount after deducting 875 million yen gain on extinction of tie-in shares following the merger. Net income is profit attributable to owners of the parent.

Sales and profit grew.

Sales increased by 11.0% year on year to 32,962 million yen.

Both shopping center (SC) channels and e-commerce (EC) continued to perform well, achieving double-digit sales growth.

Sales in existing stores augmented 1.9% year on year. Overall store sales grew 7.8%.

Operating profit rose by 2.5% to 1,664 million yen. SG&A expenses increased by 12.7% year on year due to percentage-lease rent and fees for permission to sell at other companies' online shops, but this was offset by increased sales and an improved gross profit rate.

The goodwill amortization of Heartfeel Co., Ltd. was 45 million yen.

(2) Trend of each sales channel

Sales	FY 2/19	Composition ratio	FY 2/20	Composition ratio	YOY
Department stores	9,796	33.0%	9,060	27.5%	-7.5%
SC	11,770	39.6%	13,634	41.4%	+15.8%
E-commerce	4,286	14.4%	6,095	18.5%	+42.2%
Gross profit					
Department stores	5,157	52.6%	4,658	51.4%	-9.7%
SC	6,977	59.3%	8,235	60.5%	+18.0%
E-commerce	2,239	52.2%	3,255	53.4%	+45.4%

*Unit: Million yen. Non-consolidated. The composition ratio of profit means profit rate.

① Department stores

Sales and profit dropped.

Sales are declining, especially in juniors' brands.

Sales fell below the initial estimate: 9.7 billion yen.

20 new stores were opened, 30 stores were closed, and the number of stores at the end of the period is 575.

② Shopping centers (SCs)

Sales and profit grew.

Existing store sales continued to spur growth, rising by 2.6% year on year.

Petit main and Lovetoxic performed well in the first half but were affected by the abnormally warm winter and the new coronavirus in the second half.

Sales exceeded the initial estimate: 13.1 billion yen.

24 new stores were opened, 2 stores were closed, and the number of stores at the end of the period is 184. Smooth progress.

③ E-commerce

Sales and profit rose.

The reorganization of Heartfeel Co., Ltd. into a subsidiary contributed.

Sales were almost as estimated.

Through the integration of customers' IDs with SCs in April 2019, the number of members of the company's website increased by 280,000 from the end of the previous term to 490,000.

Sales rose by 9% for department store brands and 30% for shopping center brands.

The Company's website sales rose from 43% in the previous term to 46%.

The sales of affiliated enterprises in Tmall in China, into which the company made inroads in August 2018, increased from 200 million yen in the previous term (the second half only) to 368 million yen (full year). The performance was healthy in the second half, too, amid the pandemic of the new coronavirus.

Tmall handles 3,000 brands for kids' clothes in total, but in the sales ranking on the Singles' Day event for EC in China (November 11, every year), the company's rank improved from the 367th in 2018 to the 187th in 2019. Sales grew 168%, indicating that the company is recognized to some degree in the Chinese market. The company is making efforts to increase the ratio of girls' clothes, as the company is good at handling them.

④ House studio

The business is gaining popularity as a photogenic house studio. The average spending per customer and the number of customers were healthy, increasing 139% and 177%, respectively, from the previous term. Efficiency improved, through the reform of the customer service operation.

BRIDGE REPORT

**(3) Financial Condition and Cash Flow****① Main BS**

	End of Feb. 2019	End of Feb. 2020		End of Feb. 2019	End of Feb. 2020
Current assets	8,233	8,580	Current liabilities	5,263	5,656
Cash and deposits	1,847	2,488	Notes and accounts payable - trade	2,698	2,488
Notes and accounts receivable - trade	2,309	2,607	Short-term loans payable	450	595
Inventories	3,694	3,394	Non-current liabilities	5,362	5,319
Non-current assets	5,948	6,730	Long-term loans payable	4,325	4,404
Property, plant and equipment	1,100	1,129	Total liabilities	10,626	10,975
Intangible assets	3,321	3,618	Net assets	3,556	4,335
Goodwill	3,129	3,363	Retained earnings	1,515	2,207
Investments and other assets	1,527	1,981	Total liabilities and net assets	14,182	15,310
Total assets	14,182	15,310	Total loans payable	4,775	4,999
			Equity ratio	25.1%	28.3%

*Unit: Million yen. The values as of the end of February 2019 are non-consolidated, while the values as of end of February 2020 are consolidated.

The increases/decreases in the sentences are for your reference.

Total assets grew 1,127 million yen from the end of the previous term to 15,310 million yen, due to the increases in cash and deposits, goodwill, and investments and other assets. Total liabilities augmented 349 million yen from the end of the previous term to 10,975 million yen, due to the augmentation of short and long-term loans payable through the acquisition of Heartfeel Co., Ltd. Net assets grew 778 million yen from the end of the previous term to 4,335 million yen, due to the increase in retained earnings, etc. The equity ratio rose 3.2 points from the end of the previous term to 28.3%.

② Cash Flow

	FY 2/19	FY 2/20	YoY
Operating Cash Flow	1,551	2,319	+768
Investing Cash Flow	-459	-822	-363
Free Cash Flow	1,092	1,497	+405
Financing Cash Flow	-1,230	-856	+374
Cash Equivalents	1,847	2,488	+641

*Unit: Million yen. The values as of the end of February 2019 are non-consolidated. The increases/decreases in the sentences are for your reference.

Sales CF and free CF expanded. The cash position has risen.

【2-2 Forecast for the fiscal year ending February 2021】**(1) Impact of the new coronavirus**

The new coronavirus started affecting the business performance in late February, and in-store sales dropped considerably in March and April. EC sales are healthy.

Sales are still affected by the voluntary restraint of going out, the temporary closure and shortening of business hours of commercial facilities, and so on. The consolidated earnings forecast for the term ending February 2021 has not been announced because it is difficult to conduct rational estimation. The company plans to disclose it in the future as soon as it becomes possible to carry out appropriate and rational estimation.

(2) Primary measures

	Major impact	Current situation and measures & activities from now on
Production in China	Delay in delivery from major production sites in China	<p>*The delivery from China started improving and recovering in mid-March</p> <p>*To break away from the dependence on production in China, the company will accelerate the expansion of production bases in other countries</p>
Real stores	The decrease in the number of customers and sales	<p>*Structural reform of department stores</p> <ul style="list-style-type: none"> ▪ To reduce the number of personnel and assign staff to SCs, etc. actively ▪ To decrease part-time employment (by about 350 million yen) <p>*Negotiating for making rents discounted</p> <p>*To open shops this term as planned (20 shops in SCs and multiple photo studios)</p>
EC	Ratio to sales in the previous year was 126%, indicating healthy performance (March)	To continue active investment amounting to about 70 million yen in the user interface (users' visibility) and new services (convenience for customers)
Business in China	The sales of Tmall dropped temporarily but recovered in March	<p>*Since only EC is operated, the impact of the virus was limited</p> <p>*As the situation of infection in China improved, performance started recovering in March</p>
Company-wide management	Effects of the drop in sales on profitability	<p>*To reduce SG&A expenses, excluding the expenses that depend on sales</p> <ul style="list-style-type: none"> ▪ To reduce costs, such as advertisement expenses, by about 100 million yen <p>*Investment for the period after the economic recovery</p> <ul style="list-style-type: none"> ▪ Active investment in e-commerce and the adoption of IT for real shops ▪ Plan to reduce costs through the relocation of logistics footholds

(Taken from the reference material of the company; as of April 16, 2020)

3. Interview with President Ishii

We interviewed President Ishii about the point of results in the previous term, their future activities, etc.

(1) Points of results in the term ended Feb. 2020

The performance of the sales channel via department stores remains sluggish. The trend of refraining from going shopping at department stores remains, and its effect on the performance is inevitable.

From now on, the company will curtail personnel costs and decrease the size of its brands for juniors and implement aggressive strategies, including the release of new foreign-affiliated brands and the opening of shops at large-sized department stores (30 shops in 3 years).

As for the sales channel via shopping centers (SCs), the company opened a larger number of shops than first planned, and the sales of existing shops and the sales of all shops were healthy. However, due to the new coronavirus, about 97% of shops are closed (as of April 29), so the situation is very harsh. The company recognizes the sales channel via SCs as a growth driver, but amid this situation, the

company plans to not only aim to open 20 shops per year, but also pursue the quality of its services, by operating the House Studio business and opening markets for boys with new brands.

As for e-commerce, sales grew considerably, thanks to the acquisition of Heartfeel Co., Ltd. To enrich customer services further, the company will proceed with various trials this term, too.

To further exert the strengths of the company, which has 23 brands in e-commerce, it is indispensable to offer meticulous customer services.

The key is to develop a website that can lead not only customers who already know the company, but also first-time visitors to the website of the company to pages of brands or products they want among many brands or products in an understandable way. It is technically feasible, and the company will take measures swiftly amid this crisis and grow its e-commerce as an effective sales channel. Thanks to the effects of ID integration, the number of members increased significantly. The company aims to expand it further.

The House Studio business section developed a system in which each pair of customers can be attended to by only one staff member, as two staff members had been attending to each pair of customers and conducted staff training. As a result, efficiency improved significantly.

It became possible to attend to more customers, and the company used its ingenuity for outputs, including albums and calendars. Then, the average spending per customer increased significantly. Amid the pandemic, the company plans to increase the number of shops steadily.

(2) Measures against the new coronavirus

Honestly speaking, the company, which handles children's clothes, is suffering from the damage caused by the pandemic, as it usually earns the most revenue in the first half, which falls on the season for entry to a kindergarten or a school. It is still unclear when the state of emergency is lifted, so the company is reducing stocks for the SC channel through EC.

Before the pandemic, the company has been implementing the strategy of obtaining profits as a survivor and increasing its market share by utilizing the advantage as a listed company as the birthrate is declining in Japan. This time, the company will be affected by the pandemic inevitably, but its competitors will suffer from the damage in the same way. Accordingly, the company hopes to implement the strategy steadily by utilizing the strength of the company. At the moment, it is still impossible to clarify the market share, but on-site performance in shopping centers etc. seems good.

For breaking away from the dependence on the production in China, the company is establishing production sites in Vietnam and Myanmar, but it is still insufficient. The company hopes to proceed with it swiftly.

(3) Medium and long-term strategies

① Brand development

Customer loyalty toward the company is extremely high, as the company has established the top brands for kids' clothes for many years. As many loyal customers commented, "I hope the big sister's version of the brand, so that children will be able to keep using the brand," the company established "Lycee mine," which provides larger sizes of "petit main," which is a brand for SCs, this year.

Since it is difficult to meet customer needs with only existing brands at department stores, the company plans to invite new designers this autumn and make its endeavor in this harsh market.

② EC in China

As for EC in China, "petit main" is operated as the main brand. This is originally targeted at main girls, but boys' clothes sold better, and the sales of girls' clothes are sluggish in China contrary to expectations.

This is because of the difference between the fashion trend of petit main in Japan and the local needs in China. Accordingly, it is necessary to develop products that can meet local needs.

After seeking personnel for cultivating the boys' market, the company hired personnel who are versed in the Chinese situation. Unfortunately, this situation forced the company to use mainly telephone and emails for business, but the preparation is progressing steadily.

4. Conclusions

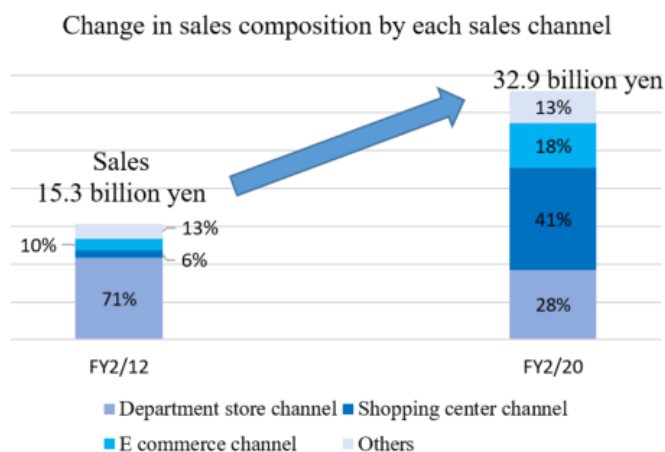
The degree of the impact of the new coronavirus is still unclear, so investors have no choice but to wait for the results in the first quarter. As mentioned by President Ishii, there exist some positive factors although the recent situation is severe, as the company is pursuing growth by entering the fields from which its competitors withdrew through appropriate marketing and acquiring new brands through M&A, under the basic strategy of earning profits as a survivor in Japan, where the birthrate is declining.

President Ishii considers that there may emerge new business chances although consumer behavior may change negatively after the spread of the new coronavirus subsides and a turning point is whether or not to meet consumer needs after marketing. In this situation, the strengthening and enrichment of the e-commerce (EC) channel would be a key to the acceleration of growth rate in the short, medium, and long terms.

<Referencel : Future Growth Strategy>

(1) Activities in each sales channel

After President Ishii was appointed, Narumiya International shifted from the business focused on department stores to the one utilizing shopping centers and e-commerce and will take the following measures in each sales channel.



① Shopping center (SC) channel

This remains the strongest trigger for growth.

The number of shopping centers in Japan has been growing and is now about 3,200. It has been on a plateau in the past several years. The Company plans to open shops in about 1,200 shopping centers, but the number of directly managed shops in SCs as of the end of February 2020 was 184. There is significant room for opening shops.

In this situation, in order to further enhance the selling capacity through the SC channel, the Company organized SC Business Section, which specializes in brands for shopping centers, and is concentrating managerial resources and streamlining brand operation.

As the survival of the fittest is progressing among shopping centers, the Company will select shopping centers more carefully and open shops at growing excellent SCs. Furthermore, in order to enhance its earning capacity, the Company will expand its business scale to actualize volume discount and take measures for cost reduction to secure a high gross profit.

In addition, the Company will grasp fashion trends earlier than anyone else and further shorten the business cycle of planning, manufacturing, and sales.

As mentioned in “1-5 Characteristics and strengths,” Narumiya International is excellent in planning, information gathering, and product procurement, and can distribute more hot-selling products in the middle of a season. By utilizing this advantage, the Company will increase sales from the SC channel.

② E-commerce

The rapidly growing e-commerce channel is recognized as the second trigger for growth, and the following measures will be implemented for further growth.

Activities	Concrete measures
Development of an original EC site where consumers can easily choose and purchase products	*To make the website for smartphones more convenient, as those who purchase products with smartphones will increase *Development of apps
Enhancement of utilization of customer data	*Integration of customer IDs and improvement of CRM *To develop an omni-channel system and cement contact points with customers in real shops and the Internet
Retention of good customers	*To suggest optimal products with reference to the purchase history, etc. *To enrich customer services, including benefits for loyal customers (to enhance loyalty)

③ Department store channel

It is difficult to increase the sales from the department store channel considerably, but the Company will strive to achieve steady growth, fortify the customer base, and improve profitability through the following activities.

*To share the benefits for market survivors by taking advantage of the merits of multi-brand operation

The Company will open its another brand shop in the selling space after a competing shop was closed, to expand the selling space share. In addition, it will establish a system for releasing a new brand when necessary.

*Retention of customers for long-selling brands

As Narumiya International has specialized in children's clothes for many years, in some cases, it has loyal customers of 3 generations. As its staff will maintain and cement long-term relationships with customers, the Company will implement measures suited for each life stage of customers, to fortify the customer base and maximize LTV*.

*LTV: Life Time Value. This is the amount spent by one customer for products or services. A high LTV means that the customer has purchased and used products and services repeatedly.

*Suspension of sluggish brands and release of new foreign-affiliated brands

The company will suspend the sluggish brands for juniors and release new foreign-affiliated brands, to vitalize selling sites.

*Streamlining of business through the curtailment of personnel expenses

The Company will increase the efficiency of sale by locating different brand shops to one another.

In the department store channel, it is difficult to distribute more products in the middle of a season due to the conventional commercial customs, etc. The Company will approach department stores, with the aim of establishing a system for procuring and releasing products in a short period of time like in the SC channel.

(2) Foray into the Chinese market

The Chinese apparel market is expected to become the world's largest market whose scale will be about 54 trillion yen by 2020. Due to the effects of the "one-child policy," the number of births is on a plateau, but it is about 17 million per year, which is much larger than that in Japan, which is less than 1 million.

As mentioned above, the Company opened a shop in Tmall by licensing a Chinese business partner to distribute products in August 2018.

With this foothold, it will cultivate the huge Chinese market on a full-scale basis in various ways.

In addition, it will start research into neighboring Asian countries.

(3) Provision of intangible services

As mentioned above, Narumiya International, which has been manufacturing and selling children's clothes, aims to evolve into a kids' lifestyle company, by offering not only materials (clothes), but also experiences (services).

The House Studio business, which was launched as the first step, made a good start.

The Company will operate business in new fields, by utilizing its top-class brand power and excellent customer assets, which are its strengths.

(4) Promotion of M&A and alliances

Like the case of Heartfeel, the Company will cover the uncultivated genres of children's clothes through M&A and alliances and enhance its multi-brand strategy further.

<Reference2: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	6 directors, including 4 outside ones
Auditors	3 auditors, including 2 outside ones.

◎ Corporate Governance Report

Last updated: May 30, 2019

<Basic Policy>

In our business activities charter, as a company which cultivates the dreams of children around the world and provides complete and abundant livelihoods for children, we will build a trusting relationship with children, our customers, investors and shareholders, our clients, and regional communities, and will honestly respond to the expectations placed on us, and in order to fulfill our societal responsibilities, we declare the following 10 principles for action.

- (1) We will constantly strive to gain the trust and satisfaction of our customers by working on development and providing for our customers in addition to providing socially useful products and services while focusing on safety and the protection of personal and customer information.
- (2) We will conduct fair, transparent, and free competition along with proper transactions. Moreover, we will maintain healthy and appropriate relations with the government and authorities.
- (3) We will widely communicate with society, including shareholders, and share corporate information in a proactive and fair manner.
- (4) In addition to respecting the diversity, personalities, and individuality of our employees, we will foster a safe and comfortable working environment and achieve abundance in a low-pressure fashion.
- (5) As environmental problems are a challenge shared by all humanity, and recognizing that a healthy environment is a prerequisite for our company's existence and activities, we will act independently and proactively.
- (6) As part of our company's effort to be a good citizen, we will proactively conduct activities which contribute to society.
- (7) We will take a stand against antisocial forces and organizations which threaten the order and safety of civil society.
- (8) Regarding our international business activities, we will not only comply with international rules and local laws, but we will also respect local cultures and customs and conduct our business in such a way which furthers their development.
- (9) Recognizing that the implementation of the spirit of this charter is their duty, the heads of management will ensure compliance within the Company and make these points clear to our clients in addition to setting a positive example. In addition, through the continuous consideration of others' voices from within and outside of the Company, we will create an effective company structure and aim for the thorough enactment of business ethics.
- (10) In the event that there exist conditions which go against this charter, the heads of management will openly take preventative measures and investigate the source of the problem. Additionally, we will carry out timely and precise information sharing and accountability measures. In addition to clearly defining the liability and authority concerned, we will conduct our own strict measures.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
【Supplementary Principle 1-2. (4) Digital exercise of voting rights, English version of the convocation notice】	We have translated the convocation notice into English, but we have not created an environment in which voting rights can be exercised digitally. We are considering measures to create an environment in which voting rights can be exercised digitally.

<p>【Principle 1-4 Strategically held shares】</p>	<p>(1) Policies relating to strategically held shares</p> <p>In addition to strengthening relationships with our clients based on a medium to long-term perspective, we hold our clients' shares, but in order to ensure the efficiency of our assets, the shares we hold have extremely low impacts. Thus, we are currently not going as far as to conduct periodic checks of the appropriateness of holding strategic stocks. However, based on management decisions, we may consider selling off certain shares in the case that we deem the holding of certain shares to be unnecessary.</p> <p>(2) Regarding our idea about the ensuring of appropriate measures regarding the exercise of voting rights which relate to the strategic holding of shares</p> <p>Our basic idea towards the exercise of voting rights which relate to the strategic holding of shares is as follows.</p> <p>Regarding the exercise of voting rights which relate to the strategic holding of shares, we determine whether the Company being invested in has constructed appropriate governance structures and whether they are making appropriate decisions which will lead to a medium- to long-term increase in corporate value, and then make a comprehensive decision for each item on our agenda.</p>
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<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
<p>【Principle 3-1 Completion of information disclosure】</p>	<p>(1) Our goals (management principles, etc.), management strategies, and management plan</p> <p>Our corporate philosophy and medium-term management plan will be published on our website as well as on our financial results documents.</p> <p>(2) Basic approach and policies towards corporate governance based on the various principles of this code</p> <p>With regard to our basic idea and basic policies regarding our corporate governance, please refer to “1. Basic Idea” in the “I Basic idea regarding corporate governance and basic information on capital structure, business attributes, etc.”</p> <p>(3) Policies and procedures for the board of directors to determine remuneration for management executives and directors</p> <p>As a measure aimed at the improvement of corporate governance, we will enhance the objectivity and rationality of our management through deliberation and findings to the board of directors about our human resources and remuneration policies for directors and executive officers. The nomination and remuneration committee has been established for this purpose, thereby maximizing corporate value. This committee is composed of the president and all non-executive directors, and the chairperson is selected from among the non-executive directors.</p> <p>(4) Policies and procedures for the board of directors to elect and dismiss management executives and nominate candidates for directors and auditors</p> <p>The board of directors selects candidates who appropriately fulfill their roles and responsibilities as directors and auditors, and possess abundant experience, fine judgment, and excellent personalities. Regarding the appointment and dismissal of directors and executive officers, in order to ensure objectivity and transparency, the board of directors or the president consults with the nomination and remuneration committee about factors</p>

	<p>such as an evaluation of the Company's performance, and the board of directors makes its decision while considering the nomination and remuneration committee's findings. The nomination of auditor candidates is carried out in accordance with the auditors' board's audit standards, and the nomination procedures abide by the rules of the auditors' board and are approved by the auditors' board.</p> <p>(5) Reasons for nomination and dismissal of individual candidates for board member and auditor positions The reasons behind the appointment and nomination of each candidate for directors and auditors will be detailed in the convocation notice for the general meeting of shareholders. In the event of a dismissal, we will disclose the relevant information in accordance with policies and procedures.</p>
<p>【Principle 5-1 Policies regarding constructive dialogue with shareholders, etc.】</p>	<p>Our policies for our organizational development and initiatives to promote constructive dialogue with shareholders are as follows.</p> <p>(1) In order to promote IR activities which contribute to the improvement of corporate value, the accounting department and the corporate planning office will work together under the director in charge of information disclosure, who will act as the supervisor of IR activities.</p> <p>(2) Dialogue with shareholders will be handled by the corporate planning office, and to a reasonable extent, the president or a director in charge of information disclosure.</p> <p>(3) By conducting regular shareholder surveys, we will strive to better understand our composition of shareholders and implement more effective IR activities.</p> <p>(4) In addition to holding periodic financial results briefings for institutional investors and analysts, we will hold meetings and information sessions in conjunction with the progression of our business. We plan to provide information to individual investors while focusing on speed and convenience.</p> <p>(5) When preparing disclosure documents, the accounting department will play a central role regarding accounting information such as brief financial reports, securities reports, financial statements, and so on, and other disclosure documents will be handled primarily by the corporate planning office. The accounting department, the corporate planning office, and the human resources and general affairs department will work together to collect appropriate information and ensure the accuracy of disclosed information. Additionally, we will publish disclosure documents, etc. on our website in English.</p> <p>(6) Regarding the opinions and concerns identified in dialogues with shareholders and investors, the corporate planning office will report to the board of directors when necessary.</p> <p>(7) When conducting dialogues with shareholders, we comply with relevant laws and regulations and manage insider information in an appropriate manner.</p>

BRIDGE REPORT



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