



Chairman & CEO Hiroshi Iida

I.K Co., Ltd. (2722)



Company Information

Market	Tokyo stock exchange 2nd section and Nagoya stock exchange 2nd
Industry	Retail Business (Commerce)
Chairman & CEO	Hiroshi Iida
HQ Address	KDX Nagoya Station Building, 3-26-8 Meieki, Nakamura-ku, Nagoya-shi
Year-end	End of May
Homepage	https://www.ai-kei.co.jp/en

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
¥471	7,808,000 shares		¥3,677 million	9.1%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥12.00	2.5%	¥53.76	8.8 x	¥359.61	1.3 x

*The share price is the closing price on July 17. Shares Outstanding, ROE, DPS, EPS, BPS are taken from the financial settlement report for FY 5/19.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
May 2016 Act.	13,908	205	182	73	9.85	5.00
May 2017 Act.	15,273	557	554	425	57.13	7.50
May 2018 Act.	18,337	898	899	641	86.07	10.00
May 2019 Act.	17,614	431	437	238	31.85	12.00
May 2020 Est.	16,946	577	585	402	53.76	12.00

*Unit: million yen. Stock split in a ratio 1:2 was conducted on 1st December, 2017 and 1st April, 2018. EPS and DPS were retroactively adjusted.

The financial statement for fiscal year ended May 2019 and many more about K.I Co., Ltd. will be described.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Fiscal Year ended May 2019 Earnings Results](#)

[3. Fiscal Year ending May 2020 Earnings Forecasts](#)

[4. Conclusions](#)

[<Reference: Regarding Corporate Governance>](#)

Key Points

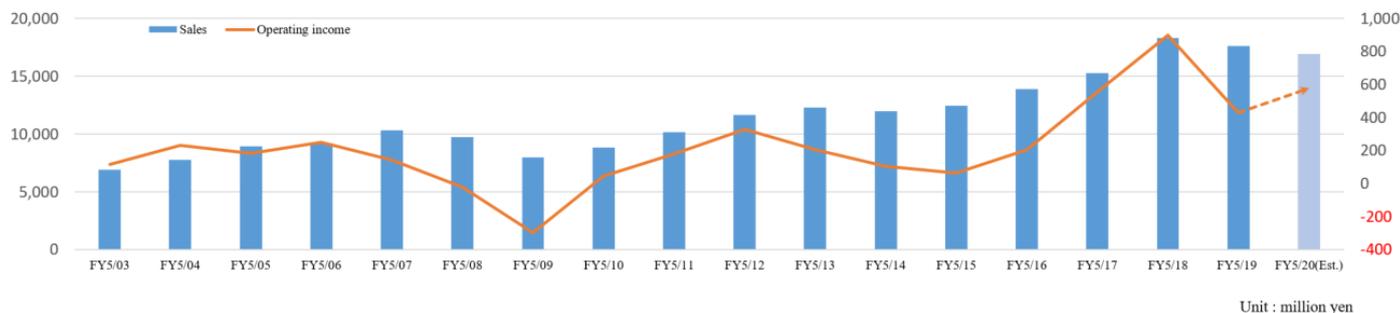
- The sales for the fiscal year ended May 2019 were 17,614 million yen, down 3.9% year on year. The demand from foreign visitors was sluggish. Gross profit margin and amount rose; however, the sales efficiency of “Butterfly Abs,” which is the main product in television shopping, declined. Selling, general and administrative expenses could not be absorbed, resulting in a fall in operating income by 51.9% year on year to 431 million yen. The forecasts for the business results were revised downwardly twice in October 2018 and April 2019. Sales and profit decreased for the first time in 5 years.
- The sales for the fiscal year ending May 2020 are estimated to decline by 3.9% year on year to 16,946 million yen and operating income is projected to rise by 33.6% year on year to 577 million yen. The amount of dividend that the company will pay is expected to remain unchanged at 12.00 yen/share. The estimated payout ratio is 22.3%. In order to be the world’s one and only “marketing manufacturer,” the company plans to analyze the market data while proceeding with BtoC and BtoBtoC businesses; then, it will utilize the data for product development and sell the products again through the diverse sales channels of BtoC and BtoBtoC with promotions. Moreover, it will put the effort into enriching the training system of its employees and using RPA and AI to improve productivity by streamlining internal operations.
- Unfortunately, the forecast was revised downwardly again, and sales and profit declined for the first time in 5 years. The decline in demand from foreign visitors was the main causing factor to decline sales, which is unlikely to make a major recovery during this term. Therefore, the key factor for recovery from this term onwards will depend on the performance of the new business model of “multi-channel retailing that starts from TV shopping,” which was almost established during the previous term. The company thinks that it has developed a lineup of products that are good enough to be incorporated into their portfolio for the TV shopping slot. We would like to monitor the sales performance of their products, especially their hit product, “Butterfly Abs DT.”
- On the other hands, as for the company’s makeup cosmetics brand “LB,” whose sales in the Chinese market is going to be a major pillar for their growth strategy, the company expects to obtain the permission from NMPA (formerly CFDA) for adding 20 SKU, which will augment the existing SKU to 50 SKU; thus a strong base for operation will be ready. The company reported more activities in Taiwan, Hong Kong, and South Korea, and we are looking for any concrete progress.

1. Company Overview

I.K Co., Ltd. is a “marketing manufacturer,” which conducts integrated business activities including product planning, manufacturing, selling and distribution through its original promotion strategy. It conducts 3 businesses: the manufacturer-vendor business, which sells products such as sundries, food product and cosmetics through diverse sales channels including co-op, mail-order firms, physical stores and television shopping, the SKINFOOD business, which sells cosmetics, and the IT Solutions business, which develops contact centers, etc.

The company strives to establish a group management to make all stakeholders its fans by promoting “the increase of fans” as its corporate philosophy.

BRIDGE REPORT



1-1 Corporate History

After spending his high school and college days in a “freewheeling” school environment, Mr. Hiroshi Iida (present chairman and CEO), who had a strong entrepreneurial spirit from the beginning, worked for a nonlife insurance company and went on to establish I.K Ltd. in May 1982. While working on the sales of various products, he opened an account of Aichi CO-OP Union in April 1983 on getting favors from people in charge of sales, and started trading with occupational co-ops.

As the sales of flyers about a rechargeable cleaner, the first product, became a major hit, the horizontal expansion to other co-ops progressed, the number of items handled also increased and the business expanded rapidly. It got listed on the JASDAQ market in December 2001.

Due to the increase in recognition and reliability after the listing, the company began supplying products to the mail-order systems of department stores and retailers in a full-fledged manner, steadily expanding sales outlets, and achieved sales increases for 25 consecutive terms until the fiscal year ended May 2007.

However, as the Lehman’s bankruptcy put the growth at halt, the company shifted to a “marketing manufacturer” that conducts integrated business activities including product planning, manufacturing, sales and distribution of products on its own using a unique promotion strategy and established “B to C channels” in addition to “B to B to C” to offer its products directly to customers, which allowed it to return to the growth track once again.

The company is actively putting efforts in M&A such as making Prime Direct Inc., a major company for television shopping, into a wholly owned subsidiary in September 2014.

1-2 Management Philosophy

Increase of fans	What they should pursue to become a leading company in the 21 st century is not the amount of sales, capital or the number of employees. When they look ahead 100 years, they consider that making more and more people their “fans” will lead to prosperity for the company, therefore, they set “increase of fans” as the company’s management philosophy with a goal of “making all people involved in I.K Co., Ltd its fans.”
-------------------------	--

1-3 Business Description

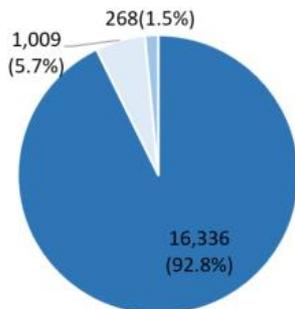
I.K Co., Ltd. has had three business segments until the end of FY 5/19: the manufacturer-vendor business, which sells sundries, food, cosmetics products, etc., the SKINFOOD Business, which sells cosmetics products and the IT Solutions Business, which develops contact centers, etc.

Furthermore, from the fiscal year ending May 2020, the company will enhance the operation speed and focus investments on promising businesses, all of which are necessary steps for growth. In addition, it will try to let investors gain a better understanding about its business. That is why the company will change the business segment to “BtoBtoC Business,” “BtoC Business,” and “Other.”

BRIDGE REPORT



Sales Composition (FY May 2019 Unit: million yen)

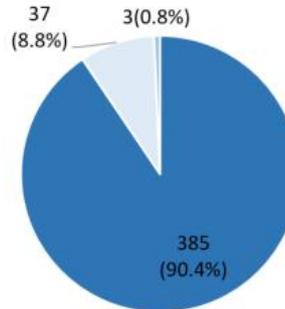


■ Manufacture- Vendor Business ■ SKINFOOD Business

■ IT Solutions Business

* Sales to External Customers

Operating income Composition (FY May 2019 Unit: million yen)



■ Manufacture- Vendor Business ■ SKINFOOD Business

■ IT Solutions Business

* Component ratio against unadjusted total

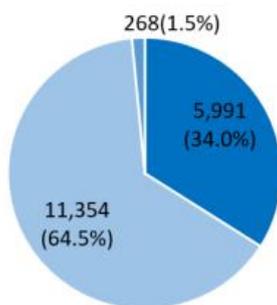
* About the new segments

The old segment was reconstructed to a new segment as below

Old Segments	Business description	New segments
Manufacturer-vendor Business	Co-op wholesale route	BtoBtoC Business
	Mail-order wholesale route	
	Store wholesale route	
	Overseas wholesale route	
	Foreign retail sales route	BtoC Business
TV&EC retail sales route		
SKINFOOD Business	Retail sales in SKINFOOD stores	
IT Solutions Business	Building call recording systems, etc.	Other

* The IT Solutions Business is categorized as Other because it is less significant.

Sales Composition (FY5/19, Unit: million yen)



■ BtoC business ■ BtoBtoC business ■ Others

* Sales composition in FY5/19 is reconstructed in new segments

(1) Manufacturer-vendor Business

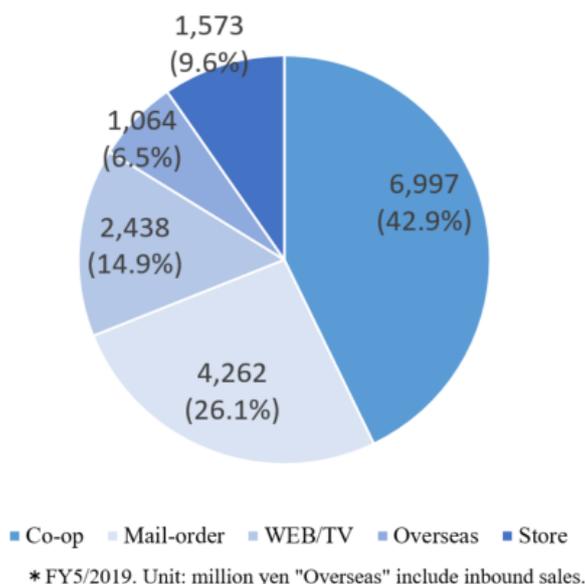
The company has two business formats, i.e., the “manufacturer-vendor business format,” which provides cosmetics, apparels, shoes/bags, beauty and health related products, etc., planned and developed by the company as a manufacturer to a variety of sales outlets such as co-ops, mail-order companies, and stores, and the “manufacturer retail business format,” which provides products to consumers directly using the company’s website or the slots of television shopping of its subsidiaries.

The company also offers products in overseas variety stores, drug stores, TV shopping, and their website mainly in Asia.

(Major Sales Routes)

Co-op route	Co-op Sapporo, Co-op Tohoku, Co-opdeli Consumer's Co-operative Union, Palsystem Consumer's Co-operative Union, Tohto Co-op, U Co-op, Tokai Co-op Business Union, Co-op Kinki Business Union, Co-op Kobe, Co-op CS Net, Co-op Hokuriku Business Union, Green Co-op Business Union, Co-op Kyushu Business Union, All School Co-operative Unions in Japan, Aichi Co-op Union, Japan Consumer's Co-operative Union, etc.
Mail-order route	Takashimaya Co., Ltd., JP Inc., Isetan Mitsukoshi Holdings Ltd., Tokyu Department Store Co., Ltd., Dinos Cecile Co., Ltd., Belluna Co., Ltd., Senshukai Co., Ltd., Nissen Co., Ltd., Aeon Retail Co., Ltd., Japanet Takata Co., Ltd., Oaklawn Marketing Co., Ltd., au Commerce & Life, Inc., ABC Media Communication Co., Ltd., Askul Co., Ltd. J.A.F Service Co., Ltd., JALUX Co., Ltd., East Japan Railway Trading Company, Yomiuri Agency Co., Ltd., Sekaibun Publishing Inc., ShoPro Co., Ltd., QVC Japan Co., Ltd., Grand Marche., Inc., Sankei Digital Inc., Nippon Television Network Corporation 7, Roppinglife Co., Ltd., Nippon Broadcasting Projects, Inc., Nihon Bunka Center Co., Ltd., Japan Green Stamp Co., Ltd., Shaddy Co., Ltd., Television Shopping Kenkyujo Co., Ltd., etc.
Store route	(Variety type) Don Quijote Co., Ltd., Nagasakiya Co., Ltd., UD Retail Co., Ltd. , Loft Co., Ltd., cosme next Co., Ltd., Tokyo Dome Co., Ltd., SLH Plaza Style Company, Izumi Co., Ltd., TokyuHands Co., Ltd. (Drug store type) Matsumoto Kiyoshi Co., Ltd., Tsuruha Holdings Co., Ltd., Kokumin Co., Ltd., Create SD Co., Ltd Ain Pharmaciez Co., Ltd., Sundrug Co., Ltd., Tomods Co., Ltd., Sugi Holdings Co., Ltd. cocokara fine Holdings Inc., etc. (Home Center type) DCM Holdings Co., Ltd., Komeri Co., Ltd., Cainz Co., Ltd., Nafco Co., Ltd., etc. (Home appliance type) Yamada Denki Co., Ltd., Biccamera Co., Ltd., Yodobashi Camera Co., Ltd, etc.
Overseas route	New Zealand, the U.S., China, Taiwan, Hong Kong, South Korea, Singapore, Malaysia, Thailand, the Philippines, Australia, Vietnam, and Cambodia

Manufacturer-Vendor Business's Sales Composition for Sales Channels



BRIDGE REPORT



(Main Products)

<<cosmetics>>



<LB>



<B!FREE+>



<intima>



<SKINFOOD>

<< Sundries >>



<Butterflyabs DT>



<LOCOX>



<STEP 8>



<Speed heat vest>

<<Food Products>>



<Aged black garlic>



<tear grass extract>



<Lowcalo Life>



<Prussia 8>

(Source: the company)

(2) SKINFOOD Business

The wholly owned consolidated subsidiary Food Cosme Co., Ltd. is opening stores of Korean cosmetics brand's food cosmetics "SKINFOOD" mainly in station buildings in major cities of Japan.

The number of stores as of the end of May 2019 is 23, which includes 21 directly managed stores and 2 FC stores.

(3) IT Solutions Business

The wholly owned consolidated subsidiary Alfa Com Co., Ltd. sells systems related to the development of contact centers, such as the voice call recording system "Voistore," the business version of LINE called "LINE WORKS," the chat system "M-Talk," etc.

1-4 Characteristics and strengths: Business model as a marketing manufacturer

The primary point characterizing the company is a business model as a "marketing manufacturer" which conducts integrated business activities including planning, manufacturing, sales, and distribution of products on its own with a unique promotion strategy.

The company's business model is composed of the following 3 functions.

(1) Powerful product development, discovery, and procurement

The company is developing, discovering and procuring attractive products by taking advantage of information gained from a wide range of sales channels and experiences cultivated over 30 years. The "Development Approval Conference" is held once a month, and three teams of cosmetics, sundries and food with 7 to 8 members in each team, propose new products to officers and people in charge of sales. In their company where challenges are valued, each team proposes an average of 10 or more items each month based on freewheeling ideas, but not everything is approved.

The company has set "10 rules for development," which stipulates "emphasis on originality" and "thorough differentiation" regarding product development, and the proposed product is strictly criticized based on them, and homework is given out sometimes. However, these processes train the staff members in charge of development and are leading to further enhancement of product development capabilities.

BRIDGE REPORT

**(2) High marketing ability**

“High marketing ability” is playing a major role in developing a hit product.

Test marketing is conducted using various sales channels to check whether candidate products actually sell well. By making innovations in various aspects such as package, timing, target and price and conducting new promotions, the company has been creating many hit products.

(3) Various sales channels

Rather than just proposing products to the various sales outlets mentioned above, they propose the best ways of selling and showcasing in other sales channels together with successful stories of those channels.

They blend ideas unique to I.K co., Ltd. with the needs and feedbacks of customers and brush them up daily.

It is a major feature of the company that it provides all solutions, which fit the sales channels, to customers including product selection, catalog and medium creation, quality control, order reception, logistics and customer service.

Solutions	Outline
Creation	Create a flyer/catalogue sized paper tailored to the project
Order reception	They have a flexible core system that can handle all order reception styles such as calls, emails, FAX and post cards with which it performs order receiving work faster and more accurately.
Quality control	In addition to preparing for compliance, they set voluntary standards for each product category, and they check the products to prevent complaints.
Logistics	They provide individual delivery service from their own distribution center to the end user, keeping in mind the five keywords: sorting, setting in order, cleaning, hygiene, discipline.
Customer Service	In-house staff members provide one-stop services such as responding to inquiries about products, delivery and exchange, and after sales services at the call center.

While many other companies in the same industry specialize in planning and marketing of products, have only stores as their sales channels, and outsource manufacturing and distribution work to other companies, the company can execute a unique promotion strategy that they cannot imitate as the company can respond flexibly with the system and know-how.

1-5 ROE Analysis

	FY 5/13	FY 5/14	FY 5/15	FY 5/16	FY 5/17	FY 5/18	FY 5/19
ROE (%)	4.2	-2.3	-3.4	4.9	25.0	29.0	9.1
Net income margin (%)	0.51	-0.29	-0.40	0.53	2.79	3.50	1.35
Total asset turnover [times]	2.81	2.74	2.75	2.93	3.04	3.19	2.69
Leverage [times] (x)	2.89	2.91	3.07	3.18	2.95	2.60	2.51

All 3 factors declined. Particularly, due to the decline in the net income margin, ROE was set back all the way to single digits.

The net income margin during this term is expected to increase from the previous term of 2.37%. ROE is expected to rise thanks to the expected steady achievement of forecasted results.

2. Fiscal Year ended May 2019 Earnings Results**(1) Consolidated Business Results**

	FY 5/18	Ratio to sales	FY 5/19	Ratio to sales	YY change	Compared with the initial forecasts	Compared with revised forecasts
Sales	18,337	100.0%	17,614	100.0%	-3.9%	-13.8%	+0.7%
Gross profit	7,794	42.5%	7,974	45.3%	+2.3%	-	-
SG&A	6,895	37.6%	7,543	42.8%	+9.4%	-	-

BRIDGE REPORT



Operating Income	898	4.9%	431	2.5%	-51.9%	-59.0%	+1.1%
Ordinary Income	899	4.9%	437	2.5%	-51.3%	-59.0%	-0.3%
Net Income	641	3.5%	238	1.4%	-62.9%	-66.9%	-17.9%

*Unit: million yen

*Net income is profit attributable to owners of parent. Revised forecasts were announced in April 2019.

Sales decreased because the demand from foreign visitors was sluggish. Profits declined as sales efficiency fell and selling, general and administrative expenses increased.

Sales were 17,614 million yen, up 3.9% year on year. The demand from foreign visitors was sluggish. Gross profit margin rose together with gross profit; however, the sales efficiency of "Butterfly Abs," which is the main product in television shopping, declined.

Selling, general and administrative expenses could not be absorbed, resulting in a fall in operating income by 51.9% year on year to 431 million yen. The forecasts for the business results were revised downwardly twice in October 2018 and April 2019. Sales and profit decreased for the first time in 5 years.

(Variation in Selling, General and Administrative Expenses)

	FY 5/18	Ratio to sales	FY 5/19	Ratio to sales	YY change
Labor cost	1,433	7.8%	1,416	8.0%	-1.2%
Advertising cost	2,840	15.5%	3,286	18.7%	+15.7%
Packing and freight expenses	1,087	5.9%	1,124	6.4%	+3.4%
Total SGA	6,895	37.6%	7,543	42.8%	+9.4%

*Unit: million yen

The increase in the broadcast slots for home shopping, test-marketing of new products, etc. led to a rise in the ratio of advertising expenses to sales.

The packing and shipping fees have also increased.

◎Quarterly Earnings

	5/17 1Q	2Q	3Q	4Q	5/18 1Q	2Q	3Q	4Q	5/19 1Q	2Q	3Q	4Q
Sales	3,177	3,893	4,094	4,108	4,239	5,032	4,178	4,887	4,790	4,566	4,067	4,191
Sales growth	+1.2%	+8.4%	+12.1%	+16.6%	+33.4%	+29.2%	+2.1%	+19.0%	+13.0%	-9.3%	-2.7%	-14.2%
Operating Income	57	153	210	135	208	310	90	289	61	156	56	157
Profits growth	+227.1%	+382.1%	+156.1%	+83.8%	+260.9%	+101.9%	-57.2%	+114.2%	-70.4%	-49.5%	-37.5%	-45.7%
profit margin	1.8%	3.9%	5.1%	3.3%	4.9%	6.2%	2.2%	5.9%	1.3%	3.4%	1.4%	3.8%

*Unit: million yen

As for quarterly results, sales and profit dropped year-on-year in the second and third quarters.

(2) Trend of each segment

	FY 5/18	Ratio to sales	FY 5/19	Ratio to sales	YY change
Sales					
Manufacturer-Vendor Business	17,089	93.2%	16,336	92.7%	-4.4%
SKINFOOD Business	1,033	5.6%	1,009	5.7%	-2.3%
IT Solutions Business	214	1.2%	268	1.5%	+25.4%
Total	18,337	100.0%	17,614	100.0%	-3.9%
Operating Income					
Manufacturer-Vendor Business	657	3.8%	385	2.4%	-41.4%
SKINFOOD Business	232	22.5%	37	3.7%	-83.8%
IT Solutions Business	2	1.3%	3	1.3%	+27.1%

BRIDGE REPORT



Adjustments	5	-	5	-	-2.5%
Total	898	4.9%	431	2.5%	-51.9%

*Unit: million yen. Composition ratio of operating income is operating income margin.

① Manufacturer-Vendor Business

Sales and profit decreased.

Although sales in the co-op route and store wholesale route increased, the profit from the overseas route decreased due to the decline in the demand from foreign visitors and the registration delay in NMPA (National Medical Products Administration, formerly CFDA), etc.,. Furthermore, advertising expenses increased by 23% year-on-year due to the increased use of television media. On the other hand, due to the increase in their exposure for future test marketing, the sales efficiency of home shopping (MR = Media Ration) dropped from 190% to 171%, which led to a decrease in profit as sufficient revenue could not be secured.

(Details of retailing routes)

	FY 5/18	Ratio to sales	FY 5/19	Ratio to sales	YY change
Co-op	6,807	40%	6,997	43%	+2.8%
Mail-order	4,436	26%	4,262	26%	-3.9%
WEB-TV	2,780	16%	2,438	15%	-12.3%
Overseas	1,699	10%	1,064	7%	-37.4%
Stores	1,366	8%	1,573	10%	+15.2%

* Unit: million yen.

② SKINFOOD Business

Sales and profit decreased.

In October 2018, SKINFOOD Co., Ltd. (in South Korea), which is the franchiser of the SKINFOOD business, filed for rehabilitation proceedings (equivalent to Japan's civil rehabilitation proceedings) in a court in Seoul, which led to a slight decrease in sales.

Moreover, the sales of the representative operation of stores for foreign tourists dropped substantially due to the slowdown in demand from foreign tourists in Japan. This resulted in a decline in profit.

The number of stores at the end of May 2019 was 23 including 21 directly managed stores (20 in the same period of the previous year) and 2 franchise stores (3 in the same period of the previous year).

③ IT Solutions Business

Sales and profit increased.

The sales of the mainstay product, M-Talk (chat system), remained favorable.

(3) Financial condition and cash flow

◎Main BS

	End of May 2018	End of May 2019		End of May 2018	End of May 2019
Current Assets	5,324	5,741	Current liabilities	3,175	3,123
Cash	560	410	Payables	1,431	1,094
Receivables	2,678	2,766	LT Interest Bearing Liabilities	631	1,143
Inventories	1,533	2,054	Noncurrent liabilities	589	1,006
Noncurrent Assets	964	1,077	ST Interest Bearing Liabilities	328	742
Tangible Assets	322	364	Total Liabilities	3,764	4,129
Intangible Assets	166	121	Net Assets	2,524	2,688
Investment, Others	475	590	retained earnings	1,753	1,917
Total assets	6,288	6,818	Total Liabilities and Net	6,288	6,818

			Assets		
*Unit: million yen			Balance of debts	959	1,885
			Equity ratio	40.1%	39.4%

Due to the increase in inventory assets, current assets increased 417 million yen from the end of the previous term while noncurrent assets increased 112 million yen. Total assets increased 529 million yen to 6,818 million yen. Total liabilities increased 364 million yen to 4,129 million yen due to the increase in loans payable, etc. Net assets increased 164 million yen to 2,688 million yen due to the increase in retained earnings and such.

Equity ratio decreased 0.7% from the end of the previous term to 39.4%.

◎Cash Flow

	FY 5/18	FY 5/19	Increase/decrease
Operating Cash Flow	722	-722	-1,444
Investing Cash Flow	-243	-275	-32
Free Cash Flow	478	-998	-1,477
Financing Cash Flow	-42	852	+895
Term End Cash and Equivalents	687	542	-145

* Unit: million yen

The decrease in profit and trade payables caused operating CF and free CF to turn negative.

Financing CF turned positive due to the augmentation of short and long-term borrowings. キャッシュポジションは低下した。The cash position declined.

3. Fiscal Year ending May 2020 Earnings Forecasts

(1) Full-year earnings forecast

	FY 5/19	Ratio to sales	FY 5/20 Est.	Ratio to sales	YY change
Sales	17,614	100.0%	16,946	100.0%	-3.8%
Operating Income	431	2.5%	577	3.4%	+33.6%
Ordinary Income	437	2.5%	585	3.5%	+33.6%
Net Income	238	1.4%	402	2.4%	+68.8%

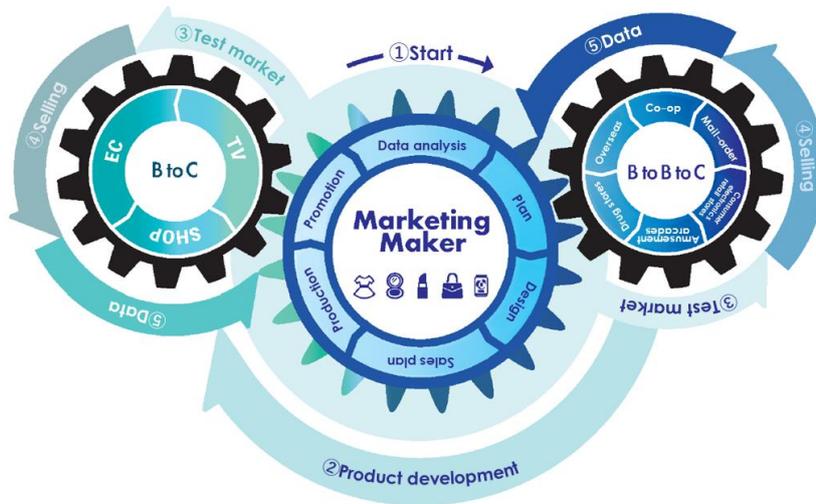
*Unit: million yen. The estimated values are those announced by the Company.

Sales dropped and profit increased

The sales for the fiscal year ending May 2020 are estimated to decline by 3.9% year on year to 16,946 million yen and operating income is projected to rise by 33.6% year on year to 577 million yen. The amount of dividend that the company will pay is expected to remain unchanged at 12.00 yen/share. The estimated payout ratio is 22.3%.

(2) Strategies for each segment in the second half of the term

As a company-wide initiative, in order to be the world's one and only "marketing manufacturer," the company plans to analyze the market data while proceeding with BtoC and BtoBtoC businesses. Then, it will utilize this data for product development and sell the products again through the diverse sales channels of BtoC and BtoBtoC with promotions. Moreover, it will put the effort into enriching the training system of its employees and using RPA and AI to improve productivity by streamlining internal operations.

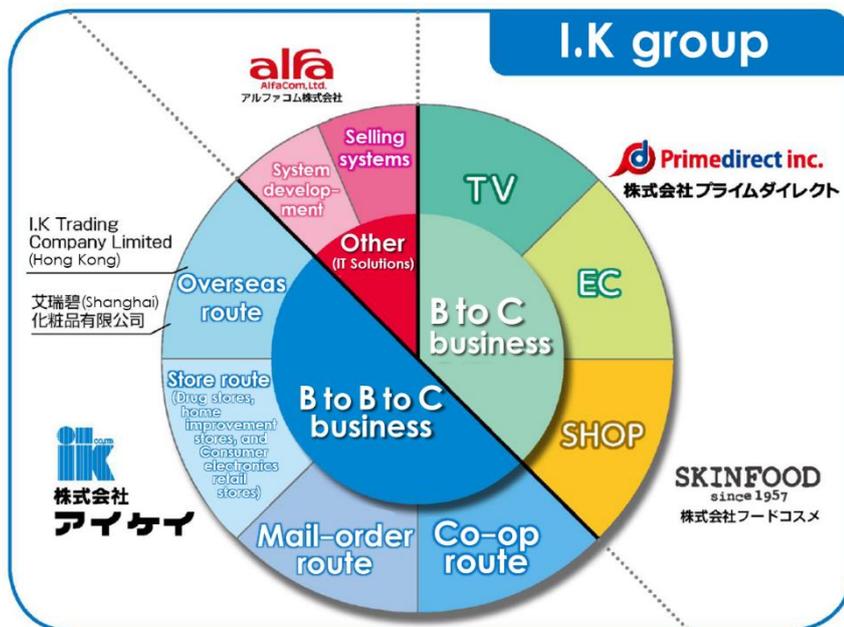


I.K Co., Ltd. is a “marketing manufacturer,” which conducts integrated business activities including **product planning, manufacturing, selling and distribution** through its original promotion strategy.

(Source: the company)

(3) Segment trends

As mentioned in Section 1-3 “Business description,” the company will enhance the operation speed and focus investments on promising businesses, all of which are necessary steps for growth. In addition, it will try to allow investors get a better understanding about its businesses. That is why the company has decided to change the business segment to “BtoBtoC Business,” “BtoC Business” and “Other.”



(Source: the company)

In addition, on September 1, 2019, the company plans to conduct an absorption-type merger with Graceas Co., Ltd., which conducts online sales of dietary supplements. Moreover, the Hong Kong I.K Trading Company Limited and LB (Shanghai) Cosmetics Co., Ltd. will be subject to consolidation in the fiscal year ending May 2020.

(Sales forecast for each segment.)

	FY 5/19	Ratio to sales	FY 5/20 Est.	Ratio to sales	YY change
BtoB business	5,991	34.0%	4,607	27.2%	-23.1%
BtoBtoC business	11,354	64.5%	12,019	70.9%	+5.9%
Other	268	1.5%	320	1.9%	+19.0%
Total	17,614	100.0%	16,946	100.0%	-3.8%

*Unit: million yen

① BtoC Business

◎ TV & EC routes

The company aims to repeatedly do test marketing for new products, and establish a system that steadily releases hit products from the next term onwards.

The company has been able to constantly keep about 5 items of hit products while attempting to optimize the television shopping slot. Now that the product lineup is more comprehensive, it can compose an optimal portfolio for the television shopping slot.

(Sundries)

- Expand sales of “Butterfly Abs DT,” which is the renewed version of “Butterflies Abs”
- Increase the broadcast slot for the new products, “Step8” and “Air Yawn”
- Launch sales of “Speed Heat vest” in October

(Food products)

- Start the television broadcasting for “Kuro-Ninniku (Black Garlic)”

◎ Store route

Expand the retail store sales of SKINFOOD cosmetics.

- Work towards improving the returning customers' ratio through sample exchange tickets, popularity on LINE, and Introduction cards for friends.
- Make efforts to make the stores leave a strong impression by utilizing Instagram official accounts and improving customer service.
- Aim for re-branding by appealing for reassurance and safety of the slogan “SKINFOOD = Cosmetics made from food.”

② BtoBtoC Business

◎ Fostering growing businesses

*Cosmetics products including LB

- Expand the number of stores handling the products of “LB” from 2,000 to 2,300.
- Expand the product lineup by releasing 3 new colors for “3 in 1 Eyebrow,” and launching the new products, “High matte Rouge” and “Powder Eyeshadow,” etc.
- Strengthen sales promotion through SNS (YouTube, Instagram)

* Expand cosmetics sales overseas

- Strengthen overseas sales through the consolidation of 2 overseas subsidiary companies.
- Expand sales channels in China by registering in the NMPA license (hygiene registration)

◎ Synergy with the BtoC Business

- Aim to expand sales of products developed by the company and to improve the gross profit margin through strengthening multichannel retailing with home shopping as the starting point.

4. Conclusions

Unfortunately, the forecast was revised downwardly again, and sales and profit declined for the first time in 5 years. The decline in demand from foreign visitors was the main causing factor to decline sales, which is unlikely to make a major recovery during this term. Therefore, the key factor for recovery from this term onwards will depend on the performance of the new business model of “multi-channel retailing that starts from TV shopping,” which was almost established during the previous term. The company thinks that it has developed a lineup of products that are good enough to be incorporated into their portfolio for the TV shopping slot. We would like to monitor the sales performance of their products, especially their hit product, “Butterfly Abs DT.”

On the other hands, as for the company’s makeup cosmetics brand “LB,” whose sales in the Chinese market is going to be a major pillar for their growth strategy, the company expects to obtain the permission from NMPA (formerly CFDA) for adding 20 SKU, which will augment the existing SKU to 50 SKU; thus a strong base for operation will be ready. The company reported more activities in Taiwan, Hong Kong, and South Korea, and we are looking for any concrete progress.

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	7 directors, including 3 outside ones

◎Corporate Governance Report

Last updated: December 14, 2018

<Basic Policy>

While corporate governance is expected to function effectively, the company strives to become a reliable firm by improving its management foundation, maintaining high ethics and increasing the transparency of the management further in order to fulfil the social mission and responsibility as a listed company.

Also, the company considers the establishment of a management structure that can respond to the changes in the business environment fast and accurately as one of the important business challenges, and it is making efforts in information sharing from many sides by holding a regular meeting of Board of Directors (once/month), an extraordinary meeting of Board of Directors (as per the need), an in-house officers meeting (once/week) with regular directors (including directors serving as audit and supervisory committee members) and executive officers, and a top meeting (once/week) composed of people from team managers post or above.

<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) Electronic exercise of voting rights, English translation of convocation notices	The company does not use an online voting platform or provide English translation of convocation notices for ordinary general meetings of shareholders, but it will take the shareholders’ convenience into account based on the composition of shareholders such as institutional investors and foreign investors, and discuss them as necessary.
Supplementary Principle 4-1 . (2)Explanation of a medium-term management plan	The company has its medium-term plan, and it makes efforts to allow shared recognition with shareholders and investors through medium-term vision. The medium-term profit plan is not disclosed, but the company will consider disclosing it in future.

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

Principles	Disclosure contents
Principle 1-4 So-called Strategically-held Shares	The company owns strategically held shares in order to maintain and strengthen a continuous, stable and good business relation with its clients. However, it will conduct tests regularly from a medium-to-long term perspective based on returns,

BRIDGE REPORT



	<p>risks, etc., and it will recommend the sale of shares in case there is no longer necessity. Regarding the concerned shares, the board of directors verifies the holding purpose, reasonability and the status of dividend income, compares the acquisition price and current price, and checks the need for holding the shares every year.</p> <p>Furthermore, since the company makes its decision regarding the exercise of voting rights by comprehensively considering strengthening and maintenance of business relation, circumstances of the company concerned, etc., it does not have external standards.</p>
Principle 5-1 Policy to have Constructive Dialogue with Shareholders	<p>In the company, the management team/general affairs group are designated as the IR department, and they respond to the requests for dialogue by the shareholders within reasonable range in order to contribute to sustainable growth of the company and improvement of corporate value over medium-to-long term.</p> <p>The company's chairman holds the financial results briefing twice a year for shareholders and institutional investors. Further, the company upload videos and handouts of the briefing on its website for shareholders and investors who are not able to attend the briefing.</p>

This report is intended solely for information purposes, and is not intended as a solicitation for investment. The information and opinions contained within this report are made by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

Copyright (C) 2019 Investment Bridge Co., Ltd. All Rights Reserved.