



## Bridge Report I.K Co., Ltd. (2722)

 Chairman & CEO Hiroshi Iida	Company	I.K Co., Ltd.	
	Code No.	2722	
	Exchange	TSE 2 <sup>nd</sup> Section	
	Industry	Retail Business (Commerce)	
	Chairman & CEO	Hiroshi Iida	
	Address	KDX Nagoya Station Building, 3-26-8 Meieki, Nakamura-ku, Nagoya-shi	
	Business	I.K CO., LTD is a catalogue retailer and has its strengths in products for co-op. It runs a television mail-order business called Prime Direct and a Korean cosmetics shop at the same time. The company hopes to expand the sales of its original makeup cosmetics brand “LB.”	
	Year-end	End of May	
	URL	<a href="https://www.ai-kei.co.jp/en">https://www.ai-kei.co.jp/en</a>	

### — Stock Information —

Share Price	Number of shares issued		Total market cap	ROE (Actual)	Trading Unit
¥843	7,808,000 shares		¥6,582 million	29.0%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥12.00	1.4%	¥76.37	11.0x	¥337.58	2.5x

\*The share price is the closing price on January 28. The number of shares issued is taken from the financial settlement report for 2Q FY 5/19. ROE and BPS are based on actual results of the previous term.

### — Earnings Trends —

(Unit: Million yen or yen)

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
May 2014 (Actual)	11,960	105	142	-34	-4.87	4.50
May 2015 (Actual)	12,476	64	68	-49	-6.73	4.50
May 2016 (Actual)	13,908	205	182	73	9.85	5.00
May 2017 (Actual)	15,273	557	554	425	57.13	7.50
May 2018 (Actual)	18,337	898	899	641	86.07	10.00
May 2019 (Forecast)	19,947	831	846	571	76.37	12.00

\*The forecasted values were provided by the company. Stock split in a ratio 1:2 was conducted on 1<sup>st</sup> December, 2017 and 1<sup>st</sup> April, 2018. EPS and DPS were retroactively adjusted.

The financial statement for the first half of the fiscal year ending May 2019 and many more about K.I Co., Ltd. will be described.

### —Table of Contents—

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2. First Half of the Fiscal Year May 2019 Earnings Results
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<Reference: Regarding Corporate Governance>

## Key Points

•The company 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 products 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 solution business, which develops contact centers, etc. The company strives to become a company whose stakeholders are its fans, by promoting “the increase of fans” as its corporate philosophy.

•The sales for the first half of the fiscal year ending May 2019 were 9,356 million yen, up 0.9% year on year. In the manufacturer-vendor business, sales remained at the same level as the previous year. The sales efficiency of “Butterfly Abs,” which is the main product in television shopping, declined. Gross profit margin rose together with gross profit, but selling, general and administrative expenses could not be absorbed, resulting in a fall in operating income by 57.9% year on year to 218 million yen. The forecasts for the first half of the term and the full year were revised downwardly in October 2018.

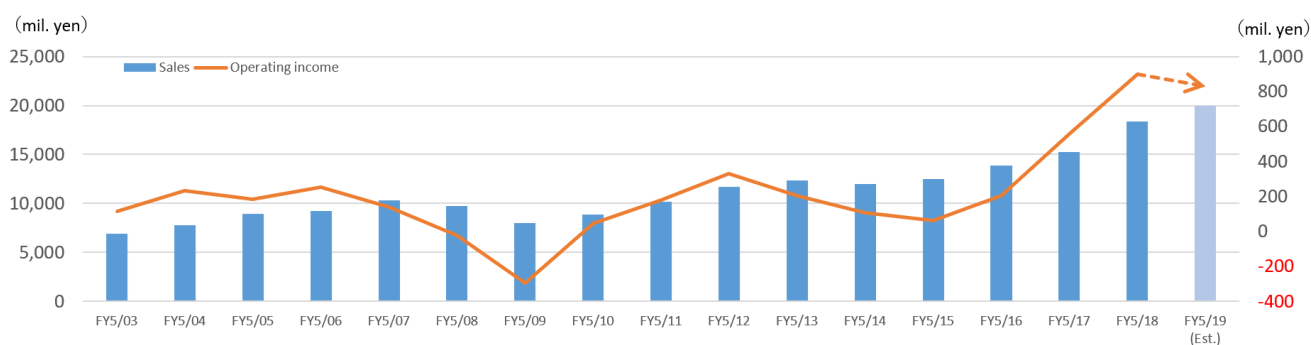
•Although the forecast for the full year was revised downwardly, the company considers the difference between the results and forecast for the second half of the term to be insignificant. The sales for the fiscal year ending May 2019 are expected to be 19,947 million yen, up 8.8% year on year, and operating income is projected to decrease 7.5% year on year to 831 million yen. The amount of dividend that the company will pay remains unchanged, i.e., 12.00 yen/share, up 2 yen/share year on year. The estimated payout ratio is 15.7%.

•The forecasts for the first half of the term and the full year were revised downwardly, but the revision made to the full-year forecast was mostly to adjust the forecast for the first half of the term and the company is confident that the second half of the term will see a steady growth. It is because the company has established a new business model “multichannel retailing with home shopping as the starting point.” As the previous report said “the company’s ability to produce hit products in a stable manner becomes the key to success,” the establishment of a profitable product portfolio, which includes products such as “Butterfly Abs 2,” is also a notable point. We expect favorable results from the third quarter onward. On the other hand, it is a matter of concern that the permission from the CFDA (China Food and Drug Administration) for the makeup cosmetics “LB,” which is anticipated to contribute greatly to the company’s medium-to-long-term growth, has not yet been obtained. We would like to watch over its progress as the company expects to get the permission around March.

## 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.



**【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.

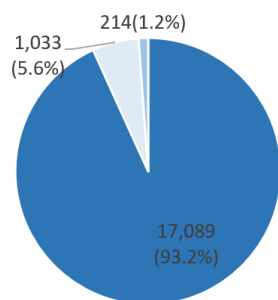
**【1-2 Management philosophy】**

<b>Increase of fans</b>	What they should pursue to become a leading company in the 21 <sup>st</sup> 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.”
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**【1-3 Business description】**

I.K Co., Ltd. has three business segments: 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.

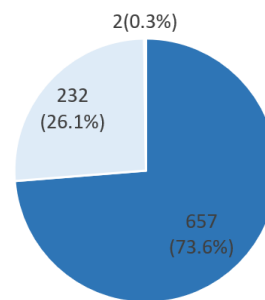
Sales Composition (FY May 2018 Unit: million yen)



■ Manufacture- Vendor Business ■ SKINFOOD Business  
■ IT Solutions Business

\* Sales to External Customers

Operating income Composition (FY May 2018 Unit: million yen)



■ Manufacture- Vendor Business ■ SKINFOOD Business  
■ IT Solutions Business

\* Component ratio against unadjusted total

## (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.

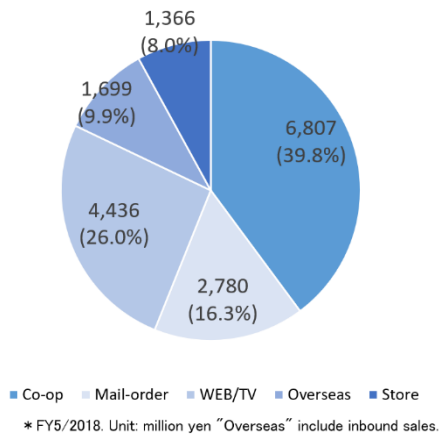
## (Major Sales Routes)

Co-op route	Co-op Sapporo, Co-op Tohoku, Co-opdeli Consumer’s Co-operative Union, Consumer’s co-operative Ai Co-op Miyagi, 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, Co-op Toyama, 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., Mitsukoshi Merchandising, Co., Ltd., Tenmaya, 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., Luxa Co., Ltd., 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., Sekaibunka 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., Zenkokutsuhan 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., 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.

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Overseas route	New Zealand, the U.S., China, Taiwan, Hong Kong, South Korea, Singapore, Malaysia, Thailand, the Philippines and Australia
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Manufacturer–Vendor Business’ s Sales Composition for Sales Channels



**(Main Products)**

« Butterfly Abs »



No.1 hit product in the term ended May 2018.

It is an EMS product that causes a maximum of 4,200 vibrations in a minute. It is well received by users, because they can do suitable training by setting the intensity out of 10 levels and choosing one out of 6 programs while the device is lightweight and compact. Due to the hit of this Butterfly Abs, the company completed “multichannel retailing,” a business model using its sales channels.



(Source: the company)

« Cosmetics LB »



It proposes items that maximize individuality, beauty and brightness by makeup based on the concept “MAKE UP YOUR STYLE.”

“LB” is an acronym for Lady Bird, and the name represents the brand’s hope to let happiness reach all the women using LB’s cosmetics products as there is a European saying that “if a lady bird rests on your body, it brings happiness.”

# Bridge Report

It is one of the few brands that are 100% made in Japan, and the company is expanding its sales domestically and also working toward its full-scale cultivation in the Chinese market.



(Source: the company)

## 《Lowcalo Life》



Low-calorie food series that realize tasty and fun dieting, such as “low-calorie noodles” and “low-calorie porridge.”



(Source: the company)

## 《B ! FREE》



Cosmetics series that, for the first time in history, is aimed to free (B ! FREE) users from skin troubles and stress from their daily lives with additive-free preservatives.



(Source: the company)

# Bridge Report

## 《Locox》



Fitness brand aimed at preventing “the locomotive syndrome” and extending healthy lifespan.



(Source: the company)

## 《Mother's Market》



Brand that is easy to use, delicious, and healthy, under the concept “I found what I wanted.”



(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 2018 is 22, which includes 20 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.

### **(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
<b>ROE (%)</b>	4.2	-2.3	-3.4	4.9	25.0	29.0
Net Income Margin (%)	0.51	-0.29	-0.40	0.53	2.79	3.50
Asset Turnover Ratio (x)	2.81	2.74	2.75	2.93	3.04	3.19
Leverage (x)	2.89	2.91	3.07	3.18	2.95	2.60

Although the leverage declined, net income margin improved significantly due to the substantial increase in profits in the fiscal year ended May 2018 and ROE also rose. Moreover, the net income margin for the current term is projected to be 2.86% and fall from the previous term, however, it is expected to continue to achieve a high level of ROE.

## 2. First Half of the Fiscal Year May 2019 Earnings Results

### (1) Consolidated Business Results

(Unit: Million yen)

	1H FY 5/18	Ratio to sales	1H FY 5/19	Ratio to sales	YOY	Compared with the revised forecast
Sales	9,272	100.0%	9,356	100.0%	+0.9%	-9.4%
Gross profit	3,985	43.0%	4,268	45.6%	+7.1%	-
SG&A expenses	3,466	37.4%	4,050	43.3%	+16.8%	-
Operating income	518	5.6%	218	2.3%	-57.9%	-51.8%
Ordinary income	524	5.7%	228	2.4%	-56.5%	-50.4%
Net income	371	4.0%	147	1.6%	-60.3%	-51.4%

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

### Sales remained at the same level as the previous term. Profits declined as sales efficiency fell and selling, general and administrative expenses increased.

Sales were 9,356 million yen, up 0.9% year on year. In the manufacturer-vendor business, sales remained at the same level as the previous year. The sales efficiency of “Butterfly Abs,” which is the main product in home shopping, dropped.

Gross profit margin rose together with gross profit, but selling, general and administrative expenses could not be absorbed, resulting in a fall in operating income by 57.9% year on year to 218 million yen. The forecasts for the first half of the term and the full year were revised downwardly in October 2018.

### (Variation in Selling, General and Administrative Expenses)

(Unit: Million yen)

	1H FY 5/18	Ratio to sales	1H FY 5/19	Ratio to sales	YOY
Labor cost	741	8.0%	725	7.8%	-2.2%
Advertising cost	1,447	15.6%	1,852	19.8%	+28.0%
Packing and freight expenses	529	5.7%	588	6.3%	+11.2%
Total SGA	3,466	37.4%	4,050	43.3%	+16.8%

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

### ◎Trends by quarter

(Unit: Million yen)

	5/17 1Q	2Q	3Q	4Q	5/18 1Q	2Q	3Q	4Q	5/19 1Q	2Q
Sales	3,177	3,893	4,094	4,108	4,239	5,032	4,178	4,887	4,790	4,566
Sales growth	+1.2%	+8.4%	+12.1%	+16.6%	+33.4%	+29.2%	+2.1%	+19.0%	+13.0%	-9.3%
Operating income	57	153	210	135	208	310	90	289	61	156

Profits growth	+227.1%	+382.1%	+156.1%	+83.8%	+260.9%	+101.9%	-57.2%	+114.2%	-70.4%	-49.5%
Operating income margin	1.8%	3.9%	5.1%	3.3%	4.9%	6.2%	2.2%	5.9%	1.3%	3.4%

For the second quarter (September-November), sales and profit declined on a quarterly basis.

## (2) Trend of each segment

(Unit: Million yen)

	1H FY 5/18	1H FY 5/19	YOY
<b>Sales</b>			
Manufacturer-Vendor Business	8,705	8,770	+0.7%
SKINFOOD Business	477	473	-1.0%
IT Solutions Business	88	112	+27.6%
Total	9,272	9,356	+0.9%
<b>Operating income</b>			
Manufacturer-Vendor Business	404	208	-48.4%
SKINFOOD Business	120	18	-84.8%
IT Solutions Business	-9	-11	-
Adjustments	518	218	-57.9%

\* Composition ratio of operating income is operating income margin.

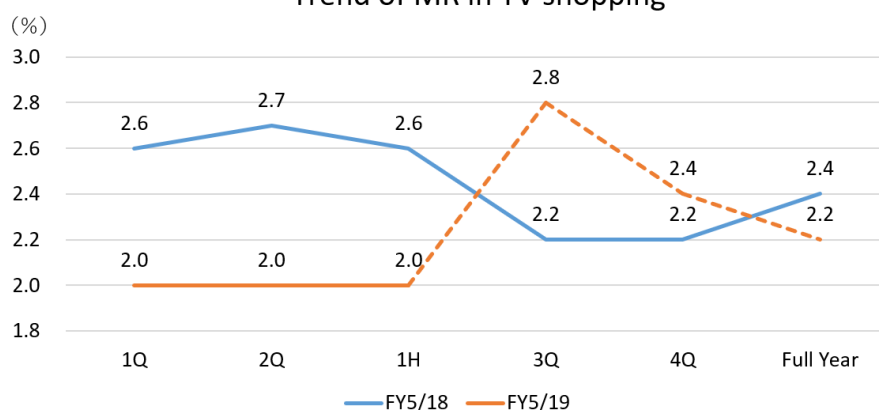
### ① Manufacturer-Vendor Business

Sales grew and profit dropped.

While the overseas route saw a decline in sales due to the slowdown in demand from foreign tourists in Japan and delay in CFDA registration in China, increased sales in television/WEB routes allowed the manufacturer-vendor business as a whole to have improved sales.

As previously mentioned, advertising expenses rose as use of television media was increased in order to improve sales through home shopping, but sufficient profits could not be secured as a result of dropped sales efficiency of home shopping (MR = Media Ratio, sales ÷ cost of media).

Trend of MR in TV shopping



### (Details of retailing routes)

(Unit: Million yen)

	1H FY 5/18	Composition ratio	1H FY 5/19	Composition ratio	YoY
Co-op	3,441	39.5%	3,339	38.1%	-3.0%
Mail-order	2,413	27.7%	2,587	29.5%	+7.2%
WEB・TV	1,305	15.0%	1,345	15.3%	+3.1%
Overseas	917	10.5%	784	8.9%	-14.5%
Stores	627	7.2%	713	8.1%	+13.7%

## 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. Since the court made the decision to start the rehabilitation proceedings in the following week and the factories resumed their operations, there was no delay in the product supply. As a result, the sales of the stores in Japan were almost at the same level as the previous year.

However, profits declined as a result of slowdown in demand from foreign tourists in Japan, which caused the sales of the operation of stores for foreign tourists to drop.

The number of stores at the end of November 2018 was 23 (20 in the same period of the previous year) 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 declined

The sales of the main products, Voistore (call recording system) and M-Talk (chat system), remained favorable.

However, operating loss expanded since the selling, general and administrative ratio dropped 0.1 points due to increased advertising expenses (product introduction through exhibitions), etc.

## (3) Financial condition and cash flow

### ◎ Main BS

(Unit: Million yen)

	End of May 2018	End of November 2018		End of May 2018	End of November 2018
<b>Current assets</b>	5,324	5,602	<b>Current liabilities</b>	3,175	3,260
<b>Cash and deposits</b>	560	416	<b>Trade payables</b>	1,431	1,321
<b>Trade receivable</b>	2,678	2,746	<b>Short-term borrowings</b>	631	1,227
<b>Inventories</b>	1,533	1,855	<b>Noncurrent liabilities</b>	589	687
<b>Noncurrent assets</b>	964	941	<b>Long-term borrowings</b>	328	428
<b>Property, plant and equipment</b>	322	320	<b>Total liabilities</b>	3,764	3,948
<b>Intangible assets</b>	166	162	<b>Net assets</b>	2,524	2,596
<b>Investments and other assets</b>	475	459	<b>Retained earnings</b>	1,753	1,826
<b>Total assets</b>	6,288	6,544	<b>Total liabilities and net assets</b>	6,288	6,544
			<b>Balance of debts</b>	959	1,655
			<b>Equity ratio</b>	40.1%	39.7%

Due to an increase in inventories, current assets rose 278 million yen from the end of the previous term. Noncurrent assets decreased 22 million yen from the end of the previous term, and total assets rose 255 million yen to 6,544 million yen from the end of the previous term. Total liabilities were 3,948 million yen, up 183 million yen from the end of the previous term due to an increase in debts. Net assets increased 72 million yen to 2,596 million yen from the end of the previous term as a result of increased retained earnings.

Equity ratio dropped 0.4% from the end of the previous term to 39.7%.

### ◎ Cash Flow

(Unit: Million yen)

	1H FY 5/18	1H FY 5/19	Changes
<b>Operating CF</b>	484	-707	-1,192
<b>Investing CF</b>	-105	-57	48

Free CF	379	-765	-1,144
Financing CF	-67	621	689
Cash and equivalents	567	550	-16

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. The cash position was nearly unchanged.

### 3. Fiscal Year May 2019 Earnings Estimates

#### (1) Full-year earnings forecast

(Unit: Million yen)

	FY 5/18	Ratio to sales	FY 5/19 (Forecast)	Ratio to sales	YOY	Revision rate
Sales	18,337	100.0%	19,947	100.0%	+8.8%	-2.3%
Operating income	898	4.9%	831	4.2%	-7.5%	-21.1%
Ordinary income	899	4.9%	846	4.2%	-6.0%	-20.7%
Net income	641	3.5%	571	2.9%	-11.0%	-20.3%

\*The estimated values are those announced by the Company.

Sales grew and profit dropped

As previously mentioned, the full-year earnings forecast was revised downwardly. However, the company considers the difference between the results and forecast for the second half of the term to be insignificant.

Sales are expected to be 19,947 million yen, up 8.8% year on year, and operating income is projected to decrease 7.5% year on year to 831 million yen. The amount of dividend that the company will pay remains unchanged, i.e., 12.00 yen/share, up 2 yen/share year on year. The estimated payout ratio is 15.7%.

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

##### ◎ Manufacturer-Vendor Business

##### 1. Increase the sales efficiency of home shopping

The company will strive to improve MR (sales/cost of media) by starting the sale of “Butterfly Abs 2,” a renewal version of Butterfly Abs, and the thermal vest “Speed Heat.”

Through functional enhancement and intensive placement of ads of Butterfly Abs 2, which is to be released in April 2019 at the same price, the company aims to make it a hit product.

Generally, MR of 2.0 is considered to be the break-even point, but the company expects a rise in MR from the second half of the term onward through the introduction of the thermal vest “Speed Heat” and Butterfly Abs 2.

##### 2. Promotion of multichannel retailing with home shopping as the starting point

The company considers that a new business model “multichannel retailing with home shopping as the starting point” was completed. While Butterfly Abs was the only product handled in home shopping in the previous term, the company was able to secure effective broadcast slots as it completed creating a profitable product portfolio with products such as “Butterfly Abs 2,” “Ashi-tsura Night” (leg supporter for night), “LOCOX” (walking shoes) and “Speed Heat” (thermal vest), and it expects MR, which had been sluggish in the first half of the term, to improve.

##### 3. Sales expansion of cosmetics products, mainly LB

###### ◆ Domestic

The number of stores handling the products of “LB” is 1,930 as of the interim fiscal period, but it is estimated to expand to 2,500 by the end of May 2019. In addition, the company will expand the product lineup by releasing two new colors for “Brush-shaped Tint Rouge” and “Power of Eyeliner Liquid” in March and May, respectively.

**◆Overseas**

Also, the company started the sale of “B!FREE+,” a skincare brand for the extremely sensitive skin. It was ranked No.1 on Japan’s largest comprehensive website on cosmetics/beauty right after its release, and its further growth is anticipated. However, the permission from CFDA (China Food and Drug Administration) for the makeup cosmetics “LB” has not yet been obtained.

**4. Sales enhancement of self-developed products in manufacturer-vendor business**

The company will continue to enhance the development and sales of self-developed products (PB (Private Brand) products) such as food and miscellaneous goods, in order to improve the gross profit margin.

The ratio of PB products rose from 33.7% at the end of the previous term to 45.4% at the end of the first half of the current term, up 11.7 points. The company aims to grow the ratio to 60%.

**◎SKINFOOD Business****1. Focus on improving profitability of existing stores**

By encouraging new visitors to the store to become “customers” or “clients,” and sublimate them into “fans,” which is their corporate philosophy.

The company will focus on improving the profitability of the existing stores by encouraging repeated visit by issuing “Refer-a-Friend cards” and “sample coupons,” allowing customers to obtain a pre-paid card used only the store, holding events for customers during the golden week, etc.

**2. Production of memorable stores**

The company will strengthen its service by ensuring that salesclerks tell their names when serving customers (“thank you” in both directions). It will check on it through mystery shoppers every two months.

In addition, it will make efforts in obtaining a greater number of followers on LINE and Twitter, and create an official Instagram account.

**3. Expansion of sales channel**

The company will focus on expanding its EC sales channels by opening more stores on major EC websites such as Amazon, ZOZOTOWN and ASKUL, and also appearing on gift-type catalogues.

**◎IT Solutions Business****1. Business aspect**

The company will expand the installation and improve the efficiency of the chat system “M-Talk,” which is becoming increasingly popular among major companies.

It will start a unique service to stabilize the management base through improvement in the earnings structure.

By utilizing the case of the new version of “Voistore TOV,” it will strengthen the sales of the call recording system “Voistore.”

**2. Management aspect**

The company will continue to discuss the management system suitable for business expansion. It is considering the need to organize and raise the level of each individual.

**4. Conclusions**

The forecasts for the first half of the term and the full year were revised downwardly, but the revision made to the full-year forecast was mostly to adjust the forecast for the first half of the term and the company is confident that the second half of the term will see a steady growth.

It is because the company has completed a new business model “multichannel retailing with television shopping as the starting point.” As the previous report said “the company’s ability to produce hit products in a stable manner becomes the key to success,” the establishment of a profitable product portfolio, which includes products such as “Butterfly Abs 2,” is also a notable point. We expect favorable results from the third quarter onward.

On the other hand, it is a matter of concern that the permission from the CFDA (China Food and Drug Administration) for the makeup cosmetics “LB,” which is anticipated to contribute greatly to the company’s medium-to-long-term growth, has not yet been obtained. We would like to watch over its progress as the company expects to get the permission around March.

### <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, 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. 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.

# Bridge Report



<p><b>【Principle 5-1 Policy to have Constructive Dialogue with Shareholders】</b></p>	<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>
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