



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

 Chairman & CEO Hiroshi Iida	Company	I.K Co., Ltd.	
	Code No.	2722	
	Exchange	TSE 2 nd 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	https://www.ai-kei.co.jp/en	

— Stock Information —

Stock Information

Share Price	Number of shares issued		Total market cap	ROE (Actual)	Trading Unit
¥2,132	7,808,000 shares		¥16,646 million	29.0%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥12.00	0.6%	¥96.26	22.1 times	¥337.58	6.3 times

*The share price is the closing price on July 31. The number of shares issued is taken from the financial settlement report for FY5/2018.

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)	20,427	1,053	1,067	719	96.26	12.00

*The forecasted values were provided by the company. 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 the fiscal year ended May 2018 and many more about K.I Co., Ltd. will be described.

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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 term ended May 2018 were 18,337 million yen, up 20.1% year on year. In the manufacturer-vendor business, sales showed substantial increase mainly for television shopping. Gross profit margin rose 2.6 points year on year as a result of increased sales in B to C business such as television shopping, and gross profit also grew 27.9% year on year. Operating income rose 61.3% year on year to 898 million yen. The increase in broadcast slots for television shopping resulted in a rise in selling, general and administrative expenses, but they were absorbed by increased sales and gross profit, and operating income margin improved by 1.3 points. While the results substantially exceeded the forecast made at the beginning of the term, they failed to reach the revised forecast mainly due to seasonal factors.

• The sales for the term ending May 2019 are expected to be 20,427 million yen, up 11.4% year on year. Sales of all segments are forecasted to rise. Operating income is projected to grow 17.3% year on year to 1,053 million yen. It will absorb the selling, general and administrative expenses and improve operating income margin by 0.3 points. The company plans to pay dividends of 12.00 yen/share, up 2 yen/share year on year. The estimated dividend payout ratio is 12.5%.

In the manufacturer-vendor business, the company plans to strengthen the multichannel retailing further with television shopping as the starting point and start selling makeup cosmetics “LB” inside and outside Japan on a full scale.

• Results greatly exceeded the initial forecast for the term, but Chairman Iida considers the completion of a new business model “multichannel retailing with television shopping as the starting point” as the biggest topic of the previous term.

Now that a new business model has been established, the company’s ability to produce hit products in a stable manner becomes the key to success.

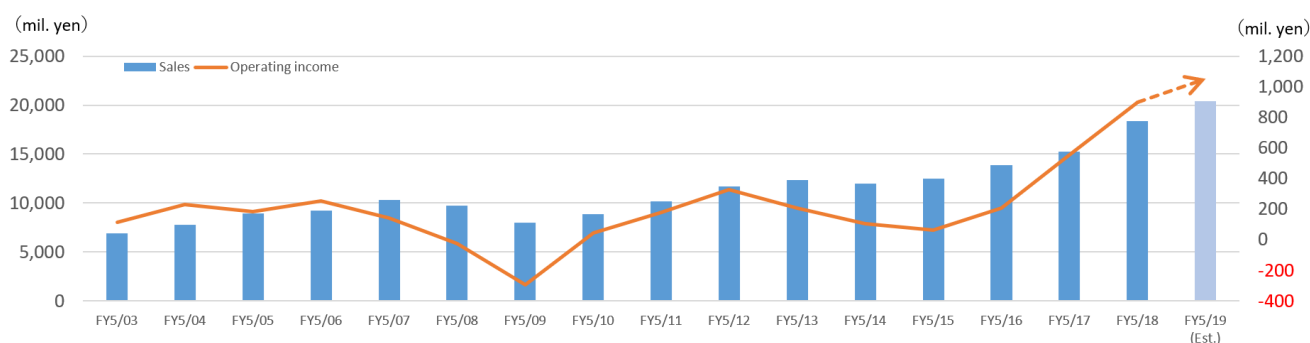
On the other hand, as the company is expected to get permission from the CFDA (China Food and Drug Administration) for the makeup cosmetics “LB” soon, we would like to pay attention to at what speed “LB” will exploit the Chinese makeup cosmetics market, which is growing at the rate of 15% per year and expected to reach 1 trillion yen in 5 years.

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.

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【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.

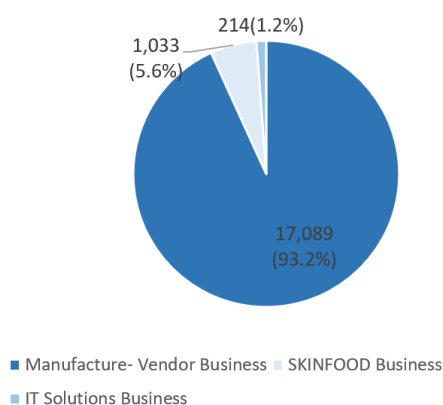
【1-2 Management philosophy】

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.”
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【1-3 Business contents】

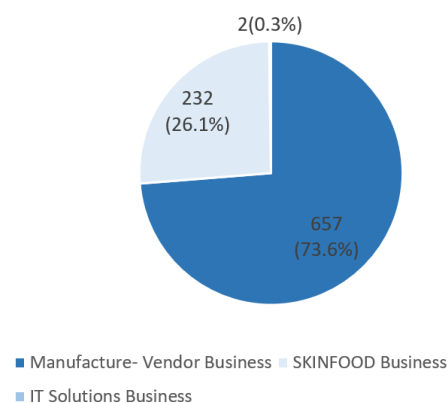
I.K Co., Ltd. has three business segments: the manufacturer-vendor business, which sells sundries, food, cosmetics products, etc., the SKINFOOD Business, which sells cosmetics products and the IT Solutions Business, which develops contact centers, etc.

Sales Composition (FY May 2018 Unit: million yen)



* Sales to External Customers

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



* 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)

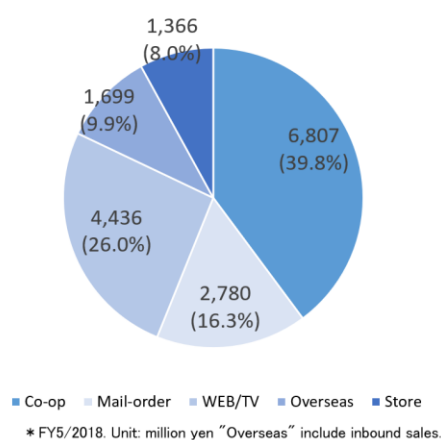
Co-op route	Co-op Sapporo, Co-op Tohoku, Co-opdeli Consumer’s Co-operative Union, Consumer’s co-operative Ai Co-op Miyagi, Palsystem Consumer’s Co-operative Union, Tohto Co-op, U Co-op, Tokai Co-op Business Union, Co-op Kinki Business Union, Co-op Kobe, Co-op CS Net, Co-op Hokuriku Business Union, Co-op 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.

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	(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 and Australia

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.



(From the company's website)

《Cosmetics LB》

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.”

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.



(From the company’s website)

《Lowcalo Life》

ローカロ生活 LOWCALO.COM

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



(From the company’s website)

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《intima》



Gel series for the female genital zone that was born in Poland. 3 million bottles sold in a year in Europe.



(From the company's website)

《Locox》



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



(From the company's website)

《Mother's Market》



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



(From the company's website)

(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.

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(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
ROE (%)	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. The net income margin for the current term is expected to be 3.52%, which is at the same level as the previous term, and it is expected to continue to achieve a high level of ROE.

2. Fiscal Year May 2018 Earnings Results

(1) Consolidated Business Results

(Unit: Million yen)

	FY 5/17	Ratio to sales	FY 5/18	Ratio to sales	YOY	Compared with the initial forecast	Compared with the revised forecast
Sales	15,273	100.0%	18,337	100.0%	+20.1%	+10.4%	-2.8%
Gross profit	6,095	39.9%	7,794	42.5%	+27.9%	-	-
SG&A expenses	5,538	36.3%	6,895	37.6%	+24.5%	-	-
Operating income	557	3.6%	898	4.9%	+61.3%	+53.5%	-10.2%
Ordinary income	554	3.6%	899	4.9%	+62.2%	+52.4%	-10.9%
Net income	425	2.8%	641	3.5%	+50.7%	+49.1%	-7.0%

*Net income is profit attributable to owners of parent. Revised forecast was disclosed in December 2017.

Significant rise in sales and profit. Results greatly exceeded the initial forecast and marked a record high.

Sales were 18,337 million yen, up 20.1% year on year. In the manufacturer-vendor business, sales showed substantial increase mainly for television shopping. Gross profit margin rose 2.6 points year on year as a result of increased sales in B to C business such as television shopping, and gross profit also grew 27.9% year on year.

Operating income rose by 61.3% year on year to 898 million yen. Increase in broadcast slots for television shopping resulted in a rise in selling, general and administrative expenses, but they were absorbed by increased sales and gross profit. The company reported record high sales and profit for 4 and 3 consecutive terms, respectively.

While results exceeded the initial forecast considerably, they did not reach the revised forecast.

(Reasons for failing to reach the revised forecast for December 2017)

Butterfly Abs, which was a major driving force of the results for the previous term, has seasonal characteristics that its sales efficiency rises from spring to fall but falls in winter, therefore, its sales efficiency dropped in the third quarter (December-February) by 20%. However, it began to rise in the fourth quarter (March-May).

Also, as for apparel products, heavy clothes and boots were sold out in November as the winter was severe contrary to their expectation, and the company incurred loss on sale from December to January.

(Variation in Selling, General and Administrative Expenses)

(Unit: Million yen)

	FY 5/17	Ratio to sales	FY 5/18	Ratio to sales	YOY
Labor cost	1,333	8.7%	1,433	7.8%	+7.5%
Advertising cost	1,938	12.7%	2,840	15.5%	+46.5%
Packing and freight expenses	958	6.3%	1,087	5.9%	+13.5%
Total SGA	5,538	36.3%	6,895	37.6%	+24.5%

◎Trends by quarter

(Unit: Million yen, %)

	16/5 1Q	2Q	3Q	4Q	17/5 1Q	2Q	3Q	4Q	18/5 1Q	2Q	3Q	4Q
Sales	3,140	3,593	3,651	3,524	3,177	3,894	4,094	4,108	4,239	5,033	4,178	4,887
Sales growth	-	-	-	-	+1.2%	+8.4%	+12.1%	+16.6%	+33.4%	+29.3%	+2.1%	+19.0%
Operating income	17	32	82	74	57	154	210	136	208	310	90	290
Profits growth	-	-	-	-	+235.3	+381.3	+156.1	+83.8%	+264.9	+101.3	-57.1%	+113.2
Operating income margin	0.5%	0.9%	2.2%	2.1%	1.8%	4.0%	5.1%	3.3%	4.9%	6.2%	2.2%	5.9%

(2)Trend of each segment

(Unit: Million yen)

	FY 5/17	Composition ratio	FY 5/18	Composition ratio	YOY	Compared with the initial forecast
Sales						
Manufacturer-Vendor Business	14,053	92.0%	17,089	93.2%	+21.6%	+12.1%
SKINFOOD Business	993	6.5%	1,033	5.6%	+4.0%	-2.8%
IT Solutions Business	227	1.5%	214	1.2%	-5.6%	-28.5%
Total	15,273	100.0%	18,337	100.0%	+20.1%	+10.4%
Operating income						
Manufacturer-Vendor Business	394	2.8%	657	3.8%	+66.6%	-
SKINFOOD Business	152	15.4%	232	22.5%	+52.2%	-
IT Solutions Business	4	2.1%	2	1.3%	-42.5%	-
Adjustments	4	-	5	-	-	-
Total	557	3.6%	898	4.9%	+61.3%	-

* Composition ratio of operating income is operating income margin.

① Manufacturer-Vendor Business

Sales and profits increased.

While the co-op route remained flat, the rise in sales from mail-order and overseas routes in addition to the doubling of television/WEB route, which is being strengthened, contributed.

In an effort to expand sales of the company's brand cosmetics "LB" and strengthen overseas sales including China, they established overseas subsidiaries and sub-subsidiaries and worked to create a system. Also, they focused not only on developing their own brand products but also developing sales methods. For instance, they started selling the products using multi sales channels with television shopping as the starting point.

(Details of retailing routes)

(Unit: Million yen)

	FY 5/17	Composition ratio	FY 5/18	Composition ratio	YOY
Co-op	6,822	48.6%	6,807	39.8%	-0.2%
Mail-order	2,525	18.0%	2,780	16.3%	+10.1%
WEB・TV	2,252	16.0%	4,436	26.0%	+97.0%
Overseas	1,291	9.2%	1,699	9.9%	+31.6%
Stores	1,161	8.3%	1,366	8.0%	+17.7%
Total	14,053	100.0%	17,088	100.0%	+21.6%

② SKINFOOD Business

Sales and profit increased.

The company began selling new products such as "Black Sugar Perfect Mousse Foam" and "Coconut Sugar Mask Wash Off," and it also focused on the sales of products available only in Japan. Since they established one directly managed store and one franchise store, and closed down one franchise store, the number of stores at the end of May 2018 was 22 (21 in the same period of the previous year) including 20 directly managed stores (19 in the same period of the previous year) and 2 franchise stores (2 in the same period of the previous year).

③ IT Solutions Business

Sales and profit declined

Although the sales of the existing product (Voistore) were stable, sales of the chat system "M-Talk" and the business version of LINE "LINE WORK" were sluggish despite their efforts to find another source of revenue.

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(3) Financial condition and cash flow

◎ Main BS

(Unit: Million yen)

	End of May 2017	End of May 2018		End of May 2017	End of May 2018
Current assets	4,430	5,367	Current liabilities	2,724	3,175
Cash and deposits	126	560	Trade payables	1,322	1,431
Trade receivable	2,568	2,678	Short-term borrowings	586	631
Inventories	1,381	1,533	Noncurrent liabilities	584	589
Noncurrent assets	777	920	Long-term borrowings	348	328
Property, plant and equipment	287	322	Total liabilities	3,309	3,764
Intangible assets	112	166	Net assets	1,898	2,524
Investments and other assets	377	431	Retained earnings	1,168	1,753
Total assets	5,207	6,288	Total liabilities and net assets	5,207	6,288
			Balance of debts	934	959
			Equity ratio	36.5%	40.1%

Due to an increase in cash and deposits and trade receivables, current assets rose by 937 million yen from the end of the previous term. Noncurrent assets grew 143 million yen from the end of the previous term, and total assets rose 1,081 million yen to 6,288 million yen from the end of the previous term.

Total liabilities were 3,764 million yen, up 455 million yen from the end of the previous term due to an increase in trade receivables.

Net assets increased 625 million yen to 2,524 million yen from the end of the previous term as a result of increased retained earnings.

Equity ratio rose 3.6% from the end of the previous term to 40.1%.

◎ Cash Flow

(Unit: Million yen)

	FY 5/17	FY 5/18	Changes
Operating CF	745	722	-23
Investing CF	-215	-243	-27
Free CF	529	478	-50
Financing CF	-500	-42	+458
Cash and equivalents	253	687	+434

The increase in inventory assets caused the surplus of operating CF to shrink.

The deficit of investing CF expanded due to increase in purchase of property, plant and equipment and intangible assets, and the surplus of free CF shrank.

The deficit of financing CF shrank as the short-term borrowings increased. Cash position improved.

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
Sales	18,337	100.0%	20,427	100.0%	+11.4%
Operating income	898	4.9%	1,053	5.2%	+17.3%
Ordinary income	899	4.9%	1,067	5.2%	+18.7%
Net income	641	3.5%	719	3.5%	+12.2%

*The estimated values are those announced by the Company.

Expects a double-digit growth in sales and profit

Sales are expected to be 20,427 million yen, up 11.4% year on year. Sales are projected to rise in all segments.

Operating income is forecasted to grow 17.3% year on year to 1,053 million yen. It will absorb the selling, general and administrative expenses and improve operating income margin by 0.3 points.

The company plans to pay dividends of 12.00 yen/share, up 2 yen/share year on year. The estimated payout ratio is 12.5%.

(2) Sales forecast for each segment and future effort

(Unit: Million yen)

	FY 5/18	Composition ratio	FY 5/19 (Forecast)	Composition ratio	YOY
Manufacturer-Vendor Business	17,089	93.2%	18,975	92.9%	+11.0%
SKINFOOD Business	1,033	5.6%	1,175	5.8%	+13.8%
IT Solutions Business	214	1.2%	277	1.3%	+29.2%
Total	18,337	100.0%	20,427	100.0%	+11.4%

◎ Manufacturer-Vendor Business**① Focus on multichannel retailing with television shopping as the starting point**

With Butterfly Abs becoming a hit product, they have completed “multichannel retailing,” which is a business model using the group’s sales channel.

The company acquired and made Prime Direct Inc., a major television shopping firm, into a wholly owned subsidiary in September 2014, but as the sales of other companies offering infomercial television shopping greatly exceed the sales of Prime Direct Inc. with only 1 or 2 hit products, they have taken various measures considering that multichannel retailing with television as the starting point has great growth potential.

Since a company can increase its sales if it releases a hit product and purchases the broadcast slots in television shopping, if exposure on TV increases, the company can use strengths not found in other companies with diverse sales channels, and easily lead to increased sales in paper media and stores.

Moreover, since the company engages in direct dealing unlike other companies in the same industry using wholesalers, it is possible to make a sales floor on its own and as it has the know-how of “making page that sells well”, it can finely deal with flyers and displays.

Using strengths such as powerful product development, discovery and procurement capability, which are the sources of high profitability, the company succeeded in increasing the sales of “EMS (Electric Muscle Stimulation): Butterfly Abs” in the previous term, and established “multichannel retailing,” a business model that adds new profits on to the existing stable profits.

The company aims to brush this up further this term, carry out test marketing around 10 items on a continuous basis during the year in order to produce 1 or 2 hit products, and install AI (Artificial Intelligence) for selection process of broadcast slots in order to increase the responses of television shopping. It plans to start them on a full scale in October 2018.

② Sales expansion of cosmetics products of mainly LB

(Domestic)

As of the end of May 2018, the number of stores that installed full line type wall fixtures that can display all the products is 1,750, but it is estimated to expand to 2,500 by the end of May 2019. In addition, especially for single item hanging fixtures exhibiting selling items and focused products, they plan to install them in 10,000 domestic stores by the end of May 2019.

(Overseas)

In China, LB (Shanghai) Cosmetics Co., Ltd. (LB Shanghai) has started its operation on a full scale.

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The company plans to distribute them to 3,000 stores by December 2018, in an effort to acquire 2-3% (20-30 billion yen) share in the Chinese makeup cosmetics market, which is expected to reach 1 trillion yen in 5 years.

The company started online shopping service in April 2018 preceding this.

<Topics>

© Displaying at the world's greatest beauty exhibition "China Beauty Expo"

LB Shanghai displayed its products at China Beauty Expo, which was held between 22nd May and 24th May, 2018, in Shanghai, for two consecutive years.

In this year's exhibition, Japan was invited as the guest of honor for the first time, with 481,895 visitors coming from 80 different countries and regions, and the largest number of Japanese companies participated.

I.K Co., Ltd. actively carried out promotional activities at the exhibition for sales expansion of LB.

* LB won the Leading Imported Brands Award

LB won the Leading Imported Brands Award. This award is given to about 100 brands that have been chosen out of more than a hundred thousand brands based on examination standards of the organizer. After receiving the award, they were interviewed by the media, indicating expectations from China.



<The president Gao (left) and the then chairman Iida (right) of LB (Shanghai) Cosmetics Co., Ltd. interviewed from local media>

(From the reference material of the company)

In the interview, President Iida commented, "We feel extremely honored to receive this award. We want more people to know about LB and we wish to make all users happy."

*Live broadcasting with MANAMI, a makeup artist, and influencers

At the exhibition, like in the 2017, live broadcasting of 7 influencers introducing LB brand and Ms. MANAMI, a makeup artist who came from Japan with them, sharing techniques to do Japanese style makeup was shown through a live broadcasting app that celebrities and popular bloggers in China use.

The number of viewers (number of PVs) exceeded 10 million, which led to increased recognition by people.

Ms. MANAMI's comment

"Women in China were interested only in skincare until 4 year ago, but people doing makeup are increasing year by year. People often think that Japanese-style makeup takes time and efforts including base makeup, but we could let them experience the joy of doing Japanese-style makeup easily using certain items.

I feel that Japanese products and makeup will become China's trend and basic."

*Negotiation with sales partners of each region and new clients of 1,600 companies.

In order to deepen the understanding of LB and share the future brand management policies, they invited sales partners from various regions in China to the exhibition and had a meeting about the current sales situation.

Also, they were able to have business negotiations and exchange business cards with new clients of about 1,600 companies. They hope to hold meetings with each company in future and plan to expand the sales channels and outlets to introduce the products in 80% of all provinces in China in the current term.

In 10 countries of ASEAN, they will launch new skincare products and LB's products with I.K Trading Company Limited in Hong Kong as the sales base.

In addition, they will strengthen the promotion using mainly SNS inside and outside the country.

◎SKINFOOD Business

① “Fan making” strategy with “repeated visit” as the keyword

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

As concrete measures, the company is expanding the number of LINE members, which was approx. 160,000 at the end of May 2018, issuing sample coupons and Refer-a-Friend cards in order to reach a retention rate of 15% or above.

② Production of memorable stores

In addition to performing the most important task of training shop managers thoroughly, the company will check the customer satisfaction rate through mystery shoppers every two months.

③ Expansion of sales share of products available only in Japan

The company will raise the sales composition ratio of those products from 20% in the term ended May 2018 to 25% in the current term.

④ Sales expansion of EC

The company will aim to fuse offline (real stores) and online stores to enhance customers' convenience.

It increased the number of web members by approx. 18,000 by the end of May 2018. It strives to open more stores on major EC websites such as Amazon, ZOZOTOWN and ASKUL and expand the sales to 1.4 million yen in the current term from 1.04 million yen in the previous term.

◎IT Solutions Business

① Aims to have NO.1 share among other chat systems in cooperation with LINE with the chat system “M-Talk”

In addition to strengthening the cooperation with LINE Corporation, the company will aim to maintain a continuous utilization rate of 100%.

Also, it will work toward efficient operation by promoting standardization of installation process and support services.

② Sales expansion of the call recording system “Voistore” and acquisition of a definite replacement for existing users

The company started the sales of its new version “Voistore TOV.”

It will take the plan to cooperate with other companies having sales routes into consideration. It will make sure to renew the maintenance contracts through a careful follow-up.

4. Conclusions

Results greatly exceeded the initial forecasts for the term, but Chairman Iida considers the completion of a new business model “multichannel retailing with television shopping as the starting point” as the biggest topic of the previous term.

Now that a new business model has been established, the company's ability to produce hit products in a stable manner holds the key to success.

On the other hand, as the company is expected to get permission from the CFDA (China Food and Drug Administration) for the makeup cosmetics “LB” soon, we would like to pay attention to at what speed “LB” will exploit the Chinese makeup cosmetics market, which is growing at a rate of 15% per year and expected to reach 1 trillion yen in 5 years.

<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: February 15, 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)】	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)】	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.
【Principle 5-2】	The company sets the numerical targets for sales, each profit, etc., by formulating the medium-term management plan, but they have not disclosed it at this stage. They will consider disclosing the formulated plan in future.

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

Principles	Disclosure contents
【Principle 1-4 So-called Strategically-held Shares】	<p>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. With regard to said shares, the company will test the purpose of ownership and rationality at the board meeting every year, and review them. Regarding the exercise of voting rights, the company will approve all proposals in principle, but examine proposals that can damage the share value individually.</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>

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