Analyses of Management and Finances

Analysis of Operating Results

(1) Summary

During the consolidated fiscal year, Japan's economy showed a gradual recovery against a backdrop of improvements in corporate profits and the employment situation despite concern over uncertainty in the global economy. Additionally the economies throughout Asia - our main sphere of international operations - showed a gradual recovery despite continued uncertainty about the future.

Given these economic conditions, consolidated net sales increased by ¥4.035 billion year on year (5.2% increase), amounting to ¥81.386 billion. Consolidated operating was up ¥840 million (11.0%) year on year to ¥8.457 billion. Consolidated ordinary income came in at ¥9.264 billion, which was a ¥1.080 billion (13.2%) increase compared to the prior fiscal year. Consolidated net income attributable to owners of the parent increased ¥520 million (9.4%) year on year to ¥6.086 billion.

(2) Net Sales and Cost of Sales

Consolidated net sales totaled ¥81.386 billion (up 5.2% year on year). This marks the eighth consecutive year of record sales. The increase was mainly attributable to steady sales of the Gatsby brand in the men's business and strong sales of the Bifesta brand in the women's business both in Japan and overseas.

Cost of sales was ¥36.550 billion (up 3.9%). This was mainly due to higher sales both in Japan and overseas. Gross profit rose ¥2.649 billion (up 6.3%) to ¥44.836 billion due to a lower cost of sales ratio.

(3) Selling, General and Administrative (SG&A) Expenses and Operating Income

SG&A expenses amounted to ¥36.379 billion (up 5.2%). This was due to increases in selling expenses both in Japan and overseas. Operating income rose ¥840 million (up 11.0%) to ¥8.457 billion due to higher gross profit.

(4) Non-Operating Profit (Expenses), Extraordinary Profit (Losses), Ordinary Income and Income before Income Taxes

Non-operating income has been increasing since the previous term, while non-operating expenses have been decreasing. As a result, net non-operating profit was up ¥240 million from the previous term. In extraordinary items, however, extraordinary income decreased ¥239 million due to lower extraordinary income.

As a result, ordinary income totaled ¥9.264 billion (up 13.2%). Income before income taxes was ¥9.218 billion (up 10.0%).

(5) Income Taxes, Net Income Attributable to Noncontrolling Interests and Net Income Attributable to Owners of the Parent

Income taxes totaled ¥2.544 billion (up 13.9%), principally due to an increase in corporate tax payable by the parent company. Net income attributable to noncontrolling interests was ¥587 million, due mainly to the increase in net income of the Group's Indonesian subsidiary.

As a result, net income attributable to owners of the parent amounted to ¥6.086 billion (up 9.4%).

Analysis of Financial Position and Cash Flows

(1) Assets, Liabilities and Total Equity

Total assets were ¥93.195 billion as of March 31, 2018, up ¥9.359 billion (11.2 %) from a year earlier.

Current assets were ¥59.247 billion. This was mainly due to increases of ¥1.732 billion in cash and deposits and ¥2.299billion in securities.

Non-current assets were ¥33.947 billion. This was mainly due to an increase of ¥3.857 billion in investment securities.

Total liabilities were ¥17.445 billion as of March 31, 2018, up ¥3.200 billion (22.5 %) from a year earlier.

Current liabilities were ¥11.755 billion. This was mainly due to an increase of ¥1.164 billion in accounts payable.

Non-current liabilities were ¥5.690 billion. This was mainly due to an increase of ¥1.271 billion in deferred tax liabilities.

Total equity was ¥75.749 billion as of March 31, 2018, up ¥6.159 billion (8.9 %) from a year earlier. This was mainly due to an increase of ¥3.702 billion in retained earnings resulting from ¥6.086 billion in net income attributable to owners of the parent and ¥2.384 billion in dividends of surplus.

(2) Status of Cash Flows

Cash and cash equivalents as of March 31, 2018, came to ¥13.640 billion, up ¥760 million from the end of the previous fiscal year. This was due to an increase of ¥841 million in income before income taxes to ¥9.218 billion.

Factors influencing cash flows during the term are as follows.

- **Cash Flows from Operating Activities**
  Net cash provided by operating activities was ¥10.246 billion. This was mainly an increase resulting from income before income taxes and minority interest of ¥9.218 billion and depreciation and amortization of ¥3.315 billion and a decrease resulting from ¥2.353 billion in corporate and other taxes paid and a ¥1.065 billion increase in accounts receivable.
- **Cash Flows from Investing Activities**
  Net cash used in investing activities was ¥6.776 billion. This was mainly an increase resulting from ¥27.0 billion in proceeds from redemptions and sales of marketable securities and a decrease resulting from outlays for the acquisition of marketable securities of ¥29.299 billion and outlays for the acquisition of tangible fixed assets of ¥2.572 billion.
- **Cash Flows from Financing Activities**
  Net cash used in financing activities was ¥2.669 billion. This was mainly a decrease resulting from dividend payments of ¥2.383 billion.

Capital Policy

In a competitive environment in which the global markets grow more intense daily, the Company, under the going concern assumption, adopts a basic capital policy rooted in the maintenance of a strong financial foundation in order to achieve sustainable growth. The capital policy calls for the proactive utilization of strategic investments, such as overseas investments, R&D investments, capital investments, and M&A, as well as the prioritizing of the stable and continuous return of profits to shareholders through dividends.

In addition, we consider that it is its first priority to improve its corporate value by expanding its mainstay cosmetics business. Therefore, we do not set targets for ROE, while it has set a payout ratio as described earlier and targets related to growth and profitability (operating income margin) as numerical targets in its management plan. However, we keep the improvement of capital efficiency in mind. As such, in addition to enhancing shareholder returns and proactive business investments, we will also consider the acquisition of treasury stock depending on a number of factors, including economic conditions, company assets, and stock price trends. We have never experienced M&A transactions before. However, if we find any deal that will bring us future growth, we are willing to take it into consideration.

Facilities

(1) Overview of capital investments

The Group maintains a basic policy of making capital investments in facilities to manufacture products that sustain a competitive advantage. Total capital investments were ¥2.855 billion as of March 31, 2018, down ¥454 million from a year earlier.

Breakdown by segment is listed on the right.

Segment name	Fiscal 2017 (millions of yen)	YoY change
Japan	1,464	(27.2)
Indonesia	1,242	3.8
Other Overseas	148	48.7
Total	**2,855**	**(13.7)**

(2) New important facilities

The Group determines its plans for capital investments while comprehensively taking into consideration investment efficiency and other factors. In principle, each consolidated company separately determines its capital investment plan. However, the Group makes adjustments mainly to the reporting companies when determining the plan.

The plans for new important facilities as of March 31, 2018 are listed below.

Company name	Office name (location)	Segment name	Facilities	Planned amount of investment		Method of financing	Planned date of start/finish		Enhanced capabilities after completion
				Total amount (millions of yen)	Amount paid (millions of yen)		Start	Finish	
Reporting company	Fukusaki Factory (Fukusaki-cho, Kanzaki-gun, Hyogo)	Japan	Production facilities	11,000	119	Own capital	February 2019	November 2020	60% increase

* Consumption tax, etc. is not included in the above amount.