

SENSHUKAI CO.,LTD.

(Tokyo Stock Exchange, First Section: 8165)

Fiscal 2016 Earnings Presentation

February 2, 2017

↑**innovate**
for Smiles 2018

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1. Consolidated Results of Operations for Fiscal 2016

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for Smiles 2018

(Millions of yen)

	2015		2016		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	134,321		129,074		-5,247	
Cost of sales	73,442	54.7%	67,087	52.0%	-6,355	-2.7%
Gross profit	60,879	45.3%	61,986	48.0%	1,107	2.7%
SG&A expenses	64,316	47.9%	60,791	47.1%	-3,525	-0.8%
Operating income	-3,437	-2.6%	1,194	0.9%	4,631	3.5%
Ordinary income	-2,540	-1.9%	1,673	1.3%	4,213	3.2%
Profit attributable to owners of parent	-5,307	-4.0%	1,420	1.1%	6,727	5.1%

- ❖ Net sales decreased 3.9% year-over-year due to the decrease in sales in the mail-order business despite higher sales in the bridal, corporates and other businesses.
- ❖ Operating income moved into the black as the improvement in the cost to sales ratio and the reduction in SG&A expenses offset the impact of lower sales.

Fiscal 2016 Consolidated Balance Sheet (YoY Comparison)

(Millions of yen)

	Dec. 31, 2015	Dec. 31, 2016	Difference
Assets			
• Current assets	51,947	52,618	670
• Non-current assets	53,404	49,341	-4,063
Total assets	105,352	101,959	-3,392
Liabilities			
• Current liabilities	31,410	29,298	-2,111
• Non-current liabilities	20,236	20,088	-147
Total liabilities	51,647	49,387	-2,259
Net assets			
• Shareholders' equity	57,159	58,399	1,239
• Accumulated other comprehensive income	-3,481	-5,890	-2,409
• Non-controlling interests	27	64	36
Total net assets	53,705	52,572	-1,133
Total liabilities and net assets	105,352	101,959	-3,392

- ◆ Non-current assets decreased due to decreases in property, plant and equipment (-¥2,418mn), and investment securities (-¥1,225mn).
- ◆ Current liabilities decreased due to a decrease in accounts payable-other (-¥1,970mn).

(Millions of yen)

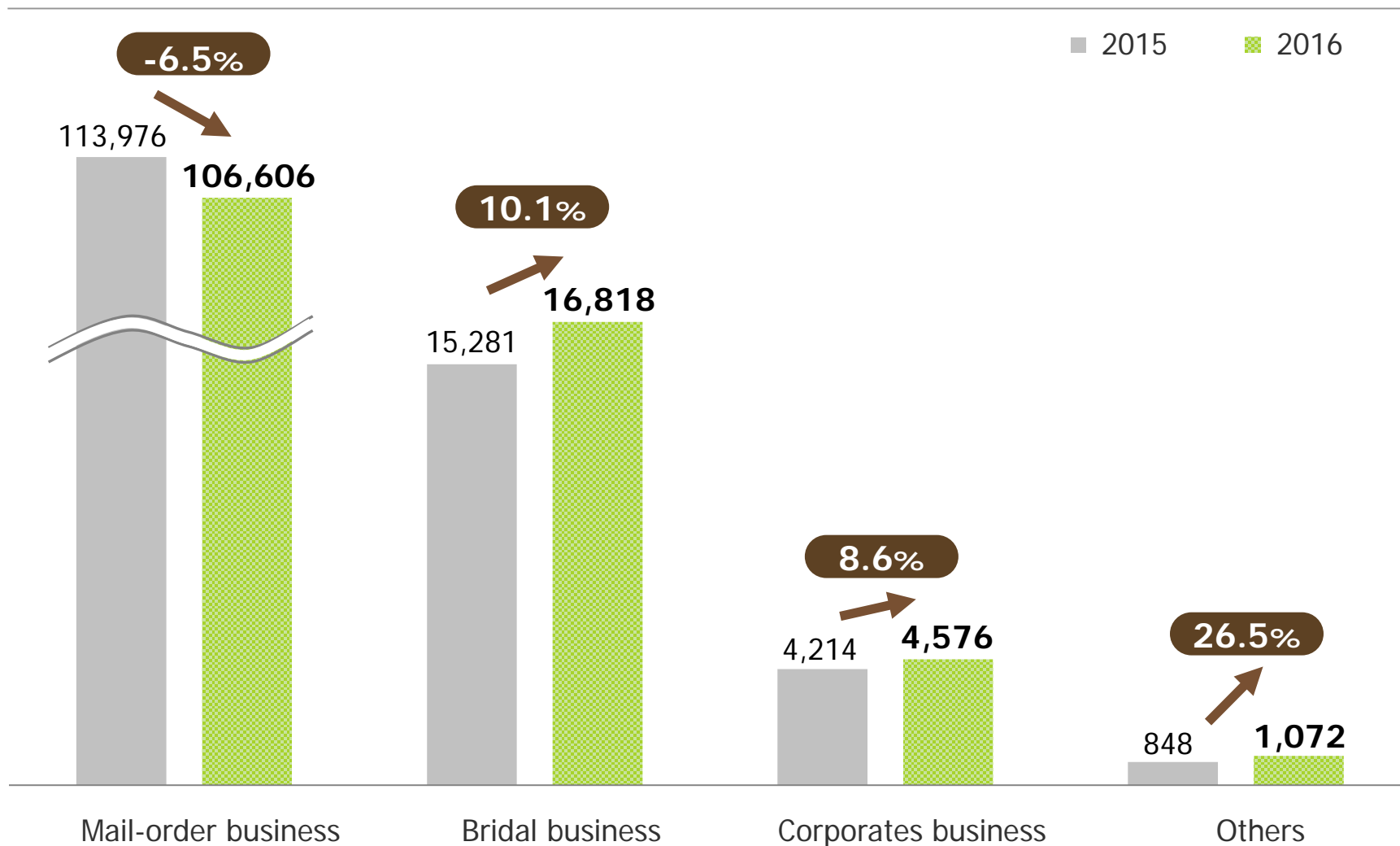
	2015	2016	Difference
Net cash provided by (used in) operating activities	3,400	3,825	424
Net cash provided by (used in) investing activities	-8,053	94	8,147
Net cash provided by (used in) financing activities	11,060	-1,580	-12,641
Cash and cash equivalents at end of period	14,303	16,600	2,297

2016 highlights

- ◆ Net cash provided by (used in) operating activities: profit before income taxes (+¥1,957mn), depreciation (+¥3,231mn), increase in inventories (-¥2,565mn)
- ◆ Net cash provided by (used in) investing activities: purchase of property, plant and equipment (-¥1,583mn), proceeds from sales of property, plant and equipment (+¥1,021mn), proceeds from sales of investment securities (+¥916mn)
- ◆ Net cash provided by (used in) financing activities: repayments of long-term loans payable (-¥2,117mn)

Fiscal 2016 Consolidated Sales by Business Segment (YoY Comparison)

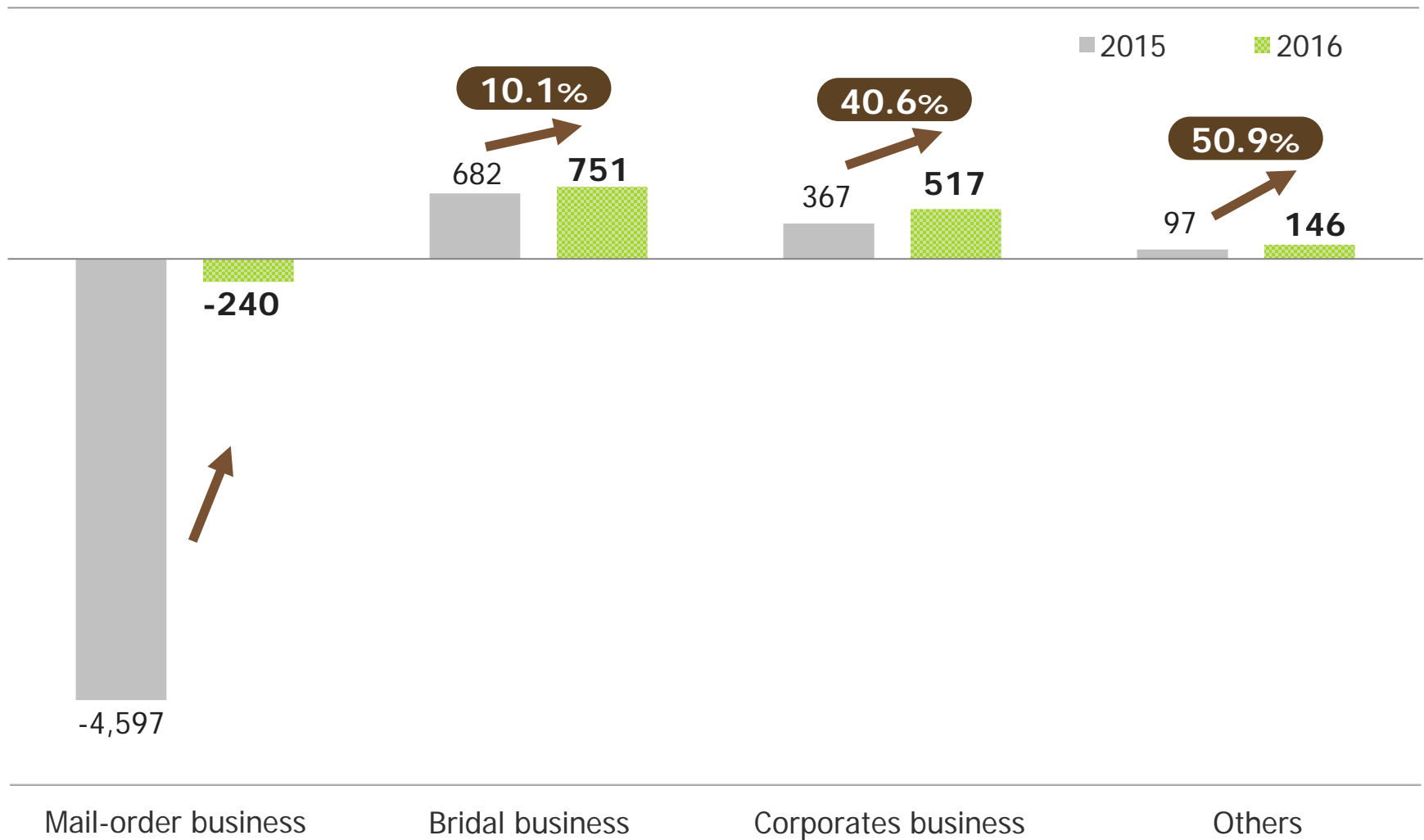
(Millions of yen)



* "Others" represents services business primarily offering insurance and credit card services, and childcare business

Fiscal 2016 Consolidated Operating Income by Business Segment (YoY Comparison)

(Millions of yen)



* "Others" represents services business primarily offering insurance and credit card services, and childcare business

2. Overview by Segment


for Smiles 2018

Overview of the Mail-order Business (YoY Comparison)

	2015	2016	Difference	Main factors
Net sales (Millions of yen)	113,976	106,606	-7,370	
Operating income (Millions of yen)	-4,597	-240	4,357	
Annual number of active customers (10,000 members)	363.1	337.9	-25.2	
Annual number of new customers (10,000 members)	80.5	74.5	-6.0	
Average sales per order (Yen)	10,336	10,575	239	■ Higher unit price
Annual order frequency per customer (Times)	2.84	2.75	-0.09	■ Decrease in the number of current customers with a high order frequency
Catalog circulation (10,000 volume)	6,568	7,580	1,012	■ Decrease in total pages

* All figures other than net sales and operating income are non-consolidated data for the mail-order business (excluding the *Hanpukai* business)

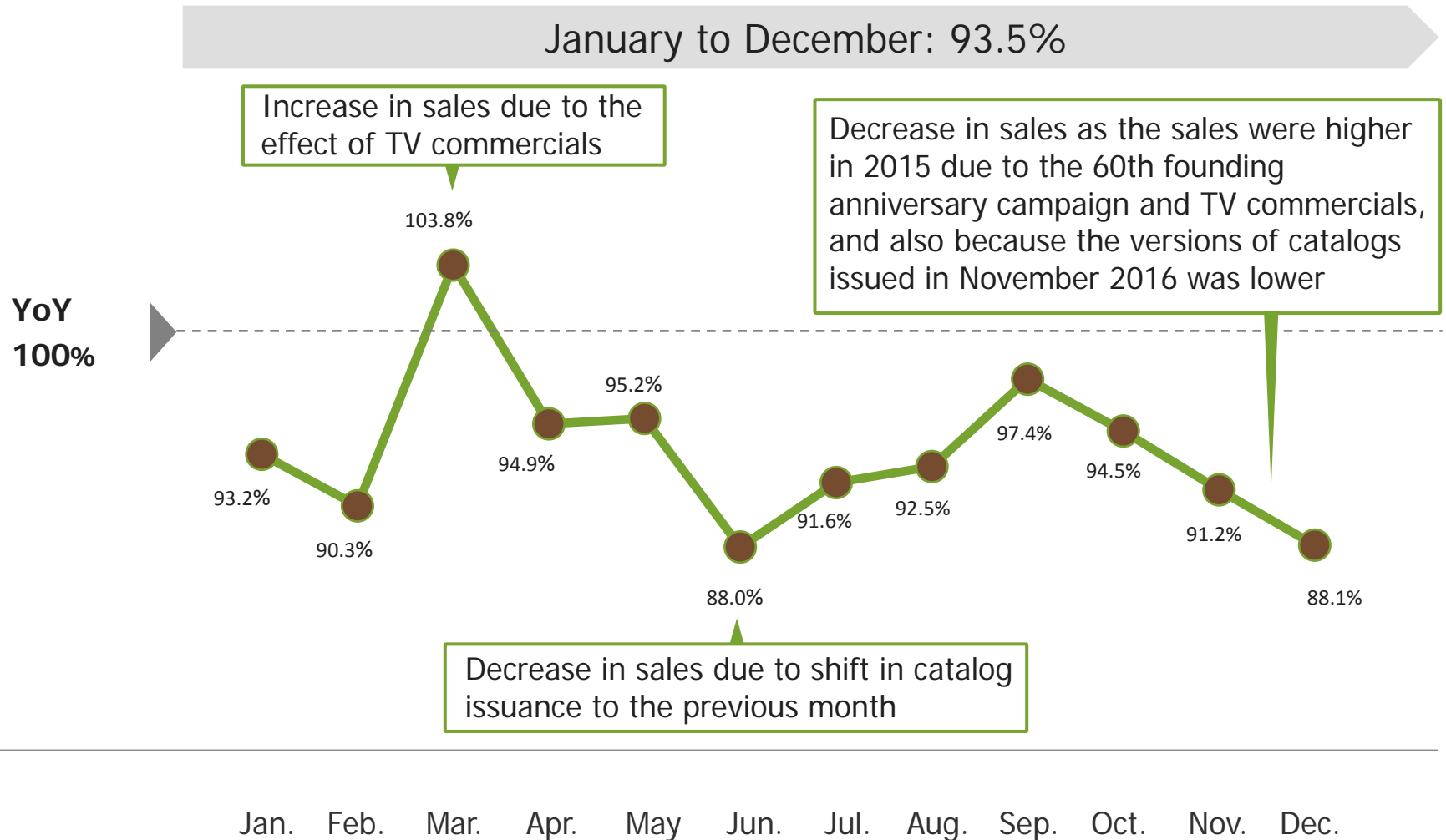
Net Sales

- ❖ Sluggish sales due to weaker consumer spending (apparel in particular)
- ❖ Decrease in sales due to relative decrease in product appeal, mainly in the apparel category
- ❖ Decrease in sales as orders from Internet failed to compensate the decrease in orders from customers receiving our catalogs
- ❖ Decrease in sales as the growth in orders from smartphones were short of the decrease in orders from PCs

Operating Income

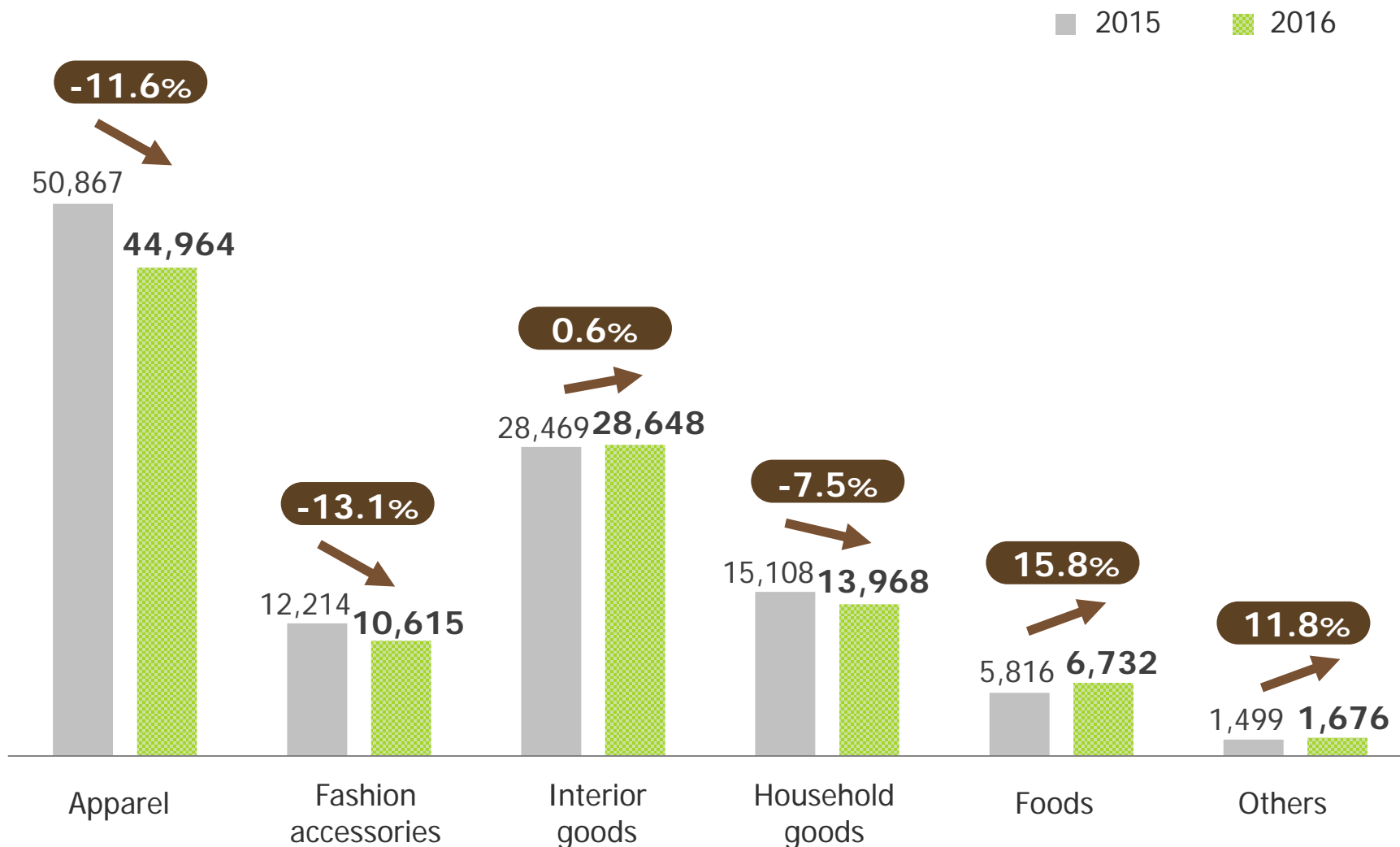
- ❖ Lower cost to sales ratio due to a decrease in bargain and clearance sales after last year's inventory clearance sales
- ❖ Reduction in distribution costs resulting from the start of operations at the Minokamo Distribution Center (freightage and warehouse-related expenses)
- ❖ Overall reduction in SG&A expenses

Mail-order Business –Monthly Sales



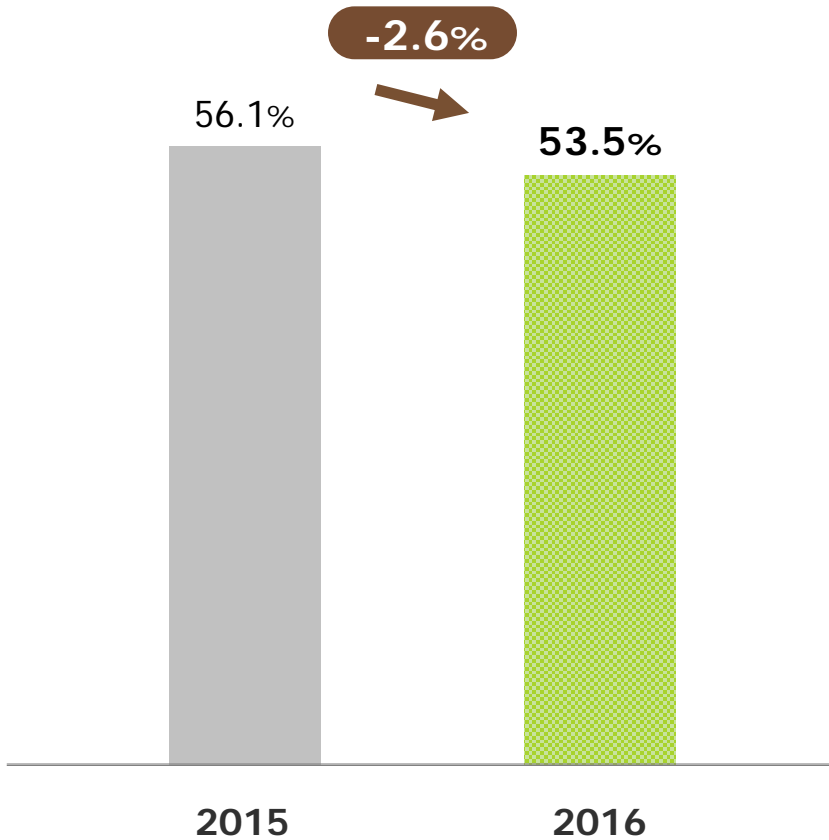
Mail-order Business –Sales by Product Category (YoY Comparison)

(Millions of yen)



* Others: Flower sales at Senshukai Iihana Co., Ltd. and gift catalog sales, etc.

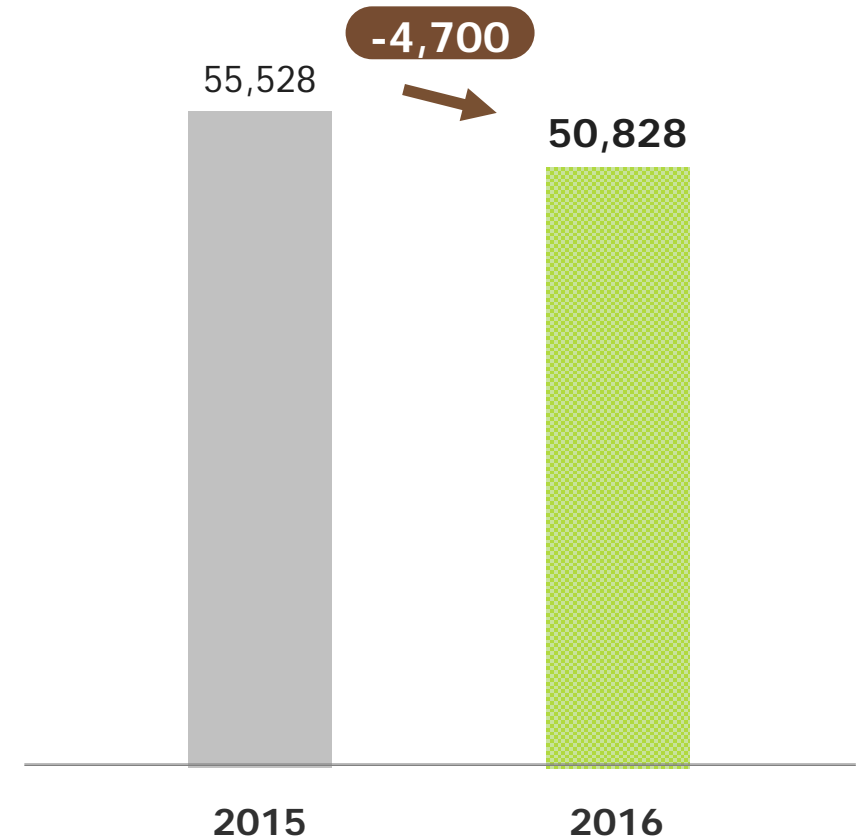
Cost to Sales Ratio



- ◆ Decrease in share of bargain and clearance sales
- ◆ Decrease in valuation losses and write-downs on goods

SG&A Expenses

(Millions of yen)



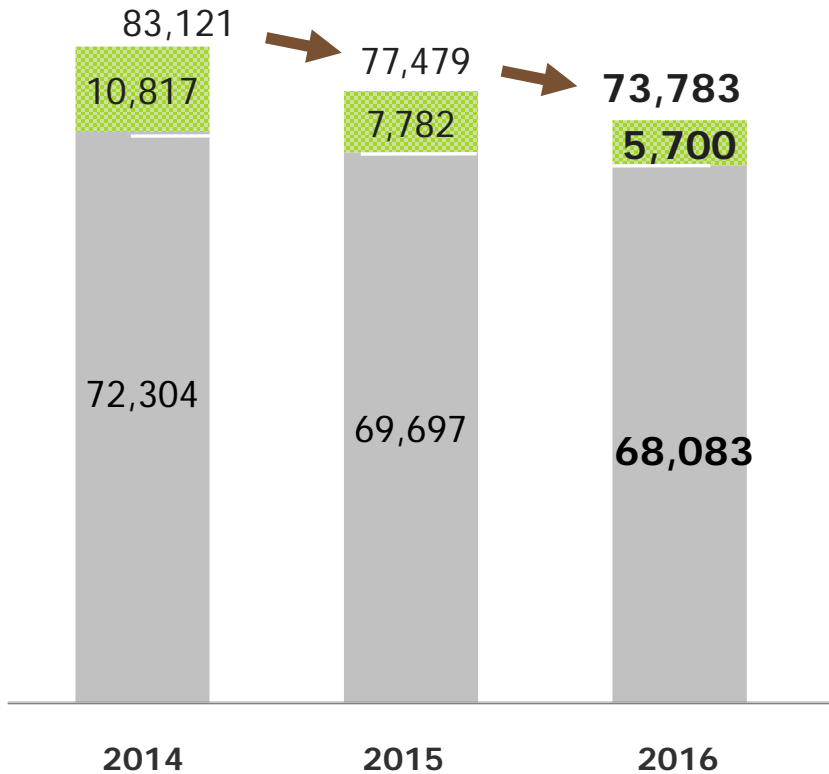
- ◆ Distribution costs:
Reduction in distribution costs resulting from the start of operations at the Minokamo Distribution Center (freightage and warehouse-related expenses)
- ◆ SG&A expenses:
Cost reduction by reexamining each expense items

Internet Sales

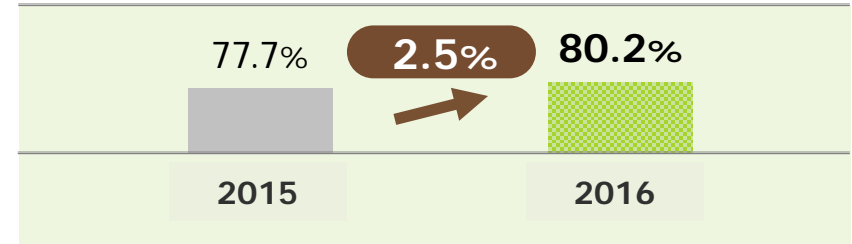
(Millions of yen)

(including mobile sales)

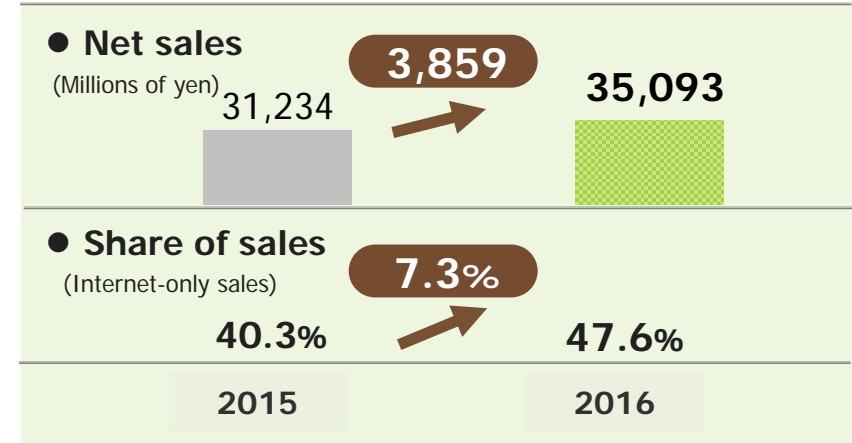
- Sales via catalog: Customer uses Internet to enter catalog product number
- Internet-only sales: All Internet sales other than sales via catalog



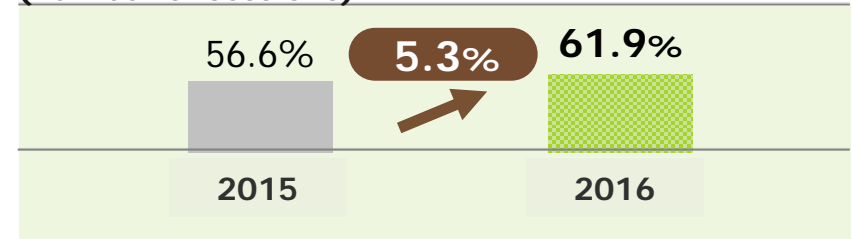
Ratio of Internet-based Orders



Amount and Share of Smartphone Sales



Share of Website Visits by Smartphone Users (number of sessions)



Overview of the Bridal Business (YoY Comparison)

	2015	2016	Difference	Main factors
Net sales (Millions of yen)	15,281	16,818	1,537	
• New facilities		1,301	1,301	■ Opening of new facilities in Osaka and Chiba
• Existing facilities	15,281	15,517	236	
Operating income (Millions of yen)	682	751	69	
Guesthouses	22	23	1	■ Opened in Osaka and Chiba *Decreased one by the disposition of a facility in Oita
Weddings (Couples)	3,974	4,362	388	
Average sales per wedding (10,000 yen)	369.6	364.8	-4.8	■ Decrease in the number of guests

Overview of the Corporates Business (YoY Comparison)

(Millions of yen)

	2015	2016	Difference	Main factors
Net sales	4,214	4,576	362	
• Contracting services	2,978	3,354	376	<ul style="list-style-type: none"> ■ Increase in orders for outsourced logistics and call center services as well as contract merchandise sales (office for administrating shareholder benefit programs, etc.)
• Sampling	950	994	44	
• Novelties	246	195	-51	
• Others	40	33	-7	
Operating income	367	517	150	

3. Consolidated Earnings Outlook for Fiscal 2017


for Smiles 2018

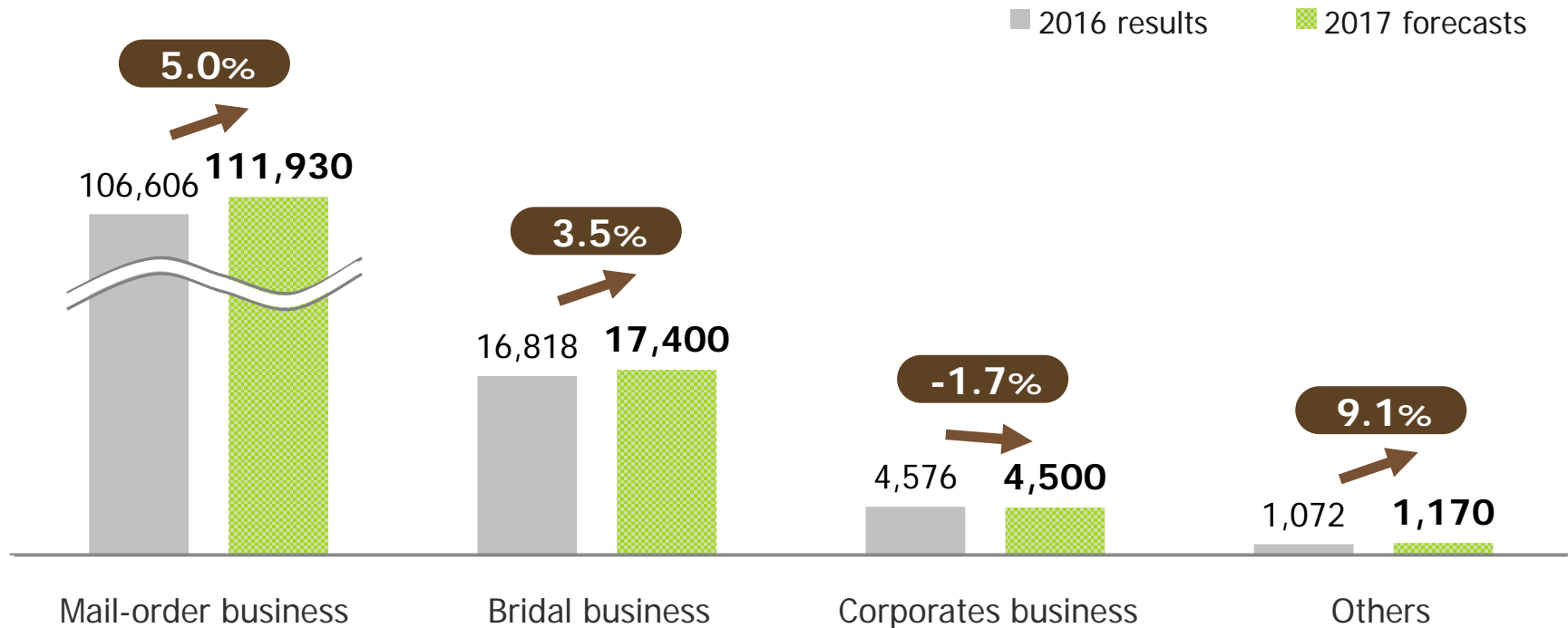
Fiscal 2017 Consolidated Earnings Outlook (YoY Comparison)

(Millions of yen)

	2016 (Results)		2017 (Forecasts)		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	129,074		135,000		5,926	
Cost of sales	67,087	52.0%	73,444	54.4%	6,357	2.4%
Gross profit	61,986	48.0%	61,555	45.6%	-431	-2.4%
SG&A expenses	60,791	47.1%	60,205	44.6%	-586	-2.5%
Operating income	1,194	0.9%	1,350	1.0%	156	0.1%
Ordinary income	1,673	1.3%	1,650	1.2%	-23	-0.1%
Profit attributable to owners of parent	1,420	1.1%	1,000	0.7%	-420	-0.4%

Fiscal 2017 Consolidated Sales Outlook by Business Segment (YoY Comparison)

(Millions of yen)

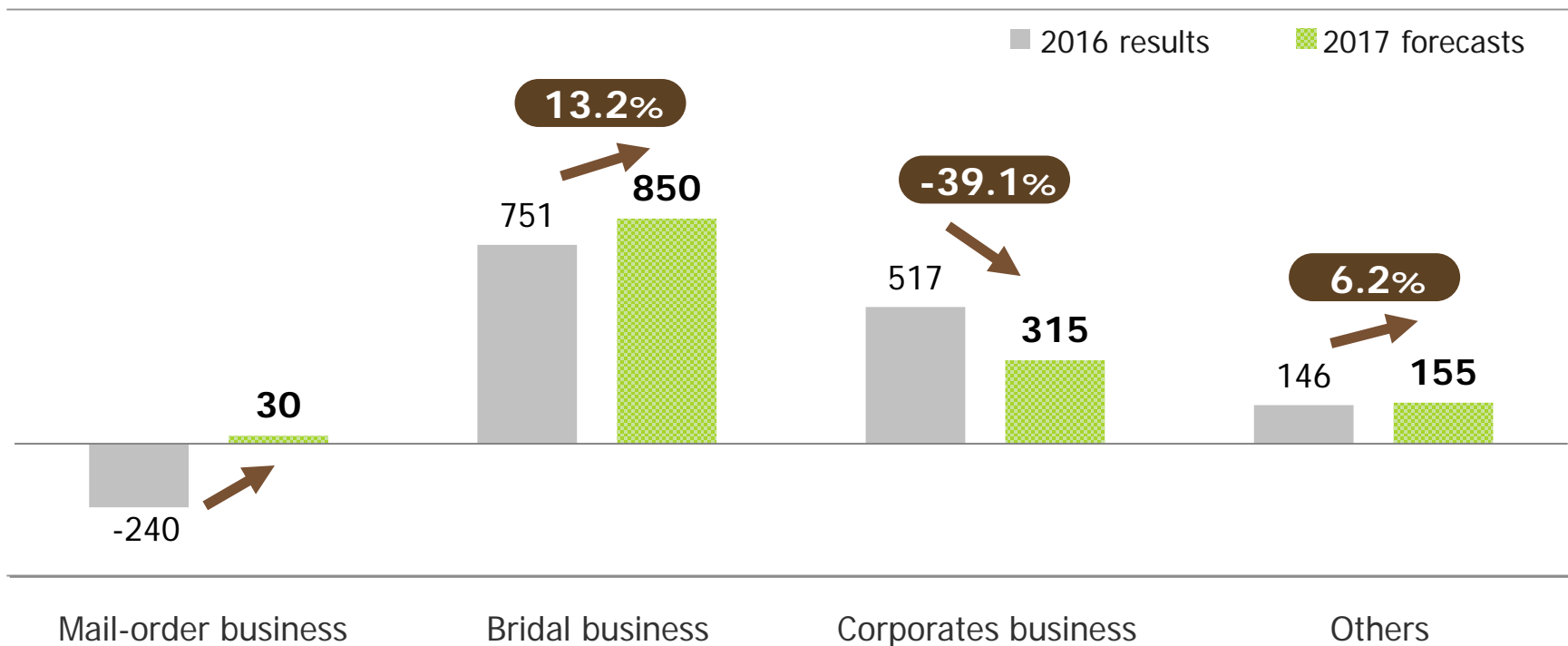


- ❖ Decrease in opportunity loss due to improved inventory control during real demand period for Internet sales
- ❖ Increase in purchase rate due to adoption of DMP (Data Management Platform)
- ❖ Increase in response rate due to clarification of targeted customer segments
- ❖ Increase in sales of functional food products at subsidiary Belle Neige Direct Co.,Ltd.
- ❖ Increase in sales due to the inclusion of subsidiary Feel Life Inc. (former JFR Online Co. Ltd.) into the consolidation

* DMP is a platform for managing a variety of information data collected from the Internet

Fiscal 2017 Consolidated Operating Income Outlook by Business Segment (YoY Comparison)

(Millions of yen)



Negative factors

- ❖ Increase in cost to sales ratio due to an increase in the share of National Brand manufacturers' products and effects of foreign exchange rate fluctuations
- ❖ Higher valuation losses and write-downs due to decreases in repeat sales

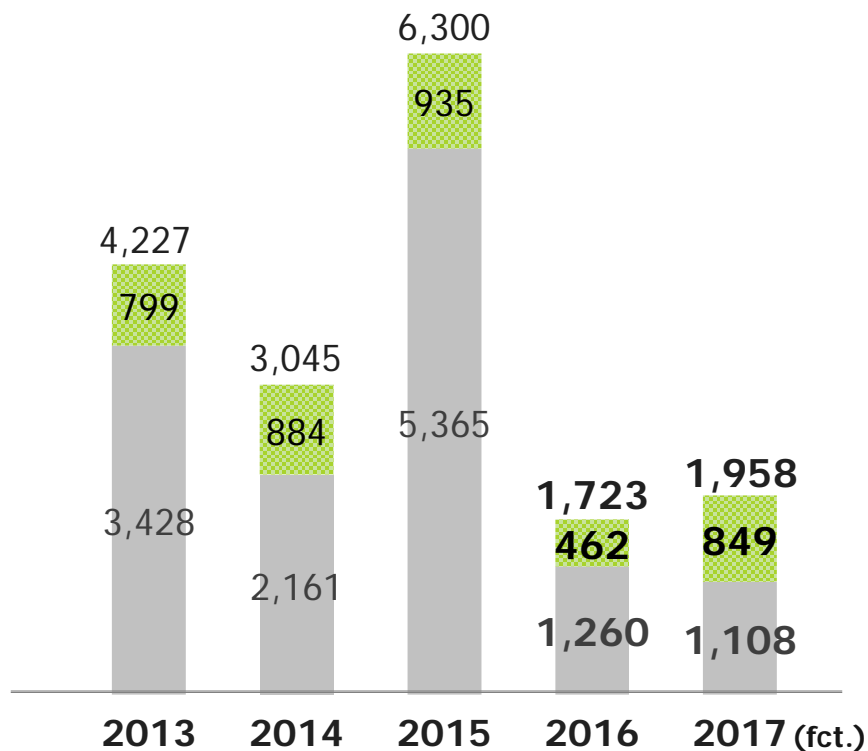
Positive factor

- ❖ Decrease in catalog circulation due to review and reorganization of the catalog strategy

Capital Expenditures

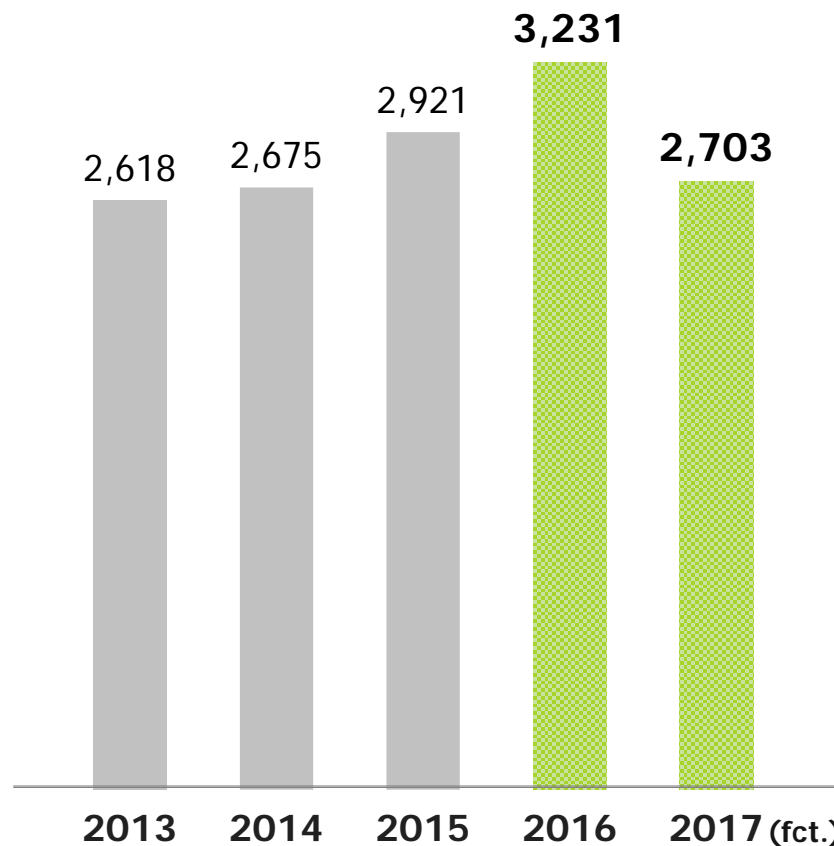
(Millions of yen)

■ Property, plant and equipment ■ Intangible assets



Depreciation Expenses

(Millions of yen)



- ◆ Property, plant and equipment
 - 2016: New facilities at Dears Brain Inc. and facilities at PLANETWORK CO., LTD.
 - 2017: Construction of call center network and renovation of Distribution Center

4. Progress in the Medium- to Long-term Management Plan "Innovate for Smiles 2018" (Fiscal 2017)

The logo features the word "innovate" in a lowercase, sans-serif font. The letter "i" is stylized with a small upward-pointing arrow above it. Below "innovate" is the phrase "for Smiles 2018" in a smaller, lowercase, sans-serif font. The background of the slide is white with several overlapping, curved, semi-transparent green bands in various shades of green, creating a dynamic, flowing effect.

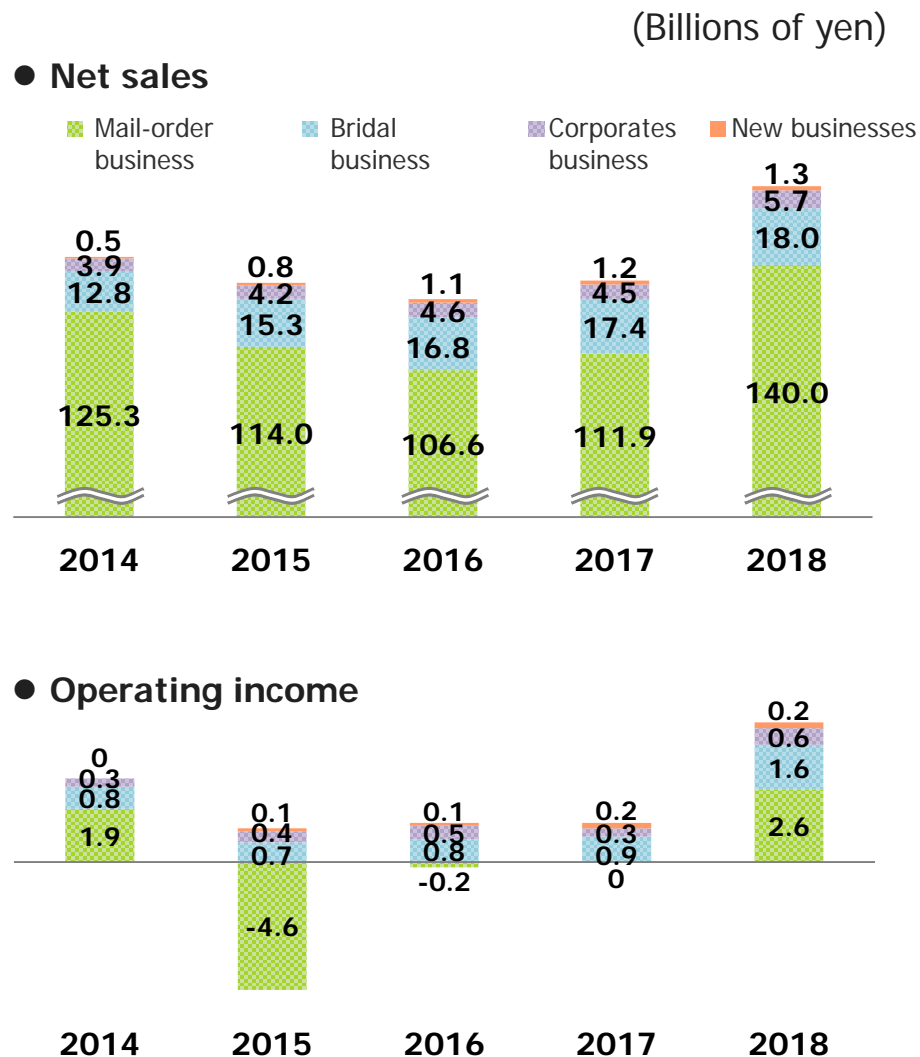
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Medium- to Long-term Management Targets (Consolidated)

	(Millions of yen)	
	2016 results	2018 targets
Net sales	129,074	165,000
Operating income (% to net sales)	1,194 (0.9%)	5,000 (3.0%)
Profit attributable to owners of parent	1,420	4,000
Return on equity	2.7%	7.0%

Performance by Business Segment

*2017: Forecasts 2018: Targets



Implementation of initiatives for medium- to long-term growth and business expansion

◆ Make brands stronger

- ▼ Opening of Kcarat and BENE BIS brand stores in Daimaru Matsuzakaya Department Stores



◆ Reinforce e-commerce sales

- ▼ Smartphone app renewal



- ▲ Stepped up sales promotion on SNS

◆ Expand sales channels

- ▼ Opening of stores on EC malls (Amazon, LOHACO)



- ▲ Opening of store on global EC platform (JD Worldwide)

◆ Target the senior age segment

- ▼ Acquisition of business of JFR Online Co. Ltd.



◆ Fulfillment Strategy

- ▼ Full operation of the Minokamo DC



Transitioning to a business model with a powerful Internet presence



I can always find what I'm looking for!



- ❖ Manage product category units to maintain a highly appealing Internet sales area
- ❖ Make extensive use of both products of National Brand manufacturers and other wholesale products to achieve the best possible sales area composition
- ❖ Use integrated supervision of sales areas and inventories to increase pct. of inventories sold and prevent shoppers from leaving to make purchases at other companies

- ❖ Produce highly efficient catalogs that are carefully targeted and focused on specific functions

- ❖ Reinforce the lineups of original products and private- brand products in key categories in order to create a more appealing merchandise selection



Senshukai really knows the kinds of things that I like!



- ❖ One-to-one marketing that fully utilizes data on customers' past activities and personal characteristics
- ❖ Create an e-commerce site that makes it easy to shop using a smartphone
- ❖ Enhance Senshukai's Internet retailing presence by offering a stress-free shopping experience

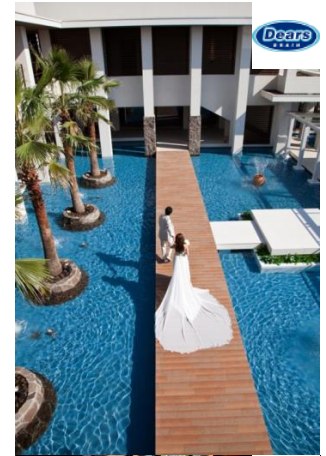


Use highly competitive brands for the rapid expansion of sales channels

Establish an e-commerce platform in the Internet retailing market

Growing in Japan's wedding market by using diverse capabilities backed by the strengths of partners with combined annual sales of about ¥60 billion

- ◆ Reinforcing the brand of each location to create the places in each area of Japan that couples choose for their weddings



- ◆ Dedicated to weddings that achieve the greatest possible satisfaction by aiming for excellence for the overall atmosphere and all services



- ◆ Actions are under way to continue strengthening the capital and business alliance with the Senshukai Group



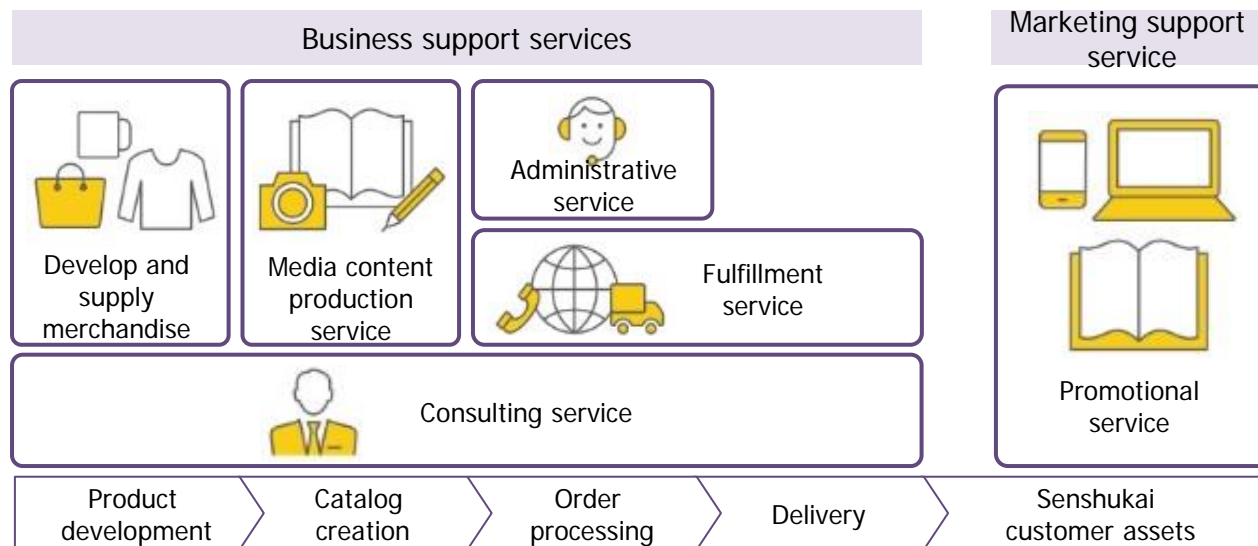
Corporates business: Increasing Senshukai's presence in mail-order support services by using many sales activities



▲ Exhibition



▲ Seminars



Assisting customers by offering a complete lineup of services

New businesses: Launch more activities that create “women’s smiles”

◆ Childcare business

- Plan to open the seventh nursery school in April 2017
- Goal is growth of businesses for child care and development in order to help end the shortage of child day care and nursery school facilities in Japan and play a role in the sound develop of children



To be opened in April

◀ Egao no Mori Nursery School Katsushima (Shinagawa-ku, Tokyo)

Stepping up efforts to capture synergies in the third year of the JFR alliance

- ◆ Increase sales of brand products sold at Daimaru Matsuzakaya Department Stores



Kcarat
BENEBIS



- ◆ Make extensive use of collaborative sales of Senshukai and JFR brands



Hotcott.



- ◆ Use Senshukai's infrastructure to improve JFR's efficiency

Daimaru Matsuzakaya
Online Shopping



Senshukai Minokamo Distribution Center



Seek more ways to leverage the resources of Senshukai and JFR for merchandise sales and other activities in order to create more value

5. Others

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Smile Forest donations from customers surpass ¥100 million

The Smile Forest project started in 2013 with the slogan “together with our customers, making everyone smile.” With the strong support from customers, donations totaled ¥129,024,689 as of December 18, 2016.

To position Senshukai as a “Women’s Smiles Company,” these funds were used for three activities: Tohoku reconstruction support, the Pink Ribbon Campaign, and environmental activities.

Tohoku reconstruction support – Activities in the 5th year: Two family photo studio events were held in Miyagi and Iwate prefectures

As part of an earthquake recovery program to give smiles to mothers and their children in Tohoku, Senshukai has donated more than 29,000 blankets for babies in the four prefectures of the Tohoku region.

The Senshukai family photo studio event, which uses a professional photographer, was held in June in Ishinomaki, Miyagi prefecture, which we have supported since the March 2011 disaster, and in Otsuchi, Iwate prefecture in November.



Pink Ribbon Campaign – Now in its 9th year and with about 80% customer awareness

All brassieres sold by Senshukai help fund this campaign, which includes the distribution of free breast cancer screening coupons. A program to support breast cancer survivors started in 2015. A 2016 survey showed that 79.9% of Senshukai’s customers are aware of this activity. (2,500 coupons were distributed in 2016.)

Environmental activities – 13th Green Power Class was a special event with parents and children

These classes, which Senshukai holds at elementary schools, make children think about the importance of renewable energy and ways to deal with problems involving energy and the environment.

In September, a special class for parents and children was held with the assistance of Shibuya University.



Dividend Forecast

Senshukai's policy regarding dividends is to appropriately return profits to shareholders that reflects its business performance by maintaining stable dividends that take into account a payout ratio while at the same time strengthening the business foundation with retained earnings.

Based on this policy and in light of Fiscal 2016 consolidated results, Senshukai plans to pay a year-end dividend of 4 yen per share, which has been initially planned, and together with an interim dividend of 4 yen, this will result in a total annual dividend of 8 yen per share.

For Fiscal 2017, Senshukai plans an annual dividend of 8 yen per share (4 yen each at interim and year-end), based on the earnings forecast and to maintain stable dividends.

Schedule for Earnings Announcements

- **April 28, 2017 (Friday)** **Announcement of financial results for the first quarter of Fiscal 2017**
- **July 27, 2017 (Thursday)** **Announcement of financial results for the second quarter of Fiscal 2017**
- **July 28, 2017 (Friday)** **Earnings presentation for the second quarter of Fiscal 2017 (Tokyo)**
- **October 27, 2017 (Friday)** **Announcement of financial results for the third quarter of Fiscal 2017**

The forward-looking statements contained in this earnings presentation are based on information that was available at the time of the release of this presentation. Actual results could differ significantly from these projections due to a variety of factors.

6. Reference: About Senshukai

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Women's Smiles Company

senshukai



To become the “one and only” choice for women

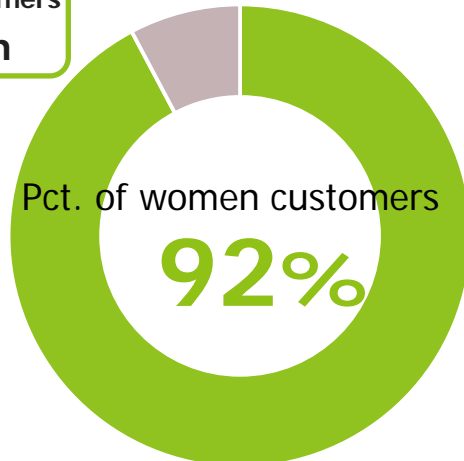


Senshukai wants to remain a company, that is the “one and only” choice for women. We accomplish this by offering original and one-of-a-kind products that women want along with safe, convenient and thorough services that customers can use with confidence.

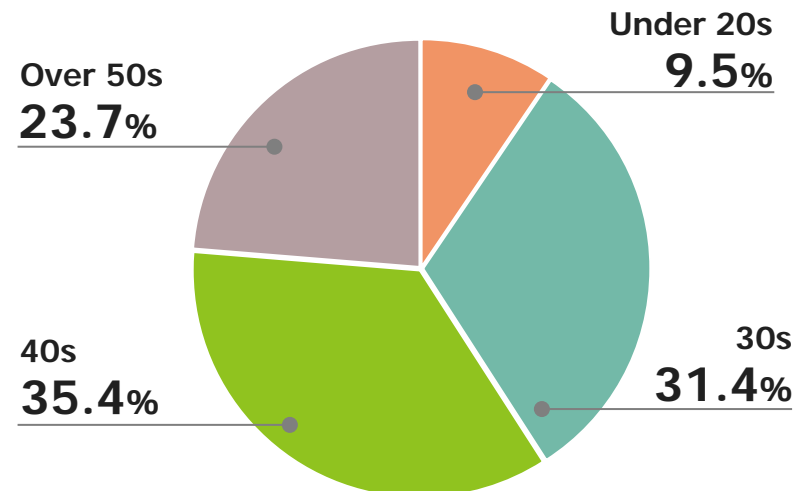


Gender Composition of Customers

Annual active customers
3.38 million



Age Composition of Customers



As a "Women's Smiles Company," Senshukai provides a wide range of merchandise and services that cover a variety of activities and stages of women's lives.

Mail-order Business

- Senshukai's core business
- E-commerce
 - Catalog
 - *Hanpukai*

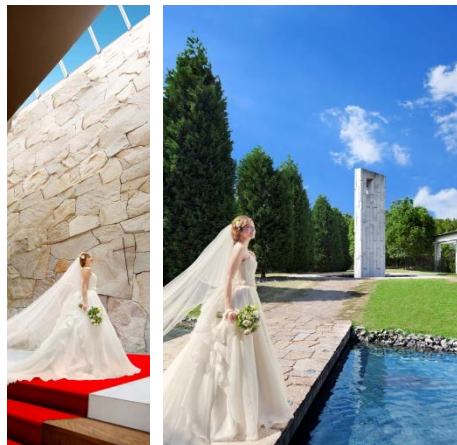
Bridal Business

- House wedding business
- 23 wedding halls in Japan

Corporates Business

- A variety of services to support the operations of client companies

BELLE MAISON



Others (New Businesses)

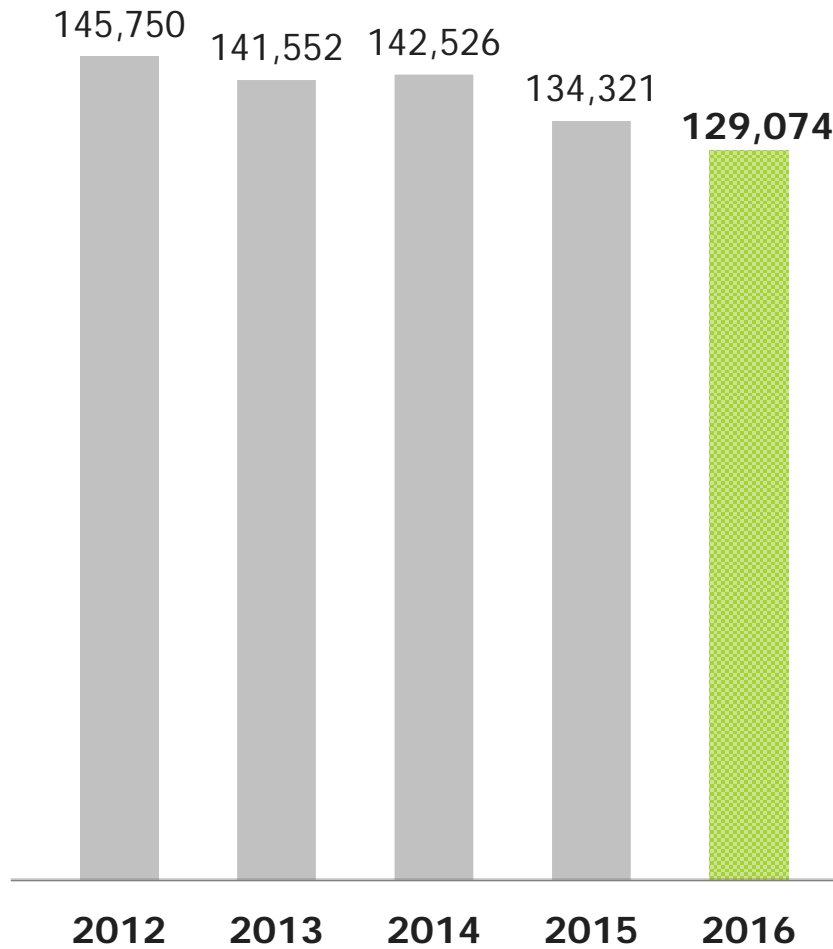
- Childcare business
Insurance service
Credit card service



Consolidated Net Sales and Operating Income (Recent Five Years)

Net Sales

(Millions of yen)



Operating Income

(Millions of yen)

