

SENSHUKAI CO.,LTD.

(Tokyo Stock Exchange, First Section: 8165)

Second Quarter of Fiscal 2017 Earnings Presentation

July 27, 2017

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for Smiles 2018

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1. Consolidated Results of Operations for 2Q Fiscal 2017


for Smiles 2018

2Q Fiscal 2017 Consolidated Statement of Income (YoY Comparison)

(Millions of yen)

	2Q 2016		2Q 2017		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	65,898		63,186		-2,712	-4.1%
Cost of sales	34,377	52.2%	34,212	54.1%	-165	1.9%
Gross profit	31,520	47.8%	28,973	45.9%	-2,547	-1.9%
SG&A expenses	31,924	48.4%	30,222	47.8%	-1,702	-0.6%
Operating income	-403	-0.6%	-1,248	-2.0%	-845	-1.4%
Ordinary income	181	0.3%	-849	-1.3%	-1,030	-1.6%
Profit attributable to owners of parent	162	0.2%	-6,208	-9.8%	-6,370	-10.0%

- ◆ Net sales decreased due to sluggish sales of apparel and fashion accessories since 2016 in the mail-order business
- ◆ Operating loss was caused by a lower gross profit margin resulting from the sales decrease and a higher cost of sales ratio
- ◆ Large loss caused mainly by an impairment loss and the reversal of deferred tax assets

2Q Fiscal 2017 Consolidated Balance Sheet (Compared with End-Fiscal 2016)

(Millions of yen)

	Dec. 31, 2016	Jun. 30, 2017	Difference	Remarks
Assets				
• Current assets	52,618	48,969	-3,649	<ul style="list-style-type: none"> ■ Accounts receivable-other: -¥1.7bn ■ Merchandise and finished goods: -¥1.6bn
• Non-current assets	49,341	43,927	-5,414	<ul style="list-style-type: none"> ■ Property, plant and equipment: -¥3.6bn ■ Intangible assets: -¥1.4bn
Total assets	101,959	92,897	-9,062	
Liabilities				
• Current liabilities	29,298	26,453	-2,845	<ul style="list-style-type: none"> ■ Accounts payable-trade: -¥1.1bn ■ Other (Accounts payable-other, etc.): -¥1.1bn
• Non-current liabilities	20,088	20,291	203	<ul style="list-style-type: none"> ■ Bonds with subscription rights to shares: -¥2.0bn ■ Long-term loans payable: +¥2.0bn
Total liabilities	49,387	46,745	-2,642	
Net assets				
• Shareholders' equity	58,399	46,056	-12,343	<ul style="list-style-type: none"> ■ Loss: -¥6.2bn ■ Transfer from unrealized losses on revaluation of land: -¥5.9bn
• Accumulated other comprehensive income	-5,890	37	5,927	<ul style="list-style-type: none"> ■ Revaluation reserve for land: +¥5.9bn
• Non-controlling interests	64	58	-6	
Total net assets	52,572	46,152	-6,420	
Total liabilities and net assets	101,959	92,897	-9,062	

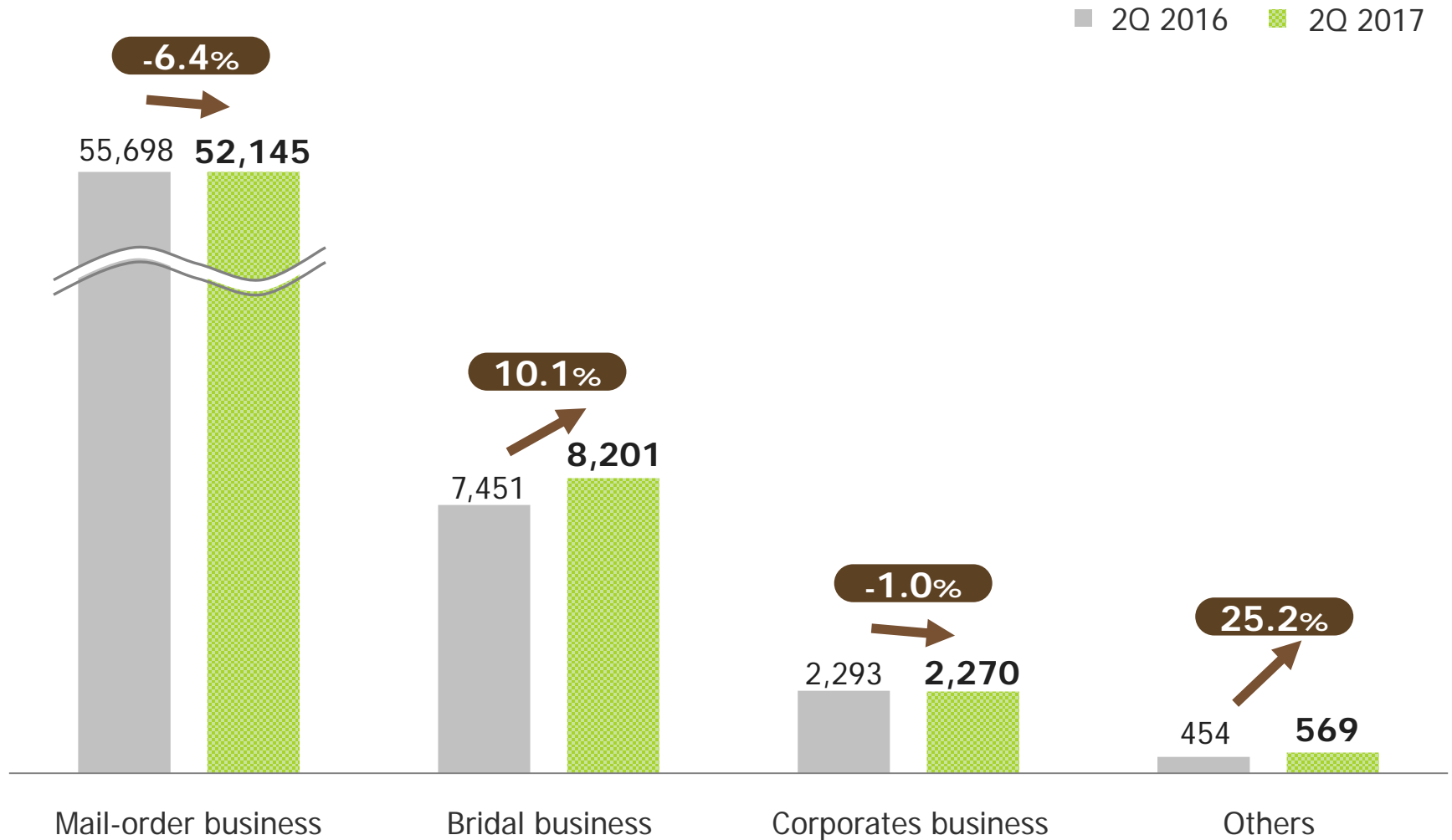
2Q Fiscal 2017 Consolidated Statement of Cash Flows (YoY Comparison)

(Millions of yen)

	2Q 2016	2Q 2017	Difference	2Q 2017 highlights
Net cash provided by (used in) operating activities	1,519	1,296	-223	<ul style="list-style-type: none"> ■ Loss before income taxes: -¥4.9bn ■ Depreciation: +¥1.2bn ■ Impairment loss: +¥4.4bn ■ Decrease in inventories: +¥1.6bn
Net cash provided by (used in) investing activities	-617	-761	-144	<ul style="list-style-type: none"> ■ Purchase of property, plant and equipment: -¥0.5bn ■ Purchase of intangible assets: -¥0.4bn ■ Proceeds from sales of investment securities: +¥0.7bn
Net cash provided by (used in) financing activities	-2,005	-387	1,618	<ul style="list-style-type: none"> ■ Proceeds from long-term loans payable: +¥2.8bn ■ Repayments of long-term loans payable: -¥0.9bn ■ Payment for redemption of bonds with subscription rights to shares: -¥2.0bn
Cash and cash equivalents at end of period	13,127	16,743	3,616	

Consolidated Sales by Business Segment (YoY Comparison)

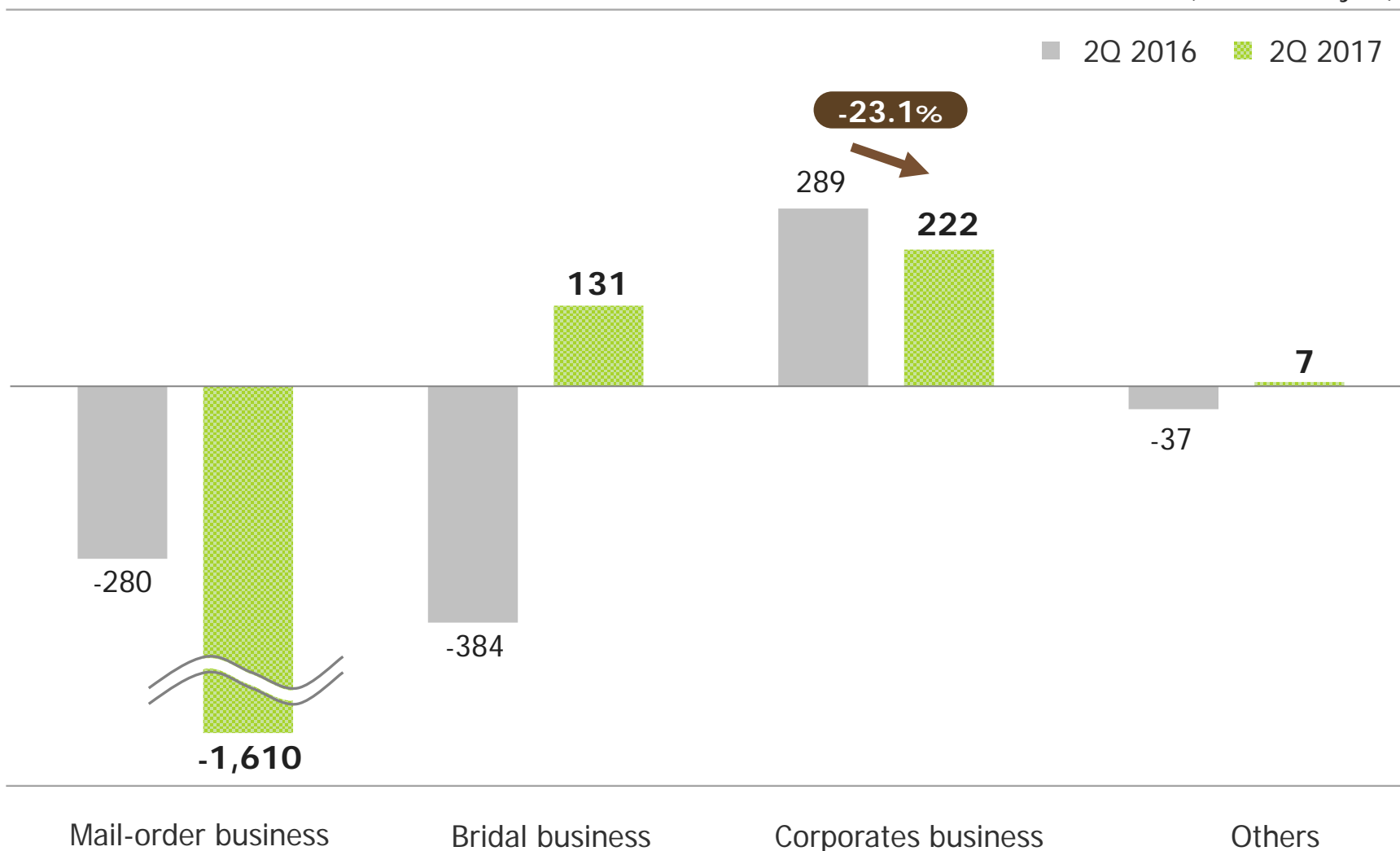
(Millions of yen)



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

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

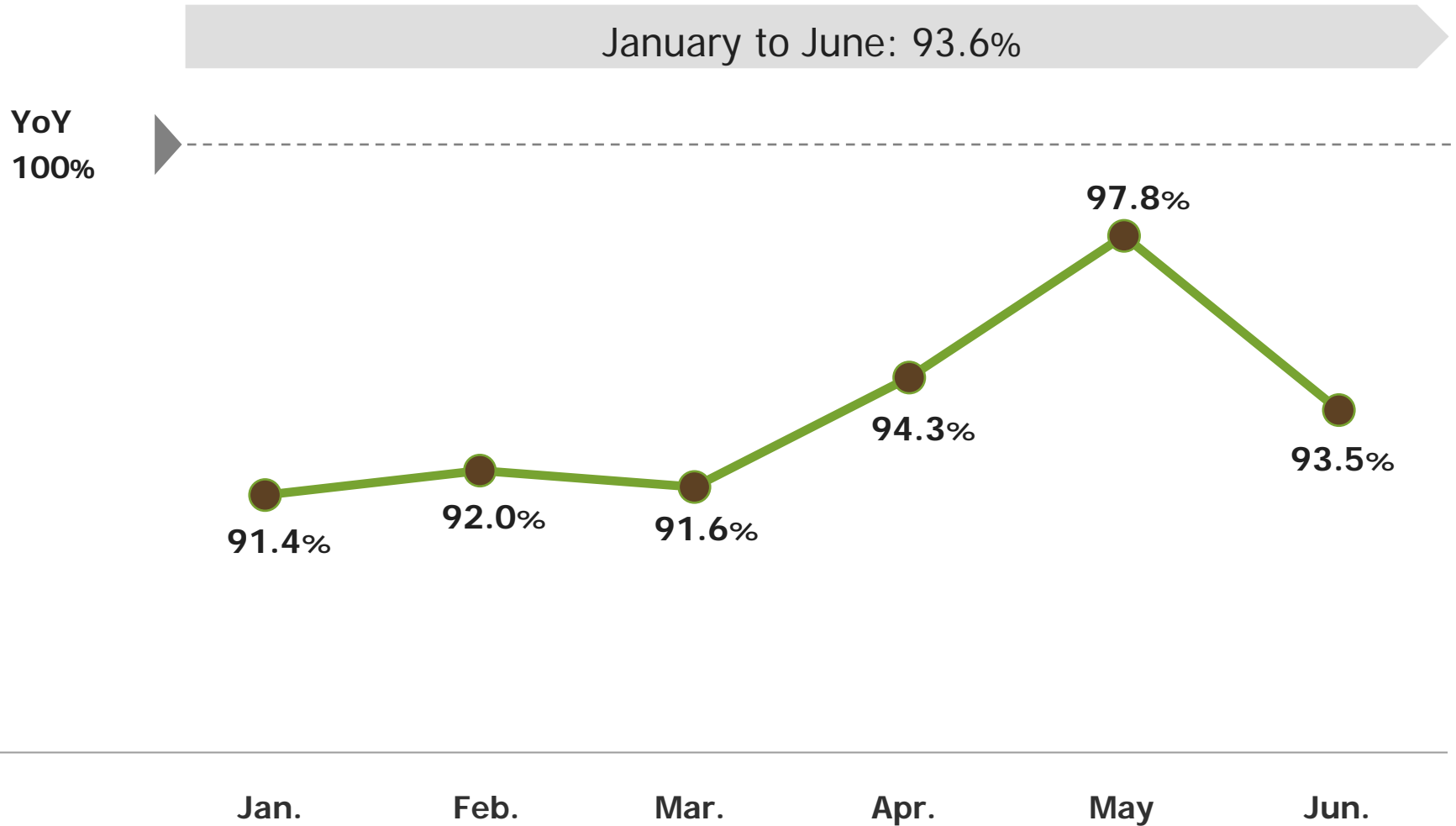

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Overview of the Mail-order Business (YoY Comparison)

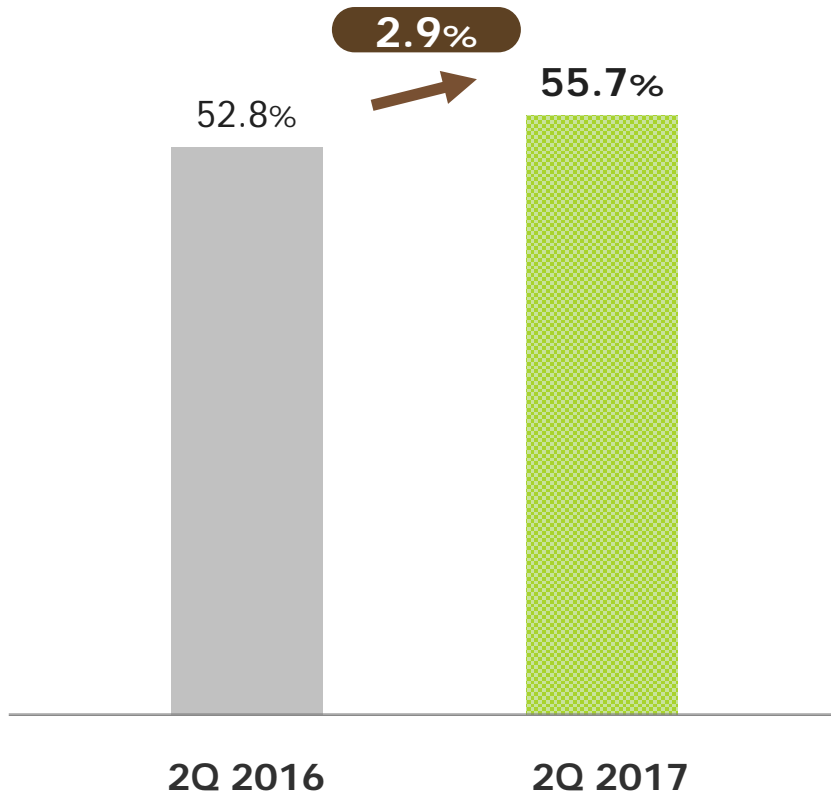
	2Q 2016	2Q 2017	Difference	Main factors
Net sales (Millions of yen)	55,698	52,145	-3,553	
Operating income (Millions of yen)	-280	-1,610	-1,330	
Semi-annual number of active customers (10,000 members)	240.7	224.4	-16.3	■ Decreases in the numbers of repeat customers and new members
Semi-annual number of new members (10,000 members)	39.4	37.5	-1.9	
Average sales per order (Yen)	10,612	10,036	-576	■ Caused by a decrease in the average order of guest buyers
Semi-annual order frequency per customer (Times)	2.01	2.09	0.08	
Catalog circulation (10,000 volumes)	4,424	3,056	-1,368	

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

Mail-order Business –Monthly Sales



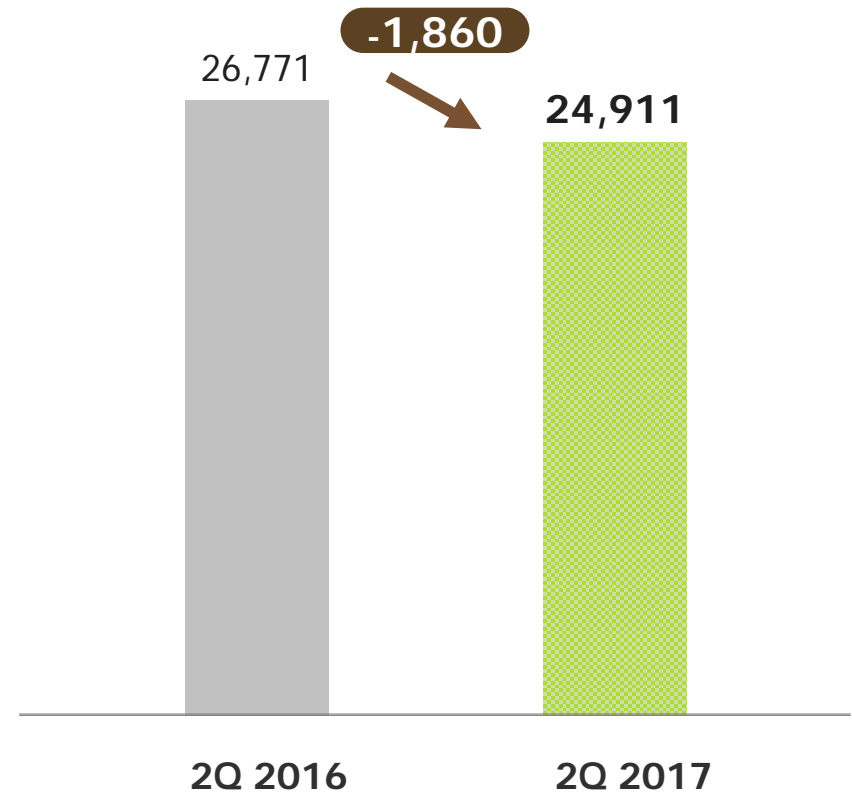
Cost to Sales Ratio



- ◆ Increase in share of bargain and clearance sales
- ◆ Increase in valuation losses on goods
- ◆ Higher exchange rate for forward exchange contracts

SG&A Expenses

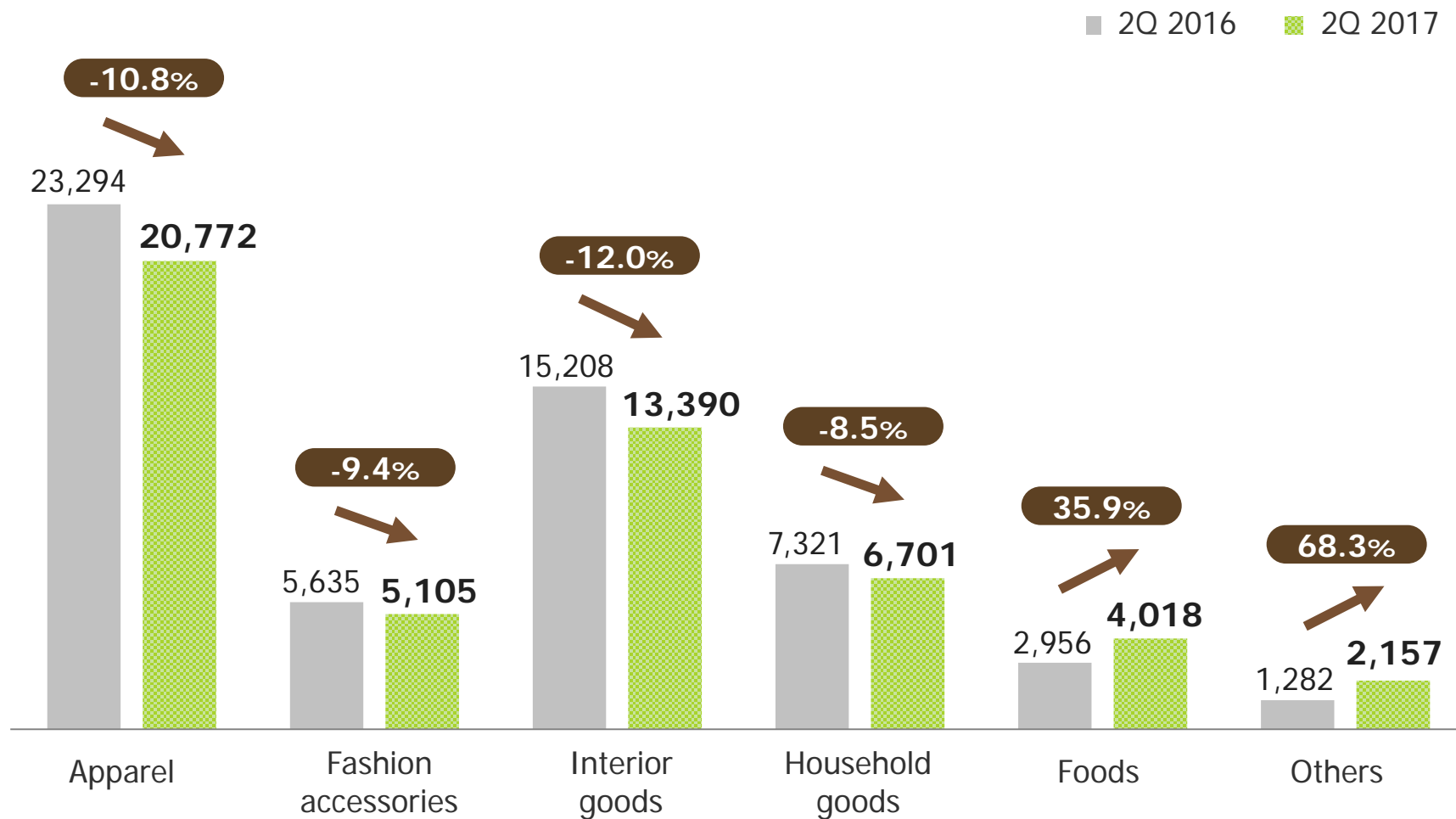
(Millions of yen)



- ◆ Decrease in number of catalogs and pages
- ◆ Cost reduction by reexamining each expense items

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

(Millions of yen)



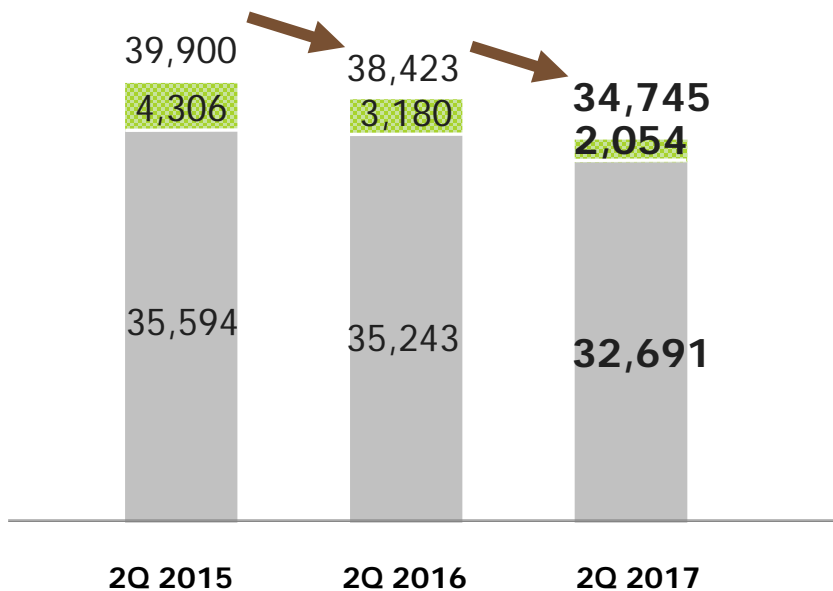
◆ In apparel, sales decreased particularly in outerwear and maternity wear.

* Others: Flowers and gift catalog sales, etc.

Internet Sales (Millions of yen)

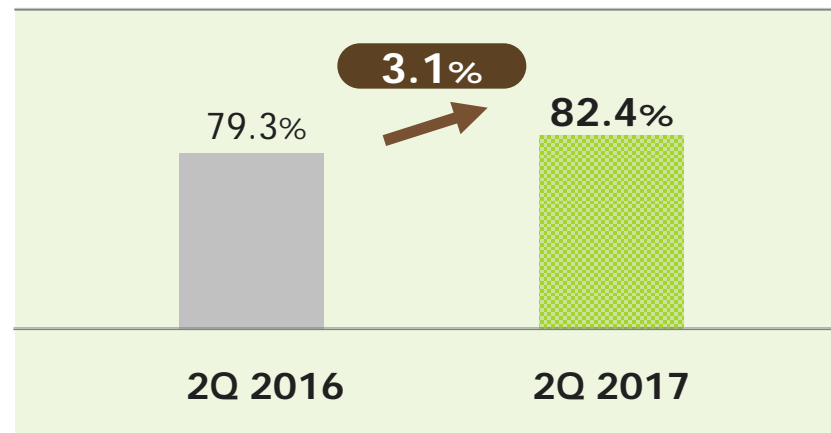
(including mobile sales)

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

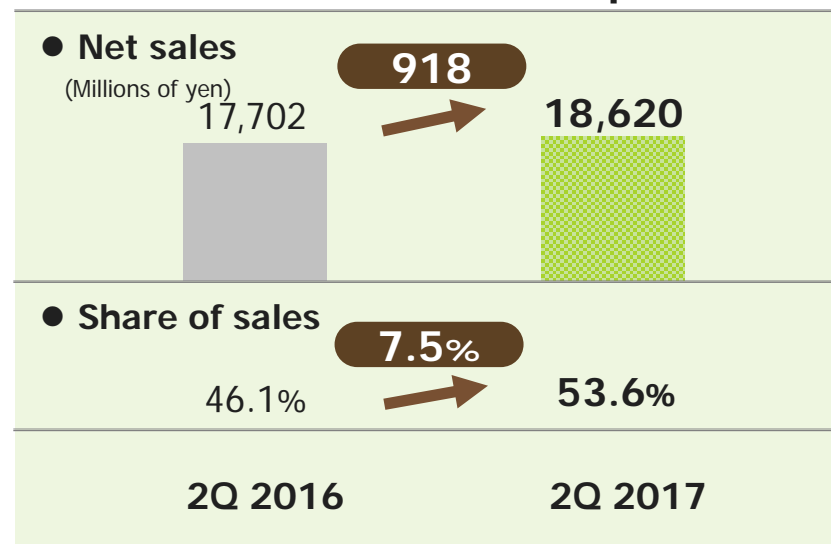


❖ The number of Internet customer visits increased but the sales conversion rate decreased.

Ratio of Internet-based Orders



Amount and Share of Smartphone Sales



Overview of the Bridal Business (YoY Comparison)

	2Q 2016	2Q 2017	Difference	Main factors
Net sales (Millions of yen)	7,451	8,201	750	■ Two facilities* opened in 2016 made their first full first-half contributions to sales
Operating income (Millions of yen)	-384	131	515	
Guesthouses	23	23	0	■ No new guesthouses
Weddings (Couples)	1,934	2,123	189	
Average sales per wedding (10,000 yen)	365	366	1	

* The 33 Sense of Wedding in Osaka opened January 2016; THE SURF OCEAN TERRACE in Chiba opened March 2016

Overview of the Corporates Business (YoY Comparison)

(Millions of yen)

	2Q 2016	2Q 2017	Difference	Main factors
Net sales	2,293	2,270	-23	
• Contracting services	1,573	1,572	-1	
• Sampling	574	547	-27	■ Decrease in sampling sales due to the reduction in catalog circulation
• Novelties	125	142	17	■ Increase in contracting sales of existing clients
• Others	18	7	-11	
Operating income	289	222	-67	

3. 2Q Fiscal 2017 Results Relative to Initial Plan


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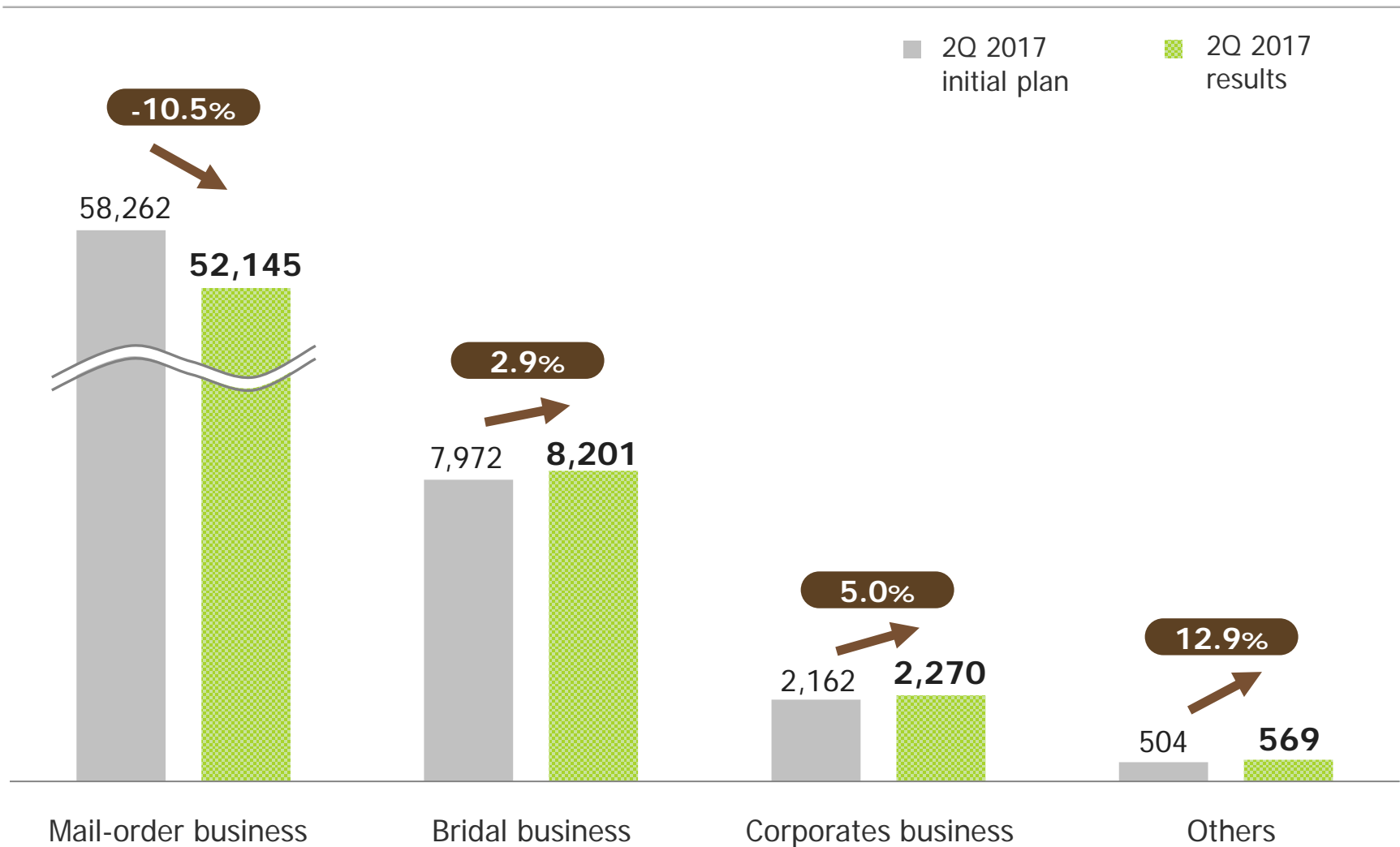
Consolidated Results Compared to Initial Plan for 2Q Fiscal 2017

(Millions of yen)

	2Q 2017 (Initial plan)		2Q 2017 (Results)		Relative to initial plan	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	68,900		63,186		-5,714	-8.3%
Cost of sales	37,253	54.1%	34,212	54.1%	-3,041	0.0%
Gross profit	31,646	45.9%	28,973	45.9%	-2,673	-0.0%
SG&A expenses	31,296	45.4%	30,222	47.8%	-1,074	2.4%
Operating income	350	0.5%	-1,248	-2.0%	-1,598	-2.5%
Ordinary income	750	1.1%	-849	-1.3%	-1,599	-2.4%
Profit attributable to owners of parent	500	0.7%	-6,208	-9.8%	-6,708	-10.5%

Consolidated Sales by Business Segment (Compared with Initial Plan)

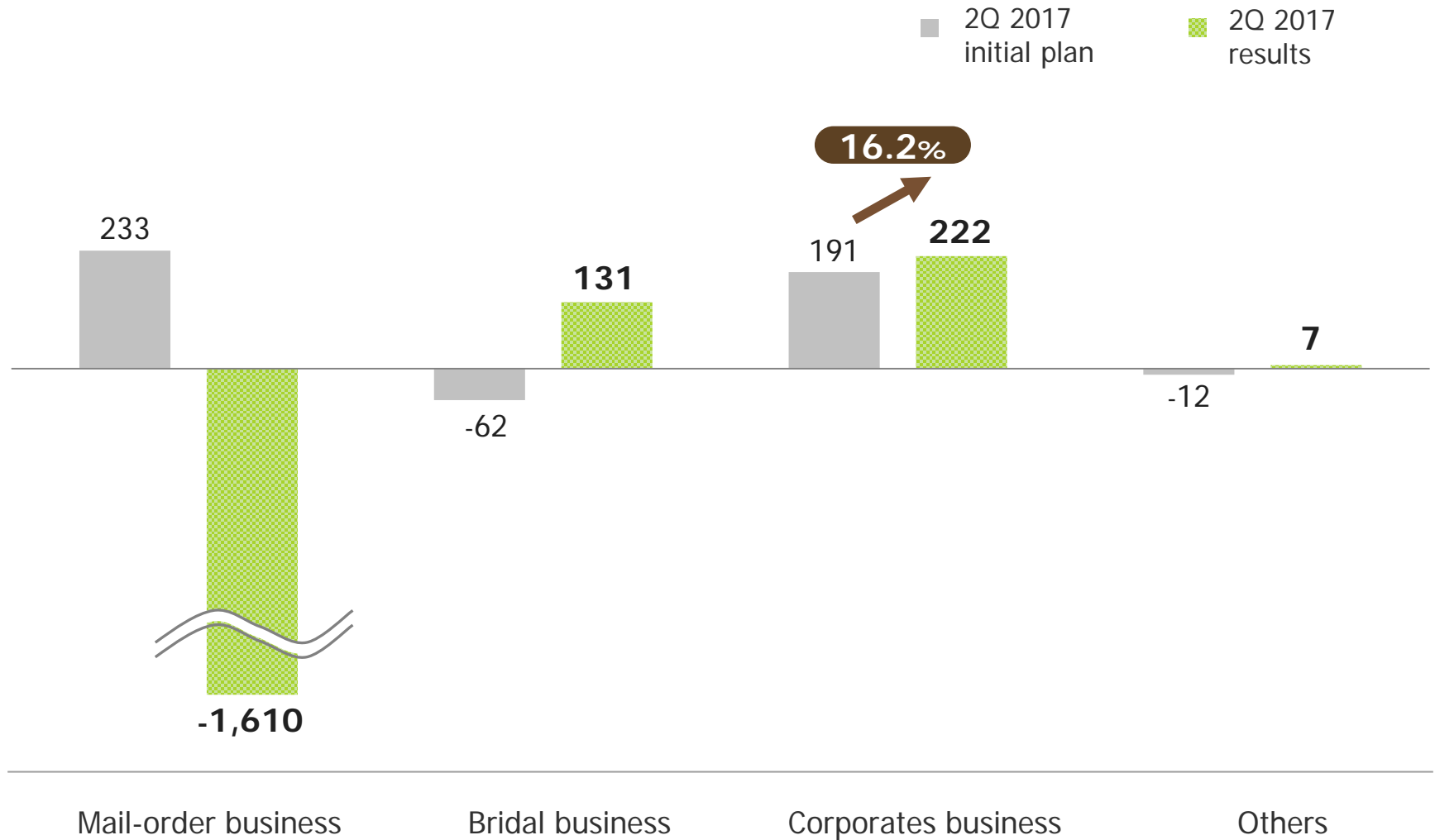
(Millions of yen)



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Consolidated Operating Income by Business Segment (Compared with Initial Plan)

(Millions of yen)



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4. Consolidated Earnings Outlook for Fiscal 2017

- Reasons for Fiscal 2017 Sales and Operating Income Decreases and Second Half Actions


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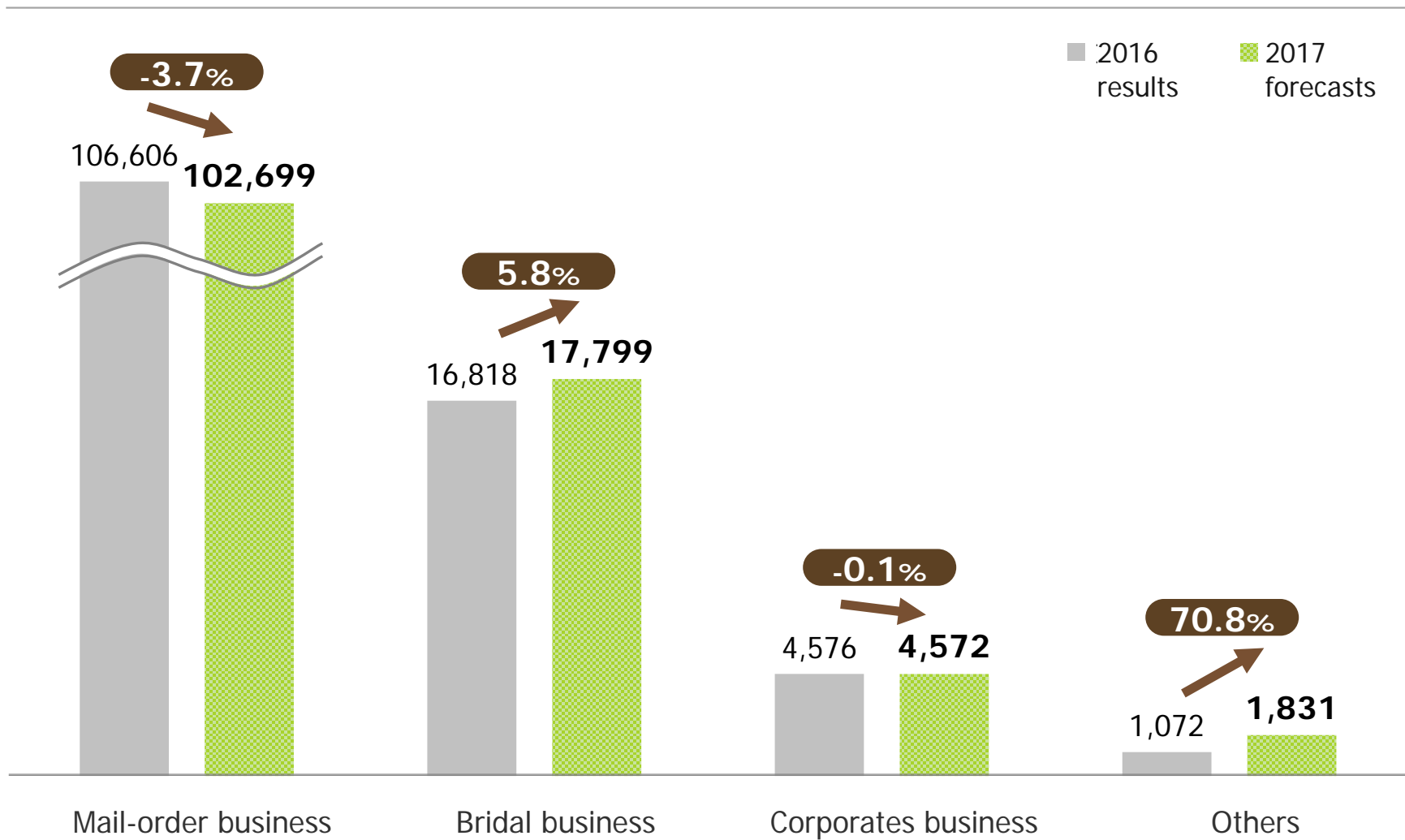
Fiscal 2017 Consolidated Earnings Outlook (YoY Comparison)

(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		126,900		-2,174	-1.7%
Cost of sales	67,087	52.0%	69,978	55.1%	2,891	3.1%
Gross profit	61,986	48.0%	56,922	44.9%	-5,064	-3.1%
SG&A expenses	60,791	47.1%	60,722	47.9%	-69	0.8%
Operating income	1,194	0.9%	-3,800	-3.0%	-4,994	-3.9%
Ordinary income	1,673	1.3%	-3,600	-2.8%	-5,273	-4.1%
Profit attributable to owners of parent	1,420	1.1%	-10,400	-8.2%	-11,820	-9.3%

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

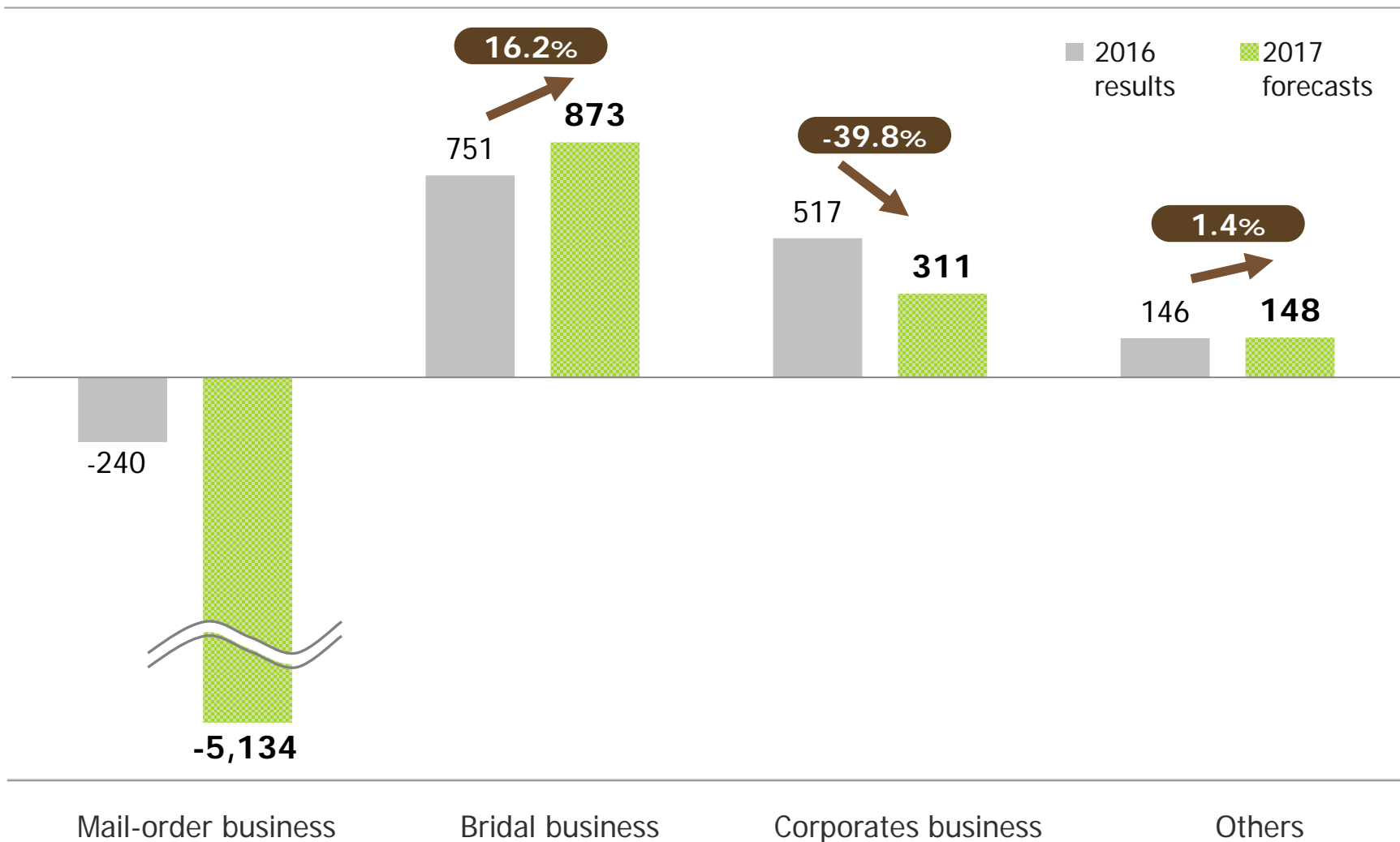
(Millions of yen)



* "Others" consists of services, primarily insurance, credit cards and childcare, and the cosmetics manufacturing wholesale business of Nissui Pharma Cosmetics Co., Ltd., which was acquired in 2017

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

(Millions of yen)



* "Others" consists of services, primarily insurance, credit cards and childcare, and the cosmetics manufacturing wholesale business of Nissui Pharma Cosmetics Co., Ltd., which was acquired in 2017

Net Sales

- ❖ Increasing tendency of customers to buy apparel only during periods of real demand
- ❖ Increasing similarity of merchandise (all retailers selling the same types of items)
- ❖ Higher orders from smartphones, but not enough to offset decrease in orders using catalogs and PCs
- ❖ Smaller number of catalogs and pages due to review of catalog distribution to use catalogs more efficiently (decrease in “sales area”), but this change reduced sales more than expected

Operating Income

- ❖ Higher cost to sales ratio due to an increase in bargain and inventory clearance sales
- ❖ Higher cost to sales ratio due to a rising exchange rate for forward exchange contracts

Second Half Actions to Increase Sales

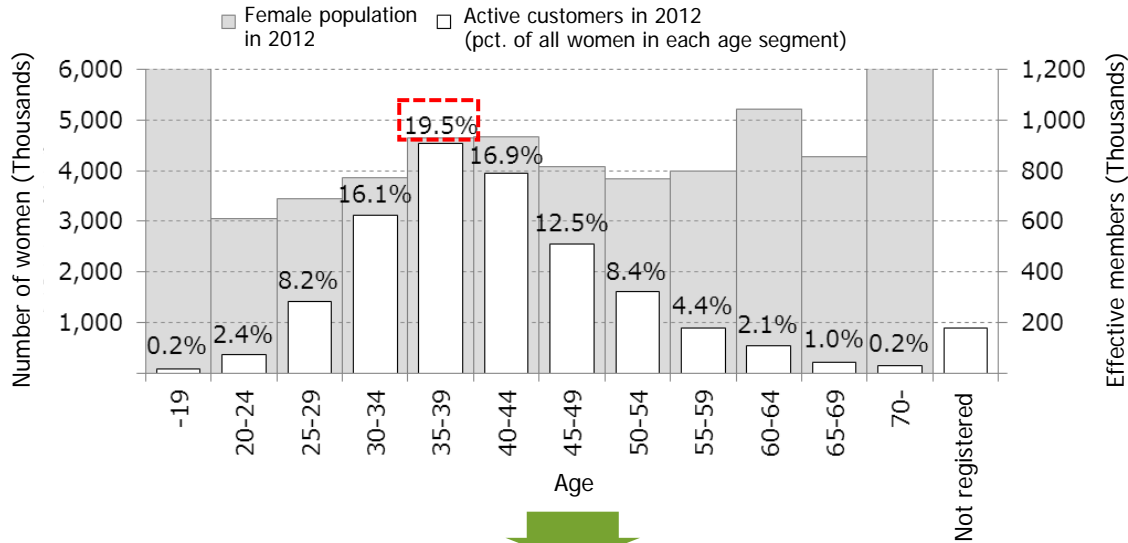
- ❖ Expand coverage by printing more catalogs (such as by producing compact versions)
- ❖ Use additional marketing measures (more coupons, free-shipping campaigns, more sales promotions on SNS and other steps)
- ❖ Improving UI and UX and full-scale personalization by starting to use DMP (see note)

Note: User interface (UI) refers to the font, pictures, buttons and other aspects of the screens displayed on browsers; user experience (UX) refers to providing a positive experience for users, such as by making the e-commerce site easy to navigate and ensuring the trouble-free processing of purchases. DMP is a platform for managing a variety of information collected from the Internet.

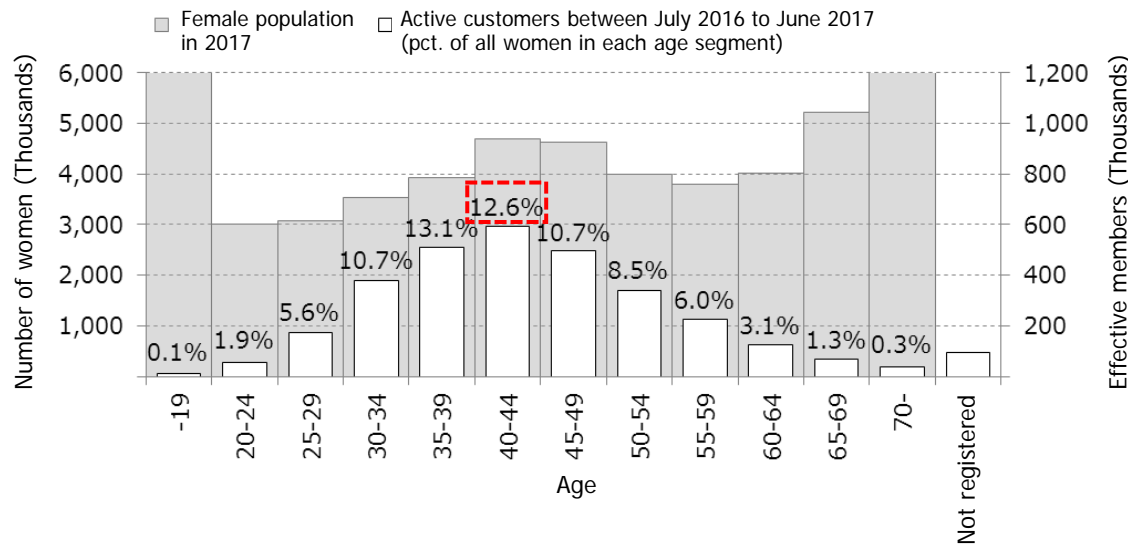
5. Outlook for *Belle Maison*

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Belle Maison Customers as Pct. of All Women in Japan



Five years ago, about 20% of women in their 30s shopped at *Belle Maison*

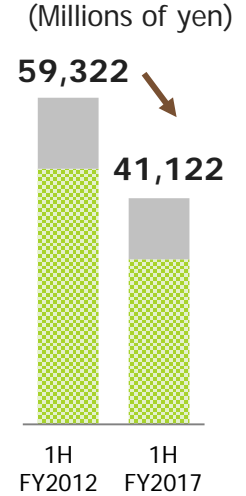
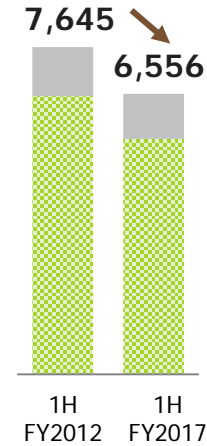
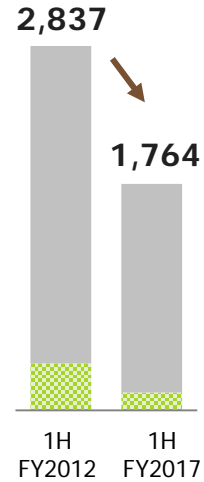
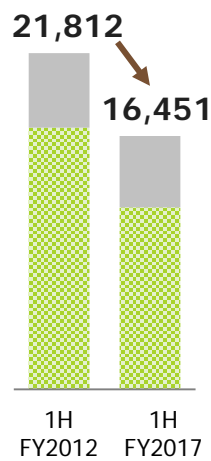
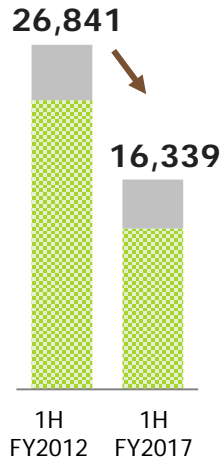


Today, only about one of every eight women in the 40 to 44 age segment shop at *Belle Maison*

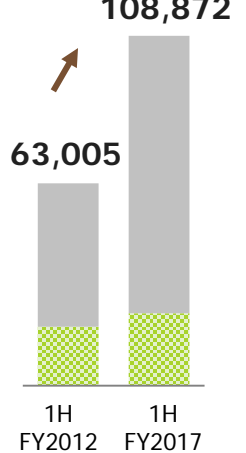
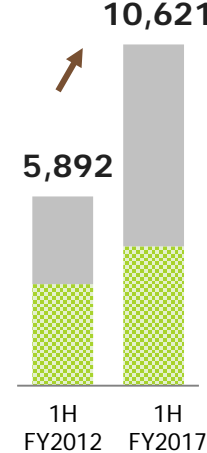
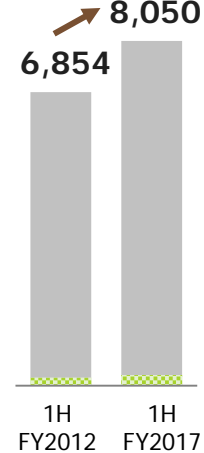
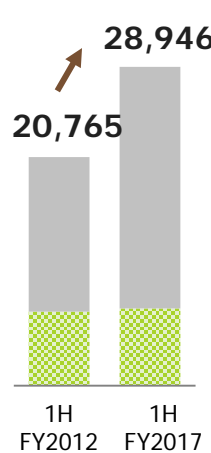
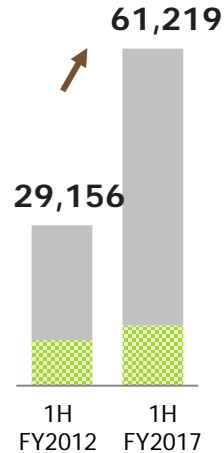
Wholesale merchandise Original Belle Maison merchandise

Sales

Fashion **Lifestyle** **Health & Beauty /Food** **Kids'** **Total**

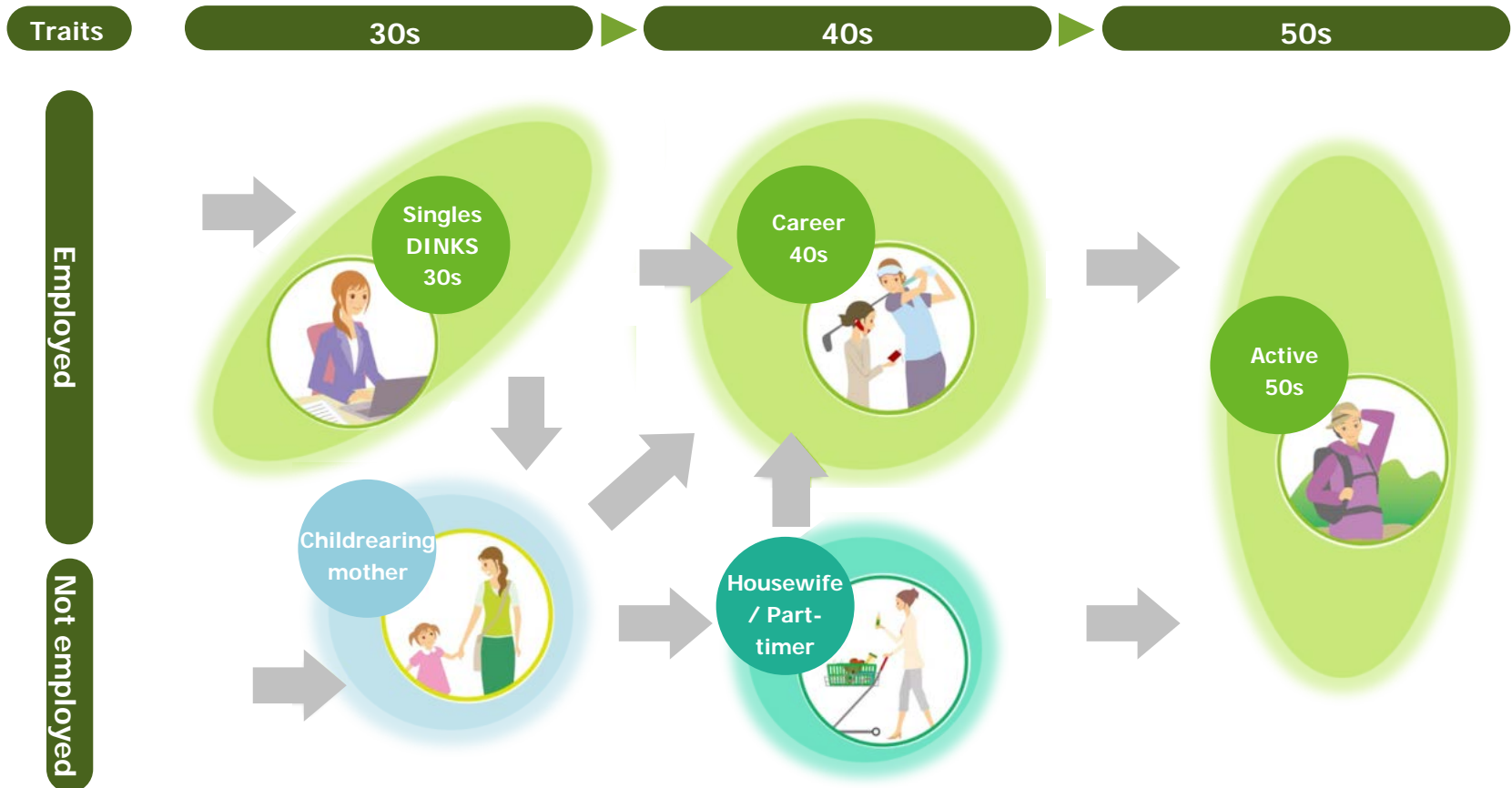


Product types



◆ A large decrease in sales despite the increase in the number of different types of products offered.

Customer Strategy



- ❖ Women between the ages of 30 and 59 are divided into five segments (singles DINKS 30s, childrearing mother, career 40s, housewife/part-timer, active 50s). The plan was to increase the number of customers by using actions that target each segment. But the result was weaker ties with these segments and a sharp decrease in two customer segments where Senshukai had been very strong: childrearing mother and housewife/part-timer.

Merchandising Strategy

- ❖ Developing too many products based on the customer strategy made the product lineup less appealing and caused an increase in dead inventory
- ❖ Launched core brands with the goal of using the SPA (specialty store retailer of private label apparel) business model to generate earnings, but the result was growth in the number of newly developed items and dead inventory
- ❖ Large increase in other wholesale products to offset the sales decrease made operations more inefficient

Sales Strategy

- ❖ Still relying significantly on catalogs due to the slow pace of the switch to an e-commerce business model centered on smartphones
- ❖ The establishment of an omni-channel framework that utilizes stores has not yet produced any clear benefits

Fulfillment Strategy

- ❖ The need to adapt to rapidly changing market conditions overwhelmed work on a plan for a new IT system; big delays in creating this system restricted the ability to execute strategies
- ❖ Operations started as planned at the Minokamo Distribution Center, but sales decreased and inventories increased, creating a need to reorganize the logistics infrastructure again

Review on Customer/Merchandising Strategies

- ◆ Rebuild a merchandise lineup for the real needs of targeted customer segments
- ◆ Lower inventory risk by tightly focusing the development of original merchandise
- ◆ Use national brand products and other wholesale products to add items in new categories and price ranges for attracting a broader range of customers

Fashion merchandise

Downsize for higher efficiency

- ◆ Concentrate on items for the age 45-59 segment and on plus-size apparel
- ◆ Focus development activities on well-established functional apparel; shorten the product cycle for non-standard apparel
- ◆ Shift from the SPA business model to the ODM (outsourced development and manufacturing) model, where other companies create and make merchandise that is sold using Senshukai brands

Lifestyle merchandise

Aim for a big increase

- ◆ Create a merchandise selection that performs strategic roles (entry, middle and higher-end brands)
- ◆ Reposition *Belle Maison Days* as the core life style brand
- ◆ Further differentiate *Belle Maison* from competitors by raising the quality of services and ideas for innovative products

Health & beauty care products, foods

Enter new market categories

- ◆ Use other wholesale products based on specific themes to enlarge the selection of merchandise
- ◆ Use clearly defined themes to create interest in targeted customer segments

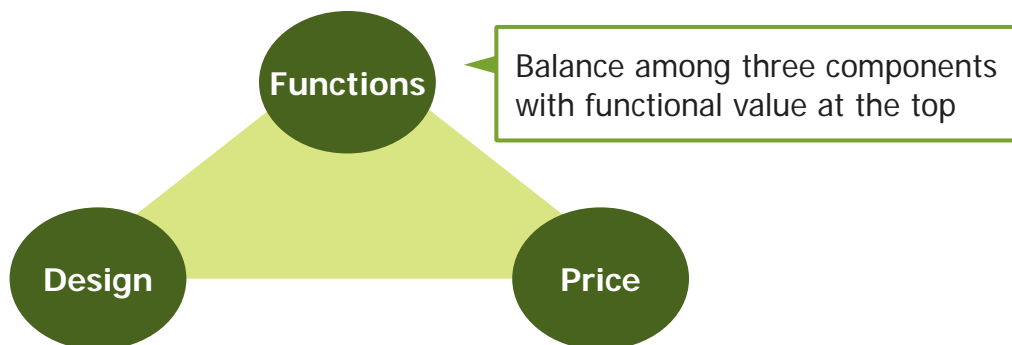
Kids'

Aim for renewed growth

- ◆ Reinforce Internet marketing activities by taking full advantage of the lineup of original brand merchandise that has an excellent reputation among customers
- ◆ Add products other than apparel to provide merchandise for an even broader spectrum of needs

Goal for *Belle Maison* value

- ◆ Products that incorporate innovations that are closely linked to the lifestyles of targeted customer segments in the form of functional value



Examples of popular products

- ◆ Dining table with drawers, includes chairs - *BELLE MAISON DAYS*



Customer rating ★★★★★ 4.5 (99件) comments

- ◆ Perspiration-removing inner tank top - Salalist



Customer rating ★★★★★ 4.1 (435件) comments

- ◆ Water-absorbent, quick-dry girls' short-sleeve polo shirt - GITA

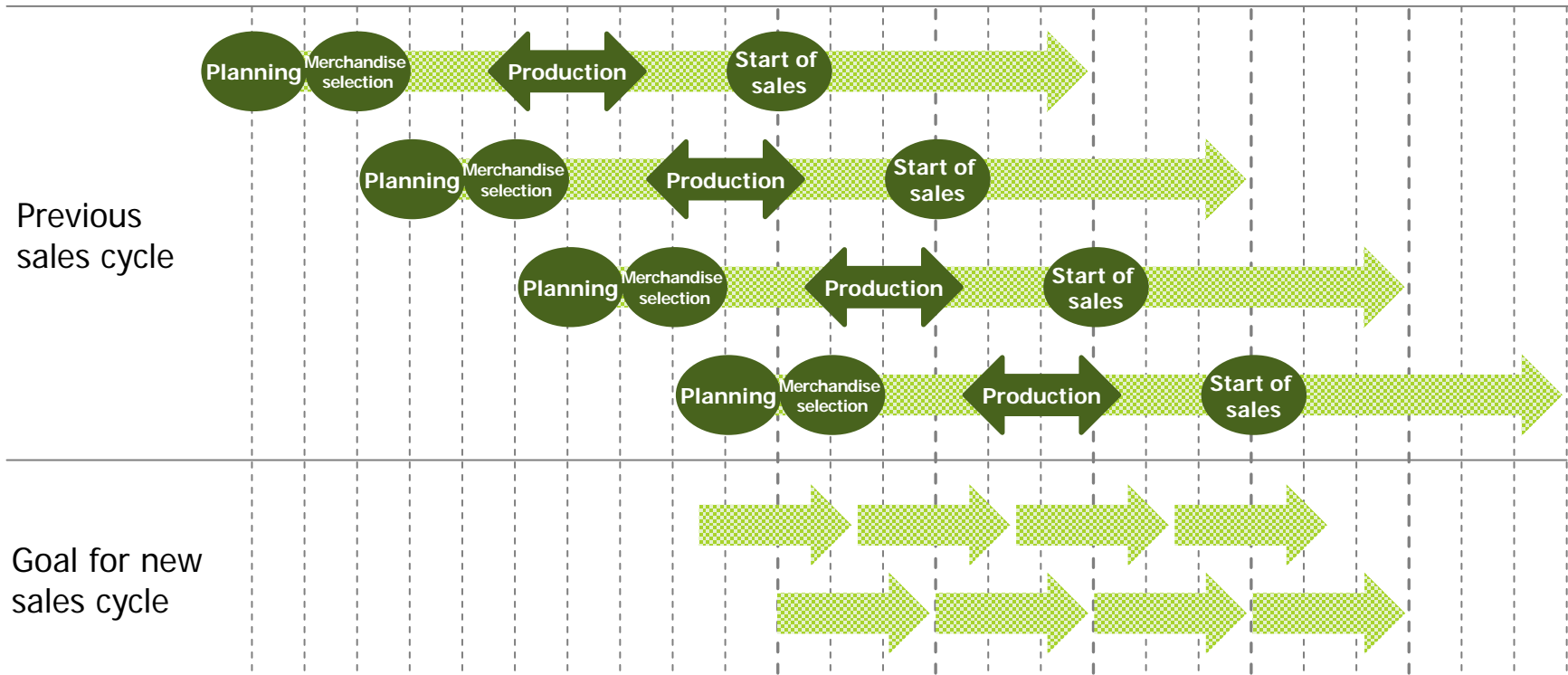


Customer rating ★★★★★ 4.1 (303件) comments

Review on Sales Strategy

- ❖ Switch stance to using catalogs as sales promotion tools rather than simply as a sales area
- ❖ End the previous catalog production method, using instead a shorter process that can adapt with flexibility to changes in markets
- ❖ Position the e-commerce site as the primary sales area and improve the quality of customer interactions

Business model conversion flowchart



- ❖ Make revisions to catalog production and merchandise purchasing processes to match the new cycle

Review on Fulfillment Strategy

- ❖ Realign and downsize functions to match the scale of operations
- ❖ Convert fixed expenses to variable expenses
- ❖ Liquidate property and equipment

Logistics

- ❖ Centralize logistics operations for the mail-order business into the Nagoya region
- ❖ Shift outsourced activities to internal operations
- ❖ Reorganize inefficient logistics bases
- ❖ Capital and business alliance of subsidiary Belle Maison Logisco with Sumisho Global Logistics

Call center

- ❖ Make adjustments to match the size of the call center with the smaller scale of operations and the ongoing shift in sales channels
- ❖ Improve the quality of customer interactions and services by performing customer assistance activities internally

IT system

- ❖ Significantly reduce the size of IT system development and maintenance operations
- ❖ Stop developing IT systems by starting from the ground up to create all individual elements instead of buying packaged products and then making customizations and additions as needed

- ❖ The current Medium-term Management Plan has been terminated
- ❖ The goal is to return the mail-order business to profitability in Fiscal 2018
- ❖ Work is proceeding on a new three-year plan for Fiscal 2018 to Fiscal 2020
The plan is to be announced on Friday, October 27 with third quarter results of operations
An information meeting is scheduled for Thursday, November 2

6. Others

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Establishment of Feel Life to Leverage Senshukai's Resources in Order to Sell Products for Seniors

In March 2017, Senshukai acquired the business of JFR Online Co. Ltd., a catalog retailing company that was a subsidiary of J.FRONT RETAILING Co.,Ltd. The business was then taken over by a new Senshukai subsidiary called Feel Life Inc.

This business issues fashion media, sells healthy and flavorful food products, and has other operations. There are about 300,000 customers, mainly women in the senior age segment. Senshukai expects to capture synergies between this business and its mail-order business that serves mainly women between the ages of 30 and 59.



Acquisition of Nissui Pharma Cosmetics to Strengthen and Expand the Cosmetics Business

In July 2017, Senshukai acquired Nissui Pharma Cosmetics, which manufactures and sells cosmetics and was a wholly owned subsidiary of Nissui Pharmaceutical Co., Ltd., a member of the Nissui Group.

The main product of Nissui Pharma Cosmetics is the line of Lisblanc cosmetics, which are based on natural ingredients for good health and beauty. This growing company uses Lisblanc and other brands to sell products at stores and through many other channels. Senshukai believes this company is an excellent match with the Senshukai Group's omni-channel expertise in the mail-order business, sales promotion skills, and infrastructure (distribution centers and call center). Senshukai expects this acquisition will enable Nissui Pharma Cosmetics to continue growing as well as produce synergies that will benefit both companies.



“Smile Forest project” is supported by donations from costumers



▲ The 14th Green Power Class - A special event for 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 March, a class was held in the Nishi-Umeda district of Osaka using a format that allowed both parents and children to participate.



▲ Tohoku reconstruction support - Activities in the 6th year -

The latest family photo studio event was held in the city of Ishinomaki

As part of an earthquake recovery program to give smiles to mothers and their children in Tohoku, Senshukai has donated more than 30,000 blankets for babies in the four prefectures (Aomori, Iwate, Miyagi and Fukushima) of the Tohoku region. On Mother's Day in May 2017, Senshukai operated a family photo studio, which uses a professional photographer, at an event held by Baby Smile Ishinomaki, an organization that helps with raising children in this city in Miyagi prefecture. Senshukai has been working with this organization since the March 2011 earthquake and tsunami that devastated this region of Japan.



Senshukai forum featured a presentation by ROHTO and a discussion group consisting of young Senshukai employees

ROHTO Pharmaceutical Co., Ltd. has been using the creation of shared value in order to energize its entire organization. Senshukai held a seminar where Yasunori Kawasaki, manager of ROHTO's public relations and CSV department, gave a presentation about this subject. This event also included discussions by Senshukai employees in their second to fourth years at the company concerning the future direction and goals of corporate social responsibility programs.



Dividend Forecast

Senshukai's policy regarding dividends is to distribute earnings to shareholders in a manner that reflects its performance. Furthermore, the policy is to pay stable dividends that take into account the payout ratio while reflecting the need to use retained earnings to strengthen the company's foundation for business operations.

In the 2016 earnings announcement dated February 2, 2017, Senshukai announced its plan to pay an annual dividend of 8 yen per share for 2017. However, because of the consolidated and non-consolidated net losses in 2017, Senshukai now plans to pay no dividend for 2017.

Schedule for Earnings Announcements

- **October 27, 2017 (Friday) Announcement of financial results for the third quarter of Fiscal 2017**
- **February 8, 2018 (Thursday) Announcement of financial results for Fiscal 2017**
- **February 9, 2018 (Friday) Earnings presentation for Fiscal 2017 (Tokyo)**

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.