
A Message from the President



Michinobu Yasumoto
Representative Director, President

We will fundamentally strengthen the Group's business foundations and achieve growth through growth strategies and structural reforms.

In fiscal year 2017, ended February 28, 2017, the Onward Group launched a new medium-term management plan that covers the period leading up to fiscal year 2019. I would like to take this opportunity to review fiscal year 2017, the first year of this plan, and to explain our management policies for the future.

Review of Fiscal Year 2017

Faced with a challenging operating environment, we moved forward with growth strategies and structural reforms in the pursuit of recovery in our earnings capacity.

In fiscal year 2017, the first year of the new medium-term management plan, net sales decreased 7.1% year on year, to ¥244.9 billion, while operating profit increased 11.3%, to ¥4.2 billion, and profit attributable to owners of parent rose 10.9%, to ¥4.7 billion. The operating environment remained challenging in the midst of a declining population in Japan, diversifying consumer values, and increases in production costs stemming from economic growth in Asia as well as rises in other operating costs.

Faced with this challenging operating environment, net sales fell slightly short of the Onward Group's target. Conversely, operating profit and profit attributable to owners of parent both increased year on year and climbed above our targets. I therefore feel comfortable in saying that our progress in the plan's first year was more or less in line with our expectations.

Throughout the year, we sought to stably expand earnings by increasing the value of core brand products and enhancing customer service. At the same time, we practiced selection and concentration by stepping up efforts in fields in which we anticipate high margins and strong growth, such as e-commerce. As a result, our e-commerce operations achieved substantial growth domestically and abroad, contributing to higher sales and income for our core brands Nijyusanku, any SiS, and TOCCA even in the midst of this challenging operating environment.

In the second half of fiscal year 2017, we extensively examined the need for Groupwide structural reforms. We thus chose to undertake the reorganization of unprofitable businesses and stores.

Furthermore, we plan to institute reforms to logistics and organizational structures in fiscal year 2018. The benefits of these reforms are

expected to become clearly apparent in the future.

By developing our business through both growth strategies and structural reforms, we have succeeded in setting the Company on the proper course for the remaining two years of the medium-term management plan.

Our efforts in fiscal year 2018 and beyond will be carried out in accordance with the basic policies put forth by the medium-term management plan. These efforts will include advancing growth strategies focused on Omni-channel retailing and expansion in global markets. We will also seek to develop new businesses and provide a diverse sense of value; mergers and acquisitions will be one option in this regard. In addition, the selection and concentration of management resources will be practiced in existing businesses in order to move forward with structural reforms for strengthening the Group's business foundations and achieving growth.

Omni-Channel Retailing Strategy

The Onward Group seeks to realize Omni-channel retailing in the truest sense of the word by merging brick-and-mortar stores with online stores.

Advances in information and communication technologies, or ICT, have presented us with a greater range of opportunities to develop new customer contact points that have never been seen before. Recognizing this situation, we have placed e-commerce at the center of our growth strategies in light of the high levels of profitability and growth it promises. In addition, the promotion of Omni-channel retailing will be accelerated on a Groupwide basis.

In fiscal year 2017, the Group generated sales totaling ¥15.0 billion through e-commerce, as targeted, and massive growth rates of 23% in Japan, 86% overseas, and 26% overall were achieved. Our efforts in this year went beyond simply increasing the number of points

A Message from the President

through which we can connect with customers online. Rather, we established systems for planning and developing online-exclusive items through collaboration with brand business divisions.

At the same time, we integrated inventories to allow, for example, a product to be shipped, with zero hassle, from the stock of physical stores should it not be present in the stock put aside for Internet sales. Such efforts were no doubt a proponent behind the aforementioned sales growth.

We were quick to integrate the inventories of physical and online stores with regard to our core Nijyusanku brand. As a result, although sales at physical stores declined 1.9% in fiscal year 2017, sales via e-commerce channels surged 32.4%, contributing to an overall increase of 1.4% in sales for the brand.

Our Omni-channel retailing efforts have not been limited to the integration of physical and online store inventories. We have also been stepping up online marketing initiatives. These included advance reservation sales, which also functioned as part of test sales conducted at the beginning of the fiscal year, as well as an expanded lineup of online-exclusive items. Successful initiatives will be extended to all brands in order to lay the foundations for increased sales and income for Onward Kashiya and consequently the entire Onward Group.

The Onward Group is also augmenting its infrastructure for promoting Internet sales. Previously, our Internet sales initiatives had been based around Onward Crosset, our directly operated e-commerce website. However, as this site was designed similarly to a shopping mall, it was unable to completely capture the unique atmosphere and visual flair of each brand. To rectify this issue, we have begun installing e-commerce functions into individual brand websites in fiscal year 2018. By promoting sales through both the shopping mall that is Onward Crosset and our brand-specific e-commerce sites, we aim to further grow sales. In addition to our official Onward Group websites, our products have been made available on roughly 10 different online shopping malls. Sales through these external sites have come to represent roughly 20% of overall e-commerce sales. Going forward, the Onward Group will continue to offer its products through external websites in order to reach new customers.

In conjunction with our Omni-channel retailing initiatives, we have also been enhancing the services offered through our Onward Members' loyalty point card system, which boasts membership consisting of users of both physical stores and e-commerce websites. In April 2016, we completed the integration of the user base of users of the Onward Members' system saved at physical stores and that of Onward Crosset to create a database of 1.2 million customers. The total number of members had risen to 1.6 million as of February 28, 2017. By encouraging members among the customer bases of other

domestic Group companies, we aim to increase this number to 2.1 million by February 2018. Moreover, it is our goal to utilize the Onward Members' system to increase sales by exposing customers to various products from throughout the Onward Group and also to encourage customers of our e-commerce websites to visit brick-and-mortar stores. Encouraging such visits will require us to coordinate with retail partners, including department stores and shopping centers, in order to develop new types of stores that are suited to the current era of the Internet and Omni-channel retailing. After developing such stores, we will solicit the appealing services available at these stores through the Onward Members' system to encourage members to visit said stores, which should contribute to the invigoration of brick-and-mortar stores.

Provision of a Diverse Sense of Value

Our focus on apparel products will be maintained even as we spread into new fields presenting the potential for synergies in order to provide greater levels of value.

It goes without saying that we are committed to further enhancing the apparel product operations that constitute our main business. The provision of a diverse sense of value is another crucial component of our growth strategies.

For example, food products and cosmetics are areas that are booming in terms of sales at department stores and sales to inbound visitors. These areas are also thought to be highly compatible with Onward's apparel product operations. We thus chose to open our Onward Marche food sales website in November 2016. This e-commerce website represents a new merchant business through which we introduce luxury food products and other food-related items assembled from across Japan. Currently, deliveries are only available in Japan, but we hope to make this website able to offer cross-border sales to countries overseas in the near future. Customers from overseas are incredibly interested in Japanese cuisine, for which they hold high expectations. I therefore suspect that there is room for the development of appealing business models in this area.

In addition, Onward Holdings converted KOKOBUY Inc., a venture company offering a lineup of primarily organic skincare and haircare products, into a subsidiary in fiscal year 2018. We hope to foster the new business of this company into a pillar that will support the Onward Group in the future.

These are just some examples of our efforts to provide a diverse sense of value. Looking ahead, we will continue working to improve the value of our apparel product operations themselves. At the same time, we will also expand operations in a wide range of fields related

A Message from the President

to the necessities of our daily lives, where we can anticipate synergies with other Group businesses in order to provide a greater scope of value to our customers.

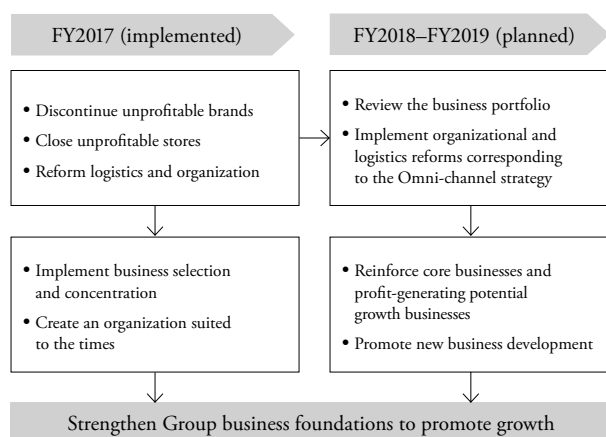
Structural Reforms

We are advancing structural reforms to strengthen the Group's business foundations and achieve growth in response to the challenging operating environment.

In fiscal year 2017, we launched a business restructuring project to be advanced alongside the growth strategies that were put forth previously.

This project will entail the selection and concentration of management resources, through which we will strengthen the Group's business foundations and achieve growth. In conjunction with the restructuring project, we formulated a meticulously prepared plan for reallocating Group staff. This plan includes provision for employee shifts, training, education, and other factors, and will be implemented in accordance with a highly detailed timetable. At the same time, we will continue to carry out the reorganization of unprofitable businesses and stores as required by the rapidly changing fashion business. We will also institute reforms to the underlying frameworks for logistics and organizational structures in order to transition to structures that will enable swift responses to the changing times.

Business Restructuring Project



Centered on core company Onward Kashiyama, the existing frameworks were developed over the course of several years, and altering these established frameworks will require time, due in part to the time needed to gain the understanding of frontline employees. Nonetheless, we aim to advance reforms at a rapid clip, gaining the understanding of the entire organization through this process.

Financial Strategy

We will institute various measures to ensure stable dividends and improve return on equity.

We recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to stably distribute appropriate dividends to shareholders based on the Company's business performance, and we target a dividend payout ratio of 35% or more. In addition, we have set a target of 5% for return on equity in fiscal year 2019. Steps taken in fiscal year 2017 to move toward the accomplishment of this goal included the acquisition of treasury stock and sale of shareholdings and existing assets as well as other proactive measures. We will continue such efforts in the future in order to improve return on equity while also considering funding, profit margins, and other matters.

August 2017

Michinobu Yasumoto
Representative Director, President