

# A Message from the President



**Michinobu Yasumoto**  
*Representative Director, President*

With a clear view of its operating environment, Onward will heighten its profitability through growth strategies that are in step with technological advancements and market changes.

The operating environment for the apparel industry continues to transform as the aging of Japan's population and the decline in the birth rate shrink the overall population and because consumer values grow more diverse. Faced with this reality, the Onward Group will maximize the brand value and customer base it has cultivated to date in order to advance growth strategies and structural reforms aimed at future growth. I would like to take this opportunity to talk about our business results in fiscal year 2018 and to explain the measures that we will implement going forward.

## Review of Fiscal Year 2018

**Even in the midst of a challenging operating environment, we succeeded in increasing full-year profit through growth strategies and structural reforms.**

In fiscal year 2018, net sales decreased 0.7% year on year, to ¥243.1 billion, which was 1.6% higher than the target, while operating profit increased 22.9%, to ¥5.2 billion, and profit attributable to owners of parent rose 13.1%, to ¥5.4 billion. Net sales were affected by a sales reduction of ¥8.2 billion stemming from efforts to reorganize underperforming brands and stores as one part of the structural reforms kicked off in 2017 as well as a ¥3.8 billion increase resulting from foreign exchange rate fluctuations. If these factors are excluded, net sales were up ¥2.6 billion. Profit benefited from e-commerce and other growth strategies as well as from the aforementioned structural reforms, which drove increases in all profit figures.

On the topic of structural reforms, the drastic revision of our inventory management system proved to be greatly beneficial for the Company. For years, Onward Kashiyama had employed a system in which regional branches were responsible for ordering products from brand business divisions, managing their inventories, and holding bargain sales and otherwise ensuring that no products go unsold. To address this situation, we have begun integrating inventory control

through organizational reforms. A goal of these reforms will be to share inventory data between physical and e-commerce stores in order to prevent lost sales opportunities and thereby strengthen e-commerce, which is a focus of our growth strategies.

In the overseas business, the operating environment for the apparel industry is undergoing substantial change, as indicated by such developments as the rapid progress of the digitalization trend. We still need time to address this change, and operating profit decreased ¥1.3 billion in Europe, ¥0.4 billion in Asia, and ¥0.1 billion in the United States as we have not yet furnished a response. Overall, operating profit were down ¥1.8 billion year on year in the overseas business. We plan to address this situation with drastic business reforms going forward.

The European business—our largest overseas business—comprises manufacturing divisions dealing in luxury brands as well as brand divisions, such as JIL SANDER and JOSEPH. Our manufacturing divisions boast a manufacturing platform steeped in masterful manufacturing techniques. Reforms in these divisions will thus be implemented through a detailed approach looking carefully at each and every factory in this platform to determine how they can be adapted to better meet market needs. We will improve profitability in our manufacturing divisions via this approach. As for brands, we enhanced the JIL SANDER creative team from 2018 spring / summer collection. The products announced by this new team have won strong praise

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from the fashion market. The biggest challenge going forward in this area will be accelerating business strategies by delivering these appealing items to a wide range of markets.

The overseas business is a linchpin in the Onward Group's overall growth strategies. We will therefore be taking swift action as we revise human resource management practices and governance systems to quickly improve the profitability of this business.

### Acceleration of E-Commerce Operations

**Onward will pursue growth by enhancing its directly operated e-commerce website and collecting and utilizing customer data.**

In fiscal year 2018, sales from the Onward Group's e-commerce operations rose to ¥20.3 billion, a 37% year-on-year increase. This impressive performance was in part a result of measures to enhance Onward Crosset, our directly operated e-commerce website. These measures included the integration of physical and online store inventories, which allowed for more efficient inventory control and thus led to a reduction in lost sales opportunities; the expansion of our lineup of pre-order and online-exclusive items; the enhancement of sales promotion campaigns linked with the so-called Premium Friday\*<sup>1</sup>; and the effective utilization of online bargain sales. Moreover, these measures enable us to increase our online marketing expertise on a daily basis, which in turn heightens the effectiveness of our efforts.

The ratio of total e-commerce sales conducted through directly operated online stores in fiscal year 2018 was 75% on a Groupwide basis and 85% when looking at Onward Kashiyama alone. This high portion of sales attributable to directly operated online stores is a result of our focus on our own e-commerce operations over the past decade. Rather than relying on e-commerce platform holders outside of the Group, the Onward Group has sought to attract customers and perform sales on its own, collecting sales records and other data through this process. The customer data we have accumulated while performing sales through directly operated online stores will be a powerful asset for accelerating future marketing strategies for our e-commerce operations. At the same time, the number of customers of the Onward Members' loyalty point card system, in which we manage the customer bases at physical stores and their

e-commerce equivalents in an integrated manner, rose 28% year on year, climbing above 2 million. We plan to continue growing customer numbers at this pace in the future, targeting 3 million, 5 million, and eventually more customers. However, the goal of this growth is not just to acquire more customers. We plan to analyze the massive amounts of customer information as big data for use in product development and sales promotions to help the Onward Group provide even better products and services. Through these efforts, we aim to claim a leading position in the apparel industry. With this goal in mind, we will be accelerating our e-commerce initiatives, which will include concentrated investments and human resource development, in fiscal year 2019 and beyond.

\*1 Premium Friday: A consumption stimulus campaign promoted by the Ministry of Economy, Trade and Industry, Keidanren (Japan Business Federation), and other economic organizations that entails encouraging companies to end their workday at 3 p.m. on the last Friday of each month.

### Promotion of Logistics Reforms

**We are promoting logistics efficiency while also bolstering in-house capabilities.**

In March 2018, Onward Kashiyama consolidated its logistics network, reducing the number of locations from 11 to four and transitioning from the prior structure, which entailed management of inventories by regional branch, to a structure based on centralized control by brand business divisions. This move reduced the amount of warehousing work that needed to be performed by regional branches. In addition, we consolidated our e-commerce warehouses in August 2018, thereby integrating inventories for physical stores and e-commerce operations. On this front, we will continue efforts to prevent the loss of possible sales opportunities while accelerating our shift toward Omni-channel retailing.

In conjunction with these structural reforms, we finished attaching RFID tags to all of our products, which entailed the deployment of around 17 million tags. Such a comprehensive and widespread introduction of an RFID system\*<sup>2</sup> is an unprecedented feat in the industry. We have also installed RFID reader gates at all warehouses, improving efficiency with regard to logistics functions such as the storage, retrieval, and return of products. Looking ahead, we hope to utilize RFID systems to reduce the workload associated

with in-store inventories and to implement workstyle reforms.

In our overseas production operations, we are developing a one-stop procurement system in Chinese customs areas while utilizing our logistics centers to shorten delivery times and reduce costs through improved procurement efficiency. We plan to introduce a similar scheme in Vietnam during the first half of fiscal year 2020.

\*2 RFID (radio frequency identification) systems: Systems that automatically read identification information recorded in IC tags through wireless communication and which are used for supply chain management in the retail industry, production management in the manufacturing industry, and traceability in the distribution industry

## Development of New Businesses

**We aim to develop new businesses with the potential to become future core businesses by leveraging the technological prowess we have developed to date.**

We, of course, are dedicated to enhancing existing brands and online marketing strategies. At the same time, however, we plan to develop new businesses with the potential to form future earnings pillars. One recent topic is the made-to-order suit business operated under our KASHIYAMA the Smart Tailor brand.

In this business, we coordinate the factory operations of Kashiyama (Dalian) Co., Ltd., which converted to a wholly owned subsidiary in August 2016, located in Dalian, China, by utilizing an advanced IT system for receiving orders directly from customers to deliver made-to-order suits to customers after a week. Made-to-order products are garnering attention as customers' values grow more diverse, and we therefore believe that this business has significant potential to grow. After full-fledged operation of the Dalian factory commences in fiscal year 2019, the Onward Group will engage in a concerted to develop the made-to-order suit business into a core business in the future.

## Financial Strategy

**We will continue to institute various measures to improve return on equity.**

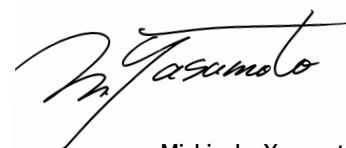
The basic financial strategy of the Onward Group is to conduct aggressive up-front growth investments to increase future earnings

and issue ongoing, consistent, and appropriate shareholder returns all while maintaining a stable financial base.

Over the past two years, we have been able to reduce the negative amount of net cash by around ¥20.0 billion, and return on equity, or ROE, in fiscal year 2018 was 3.3%, a year-on-year improvement of 0.5 percentage point. Boosting operating profit will be part of our efforts to improve ROE. We will also continue to examine such options as selling investments in securities, liquidating assets, and acquiring and canceling treasury stock. Our initial target for ROE is 5%, which we aim to realize as soon as possible, after which we will seek to raise ROE to 8%. Treasury stock acquisitions were an option we used in the past, and we will position them as important aspects of shareholder returns. Accordingly, we will continue to flexibly conduct acquisitions based on thorough consideration of the future uses of such stocks as well as holding ratios and market capitalization.

Going forward, the Onward Group stands committed to improving corporate value through the provision of high-quality products and services, among other initiatives. I hope we can look forward to your ongoing support as we advance on this quest.

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**Michinobu Yasumoto**  
*Representative Director, President*