

Management's Discussion and Analysis

Overview of Operating Results

In fiscal year 2019, ended February 28, 2019, the domestic economy enjoyed ongoing improvements in corporate earnings, the job market, and wages, while consumer spending levels recovered. However, consumer confidence remained low as a result of record-breaking typhoons, earthquakes, and other natural disasters. Meanwhile, a recovery trend was seen in Europe and the United States, but this recovery was restricted by the impacts of trade disputes, uncertainty pertaining to government policies, and the United Kingdom's decision to withdraw from the European Union.

In the domestic apparel and fashion industries, the diversification of sales channels and a shift toward e-commerce was seen in reflection of changes in consumer purchasing intentions. Regardless, the pronounced trend toward frugality in clothing purchases persisted, and competition remained generally fierce. Amid this operating environment, the Onward Group moved forward with the implementation of its medium-term management plan during its final year. Based on this plan, we sought to steadily raise profits by heightening the value of products in core brands and improving customer service. We also advanced selection and concentration measures that included reinforcing our e-commerce operations and other businesses from which we can expect high margins and strong growth.

Net Sales

Sales in the Apparel Business decreased 0.5% year on year, to ¥214,564 million, while sales in the Lifestyle Business declined 4.6%, to ¥26,088 million. As a result, consolidated net sales were down 1.0% compared with the previous fiscal year, to ¥240,652 million. Effective from fiscal year 2019, the Company's segments were revised. As part of this revision, the Other Business was renamed the Lifestyle Business, which now comprises Chacott Co., Ltd., Creative Yoko Co., Ltd., and other companies.

Gross Profit

The gross profit margin decreased 0.3 percentage point, from 46.7% in fiscal year 2018 to 46.4% in fiscal year 2019. Gross profit decreased ¥1,944 million, to ¥111,633 million.

Operating Income

The ratio of selling, general and administrative (SG&A) expenses to net sales decreased 0.1 percentage point, from 44.6% to 44.5%. Operating profit, meanwhile, decreased ¥705 million year on year, to ¥4,462 million.

Other Income (Expenses)

Other expenses, net, amounted to ¥1,307 million, compared with other income, net, of ¥4,862 million in the previous fiscal year. Other income was recorded in the form of gain on sale or disposal of fixed assets, net, of ¥2,313 million and gain on sale of investments in securities, net, of ¥2,432 million. In other expenses, impairment loss on fixed assets increased from ¥1,202 million in fiscal year 2018 to ¥5,533 million in fiscal year 2019.

Profit before Income Taxes and Profit Attributable to Owners of Parent

Profit before income taxes was ¥3,155 million, a decrease of ¥6,874 million year on year.

Profit attributable to owners of parent decreased ¥419 million from the previous fiscal year, to ¥4,948 million.

Segment Information

Apparel Business

In fiscal year 2019, sales in the Apparel Business segment declined 0.5% year on year, to ¥214,564 million, while operating profit was down 10.1%, to ¥5,255 million.

Domestic Apparel Business

Sales from e-commerce operations, which have been an ongoing target for concentrated resource allocation, rose 25.8% year on year on a consolidated basis, making large contributions to overall sales. At core operating subsidiary Onward Kashiyama Co., Ltd., year-on-year increases were seen in the sales of brands such as Jiyuku, ICB, and J. PRESS, which benefited from a higher percentage of sales through e-commerce channels. Conversely, sales of Nijyusanku, Kumikyoku, Gotairiku, and other brands were down year on year. Sales decreases were also experienced by domestic subsidiaries Onward Trading Co., Ltd., and Onward Global Fashion Co., Ltd. Regardless of these decreases, higher profit was posted due to the withdrawal from underperforming businesses and brands and the implementation of cost control measures. As a result, operating profit was up while sales were down for the domestic business overall.

Overseas Apparel Business

The enhanced creative team at JIL SANDER continued to drive sales growth. At the same time, success in promoting the new J. PRESS flagship store and increased e-commerce sales in North America contributed to earnings improvement in this region. However, profits were down due to alterations in contracts in European manufacturing divisions and one-time expenses associated with closures of underperforming stores. As a result, sales were up while operating profit was down for the overseas business overall.

Lifestyle Business

In fiscal year 2019, sales in the Lifestyle Business segment declined 4.6% year on year, to ¥26,088 million, while operating profit decreased 10.7%, to ¥1,542 million.

Improvements in profitability were seen at Creative Yoko, which designs and sells products for pets as well as character goods and toys, and Kokobuy Inc., which manufactures and sells brand name organic haircare and skincare products. However, the resort business struggled due to a decline in the number of Japanese tourists visiting Guam. As a result, both sales and operating profit were down for the Lifestyle Business overall.

Outlook for the Fiscal Year Ending February 29, 2020

For fiscal year 2020, ending February 29, 2020, the Onward Group forecasts consolidated net sales to increase 6.4% year on year, to ¥256,000 million, and operating profit to grow 23.7%, to ¥5,520 million.

In the apparel and fashion industries, progress in globalization and the trend toward digitalization will serve as a backdrop for the difficult conditions characterized by fierce competition. Amid this operating environment, the Onward Group will seek to improve product value and enhance customer service in its core businesses with the aim of steadily improving profitability. At the same time, we will develop new businesses with a promising outlook for growth.

Domestic Business

In the domestic business, we will seek to grow our operations by diversifying the value we provide, expanding our customer base, and evolving in line with the times.

Our focus in existing brands will be to improve the value of products centered on apparel from the perspective of customers in order to increase profitability. At the same time, we will grow operations in lifestyle-related fields, such as cosmetics and wellness.

In addition, we are promoting KASHIYAMA the Smart Tailor, our brand of made-to-order suits, as a core, next-generation business that is compatible with mass customization. We are also forging ahead with our Omni-channel retailing strategy, which entails expanding our offerings of experiences and services, as part of our efforts to realize higher levels of satisfaction and convenience for customers.

Overseas Business

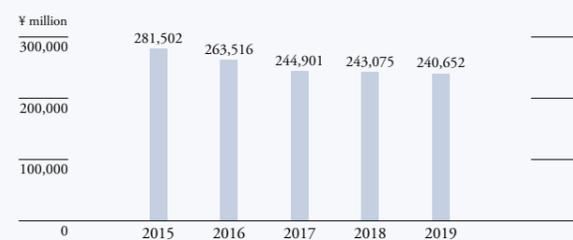
In the overseas business, we will move ahead with the acceleration of our global strategies.

In Europe, we aim to realize higher profitability by cementing our frameworks for generating synergies between the manufacturing platform of Onward Luxury Group and the brands of JOSEPH and JIL SANDER. Meanwhile, we will establish a manufacturing platform for Moreau Paris and otherwise work to expand this brand with a view to solidifying its position as a luxury brand centered on bags and other accessories.

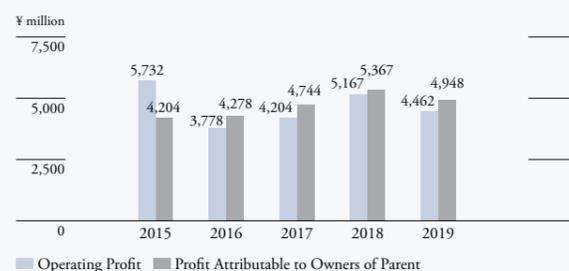
In Asia, we will move ahead with selection and concentration measures in existing businesses while advancing growth strategies that respond flexibly to market changes through means such as expanding Internet-based businesses and developing new sales channels.

Initiatives in North America will include developing operating structures and carrying out the investments deemed necessary from a medium-term perspective, such as those in the J. PRESS store in Yale Club in New York City. At the same time, we will implement initiatives for growing our business.

Net Sales



Operating Profit and Profit Attributable to Owners of Parent



Financial Position

Assets

Total assets on February 28, 2019, stood at ¥287,555 million, up ¥9,421 million from the previous fiscal year-end. Total current assets increased ¥11,320 million, mainly from an increase in cash and deposits. Fixed assets were down ¥1,899 million, largely reflecting a decrease in investments in securities.

Liabilities

Total liabilities as of February 28, 2019, were up ¥15,363 million from the previous fiscal year-end, to ¥125,344 million. Total current liabilities rose ¥19,021 million, mainly attributable to an increase in short-term loans payable. Total long-term liabilities were down ¥3,658 million, largely due to an increase in long-term loans payable.

Net Assets

On February 28, 2019, total net assets were down ¥5,942 million from the previous fiscal year-end, to ¥162,211 million. Total shareholders' equity decreased ¥913 million following a decrease in retained earnings. Total accumulated other comprehensive income decreased ¥5,381 million, mainly because of a downward adjustment associated with net unrealized loss on available-for-sale securities.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities for fiscal year 2019 was ¥4,635 million (¥13,228 million in the previous fiscal year), mainly from profit before income taxes and income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities for fiscal year 2019 totaled ¥10,306 million (¥7,300 million in the previous fiscal year), mainly due to investments in sales facilities and business assets.

Cash Flows from Financing Activities

Net cash provided by financing activities for fiscal year 2019 amounted to ¥11,543 million (net cash used in financing activities of ¥6,593 million in the previous fiscal year), owing mainly to changes in borrowings.

As a result, cash and cash equivalents as of February 28, 2019, increased ¥5,587 million, to ¥31,237 million.

Capital Expenditures

We at the Onward Group undertake capital expenditures on a continuous basis to upgrade and expand our planning, production, sales, and logistics structures and systems. Our capital expenditures are the wellspring that enables us to address the diverse needs of our customers.

In fiscal year 2019, our capital expenditures totaled ¥13,473 million. The details of expenditures by segment are as follows.

In the Apparel Business segment, capital expenditures amounted to ¥8,518 million, the majority of which was channeled to sales floors at department stores and directly managed stores with the aim of strengthening the Group's sales structure and network.

In the Lifestyle Business segment, we invested ¥635 million to upgrade commercial facilities and enhance operational efficiency.

Profit Distribution Policy

At Onward Holdings, we recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to distribute regular and stable dividends to shareholders based on our business performance, and we target a dividend payout ratio of 35% or more.

A single dividend payment is issued each year and is decided via approval at the General Meeting of Shareholders. For fiscal year 2019, we resolved to distribute a cash dividend of ¥24 per share, the same level as in fiscal year 2018, based on a comprehensive evaluation of this year's performance and our outlook for the operating environment.

Additionally, we intend to utilize our retained earnings flexibly and adopt a balanced approach to meet our funding requirements. Based on this policy, our retained earnings will be used for strategic investments to build a solid business foundation and strengthen our financial position as and when we consider appropriate.

Operating Risks

Changes in Consumer Needs

To respond accurately to customer needs regarding fashion products, we work to develop original and competitive products through the implementation of our Brand-Leverage Management policy. However, our performance targets in our business plan may be challenging at times due to a number of external factors, such as sluggish consumer spending as a result of fluctuations in economic conditions, increased competition, and sudden changes in fashion trends. Falling short of our targets may have an impact on our Group's performance.

Weather Conditions

Sales of our Group's mainstay fashion products may be affected by the weather. Consequently, we as a Group have put in place and continue to strengthen our systems for planning and production for a quick turnaround cycle. However, unseasonal weather over a prolonged period, such as cool weather in the summer or warm weather in the winter, or a series of typhoons may result in the loss of sales opportunities during peak seasons. Such developments may have an adverse impact on our Group's business performance.

Product Liability

We at the Onward Group adhere to strict quality control of our products in accordance with established quality control standards. Despite the implementation of such quality control systems, a product liability incident may still occur as a result of matters relating to our Group or business partners, which may undermine the image of both our Group and brands, leading to a substantial cost burden. Such an outcome may have an adverse impact on our Group's business performance.

Business Partners

We at the Onward Group have put in place and are strengthening internal systems for periodically assessing the operating conditions and creditworthiness of our business partners. However, we may still incur losses due to bad debts if a business partner fails to fulfill its financial obligations, or as a result of an unexpected bankruptcy of a large retail complex. Such an occurrence may have an adverse impact on our Group's business performance as well.

Intellectual Property

We at the Onward Group own trademarks and other intellectual properties in Japan and overseas. We strive to safeguard the rights relating to such property in accordance with laws and regulations. However, in the event of an infringement of such rights by a third party, both the image of our Group and brand image may be undermined, resulting in impairment of our Group's product development activities. Such an occurrence may have an adverse impact on our Group's business performance.

Legal Procedures and Compliance

In doing business, the Onward Group pays careful attention to laws and regulations—including those concerning antitrust, the treatment of subcontractors, labeling, consumer product safety, and environment- and recycling-related laws—and strives to ensure compliance. The Onward Group Compliance Committee spearheads the Group's efforts to raise awareness about the importance of ensuring legal compliance and maintaining internal control procedures. Despite the implementation of such control systems, an issue may arise as a result of the acts of dishonesty and illegal acts of an employee or a business partner and may undermine the trust placed in the Company by society, leading to a substantial cost burden, such as the payment of indemnities. Such an eventuality may have an adverse impact on our Group's business performance.

Information Security

We at the Onward Group have implemented comprehensive measures aimed at ensuring the security of our information systems. Regarding the treatment of personal information, we have established "Guidelines concerning the Personal Information Protection Law" and strive to enhance information security awareness among all officers and employees. Although we as a Group are strengthening our information management systems, an issue may arise as a result of an information leak due to unauthorized access in our Group's computer systems or criminal behavior that may undermine the trust placed in us by society, leading to an increased cost burden. Such an occurrence may have an adverse impact on our Group's business performance.

Overseas Business Operations

Our overseas business operations of the Onward Group are exposed to a range of risks, including natural disasters, political turmoil, changes in social and economic conditions, terrorism, war, fluctuations in foreign currency exchange rates, lawsuits related to intellectual property, and infectious diseases. In the event that such a risk materializes, it may become difficult for us to continue our business operations in the affected region. Such an occurrence may have an adverse impact on our Group's business performance.

Business and Capital Tie-ups

As a part of our growth strategies, we at the Onward Group undertake a variety of investments in Japan and internationally through a broad spectrum of vehicles, including M&A transactions. In the event of deterioration in business performance and financial position owing to a change in the business environment that exceeds expectations, we may record a loss on impairment of goodwill. Such an occurrence may have an adverse impact on our Group's business performance.

Disasters

The Onward Group has established disaster response handbooks and policies. Regardless, the occurrence of a natural disaster, such as an earthquake, a flood, or a fire; an accident; or an outbreak of an epidemic, such as a new strain of influenza, may compel the Onward Group to suspend its business operations. Such an occurrence may have an adverse impact on our Group's business performance.

Total Assets and Total Net Assets



Cash Flows

