

Management's Discussion and Analysis

Overview of Operating Results

In fiscal year 2018, ended February 28, 2018, the domestic economy underwent a gradual recovery due to strong corporate earnings supported by government economic stimulus measures and fiscal measures. However, the outlook remained opaque as a result of rising uncertainty in the United States, Europe, and East Asia.

In the domestic apparel and fashion industries, despite signs of recovery, including brisk demand for seasonal items stimulated by temperature trends, the tendency toward thriftiness with regard to clothing among consumers remained strong, once again making for a challenging environment.

In this operating environment, the Onward Group moved forward with the implementation of its medium-term management plan during its second 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 0.4% year on year, to ¥236,882 million, while sales in the Other Business declined 11.1%, to ¥6,193 million. The main reason behind the lower sales in the Other Business was a drop in revenues in our resort business as a result of a situation that caused concern for the Guam area. As a result, consolidated net sales were down 0.7% compared with the previous fiscal year, to ¥243,075 million.

Gross Profit

The gross profit margin increased 0.5 percentage point, from 46.2% in fiscal year 2017 to 46.7% in fiscal year 2018. However, gross profit decreased ¥314 million, to ¥113,577 million.

Operating Income

The ratio of selling, general and administrative (SG&A) expenses to net sales rose 0.1 percentage point, from 44.5% to 44.6%. Operating profit, meanwhile, increased ¥963 million year on year, to ¥5,167 million, following the rise in the gross profit margin.

Other Income (Expenses)

Other income, net, amounted to ¥4,862 million, compared with ¥6,776 million in the previous fiscal year. Other income was recorded in the forms of gain on sales or disposal of fixed assets, net, of ¥3,645 million and gain on sale of investments in securities, net, of ¥1,711 million. In other expenses, business restructuring expenses decreased from ¥2,085 million in fiscal year 2017 to ¥394 million in fiscal year 2018 and impairment loss on fixed assets decreased from ¥1,659 million in fiscal year 2017 to ¥1,202 million in fiscal year 2018.

Profit before Income Taxes and Profit Attributable to Owners of Parent

Profit before income taxes was ¥10,029 million, a decrease of ¥951 million year on year.

Profit attributable to owners of parent increased ¥623 million, to ¥5,367 million, from the previous fiscal year.

Segment Information

Apparel Business

In fiscal year 2018, sales in the Apparel Business segment declined 0.4% year on year, to ¥236,882 million, while operating profit was up 31.1%, to ¥7,162 million.

Domestic Business

At core operating subsidiary Onward Kashiya, the growth of core brands, such as Nijyusanku, Jiyuku, JOSEPH, TOCCA, and any SiS, contributed to a year-on-year increase in sales of overall existing brands. Although sales at Onward Kashiya were down, we were able to achieve an increase in profit due to improved profitability attributable to business restructuring expenses as well as enhanced sales promotions for core brands and continued efforts to strengthen e-commerce operations. Looking at other Group companies, principal subsidiaries such as Island Co., Ltd., posted increases in sales and profit. As a result, overall sales in the domestic business were down while operating profit was up.

Overseas Business

Sales rose as the yen depreciated in comparison to the euro, the British pound, and other major currencies. However, profits were down due to alterations in contracts in European manufacturing divisions as well as adverse consumption trends pertaining to luxury brands.

Other Business

In fiscal year 2018, sales in the Other Business segment decreased 11.1% year on year, to ¥6,193 million, and operating profit was down 10.6%, to ¥398 million. A situation causing concern for the Guam area impacted our resort business, resulting in overall decreases in sales and profit for the Other Business segment.

Outlook for the Fiscal Year Ending February 28, 2019

For fiscal year 2019, ending February 28, 2019, the Onward Group forecasts that consolidated net sales will increase 2.2%, to ¥248,500 million, and operating profit will grow 39.3% year on year, to ¥7,200 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. In 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 non-apparel fields, such as bags and cosmetics.

In addition, we have launched KASHIYAMA the Smart Tailor, a new brand that we anticipate will come to represent 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 the customer.

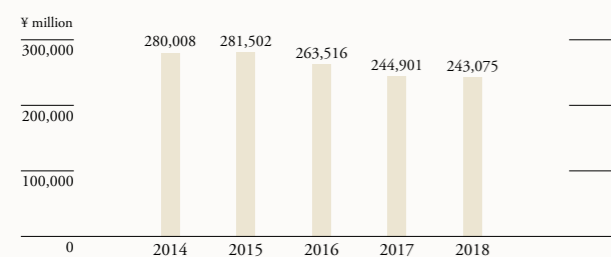
Overseas Business

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.

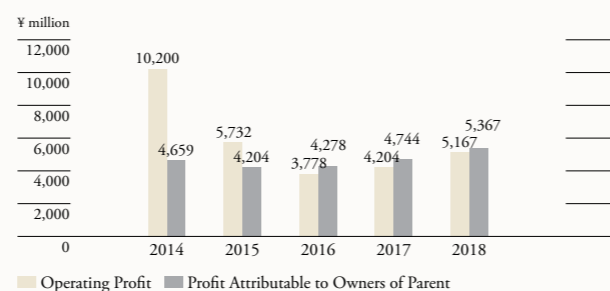
Meanwhile, in Asia we will move ahead with selection and concentration measures in existing business while advancing growth strategies that respond flexibly to market changes through means such as expanding Internet-based businesses and developing new sales channels.

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.

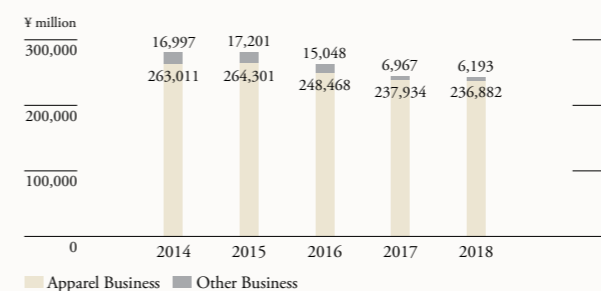
Net Sales



Operating Profit and Profit Attributable to Owners of Parent



Segment Sales



Financial Position

Assets

Total assets on February 28, 2018, stood at ¥278,134 million, up ¥4,907 million from the previous fiscal year-end. Total current assets increased ¥2,405 million, mainly from increases in cash and deposits and inventories. Fixed assets were up ¥2,502 million, largely reflecting an increase in buildings and structures following capital expenditures and a rise in investments in securities stemming from higher market values for stocks held by the Company.

Liabilities

Total liabilities as of February 28, 2018, were up ¥2,424 million from the previous fiscal year-end, to ¥109,981 million. Total current liabilities rose ¥700 million, mainly attributable to an increase in accounts and notes payable. Total long-term liabilities were up ¥1,724 million, largely due to an increase in long-term loans payable.

Net Assets

On February 28, 2018, total net assets were up ¥2,483 million from the previous fiscal year-end, to ¥168,153 million. Total shareholders' equity decreased ¥685 million following the acquisition of treasury stock, which counteracted the increase in retained earnings. Total accumulated other comprehensive income increased ¥1,941 million, mainly because of an upward adjustment associated with net unrealized gain on available-for-sale securities, which itself was a result of higher market values for stocks held by the Company, and more beneficial foreign currency translation adjustments.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities for fiscal year 2018 was ¥13,228 million (¥6,844 million in the previous fiscal year), mainly from profit before income taxes, depreciation and amortization, and income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities for fiscal year 2018 totaled ¥7,300 million (net cash provided by investing activities of ¥25,271 million in the previous fiscal year), mainly due to investments in sales facilities and business assets.

Cash Flows from Financing Activities

Net cash used in financing activities for fiscal year 2018 amounted to ¥6,593 million (¥32,856 million in the previous fiscal year), owing mainly to changes in borrowings, dividends paid, and acquisition of treasury stock.

As a result, cash and cash equivalents as of February 28, 2018, decreased ¥374 million, to ¥25,650 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 2018, our capital expenditures totaled ¥12,058 million. The details of expenditures by segment are as follows.

In the Apparel Business segment, capital expenditures amounted to ¥8,877 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 Other Business segment, we invested ¥457 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 2018, we resolved to distribute a cash dividend of ¥24 per share, the same level as in fiscal year 2017, 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.

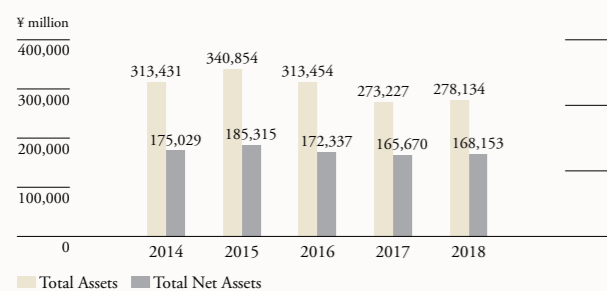
Business and Capital Tie-ups

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

