Onward Holdings / 8016

COVERAGE INITIATED ON: 2010.06.22
LAST UPDATE: 2019.08.05

Research Coverage Report by Shared Research Inc.

INDEX

How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Business overview

- Onward Holdings is a large domestic apparel company focusing on higher-priced items than major high-volume apparel retailers. Its brands include Nijyusanku, Kumikyoku, ICB, Jiyuku, and Gotairiku. In FY02/19, sales were JPY240.7bn and operating profit was JPY4.5bn. Domestic apparel accounted for 69% of total sales, overseas apparel 20%, and lifestyle-related 11%.
- Its main sales channel for domestic apparel is department stores. Looking at sales channels for the core business Onward Kashiyama, 66% of total sales were through department stores, 14% through shopping centers and outlets, another 14% through e-commerce, and 6% through others. Sales through its main department store channel are trending downward due to shrinking store space from closures of (mainly regional) department stores and the fact that young people tend to visit department stores less frequently. Conversely, e-commerce sales show an upward trend. In recent years, the omni-channel marketing strategy has shown results as the number of customers who check items in-store before buying them online increases. In principle the prices customers pay for the same products in the same periods are the same. This means the GPM for department store sales is low while the GPM for e-commerce sales is high.
- Overseas, the company owns two key brands, Jil Sander and Joseph. Overseas business has posted losses due mainly to low sales volume that is insufficient to cover fixed costs and the low utilization rate of its production base.
- The mainstays in the lifestyle field are Chacott (ballet and dance-related goods), Yamato (gifts and gift catalogues), and Creative Yoko (pet-related and character goods, notably of original character Sirotan). The company sees these businesses as growth areas, envisioning them producing synergy with the apparel business while adding color and style to customers' lifestyles.

Trends and outlook

- FY02/19 results: The company reported full-year sales of JPY240.7bn (-1.0% YoY) and operating profit of JPY4.5bn (-13.7% YoY). In the domestic apparel business, sales were JPY167.1bn (-1.9% YoY) and operating profit JPY9.0bn (+5.3% YoY). Sales at department stores and shopping centers and outlet malls fell, but were propped up by growth in e-commerce sales. Overseas apparel business booked sales of JPY47.5bn (+4.4% YoY) with an operating loss of JPY3.8bn. Gross profit having received a JPY2.2bn boost as a result of a change in the company's inventory valuation methodology. Sales in the overseas apparel business was JPY47.5bn (+4.4% YoY) and operating loss JPY3.8bn. The company announced plans to restructure its European businesses to strengthen management system.
- FY02/20 forecast: For FY02/20 the company forecasts full-year sales of JPY256.0bn (+6.6% YoY), operating profit of JPY5.5bn (+23.7% or +JPY1.1bn YoY), net income attributable to parent company shareholders of JPY5.5bn (+11.2% YoY), and EPS of JPY39.89. Excluding the effects of inventory in FY02/19, the company expects a real increase in operating profit of JPY3.2bn, mainly consisting of JPY900mn from Apparel in Japan, JPY1.2bn from Apparel overseas, and JPY1.0bn from lifestyle field.
- Medium-term business plan: The company unveiled its new medium-term business plan (for FY02/20–FY02/22) at its results briefing held on April 8, 2019. Under the new plan, the company is again targeting sales of JPY280.0bn and an operating profit of JPY10.0bn. In addition to projected cost-savings of JPY1.5bn from business restructuring, the company is looking for an additional JPY1.0bn in earnings from its existing apparel business (Creation First business), JPY1.5bn from its Factory to Customer (F2C) business (Kashiyama the Smart Tailor), and High-Quality Lifestyle businesses (such as Yamato, Chacott, and Creative Yoko) adding JPY1.5bn.

Strengths and weaknesses

Shared Research sees the company's strengths as 1) original, well-known brands, 2) a relatively high gross profit margin, and 3) a stable financial position. On the other hand, Shared Research sees its weaknesses as 1) poor growth prospects for the company's main markets, 2) heavy reliance on department store sales, and 3) low precision in forecasts due to the fashion cycle.
(See Strengths and weaknesses section for details.)

Key financial data

Income statement (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Est.
Sales	**244,550**	**242,402**	**258,369**	**279,073**	**281,501**	**263,516**	**244,900**	**243,075**	**240,652**	**256,600**
YoY	-1.6%	-0.9%	6.6%	8.0%	0.9%	-6.4%	-7.1%	-0.7%	-1.0%	6.6%
Gross profit	115,825	115,113	124,490	129,959	129,063	119,452	113,262	113,576	111,633	119,000
YoY	1.4%	-0.6%	8.1%	4.4%	-0.7%	-7.4%	-5.2%	0.3%	-1.7%	6.6%
GPM	47.4%	47.5%	48.2%	46.6%	45.8%	45.3%	46.2%	46.7%	46.4%	46.4%
Operating profit	**8,928**	**10,953**	**11,192**	**9,422**	**5,731**	**3,778**	**4,203**	**5,167**	**4,461**	**5,520**
YoY	103.7%	22.7%	2.2%	-15.8%	-39.2%	-34.1%	11.2%	22.9%	-13.7%	23.7%
OPM	3.7%	4.5%	4.3%	3.4%	2.0%	1.4%	1.7%	2.1%	1.9%	2.2%
Recurring profit	10,497	13,329	13,405	12,211	7,162	5,504	5,577	5,928	5,161	5,700
YoY	71.5%	27.0%	0.6%	-8.9%	-41.3%	-23.1%	1.3%	6.3%	-12.9%	10.4%
RPM	4.3%	5.5%	5.2%	4.4%	2.5%	2.1%	2.3%	2.4%	2.1%	2.2%
Net income	**2,722**	**3,529**	**4,503**	**4,658**	**4,204**	**4,278**	**4,744**	**5,366**	**4,948**	**5,500**
YoY	24.5%	29.6%	27.6%	3.5%	-9.7%	1.8%	10.9%	13.1%	-7.8%	11.2%
Net margin	1.1%	1.5%	1.7%	1.7%	1.5%	1.6%	1.9%	2.2%	2.1%	2.1%
Per share data (JPY)										
Shares issued (year-end: '000)	172,922	172,922	172,922	172,922	172,922	167,922	167,922	167,922	157,922	-
EPS	17.4	22.5	28.7	29.7	26.8	28.3	31.5	37.0	35.2	39.9
Dividend per share	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Book value per share	1,002	995	1,044	1,103	1,167	1,101	1,116	1,155	1,155	-
Balance sheet (JPYmn)										
Cash and cash equivalents	30,939	33,192	24,677	27,375	31,122	29,407	26,096	26,334	31,284	
Inventories	30,356	31,443	34,476	40,678	43,861	42,769	40,215	42,978	46,765	
Total current assets	95,544	98,895	100,321	110,349	117,051	121,468	103,572	105,977	117,297	
Tangible fixed assets	86,622	82,987	86,861	102,878	109,658	106,695	92,268	93,714	96,717	
Investments and other assets	52,729	51,561	64,138	65,926	80,088	61,853	51,579	53,929	56,513	
Intangible fixed assets	46,745	43,495	35,457	34,276	34,055	23,436	25,805	24,512	17,025	
Total fixed assets	186,097	178,044	186,458	203,081	223,802	191,985	169,653	172,156	170,256	
Total assets	**281,642**	**276,939**	**286,779**	**313,430**	**340,854**	**313,454**	**273,226**	**278,133**	**287,554**	
Accounts payable	32,703	33,238	33,512	38,305	40,340	34,970	13,960	18,059	17,556	
Short-term debt	30,886	29,865	47,581	44,956	45,653	49,154	37,365	35,332	56,685	
Total current liabilities	82,677	84,091	100,740	101,009	109,619	106,109	85,684	86,384	105,405	
Long-term debt	22,665	19,730	1,573	14,051	21,078	16,076	3,418	6,818	4,706	
Total fixed liabilities	40,220	35,545	20,666	37,391	45,919	35,006	21,872	23,596	19,938	
Total liabilities	**122,898**	**119,636**	**121,407**	**138,401**	**155,539**	**141,116**	**107,556**	**109,981**	**125,343**	
Net assets	**158,744**	**157,302**	**165,372**	**175,028**	**185,315**	**172,337**	**165,670**	**168,152**	**162,210**	
Total interest-bearing debt	53,551	49,595	49,154	59,007	66,731	65,230	40,783	42,150	61,391	
Cash flow statement (JPYmn)										
Cash flows from operating activities	11,206	13,180	10,137	13,361	16,490	3,632	6,844	13,228	4,635	
Cash flows from investing activities	-5,151	-1,961	-10,682	-14,300	-15,656	1,782	25,270	-7,299	-10,305	
Cash flows from financing activities	-9,271	-7,449	-7,848	2,121	757	-6,357	-32,856	-6,593	11,542	
Financial ratios										
ROA (RP-based)	3.7%	4.8%	4.8%	4.1%	2.2%	1.7%	1.9%	2.2%	1.8%	
ROE	1.7%	2.3%	2.8%	2.8%	2.4%	2.4%	2.8%	3.3%	3.1%	
Equity ratio	56.4%	56.8%	57.7%	55.8%	54.4%	55.0%	60.6%	60.5%	56.4%	

Source: Shared Research based on company data
Note: Figures may differ from company data due to differences in rounding methods.

Recent updates

Highlights

On **August 5, 2019**, Onward Holdings Co., Ltd. released monthly sales data for July 2019; see the monthly section for details.

On **July 29, 2019**, Shared Research updated the report following interviews with the company.

On **July 5, 2019**, the company announced earnings results for Q1 FY02/20; see the results section for details.

On **May 9, 2019**, the company released monthly sales data for April 2019.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Monthly trends

Onward Kashiyama monthly sales

FY02/20 (YoY)	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	FY
Total	**1%**	**-7%**	**2%**	**-2%**	**-8%**								**-3%**
Menswear	-1%	-12%	0%	-4%	-15%								-6%
Womenswear	1%	-5%	3%	-1%	-6%								-2%
Children's	-13%	-12%	-3%	-7%	-13%								-10%
Other	21%	**3%**	-6%	-9%	-1%								5%
Core brands	3%	-1%	8%	0%	-7%								1%
Core + key dept. store brands	1%	-5%	4%	-1%	-8%								-2%
Shopping center brands	0%	-8%	2%	1%	-2%								-2%
Core + dept. + sc. brands	1%	-5%	4%	-1%	-7%								-2%
E-commerce	11%	**5%**	19%	27%	17%								16%
FY02/19 (YoY)	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**FY**
Total	**2%**	**0%**	**-6%**	**1%**	**-5%**	**-1%**	**-3%**	**-2%**	**-1%**	**2%**	**-1%**	**-2%**	**-1%**
Menswear	-3%	-3%	-7%	-4%	-7%	-1%	-6%	-7%	-4%	-1%	-3%	-3%	-4%
Womenswear	3%	-2%	-3%	1%	-6%	0%	-5%	-3%	1%	2%	-1%	0%	-1%
Children's	-5%	-2%	-12%	-8%	-10%	8%	-10%	-16%	-10%	-9%	-10%	-13%	-8%
Other	28%	54%	51%	52%	28%	41%	49%	61%	51%	46%	32%	23%	43%
Core brands	1%	-4%	-5%	-3%	-8%	-1%	-8%	-3%	2%	2%	-3%	6%	-2%
Core + key dept. store brands	1%	-2%	-4%	-1%	-8%	-1%	-6%	-4%	1%	0%	-2%	2%	-2%
Shopping center brands	3%	-5%	-6%	-4%	-6%	7%	-6%	-11%	-1%	1%	-6%	0%	-3%
Core + dept. + sc. brands	1%	-3%	-4%	-1%	-7%	-1%	-6%	-5%	1%	0%	-3%	2%	-2%
E-commerce	40%	28%	41%	28%	22%	40%	24%	18%	18%	38%	9%	44%	27%
FY02/18 (YoY)	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**FY**
Total	**-8%**	**-2%**	**-4%**	**-1%**	**-5%**	**3%**	**3%**	**2%**	**3%**	**-2%**	**-2%**	**3%**	**-1%**
Menswear	-4%	-3%	-6%	-2%	-7%	0%	2%	1%	0%	-5%	-6%	0%	-3%
Womenswear	-9%	-2%	-3%	-1%	-5%	2%	6%	3%	5%	0%	-3%	1%	-1%
Children's	-3%	-2%	-2%	3%	-2%	7%	-4%	-5%	-7%	-4%	-5%	-4%	-3%
Other	-9%	-10%	-12%	-18%	2%	-6%	-26%	8%	-5%	-3%	20%	62%	1%
Core brands	-6%	3%	1%	5%	-1%	4%	10%	5%	9%	1%	-1%	-3%	2%
Core + key dept. store brands	-5%	2%	-2%	3%	-2%	2%	8%	4%	5%	0%	-2%	-2%	1%
Shopping center brands	-7%	2%	1%	6%	6%	6%	3%	1%	4%	0%	-4%	-2%	1%
Core + dept. + sc. brands	-5%	2%	-1%	3%	-1%	2%	7%	3%	5%	0%	-2%	-2%	1%
E-commerce	18%	52%	54%	25%	39%	94%	32%	57%	49%	29%	30%	15%	38%
FY02/17 (YoY)	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**FY**
Total	**-4%**	**-2%**	**-9%**	**-3%**	**4%**	**-12%**	**-11%**	**-5%**	**-7%**	**1%**	**-5%**	**-9%**	**-5%**
Menswear	-5%	-1%	-5%	-2%	5%	-7%	-15%	-8%	-6%	0%	-8%	-9%	-5%
Womenswear	-5%	-2%	-7%	-4%	5%	-8%	-12%	-4%	-7%	1%	-3%	-9%	-5%
Children's	-6%	1%	-2%	-2%	1%	-10%	-6%	5%	-15%	5%	0%	-1%	-2%
Other	21%	-16%	-39%	8%	3%	-49%	1%	-10%	-5%	-3%	-19%	-1%	-18%
FY02/16 (YoY)	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**FY**
Total	**-18%**	**-1%**	**-5%**	**-9%**	**-3%**	**-4%**	**-5%**	**1%**	**-12%**	**-5%**	**-3%**	**-5%**	**-6%**
Menswear	-18%	-1%	0%	-12%	-4%	0%	-5%	3%	-11%	-5%	-2%	-2%	-6%
Womenswear	-17%	-1%	-5%	-8%	-1%	-4%	-5%	1%	-12%	-5%	-2%	-5%	-6%
Children's	-12%	1%	2%	-2%	-3%	-3%	-4%	2%	2%	4%	2%	2%	-1%
Other	-34%	10%	-4%	-9%	3%	-8%	-8%	5%	-4%	0%	-17%	-11%	-7%
FY02/15 (YoY)	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**FY**
Total	**10%**	**-8%**	**2%**	**-2%**	**-6%**	**3%**	**1%**	**-4%**	**0%**	**-6%**	**-4%**	**3%**	**-1%**
Menswear	16%	-7%	6%	-3%	-1%	1%	5%	-2%	1%	-8%	-5%	2%	0%
Womenswear	9%	-9%	0%	-1%	-8%	4%	0%	-5%	0%	-6%	-3%	3%	-1%
Children's	10%	1%	6%	1%	0%	5%	8%	-4%	1%	-5%	-1%	10%	2%
Kimonos	-17%	-49%	36%	-2%	-11%	-31%	-30%	-50%	-48%	-26%	-66%	-10%	-25%
Other	8%	-7%	-7%	3%	-9%	-4%	-5%	2%	1%	8%	-2%	6%	0%
FY02/14 (YoY)	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**FY**
Total	**7%**	**-2%**	**4%**	**7%**	**3%**	**8%**	**2%**	**-5%**	**0%**	**5%**	**5%**	**1%**	**2%**
Menswear	2%	-8%	1%	1%	-11%	7%	4%	-3%	0%	8%	3%	3%	0%
Womenswear	10%	1%	6%	10%	0%	8%	2%	-5%	0%	5%	7%	0%	3%
Children's	9%	-7%	-3%	4%	2%	9%	2%	-2%	0%	4%	-1%	0%	1%
Kimonos	-11%	-11%	19%	-12%	-23%	-6%	-14%	-23%	-14%	-17%	-15%	-17%	-12%
Other	-1%	-8%	-9%	2%	0%	11%	-1%	-11%	0%	5%	-1%	-3%	-2%

Source: Shared Research based on company data
Note: Figures may differ from company data due to differences in rounding methods.

Quarterly trends and results

Consolidated	FY02/18				FY02/19				FY02/20	FY02/20	
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Sales	61,028	115,400	180,808	243,075	60,882	113,864	178,648	240,652	64,878	25.3%	256,600
YoY	-6.8%	-3.4%	0.2%	-0.7%	-0.2%	-1.3%	-1.2%	-1.0%	6.6%		6.6%
Gross profit	30,310	53,735	86,882	113,576	29,922	53,113	84,594	111,633	31,005	26.1%	119,000
YoY	-6.3%	-3.3%	0.3%	0.3%	-1.3%	-1.2%	-2.6%	-1.7%	3.6%		6.6%
GPM	49.7%	46.6%	48.1%	46.7%	49.1%	46.6%	47.4%	46.4%	47.8%		46.4%
SG&A expenses	25,749	52,305	80,489	108,409	26,363	52,507	80,104	107,171	28,065	24.7%	113,480
YoY	-6.0%	-5.0%	-1.0%	-0.6%	2.4%	0.4%	-0.5%	-1.1%	6.5%		5.9%
SG&A ratio	42.2%	45.3%	44.5%	44.6%	43.3%	46.1%	44.8%	44.5%	43.3%		44.2%
Operating profit	4,561	1,429	6,392	5,167	3,558	606	4,489	4,461	2,940	53.3%	5,520
YoY	-7.7%	170.1%	20.8%	22.9%	-22.0%	-57.6%	-29.8%	-13.7%	-17.4%		23.7%
OPM	7.5%	1.2%	3.5%	2.1%	5.8%	0.5%	2.5%	1.9%	4.5%		2.2%
Recurring profit	4,892	2,150	7,812	5,928	4,128	1,342	5,203	5,161	3,206	56.2%	5,700
YoY	-7.3%	87.0%	30.9%	6.3%	-15.6%	-37.6%	-33.4%	-12.9%	-22.3%		10.4%
RPM	8.0%	1.9%	4.3%	2.4%	6.8%	1.2%	2.9%	2.1%	4.9%		2.2%
Net income	2,972	2,269	7,166	5,366	2,145	1,479	4,677	4,948	1,621	29.5%	5,500
YoY	3.8%	46.8%	2.0%	13.1%	-27.8%	-34.8%	-34.7%	-7.8%	-24.4%		11.2%
Net margin	4.9%	2.0%	4.0%	2.2%	3.5%	1.3%	2.6%	2.1%	2.5%		2.1%
EBITDA	6,678	5,709	12,958	14,064	5,725	4,963	11,075	13,272	5,185	35.8%	14,474
YoY	-5.8%	18.5%	10.9%	8.2%	-14.3%	-13.1%	-14.5%	-5.6%	-9.4%		9.1%
EBITDA margin	10.9%	4.9%	7.2%	5.8%	9.4%	4.4%	6.2%	5.5%	8.0%		5.6%

Consolidated	FY02/18				FY02/19				FY02/20
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	61,028	54,372	65,408	62,267	60,882	52,982	64,784	62,004	64,878
YoY	-6.8%	0.7%	7.4%	-3.4%	-0.2%	-2.6%	-1.0%	-0.4%	6.6%
Gross profit	30,310	23,425	33,147	26,694	29,922	23,191	31,481	27,039	31,005
YoY	-6.3%	0.8%	6.8%	0.2%	-1.3%	-1.0%	-5.0%	1.3%	3.6%
GPM	49.7%	43.1%	50.7%	42.9%	49.1%	43.8%	48.6%	43.6%	47.8%
SG&A expenses	25,749	26,556	28,184	27,920	26,363	26,144	27,597	27,067	28,065
YoY	-6.0%	-4.0%	7.3%	0.7%	2.4%	-1.6%	-2.1%	-3.1%	6.5%
SG&A ratio	42.2%	48.8%	43.1%	44.8%	43.3%	49.3%	42.6%	43.7%	43.3%
Operating profit	4,561	-3,132	4,963	-1,225	3,558	-2,952	3,883	-28	2,940
YoY	-7.7%	-	4.2%	-	-22.0%	-	-21.8%	-	-17.4%
OPM	7.5%	-5.8%	7.6%	-2.0%	5.8%	-5.6%	6.0%	0.0%	4.5%
Recurring profit	4,892	-2,742	5,662	-1,884	4,128	-2,786	3,861	-42	3,206
YoY	-7.3%	-	17.6%	-	-15.6%	-	-31.8%	-	-22.3%
RPM	8.0%	-5.0%	8.7%	-3.0%	6.8%	-5.3%	6.0%	-0.1%	4.9%
Net income	2,972	-703	4,897	-1,800	2,145	-666	3,198	271	1,621
YoY	3.8%	-	-10.6%	-	-27.8%	-	-34.7%	-	-24.4%
Net margin	4.9%	-1.3%	7.5%	-2.9%	3.5%	-1.3%	4.9%	0.4%	2.5%
EBITDA	6,678	-969	7,249	1,106	5,725	-762	6,112	2,197	5,185
YoY	-5.8%	-	5.5%	-15.6%	-14.3%	-	-15.7%	98.6%	-9.4%
EBITDA margin	10.9%	-1.8%	11.1%	1.8%	9.4%	-1.4%	9.4%	3.5%	8.0%

Source: Shared Research based on company data

By segment	FY02/18				FY02/19				FY02/20
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	61,028	54,372	65,408	62,267	60,882	52,982	64,784	62,004	64,878
YoY	-6.8%	0.7%	7.4%	-3.4%	-0.2%	-2.6%	-1.0%	-0.4%	6.6%
Apparel	53,859	47,690	58,522	55,661	54,246	46,595	58,010	55,712	54,139
YoY	-	-	-	-	0.7%	-2.3%	-0.9%	0.1%	-0.2%
Domestic	43,583	37,621	46,324	42,687	42,589	35,615	45,774	43,079	42,254
YoY	-	-	-	-	-2.3%	-5.3%	-1.2%	0.9%	-0.8%
Overseas	10,275	10,069	12,199	12,973	11,657	10,980	12,235	12,634	11,884
YoY	-	-	-	-	13.5%	9.0%	0.3%	-2.6%	1.9%
Lifestyle	7,169	6,682	6,885	6,607	6,636	6,387	6,774	6,291	10,738
YoY	-	-	-	-	-7.4%	-4.4%	-1.6%	-4.8%	61.8%
Operating profit	4,561	-3,132	4,963	-1,225	3,558	-2,952	3,883	-28	2,940
YoY	-7.7%	-	4.2%	-	-22.0%	-	-21.8%	-	-17.4%
Apparel	4,380	-2,620	5,101	-1,015	3,476	-2,722	3,917	583	2,749
YoY	-	-	-	-	-20.6%	-	-23.2%	-	-20.9%
Domestic	5,080	-1,629	5,299	-188	4,315	-1,945	4,554	2,094	3,351
YoY	-	-	-	-	-15.1%	-	-14.1%	-	-22.3%
Overseas	-699	-991	-198	-828	-838	-777	-637	-1,511	-602
YoY	-	-	-	-	-	-	-	-	-
Lifestyle	793	230	523	181	569	269	395	308	784
YoY	-	-	-	-	-28.2%	17.0%	-24.5%	70.2%	37.8%
Adjustments	-613	-741	-661	-392	-487	-499	-428	-920	-594

Source: Shared Research based on company data

Q1 FY02/20 results (out July 5, 2019)

Results summary

▷ For Q1 FY02/20, the company reported consolidated sales of JPY64.9bn (+6.6% YoY), EBITDA (operating profit + depreciation + goodwill amortization) of JPY5.2bn (-9.4% YoY), operating profit of JPY2.9bn (-17.4% YoY), and net income attributable to parent company shareholders of JPY1.6bn (-24.4% YoY). The slump in earnings reflected a decline in domestic apparel sales through department stores and the dropout of the JPY477mn gain from the change in inventory valuation methodology at this time last year, which together offset the addition of Yamato Co., Ltd. (gift business) to consolidated results.

▷ Domestic apparel business: Sales of JPY42.3bn were down 0.8% YoY and operating profit of JPY3.4bn was down 22.3% YoY. At mainstay company Onward Kashiyama, Q1 sales of JPY34.5bn finished down 1.7% YoY as a 6.1% drop in sales through its key department store channel offset increases in e-commerce sales (which rose 11.8% YoY to JPY4.9bn) and sales through shopping centers and outlet malls (which rose 1.9% YoY to JPY5.4bn). Gross profit suffered from the dropout of the gains stemming from the change in inventory valuation methodology and the booking of a JPY425mn inventory write-down from FY02/19, pushing the gross profit margin for Onward HD and Onward Kashiyama combined down to 53.0%, down 2.8pp versus 55.8% in Q1 FY02/19.

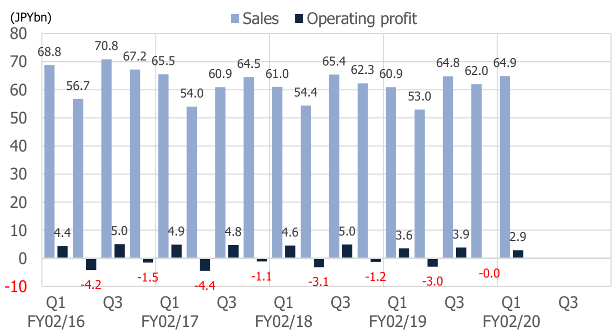
▷ Brands: The four core brands together logged a YoY increase of 2.6% in Q1, with sales of Nijyusanku marking their second consecutive quarter of YoY gains with a 7.3% increase, sales of ICB moving into positive growth territory with an increase of 1.9% YoY, sales of Kumikyoku declining 1.3% YoY, and sales of Jiyuku declining 4.7% YoY.

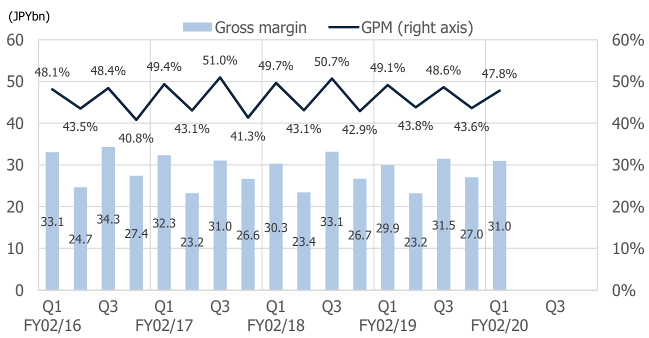
▷ Overseas apparel business: Sales of JPY11.9bn were up 1.9% YoY and operating losses of JPY602mn were down from year-ago losses of JPY838mn. The increase in sales and reduction in operating losses was attributed to improvements thanks to the new creative team at Jil Sander.

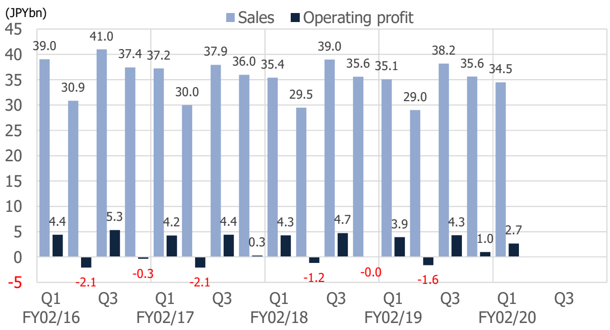
▷ Lifestyle business: Sales of JPY10.7bn were up 61.8% YoY and operating profit of JPY784mn was up 37.8% YoY, with the additional of Yamato to consolidated results adding JPY4.1bn to sales and JPY173mn to operating profit on a net basis. Even without the addition of Yamato, sales and earnings at the lifestyle business would have both finished slightly higher YoY. The resort business, which benefited from a pickup in Japanese tourist traffic to Guam, also contributed to results.

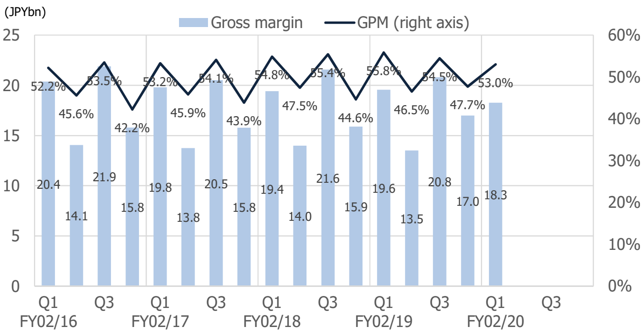
▷ Company forecasts unchanged: The company's forecasts for 1H FY02/20 and full-year FY02/20 were unchanged. The company had factored in a certain amount of inventory write-downs to the full-year forecasts, and Q1 inventory write-downs were within the expectations (although these were not included in 1H forecasts). Other results have also largely progressed within the range of initial forecasts

Consolidated earnings (top) and parent Onward Kashiyama earnings (bottom)



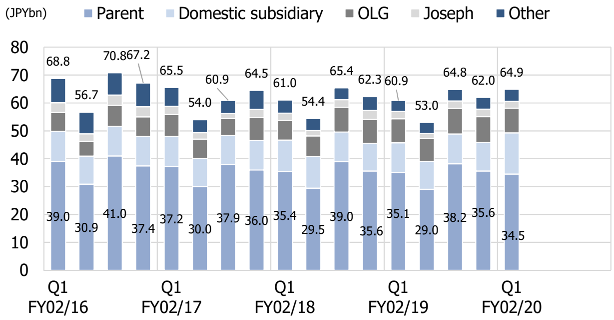


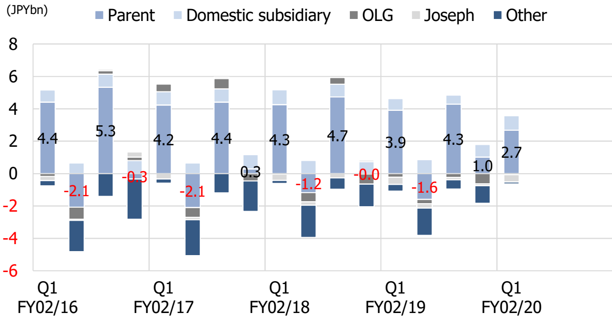




Source: Shared Research based on company data

Sales (left) and operating profit (right) breakdown by company





Source: Shared Research based on company data
Note: OLG refers to the Onward Luxury Group.

Seasonality: the company's quarterly results fluctuate significantly due to seasonal bargain sales. Q1 (March–May) includes March—a peak season. Whereas Q2 (June–August) includes the summer sales period of July. Therefore the proportion of merchandise sold at normal prices is lower than in Q1 and profitability is likely to be affected. Similarly, Q4 profits are affected by winter bargain sales in January and valuation losses recorded at the end of the financial year.

Domestic apparel business

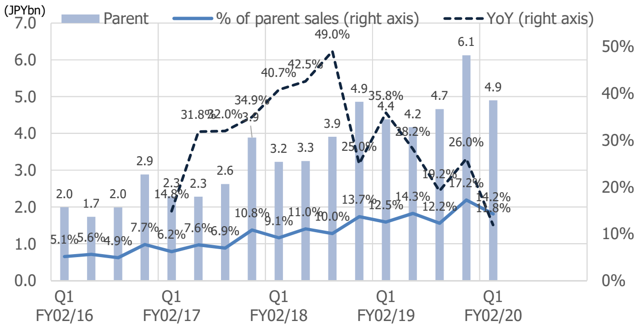
Domestic apparel Cumulative (JPYmn)	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1	FY02/20 % of FY	FY Est.
Sales	42,589	78,204	123,978	167,057	42,254		
YoY	-2.3%	-3.7%	-2.8%	-1.9%	-0.8%		
Sales (simple aggregate)	43,198	79,671		169,980	42,846	25.3%	169,593
YoY		-	-	-	-0.8%		-0.2%
Onward HD + Onward Kashiyama	35,071	64,098	102,286	137,891	34,485	25.3%	136,100
YoY		-1.2%	-1.5%	-1.1%	-1.7%		-1.3%
Onward Trading	4,397	7,790	11,985	15,663	4,583	28.4%	16,150
YoY		-18.3%	-10.4%	-5.8%	4.2%		3.1%
Island	2,040	4,193	6,516	8,796	1,990	22.0%	9,052
YoY		-1.8%	-1.7%	-1.1%	-2.5%		2.9%
Other	1,690	3,590	-	7,630	1,788	21.6%	8,291
YoY	-	-	-	-	5.8%		8.7%
Operating profit	4,315	2,370	6,924	9,018	3,351	43.1%	7,767
YoY	-15.1%	-31.3%	-20.9%	5.3%	-22.3%		-13.9%
OPM	10.1%	3.0%	5.6%	5.4%	7.9%		-
OP (simple aggregate)	4,225	2,918	7,998	9,024	3,172	47.6%	6,657
YoY	-15.0%	-32.5%	-16.2%	-10.5%	-24.9%		-26.2%
Onward HD + Onward Kashiyama	3,916	2,322	6,614	7,627	2,686	46.0%	5,840
YoY	-8.0%	-24.6%	-15.3%	-2.0%	-31.4%		-23.4%
OPM	11.2%	3.6%	6.5%	5.5%	7.8%		4.3%
Onward Trading	397	658	786	1,149	513	397.7%	129
YoY	-18.5%	-13.4%	-21.5%	-3.9%	29.2%		-88.8%
OPM	9.0%	8.4%	6.6%	7.3%	11.2%		0.8%
Island	109	393	598	894	9	0.9%	1,015
YoY	-52.2%	-19.0%	-19.2%	-19.1%	-91.7%		13.5%
OPM	5.3%	9.4%	9.2%	10.2%	0.5%		11.2%
Other	-197	-455	-	-646	-36	11.0%	-327
YoY	-	-	-	-	-		-

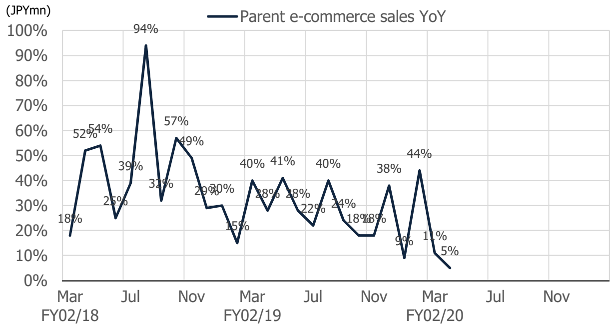
Source: Shared Research based on company data

Domestic apparel business: Sales of JPY42.3bn were down 0.8% YoY and operating profit of JPY3.4bn was down 22.3% YoY, driven by a weak sales of JPY34.5bn (-1.7% YoY) in and sluggish operating profit of JPY2.7bn (-31.4% YoY) at Onward HD and Onward Kashiyama. Some favorable trends were seen such as earnings recovery at Onward Trading (which handles uniforms and promotional goods), but these were insufficient to compensate Onward Kashiyama's performance decline.

Onward Kashiyama's sales increased in e-commerce (which rose 11.8% YoY to JPY4.9bn) and sales at shopping centers and outlet malls (which rose 1.9% YoY to JPY5.4bn), but sales through its key department store channel struggled, falling 6.1% YoY to JPY21.9bn. Growth in the high-GPM e-commerce channel has slowed compared to FY02/19, when sales grew 26.8% YoY. In Q1, e-commerce delivered results below company forecasts (full-year FY02/20 e-commerce sales forecast is + 18.5% YoY), however the company says June 2019 showed recovery with solid 27.0% growth YoY. Sales campaigns including discounts seem to be meeting with success and Shared Research does not harbor any significant reservations concerning e-commerce. Although the dip in sales through company's mainstay department store channel has remained within the range of forecasts, the downward trend shows little sign of reversing due to the impact of shrinking floor space at department stores (department store closures, etc.) and sales being diverted to e-commerce when customers try on items in-store before purchasing them online.

Parent company e-commerce sales

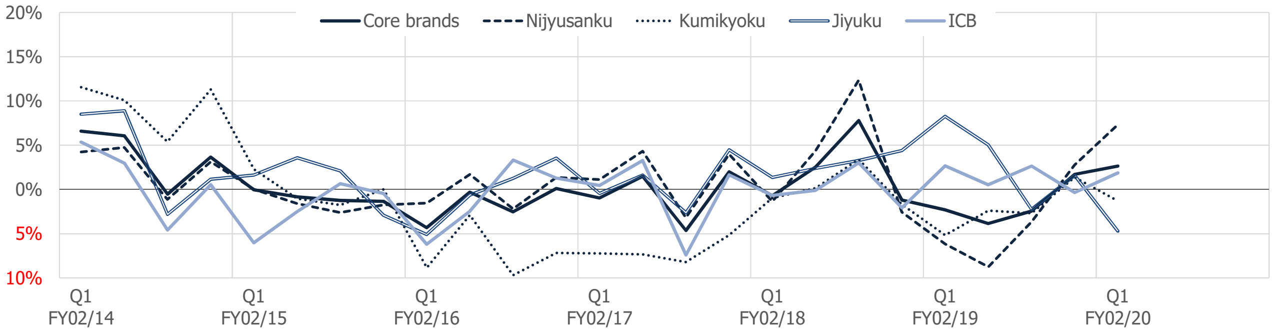




Source: Shared Research based on company data

By brand, sales of its mainstay brand Nijyusanku marked their second consecutive quarter of YoY gains with a 7.3% increase. Nijyusanku's adoption in FY02/20 of the omni-channel strategy making use of brand magazine that proved effective for Jiyuku in FY02/19 seems to have contributed to the recovery in sales. As for the other key brands, sales of ICB moved into positive growth territory with an increase of 1.9% YoY, while sales of Kumikyoku declined 1.3% YoY, and sales of Jiyuku declined 4.7% YoY. The four mainstay brands totaled a 2.6% increase YoY overall.

Sales YoY of core brands

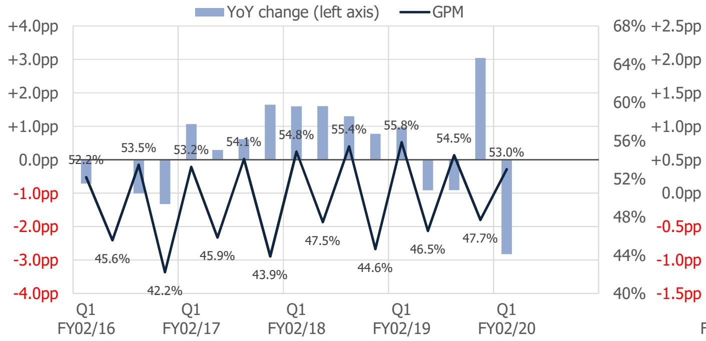


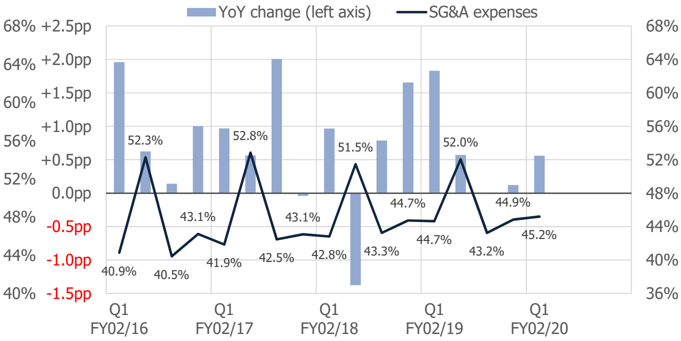
Source: Shared Research based on company data

The gross profit margin for Onward HD and Onward Kashiyama combined fell 2.8pp to 53.0%. The main factors in the decline was a hit to gross profit of JPY477mn from a dropout of gains owing to the change in inventory valuation methodology along with the booking of JPY425mn of inventory write-downs from FY02/19. Excluding these factors, the fall in GPM was a modest 0.3pp YoY. The company it is reducing its long-term inventory with clearance sales and other means. The company expects the dropout in gains from the change in inventory valuation to continue until end FY02/20, but believes inventory write-downs will be less likely to reoccur.

SG&A expenses for Onward HD and Onward Kashiyama fell 0.4% YoY to JPY15.6bn. Company forecasts for FY02/20 calls for SG&A expenses of JPY63.0bn (-0.3% YoY). Progress versus forecasts was 24.7%, largely in line with plan.

Gross profit margin (left) and SG&A ratio (right)





Source: Shared Research based on company data

Sales: Parent company (Onward Kashiyama) and major brands

Parent	FY02/18				FY02/19				FY02/20	FY02/20	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Sales	35,422	29,459	38,962	35,595	35,071	29,027	38,188	35,605	34,484	25.3%	136,100
YoY	-4.8%	-1.8%	2.7%	-1.0%	-1.0%	-1.5%	-2.0%	0.0%	-1.7%		-1.3%
Gross profit	19,427	13,982	21,581	15,893	19,577	13,512	20,805	16,982	18,277	26.5%	68,880
YoY	-1.9%	1.7%	5.2%	0.7%	0.8%	-3.4%	-3.6%	6.9%	-6.6%		-2.8%
GPM	54.8%	47.5%	55.4%	44.6%	55.8%	46.5%	54.5%	47.7%	53.0%		50.6%
SG&A expenses	15,169	15,162	16,852	15,921	15,661	15,106	16,513	15,969	15,592	24.7%	63,040
YoY	-2.6%	-4.3%	4.6%	2.8%	3.2%	-0.4%	-2.0%	0.3%	-0.4%		-0.3%
SG&A ratio	42.8%	51.5%	43.3%	44.7%	44.7%	52.0%	43.2%	44.9%	45.2%		46.3%
Operating profit	4,258	-1,180	4,729	-28	3,916	-1,594	4,292	1,013	2,685	46.0%	5,840
YoY	0.5%	-	7.3%	-	-8.0%	-	-9.2%	-	-31.4%		-23.4%
OPM	12.0%	-4.0%	12.1%	-0.1%	11.2%	-5.5%	11.2%	2.8%	7.8%		4.3%

By channel	FY02/18				FY02/19				FY02/20	FY02/20	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Sales (parent)	**35,422**	**29,459**	**38,962**	**35,595**	**35,071**	**29,027**	**38,188**	**35,605**	**34,484**	**25.3%**	**136,100**
YoY	-4.8%	-1.8%	2.7%	-1.0%	-1.0%	-1.5%	-2.0%	0.0%	-1.7%		-1.3%
Department store	24,871	19,371	27,847	24,021	23,322	18,031	26,239	23,033	21,889	26.1%	84,009
YoY	-5.6%	-4.5%	1.0%	-5.2%	-6.2%	-6.9%	-5.8%	-4.1%	-6.1%		-7.3%
% of parent sales	70.2%	65.8%	71.5%	67.5%	66.5%	62.1%	68.7%	64.7%	63.5%		61.7%
New channels	8,828	8,084	8,760	10,224	9,701	8,698	9,126	11,014	10,322	23.8%	43,460
YoY	-3.4%	4.6%	9.3%	6.1%	9.9%	7.6%	4.2%	7.7%	6.4%		12.8%
% of parent sales	24.9%	27.4%	22.5%	28.7%	27.7%	30.0%	23.9%	30.9%	29.9%		31.9%
E-commerce	3,227	3,250	3,911	4,862	4,383	4,165	4,660	6,126	4,902	21.4%	22,911
YoY	40.7%	42.5%	49.0%	25.0%	35.8%	28.2%	19.2%	26.0%	11.8%		18.5%
% of parent sales	9.1%	11.0%	10.0%	13.7%	12.5%	14.3%	12.2%	17.2%	14.2%		16.8%
Shopping centers, outlet malls	5,601	4,834	4,849	5,362	5,318	4,533	4,466	4,888	5,420	26.4%	20,549
YoY	-18.2%	-11.3%	-10.0%	-6.7%	-5.1%	-6.2%	-7.9%	-8.8%	1.9%		7.0%
% of parent sales	15.8%	16.4%	12.4%	15.1%	15.2%	15.6%	11.7%	13.7%	15.7%		15.1%
Other	1,723	2,004	2,355	1,350	2,048	2,298	2,823	1,558	2,273	26.3%	8,631
YoY	-0.4%	1.4%	0.7%	36.2%	18.8%	14.7%	19.9%	15.4%	11.0%		-1.1%
% of parent sales	4.9%	6.8%	6.0%	3.8%	5.8%	7.9%	7.4%	4.4%	6.6%		6.3%

By product	FY02/18				FY02/19				FY02/20	FY02/20	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Sales (parent)	**35,422**	**29,459**	**38,962**	**35,595**	**35,071**	**29,027**	**38,188**	**35,605**	**34,484**	**25.3%**	**136,100**
YoY	-4.8%	-1.8%	2.7%	-1.0%	-1.0%	-1.5%	-2.0%	0.0%	-1.7%		-1.3%
Menswear	8,886	5,666	9,491	8,363	8,532	5,413	8,939	8,170	8,137	27.3%	29,823
YoY	-4.5%	-3.6%	0.8%	-3.8%	-4.0%	-4.5%	-5.8%	-2.3%	-4.6%		-4.0%
% of parent sales	25.1%	19.2%	24.4%	23.5%	24.3%	18.6%	23.4%	22.9%	23.6%		21.9%
Womenswear	24,280	21,612	27,168	24,145	24,104	21,222	26,660	24,152	23,874	24.9%	95,920
YoY	-4.9%	-1.3%	4.4%	-0.9%	-0.7%	-1.8%	-1.9%	0.0%	-1.0%		-0.2%
% of parent sales	68.5%	73.4%	69.7%	67.8%	68.7%	73.1%	69.8%	67.8%	69.2%		70.5%
Children's wear	1,538	1,433	1,485	2,081	1,449	1,366	1,302	1,868	1,304	22.4%	5,812
YoY	-2.3%	2.0%	-5.3%	-4.2%	-5.8%	-4.7%	-12.3%	-10.2%	-10.0%		-2.9%
% of parent sales	4.3%	4.9%	3.8%	5.8%	4.1%	4.7%	3.4%	5.2%	3.8%		4.3%
Other	719	748	819	1,006	986	1,026	1,287	1,415	1,169	25.7%	4,545
YoY	-8.8%	-8.6%	-9.6%	36.3%	37.2%	37.2%	57.2%	40.7%	18.6%		-3.6%
% of parent sales	2.0%	2.5%	2.1%	2.8%	2.8%	3.5%	3.4%	4.0%	3.4%		3.3%

Source: Shared Research based on company data

By brand (JPYmn)	FY02/18				FY02/19				FY02/20
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales (parent)	35,422	29,459	38,962	35,595	35,071	29,027	38,188	35,605	34,484
YoY	-4.8%	-1.8%	2.7%	-1.0%	-1.0%	-1.5%	-2.0%	0.0%	-1.7%
Key department store brands	26,628	23,220	28,039	28,110	26,161	22,540	27,235	28,095	24,905
YoY	-1.2%	0.8%	5.5%	-1.3%	-1.8%	-2.9%	-2.9%	-0.1%	-4.8%
% of parent sales	75.2%	78.8%	72.0%	79.0%	74.6%	77.7%	71.3%	78.9%	72.2%
Core brands	14,185	12,215	14,851	15,168	13,857	11,745	14,487	15,426	14,222
YoY	-0.7%	2.5%	7.8%	-1.2%	-2.3%	-3.8%	-2.5%	1.7%	2.6%
% of parent sales	40.0%	41.5%	38.1%	42.6%	39.5%	40.5%	37.9%	43.3%	41.2%
Nijyusanku (W)	7,169	6,072	7,708	7,033	6,727	5,541	7,427	7,228	7,220
YoY	-1.3%	4.4%	12.3%	-2.6%	-6.2%	-8.7%	-3.6%	2.8%	7.3%
% of parent sales	20.2%	20.6%	19.8%	19.8%	19.2%	19.1%	19.4%	20.3%	20.9%
Kumikyoku (W)	2,730	2,086	2,731	2,403	2,589	2,036	2,658	2,436	2,555
YoY	-1.0%	0.1%	3.4%	-1.7%	-5.2%	-2.4%	-2.7%	1.4%	-1.3%
% of parent sales	7.7%	7.1%	7.0%	6.8%	7.4%	7.0%	7.0%	6.8%	7.4%
ICB (W)	1,767	2,076	1,817	3,144	1,814	2,087	1,865	3,133	1,848
YoY	-0.7%	-0.1%	3.0%	-2.1%	2.7%	0.5%	2.6%	-0.3%	1.9%
% of parent sales	5.0%	7.0%	4.7%	8.8%	5.2%	7.2%	4.9%	8.8%	5.4%
Jiyuku (W)	2,519	1,981	2,595	2,588	2,727	2,081	2,537	2,629	2,599
YoY	1.4%	2.4%	3.3%	4.4%	8.3%	5.0%	-2.2%	1.6%	-4.7%
% of parent sales	7.1%	6.7%	6.7%	7.3%	7.8%	7.2%	6.6%	7.4%	7.5%
Other key department store brands									
J.Press (M, W, ch)	2,401	1,876	2,276	2,574	2,410	1,916	2,300	2,664	2,460
YoY	-0.4%	-1.8%	4.7%	-3.7%	0.4%	2.1%	1.1%	3.5%	2.1%
% of parent sales	6.8%	6.4%	5.8%	7.2%	6.9%	6.6%	6.0%	7.5%	7.1%
Calvin Klein platinum label (M, W)	1,027	944	1,198	1,208	998	877	1,119	1,165	915
YoY	-4.6%	1.2%	2.6%	-4.4%	-2.8%	-7.1%	-6.6%	-3.6%	-8.3%
% of parent sales	2.9%	3.2%	3.1%	3.4%	2.8%	3.0%	2.9%	3.3%	2.7%
Gotairiku (M)	1,090	1,476	1,179	805	1,043	1,468	1,143	793	1,000
YoY	-0.2%	-3.3%	-0.1%	-3.7%	-4.3%	-0.5%	-3.1%	-1.5%	-4.1%
% of parent sales	3.1%	5.0%	3.0%	2.3%	3.0%	5.1%	3.0%	2.2%	2.9%
Daks (M, golf)	689	543	827	602	650	489	768	574	609
YoY	-6.6%	-4.7%	-1.1%	-7.0%	-5.7%	-9.9%	-7.1%	-4.7%	-6.3%
% of parent sales	1.9%	1.8%	2.1%	1.7%	1.9%	1.7%	2.0%	1.6%	1.8%
Paul Smith (W)	1,064	1,009	1,238	1,522	1,148	973	1,316	1,592	1,172
YoY	6.5%	4.8%	15.5%	20.2%	7.9%	-3.6%	6.3%	4.6%	2.1%
% of parent sales	3.0%	3.4%	3.2%	4.3%	3.3%	3.4%	3.4%	4.5%	3.4%
JOSEPH (M, W)	1,254	1,055	1,324	1,417	1,289	1,033	1,254	1,362	1,210
YoY	3.4%	5.6%	6.9%	-2.7%	2.8%	-2.1%	-5.3%	-3.9%	-6.1%
% of parent sales	3.5%	3.6%	3.4%	4.0%	3.7%	3.6%	3.3%	3.8%	3.5%
Tocca (W, ch)	909	862	958	1,087	904	921	934	993	804
YoY	4.6%	2.5%	8.4%	0.6%	-0.6%	6.8%	-2.5%	-8.6%	-11.1%
% of parent sales	2.6%	2.9%	2.5%	3.1%	2.6%	3.2%	2.4%	2.8%	2.3%
Personal Order (M)	1,461	1,084	1,429	1,310	1,450	1,006	1,286	1,257	1,315
YoY	-5.1%	-1.9%	4.3%	-1.3%	-0.8%	-7.2%	-10.0%	-4.0%	-9.3%
% of parent sales	4.1%	3.7%	3.7%	3.7%	4.1%	3.5%	3.4%	3.5%	3.8%
Nijyusanku men's casual (M)	1,269	1,097	1,379	1,093	1,206	1,103	1,364	1,101	1,198
YoY	-6.8%	-1.4%	-5.5%	-6.7%	-5.0%	0.5%	-1.1%	0.7%	-0.7%
% of parent sales	3.6%	3.7%	3.5%	3.1%	3.4%	3.8%	3.6%	3.1%	3.5%
Key new distribution channel brands	4,291	3,309	3,773	4,564	4,186	3,228	3,532	4,480	4,083
YoY	-16.8%	-12.2%	0.8%	-2.3%	-2.4%	-2.4%	-6.4%	-1.8%	-2.5%
% of parent sales	12.1%	11.2%	9.7%	12.8%	11.9%	11.1%	9.2%	12.6%	11.8%
anyFAM (W, ch)	1,739	1,490	1,631	1,945	1,678	1,435	1,538	1,891	1,662
YoY	-4.1%	2.3%	2.9%	-3.4%	-3.5%	-3.7%	-5.7%	-2.8%	-1.0%
% of parent sales	4.9%	5.1%	4.2%	5.5%	4.8%	4.9%	4.0%	5.3%	4.8%
anySiS (W)	2,552	1,819	2,142	2,619	2,508	1,793	1,994	2,589	2,421
YoY	0.0%	8.9%	2.7%	-1.1%	-1.7%	-1.4%	-6.9%	-1.1%	-3.5%
% of parent sales	7.2%	6.2%	5.5%	7.4%	7.2%	6.2%	5.2%	7.3%	7.0%
Core and key brands total	30,919	26,529	31,812	32,674	30,347	25,768	30,767	32,575	28,988
YoY	-3.7%	-1.0%	4.9%	-1.4%	-1.8%	-2.9%	-3.3%	-0.3%	-4.5%
% of parent sales	87.3%	90.1%	81.6%	91.8%	86.5%	88.8%	80.6%	91.5%	84.1%
Other	4,503	2,930	7,150	2,921	4,724	3,259	7,421	3,030	5,496
YoY	-11.6%	-8.3%	-6.0%	3.2%	4.9%	11.2%	3.8%	3.7%	16.3%
% of parent sales	12.7%	9.9%	18.4%	8.2%	13.5%	11.2%	19.4%	8.5%	15.9%

Source: Shared Research based on company data
Note: 1H FY02/17 EC sales numbers based on the retroactive adjustment in 1H FY02/18.

Overseas apparel business

European businesses performance

Overseas apparel Cumulative (JPYmn)	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1	FY02/20 % of FY	FY Est.
Sales	11,657	22,637	34,872	47,506	11,884		
YoY	13.5%	11.3%	7.2%	4.4%	1.9%		
Sales (simple aggregate)	12,848	27,759	-	58,096	13,088	23.5%	55,806
YoY	-	-	-	-	1.9%		-3.9%
Europe	11,131	21,980	-	46,528	11,229	23.8%	47,191
YoY	-	11.3%	-	5.6%	0.9%		1.4%
Onward Italy	8,590	16,788	25,945	35,232	8,839	24.3%	36,365
YoY	22.4%	16.4%	11.3%	10.5%	2.9%		3.2%
JOSEPH Group	2,647	4,477	7,103	9,813	2,503	23.1%	10,826
YoY	-0.2%	-1.6%	-2.2%	-6.7%	-5.4%		10.3%
Asia	1,560	3,346	-	6,803	1,706	22.1%	7,704
YoY	-	16.6%	-	3.1%	9.4%		13.2%
North America	157	2,433	-	4,765	153	16.8%	911
YoY	-	-10.8%	-	-9.1%	-2.5%		-80.9%
Operating profit	-838	-1,615	-2,252	-3,763	-602	27.1%	-2,221
YoY	-	-	-	-	-		-
OPM	-7.2%	-7.1%	-6.5%	-7.9%	-5.1%		-
OP (simple aggregate)	-650	-1,374	-	-3,239	-472	21.3%	-2,221
YoY	-	-	-	-	-		-
Europe	-627	-1,196	-	-2,224	-479	24.4%	-1,964
YoY	-	-	-	-	-		-
OPM	-5.6%	-5.4%	-	-4.8%	-4.3%		-4.2%
Onward Italy	-219	-491	-738	-1,372	-73	5.5%	-1,334
YoY	-	-	-	-	-		-
OPM	-2.5%	-2.9%	-2.8%	-3.9%	-0.8%		-3.7%
JOSEPH Group	-444	-705	-831	-941	-449	71.3%	-630
YoY	-	-	-	-	-		-
OPM	-16.8%	-15.7%	-11.7%	-9.6%	-17.9%		-5.8%
Asia	33	-11	-	-747	95	296.9%	32
YoY	-	-	-	-	187.9%		-
OPM	2.1%	-0.3%	-	-11.0%	5.6%		0.4%
North America	-56	-167	-	-268	-88	30.4%	-289
YoY	-	-	-	-	-		-
OPM	-35.7%	-6.9%	-	-5.6%	-57.5%		-31.7%

Source: Shared Research based on company data

Overseas apparel business: Sales of JPY11.9bn were up 1.9% YoY and operating losses of JPY602mn narrowed from year-ago losses of JPY838mn. The situation in overseas apparel improved thanks to a reduction in operating losses in the European business to JPY479mn from year-ago losses of JPY627mn. The main factors in this improvement are 1) increase in sales following change of the creative team at Jil Sander, 2) contributions from booking of a highly profitable order at a production base, and 3) effects of restructuring the European business. Although recovery can be seen, the company says it is not optimistic about the situation in Europe. While it can confirm increase in sales at Jil Sander, it has been unable to exceed the break-even point and it is possible the bump from a highly profitable order at a production base will be merely temporary.

Lifestyle business

Lifestyle	FY02/19				FY02/20	FY02/20	
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Sales	6,636	13,023	19,797	26,088	10,738		
YoY	-7.4%	-6.0%	-4.5%	-4.6%	61.8%		
Sales (simple aggregate)	7,206	13,907		28,067	11,285	23.9%	47,198
YoY	-	-	-	-	56.6%		68.2%
Yamato	-	-	-	-	4,087	23.5%	17,400
YoY	-	-	-	-	-		-
Chacott	2,781	5,808	8,536	10,988	2,708	23.1%	11,700
YoY	-0.1%	-0.7%	-1.9%	-2.3%	-2.6%		6.5%
Creative Yoko	1,410	2,789	4,251	6,015	1,394	22.5%	6,200
YoY	-4.1%	-4.1%	-4.7%	-5.1%	-1.1%		3.1%
Other	3,015	5,310	-	11,064	3,096	26.0%	11,898
YoY		-	-	-			
Operating profit	569	838	1,233	1,541	784	26.1%	3,004
YoY	-28.2%	-18.1%	-20.2%	-10.8%	37.8%		94.9%
OPM	8.6%	6.4%	6.2%	5.9%	7.3%		-
OP (simple aggregate)	613	1,023	755	1,941	842	28.0%	3,004
YoY	200.5%	114.0%	-1.8%	106.5%	37.4%		54.8%
Yamato	-	-	-	-	173	24.7%	700
YoY	-	-	-	-	-		-
OPM	-	-	-	-	4.2%		4.0%
Chacott	170	487	627	555	165	23.8%	693
YoY	8.3%	3.8%	-4.6%	-12.5%	-2.9%		24.9%
OPM	6.1%	8.4%	7.3%	5.1%	6.1%		5.9%
Creative Yoko	45	50	128	325	26	7.0%	371
YoY	-4.3%	455.6%	14.3%	6.2%	-42.2%		14.2%
OPM	3.2%	1.8%	3.0%	5.4%	1.9%		6.0%
Other	398	486	-	1,061	478	38.5%	1,240
YoY	-	-	-	-	20.1%		16.9%
OPM	13.2%	9.2%	-	9.6%	15.4%		10.4%

Source: Shared Research based on company data

Lifestyle business: Sales of JPY10.7bn were up 61.8% YoY and operating profit of JPY784mn was up 37.8% YoY, with the addition of Yamato (gifts and gift catalogues) to consolidated results adding JPY4.1bn to sales and JPY173mn to operating profit on a net basis. Even without the addition of Yamato, sales and earnings at the lifestyle business would have both finished slightly higher YoY. Chacott's earnings were basically flat YoY, and sales at Creative Yoko were slightly down as it approached its 20th anniversary event (planned for August 2020). The resort business, which benefited from a pickup in Japanese tourist traffic to Guam, also contributed to results.

The company says Yamato has begun activities that should produce synergistic effects. One initiative aims to introduce Yamato, using the business network of Onward Kashiyama in order to increase the number of its sales outlets. Another consists of proactively inserting Onward Kashiyama products into Yamato gift catalogues. Shared Research thinks these activities may warrant close attention.

Kashiyama the Smart Tailor

Although not yet included in consolidated results, Factory to Customer (F2C) business Kashiyama the Smart Tailor is off to a good start. The business is striving for sales of JPY6.0bn with the production capacity of 100,000 made-to-order suits for FY02/20. As of April 2019, a partial bottleneck occurred on the production front, resulting in some delays in delivery, but stable operation has since resumed. The company estimates the break-even point to be JPY10.0bn and aims to break even in FY02/21 (when the company also expects to include it in consolidated results). The medium-term business plan puts FY02/22 sales for the business at JPY15.0bn and operating profit at JPY1.5bn. Since there have been fewer problems at the factory than expected and the fitters have been learning fast (thanks to success in hiring experienced workers), it is possible the break-even point will be lower than first estimated. Shared Research interviewed consumers (sample size: three)who used the service and found a high level of satisfaction with the price, quality, and delivery time.

At Kashiyama the Smart Tailor, the order process starts with taking the precise measurements by hand of the person ordering the suit. This information is immediately sent to the company's dedicated factory in China that places much emphasis on speed, will then create the suit. The final step is the shipping of the suit in a special, vacuum-packed bag. The entire process can take as little as one week. After the first suit is ordered, there is no need to take the measurements again so customers can place additional orders using their smartphone.

Reference data

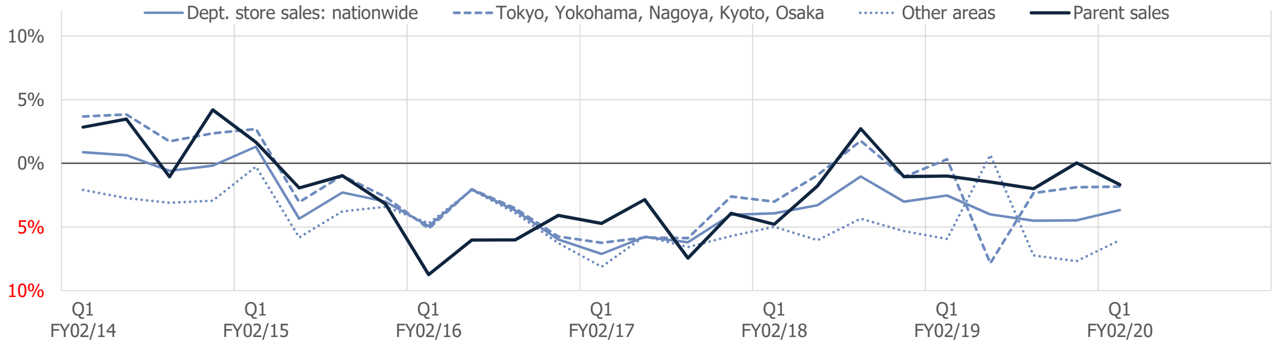
Sales and earnings at major consolidated subsidiaries

Main subsidiaries: sales	FY02/18				FY02/19				FY02/20	FY02/20	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Consolidated total	61,028	54,372	65,408	62,267	60,882	52,982	64,784	62,004	64,878	25.3%	256,600
YoY	-6.8%	0.7%	7.4%	-3.4%	-0.2%	-2.6%	-1.0%	-0.4%	6.6%		6.6%
Parent (HD + Onward Kashiyama)	35,422	29,459	38,962	35,595	35,071	29,027	38,188	35,605	34,485	25.3%	136,100
YoY	-4.8%	-1.8%	2.7%	-1.0%	-1.0%	-1.5%	-2.0%	0.0%	-1.7%		-1.3%
% of total	58.0%	54.2%	59.6%	57.2%	57.6%	54.8%	58.9%	57.4%	53.2%		53.0%
Onward Trading	4,819	4,716	3,837	3,256	4,397	3,393	4,195	3,678	4,583	28.4%	16,150
YoY	4.3%	29.3%	-0.2%	-11.9%	-8.8%	-28.1%	9.3%	13.0%	4.2%		3.1%
% of total	7.9%	8.7%	5.9%	5.2%	7.2%	6.4%	6.5%	5.9%	7.1%		6.3%
Yamato	-	-	-	-	-	-	-	-	4,087	23.5%	17,400
YoY	-	-	-	-	-	-	-	-	-		-
% of total	-	-	-	-	-	-	-	-	6.3%		6.8%
Chacott	2,783	3,068	2,852	2,540	2,781	3,027	2,728	2,452	2,708	23.1%	11,700
YoY	0.0%	0.0%	2.1%	2.2%	-0.1%	-1.3%	-4.3%	-3.5%	-2.6%		6.5%
% of total	4.6%	5.6%	4.4%	4.1%	4.6%	5.7%	4.2%	4.0%	4.2%		4.6%
Creative Yoko	1,471	1,437	1,553	1,880	1,410	1,379	1,462	1,764	1,394	22.5%	6,200
YoY	-0.6%	5.1%	-1.1%	-8.0%	-4.1%	-4.0%	-5.9%	-6.2%	-1.1%		3.1%
% of total	2.4%	2.6%	2.4%	3.0%	2.3%	2.6%	2.3%	2.8%	2.1%		2.4%
Island	2,177	2,092	2,361	2,261	2,040	2,153	2,323	2,280	1,990	22.0%	9,052
YoY	11.1%	4.0%	9.9%	-0.5%	-6.3%	2.9%	-1.6%	0.8%	-2.5%		2.9%
% of total	3.6%	3.8%	3.6%	3.6%	3.4%	4.1%	3.6%	3.7%	3.1%		3.5%
Onward Luxury Group	7,020	7,404	8,887	8,573	8,590	8,198	9,157	9,287	8,839	24.3%	36,365
YoY	-10.1%	7.5%	46.4%	4.0%	22.4%	10.7%	3.0%	8.3%	2.9%		3.2%
% of total	11.5%	13.6%	13.6%	13.8%	14.1%	15.5%	14.1%	15.0%	13.6%		14.2%
JOSEPH Group	2,652	1,900	2,709	3,256	2,647	1,830	2,626	2,710	2,503	23.1%	10,826
YoY	-11.5%	-19.7%	48.8%	8.9%	-0.2%	-3.7%	-3.1%	-16.8%	-5.4%		10.3%
% of total	4.3%	3.5%	4.1%	5.2%	4.3%	3.5%	4.1%	4.4%	3.9%		4.2%

Main subsidiaries: OP, OPM	FY02/18				FY02/19				FY02/20	FY02/20	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of 1H	1H Est.
Consolidated total	4,561	-3,132	4,963	-1,225	3,558	-2,952	3,883	-28	2,940	53.3%	5,520
YoY	-7.7%	-	4.2%	-	-22.0%	-	-21.8%	-	-17.4%		23.7%
OPM	7.5%	-5.8%	7.6%	-2.0%	5.8%	-5.6%	6.0%	-0.0%	4.5%		2.2%
Parent (HD + Onward Kashiyama)	4,258	-1,180	4,729	-28	3,916	-1,594	4,292	1,013	2,686	46.0%	5,840
YoY	0.5%	-	7.3%	-	-8.0%	-	-9.2%	-	-31.4%		-23.4%
OPM	12.0%	-4.0%	12.1%	-0.1%	11.2%	-5.5%	11.2%	2.8%	7.8%		4.3%
Onward Trading	487	273	241	195	397	261	128	363	513	397.7%	129
YoY	-1.2%	92.3%	-12.4%	-44.1%	-18.5%	-4.4%	-46.9%	86.2%	29.2%		-88.8%
OPM	10.1%	5.8%	6.3%	6.0%	9.0%	7.7%	3.1%	9.9%	11.2%		0.8%
Yamato	-	-	-	-	-	-	-	-	173	24.7%	700
YoY	-	-	-	-	-	-	-	-	-		-
OPM	-	-	-	-	-	-	-	-	4.2%		4.0%
Chacott	157	312	188	-23	170	317	140	-72	165	23.8%	693
YoY	4.7%	-9.8%	-4.6%	-	8.3%	1.6%	-25.5%	-	-2.9%		24.9%
OPM	5.6%	10.2%	6.6%	-0.9%	6.1%	10.5%	5.1%	-2.9%	6.1%		5.9%
Creative Yoko	47	-38	103	194	45	5	78	197	26	7.0%	371
YoY	291.7%	-	21.2%	6.6%	-4.3%	-	-24.3%	1.5%	-42.2%		14.2%
OPM	3.2%	-2.6%	6.6%	10.3%	3.2%	0.4%	5.3%	11.2%	1.9%		6.0%
Island	228	257	255	365	109	284	205	296	9	0.9%	1,015
YoY	43.4%	18.4%	-3.0%	9.3%	-52.2%	10.5%	-19.6%	-18.9%	-91.7%		13.5%
OPM	10.5%	12.3%	10.8%	16.1%	5.3%	13.2%	8.8%	13.0%	0.5%		11.2%
Onward Luxury Group	-37	-558	409	-615	-219	-272	-247	-634	-73	5.5%	-1,334
YoY	-	-	-36.9%	-	-	-	-	-	-		-2.8%
OPM	-0.5%	-7.5%	4.6%	-7.2%	-2.5%	-3.3%	-2.7%	-6.8%	-0.8%		-
JOSEPH Group	-384	-215	-264	101	-444	-261	-126	-110	-449	71.3%	-630
YoY	-	-	-	60.3%	-	-	-	-	-		-
OPM	-14.5%	-11.3%	-9.7%	3.1%	-16.8%	-14.3%	-4.8%	-4.1%	-17.9%		-
Elminations	-239	-1,373	-696	-961	-416	-1,280	-629	-901	63		-564

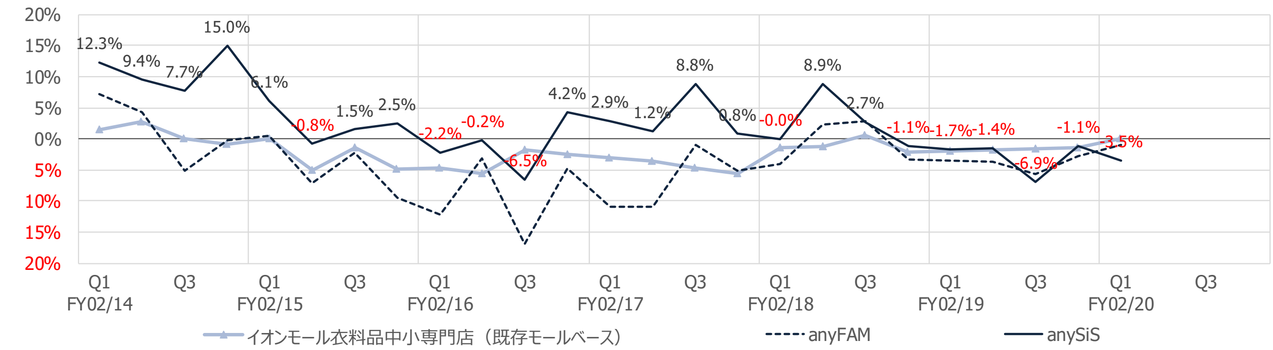
Source: Shared Research based on company data

Parent sales YoY



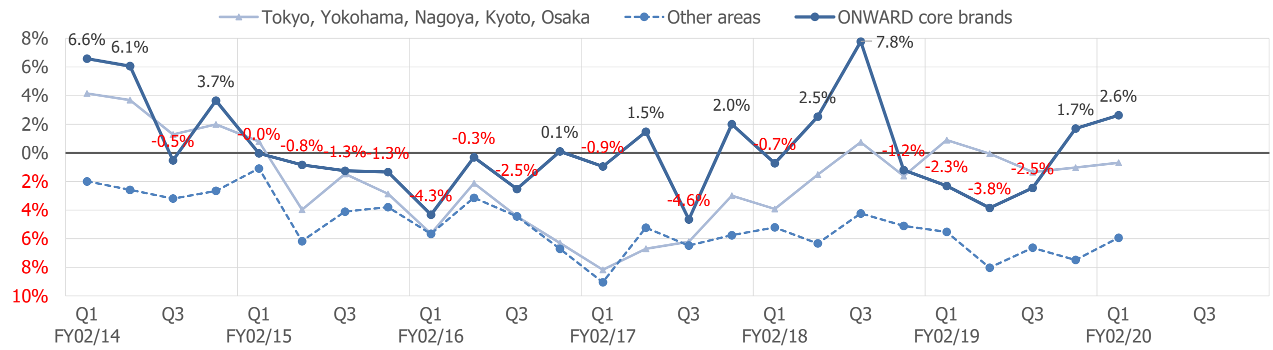
Source: Shared Research based on company data

Sales at small and medium Aeon mall apparel stores (comparable mall basis) versus shopping center brand sales



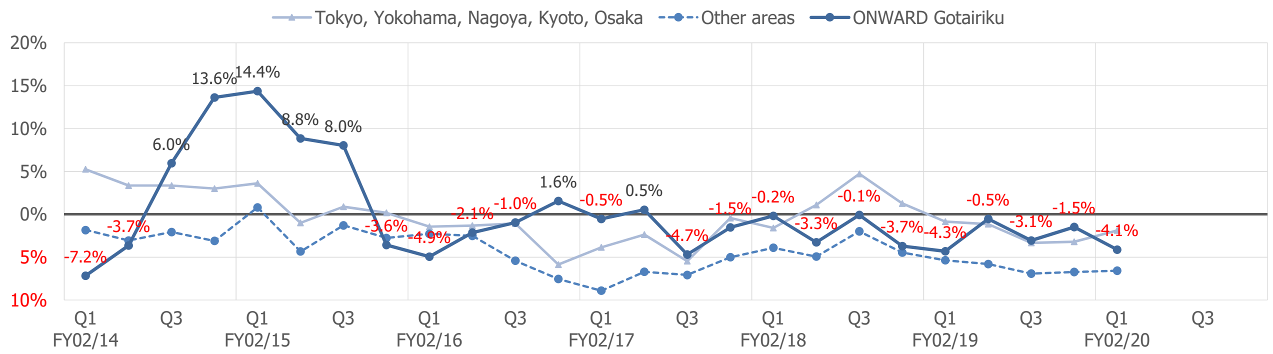
Source: Shared Research based on company data

Domestic womenswear sales at department stores by region and Onward core brand sales



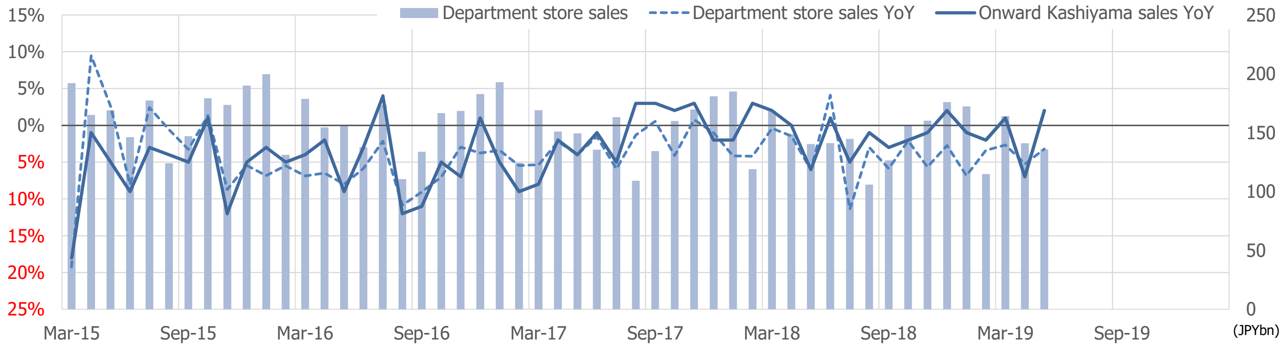
Source: Shared Research based on Japan Department Stores Association and company data

Domestic menswear sales at department stores by region and Gotairiku sales



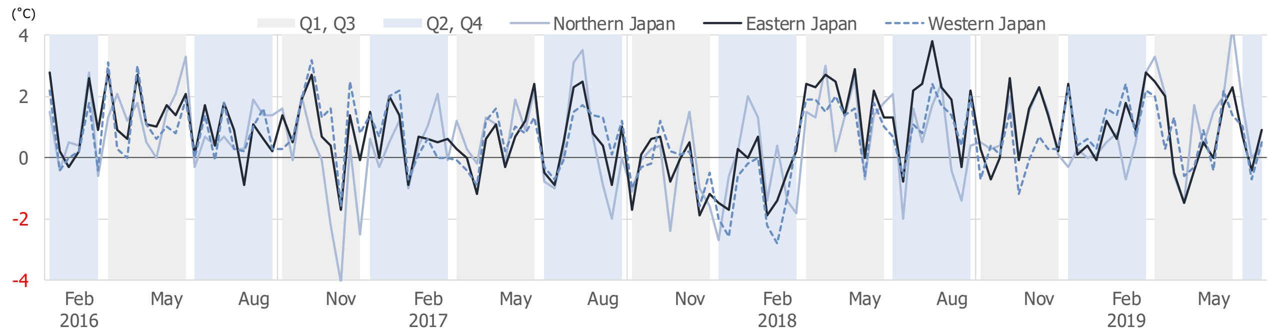
Source: Shared Research based on Japan Department Stores Association and company data

Department store and Onward Kashiyama monthly apparel sales



Source: Shared Research based on Japan Department Stores Association and company data

Average domestic temperature and seasonal variation (°C)



Source: Shared Research based on Japan Meteorological Agency data; normal value derives from the average of observed values during 30 years from 1981 to 2010.

For details on previous quarterly and annual results, please refer to the Historical performance section.

Company forecast for FY02/20

	FY02/18			FY02/19			FY02/20		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Est.	2H Est.	FY Est.
Sales	**115,400**	**127,675**	**243,075**	**113,864**	**126,788**	**240,652**	**121,800**	**134,800**	**256,600**
YoY	-3.4%	1.8%	-0.7%	-1.3%	-0.7%	-1.0%	7.0%	6.3%	6.6%
CoGS	61,665	67,833	129,498	60,751	68,268	129,019	64,300	73,300	137,600
Gross profit	**53,735**	**59,841**	**113,576**	**53,113**	**58,520**	**111,633**	**57,500**	**61,500**	**119,000**
YoY	-3.3%	3.7%	0.3%	-1.2%	-2.2%	-1.7%	8.3%	5.1%	6.6%
GPM	46.6%	46.9%	46.7%	46.6%	46.2%	46.4%	47.2%	45.6%	46.4%
SG&A expenses	52,305	56,104	108,409	52,507	54,664	107,171	56,880	56,600	113,480
YoY	-5.0%	3.9%	-0.6%	0.4%	-2.6%	-1.1%	8.3%	3.5%	5.9%
SG&A ratio	45.3%	43.9%	44.6%	46.1%	43.1%	44.5%	46.7%	42.0%	44.2%
Operating profit	**1,429**	**3,738**	**5,167**	**606**	**3,855**	**4,461**	**620**	**4,900**	**5,520**
YoY	170.1%	1.7%	22.9%	-57.6%	3.1%	-13.7%	2.3%	27.1%	23.7%
OPM	1.2%	2.9%	2.1%	0.5%	3.0%	1.9%	0.5%	3.6%	2.2%
Recurring profit	**2,150**	**3,778**	**5,928**	**1,342**	**3,819**	**5,161**	**1,250**	**4,450**	**5,700**
YoY	87.0%	-14.7%	6.3%	-37.6%	1.1%	-12.9%	-6.9%	16.5%	10.4%
RPM	1.9%	3.0%	2.4%	1.2%	3.0%	2.1%	1.0%	3.3%	2.2%
Net income	**2,269**	**3,097**	**5,366**	**1,479**	**3,469**	**4,948**	**1,500**	**4,000**	**5,500**
YoY	46.8%	-3.2%	13.1%	-34.8%	12.0%	-7.8%	1.4%	15.3%	11.2%
Net margin	2.0%	2.4%	2.2%	1.3%	2.7%	2.1%	1.2%	3.0%	2.1%

Source: Shared Research based on company data

For FY02/20, the company forecasts full-year consolidated sales of JPY256.0bn (+6.6% YoY), operating profit of JPY5.5bn (+23.7% or +1.1bn YoY), net income attributable to parent company shareholders of JPY5.5bn (+11.2% YoY), and EPS of JPY39.89. In FY02/19 operating profit got a JPY2.2bn boost from the change in the company's inventory valuation methodology. As that will drop out in FY02/20, the company's operating profit forecast actually represents a JPY3.2bn increase over FY02/19. The projected increase in operating profit assumes contributions of JPY900mn from domestic apparel, JPY1.2bn from overseas apparel, and JPY1.0bn from its lifestyle business. The net income forecast includes JPY5.0bn in extraordinary gains (net basis) from sales of latent assets, the proceeds from which will be used to fund investments in future growth initiatives and make returns to shareholders.

Domestic apparel business: Company sees e-commerce sales continuing to grow, turnaround at Nijyusanku

At its domestic apparel business, the company sees operating profit declining from JPY9.0bn in FY02/19 to JPY7.8bn in FY02/20. On the surface this represents a decline of nearly JPY1.3bn; however, if one-time boost to earnings in FY02/19 from the change in inventory accounting is excluded, the company is actually expecting a JPY900mn increase in operating profit for domestic apparel.

Breakdown by sales channel: Broadly speaking, the company sees sales at its mainstay department store channel declining but expects this to be offset by increases in online sales and sales at stores in shopping centers and outlet malls. More specifically, by the end of FY02/20 the company expects its total sales floor space at department stores to fall to 96,838sqm, down 18.6% versus the end of FY02/19. The decline reflects the impact of external factors (the closure of some regional department stores) as well as its own internal decision to maintain an optimal number of stores. Although its sales floor space at department stores will be smaller, the company is looking to limit the decline in sales through department stores to about 7% YoY by increasing the productivity of its department store sales staff.

Even as shoppers continue to move away from department stores, the company stands ready to capture those sales with the help of its online presence and brick-and-mortar stores located in shopping centers and outlet malls. At the parent company (Onward Holdings + Onward Kashiyama), the company sees e-commerce sales rising 18.5% YoY to JPY22.9bn. In this relation, the company noted that its own e-commerce site (Onward Crosset) saw a sharp 35% jump YoY in both the number of visitors and the number of shoppers in FY02/19, and that the app it rolled out in November 2018 racked up more than 180,000 downloads in the three months since its public rollout. Of the online sales reported at the parent level, 85% are made through the company's proprietary website (this figure is 76% at the consolidated level). Its low level of dependence on sales through third-party websites distinguishes Onward from competitors and allows it to establish a flexible operating structure that gives full consideration to inventory and distribution demands of its e-commerce business. And while the e-commerce business is still too small to fully offset the decline in sales through department stores, it does go a long way towards underpinning overall sales.

Company forecast for sales and operating profit: Breakdown by segment

By segment	FY02/19			FY02/20		
(JPYmn)	1H	2H	FY	1H Est.	2H Est.	FY Est.
Sales	**113,864**	**126,788**	**240,652**	**121,800**	**134,800**	**256,600**
YoY	-1.3%	-0.7%	-1.0%	7.0%	6.3%	6.6%
Apparel	104,589	117,472	222,421	107,087	118,312	225,399
YoY	-	-	-	2.4%	0.7%	1.3%
Domestic	79,671	90,309	169,980	80,621	88,972	169,593
YoY	-	-	-	1.2%	-1.5%	-0.2%
Onward HD + Onward Kashiyama	64,098	73,793	137,891	64,400	71,700	136,100
YoY	-	-	-	0.5%	-2.8%	-1.3%
Other	15,573	16,516	32,089	16,221	17,272	33,493
YoY	-	-	-	4.2%	4.6%	4.4%
Overseas	24,918	27,523	52,441	26,466	29,340	55,806
YoY	-	-	-	6.2%	6.6%	6.4%
Europe	21,265	23,780	45,045	22,608	24,583	47,191
YoY	-	-	-	6.3%	3.4%	4.8%
Asia	3,346	3,457	6,803	3,480	4,224	7,704
YoY	-	-	-	4.0%	22.2%	13.2%
North America	307	286	593	378	533	911
YoY	-	-	-	23.1%	86.4%	53.6%
Lifestyle	13,907	14,160	28,067	23,236	23,962	47,198
YoY	-	-	-	67.1%	69.2%	68.2%
Yamato	0	0	0	8,700	8,700	17,400
YoY	-	-	-	-	-	-
Chacott	5,808	5,180	10,988	6,000	5,700	11,700
YoY	-	-	-	3.3%	10.0%	6.5%
Creative Yoko	2,789	3,226	6,015	2,828	3,372	6,200
YoY	-	-	-	1.4%	4.5%	3.1%
Other	5,310	5,754	11,064	5,708	6,190	11,898
YoY	-	-	-	7.5%	7.6%	7.5%
Total (simple sum)	**118,496**	**131,992**	**250,488**	**130,323**	**142,274**	**272,597**
YoY	-	-	-	10.0%	7.8%	8.8%
Eliminations	-4,632	-5,204	-9,836	-8,523	-8,074	-9,836
Operating profit	**606**	**3,855**	**4,461**	**620**	**4,900**	**5,520**
YoY	-57.6%	3.1%	-13.7%	2.3%	27.1%	23.7%
OPM	0.5%	3.0%	1.9%	0.5%	3.6%	2.2%
Apparel	1,544	4,089	5,633	832	4,714	5,546
YoY	-	-	-	-46.1%	15.3%	-1.5%
Domestic	2,918	6,106	9,024	2,518	5,249	7,767
YoY	-	-	-	-13.7%	-14.0%	-13.9%
Onward + Onward Kashiyama	2,322	5,305	7,627	1,800	4,040	5,840
YoY	-	-	-	-22.5%	-23.8%	-23.4%
Other	596	801	1,397	718	1,209	1,927
YoY	-	-	-	20.5%	50.9%	37.9%
Overseas	-1,374	-2,017	-3,391	-1,686	-535	-2,221
YoY	-	-	-	-	-	-
Europe	-1,196	-1,117	-2,313	-1,424	-540	-1,964
YoY	-	-	-	-	-	-
Asia	-11	-736	-747	-74	106	32
YoY	-	-	-	-	-	-
US	-167	-164	-331	-188	-101	-289
YoY	-	-	-	-	-	-
Lifestyle	1,023	918	1,941	1,492	1,512	3,004
YoY	-	-	-	45.8%	64.7%	54.8%
Yamato	0	0	0	350	350	700
YoY	-	-	-	-	-	-
Chacott	487	68	555	500	193	696
YoY	-	-	-	2.7%	183.8%	25.4%
Creative Yoko	50	275	325	22	349	371
YoY	-	-	-	-56.0%	26.9%	14.2%
Other	486	575	1,061	620	620	1,240
YoY	-	-	-	27.6%	7.8%	16.9%
Total (simple sum)	**2,567**	**5,007**	**7,574**	**2,324**	**6,226**	**8,550**
YoY	-	-	-	-9.5%	24.3%	12.9%
Eliminations	-1,961	-1,152	-3,113	-1,704	-1,326	-3,030

Source: Shared Research, based on company data

As part of an overall effort to increase sales through shopping centers and outlet malls, the company will do what it has rarely done before: Sell brands that it normally sells through department stores (like Nijyusanku) through stores in shopping centers. The company says the slump in sales in regional department stores in some cities has caused consumers who would normally buy its brands to go apparel-shopping instead at shopping centers and outlet malls. In response, the company is looking at what kind of presence it can establish in shopping centers and outlet malls without straying far from the pricing structure that it has established for sales through department stores. As it has already received many requests from developers to open stores for Nijyusanku, J.Press, and its other major brands, there would seem to be a lot of room for Onward to open stores in shopping centers and outlets malls. In FY02/20, company aims to increase its sales floor space in shopping centers/outlet malls up to 64,661sqm (+2.8% YoY) by year-end and push sales through this channel up to JPY20.5bn (+7.0% YoY).

Breakdown by brand: The company's largest domestic brand, Nijyusanku, had a tough year in FY02/19 as sales declined 3.8% YoY to JPY26.9bn. However, the company is looking for Nijyusanku sales to stage a strong turnaround in FY02/20, with sales rising 7.7% YoY to JPY29.0bn. The forecast reflects a bullish turn in the brand's prospects following changes in its management team and the expansion of its merchandise lineup in 2H FY02/19, the ongoing implementation of its omni-channel marketing strategy, and reforms on the distribution front that will help prevent opportunity losses resulting from stockouts.

With respect to its omni-channel marketing strategy, we note that the company is actively sharing the success story of its Jiyuku brand within the group. Despite the tough operating environment in FY02/19, the Jiyuku brand was able to increase sales by 3.0% YoY to JPY10.0bn by broadening its contact points with consumers well beyond brick-and-mortar stores by publishing its own catalogue (*Another Door*), plus other brand messaging using both print media and digital media (online ads, emails, and social media). Emulating this success story, during FY02/20 Nijyusanku plans to distribute some 250,000 copies of its own catalogue *My Standard* and take additional steps towards implementing an omni-channel strategy that will increase its brand appeal.

Domestic apparel subsidiaries: The company forecasts positive growth in sales and operating profit at Onward Trading (which handles uniforms and promotional goods) and Island (planning, manufacturing, and sales of Grace Continental and other apparel brands). The company's other domestic apparel subsidiaries are currently operating in the red but losses are expected to shrink in FY02/20 as these businesses are right-sized and, together with the gains at Onward Trading and Island, this is expected to lead to a JPY500mn contribution to operating profit growth from domestic apparel subsidiaries.

Overseas apparel: Company expects to continue shrinking losses

The company is looking for a JPY1.2bn contribution to operating profit growth from its overseas apparel businesses as it expects operating losses to shrink from JPY3.4bn in FY02/19 to JPY2.2bn in FY02/20. In Europe, changes in the Jil Sander design team helped improve the brand's appeal and led to an upturn in sales in FY02/19, but there was also upfront spending. On April 5 2019, the company announced major organizational changes at its business in Europe and expects to see improvements in organizational efficiency. However, as European operations include several unprofitable production businesses and there are still many low-margin OEM contracts in place, it will take time before operations can be moved back into the black. Current company plans call for restructuring to continue in the year ahead with the goal of finally turning a profit around FY02/22.

In Asia, the company has been closing unprofitable stores and the cost-savings from this and other restructuring measures is already starting to show results. With the help of higher sales, additional cost-savings from restructuring, and the drop-out of costs related to the startup of the Dalian No. 2 factory, the company sees its Asia businesses moving into the black in FY02/20 following an operating loss of JPY747mn in FY02/19.

Lifestyle business: Gift catalogue sales company Yamato to be added to consolidated results

For its lifestyle business, the company forecasts roughly a JPY1.0bn YoY increase in operating profit in FY02/20, much of which will come from the addition of Yamato Co., Ltd. to consolidated results following its acquisition on February 8, 2019. Yamato specializes in the planning and production of gifts and gift catalogues. The company sees some synergistic effects arising from the acquisition as Yamato's products can be offered to Onward's own customers. For the lifestyle business as a whole, the company forecasts JPY17.4bn in sales and an operating profit of JPY700mn in FY02/20, with additional contributions to earnings expected from rising profits at Chacott (ballet and dance-related goods) and Creative Yoko (pet-related and character goods).

Parent company (Onward Holdings + Onward Kashiyama): Sales and earnings forecast

Parent	FY02/18			FY02/19			FY02/20		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Est.	2H Est.	FY Est.
Sales	**64,881**	**74,557**	**139,438**	**64,098**	**73,793**	**137,891**	**64,400**	**71,700**	**136,100**
YoY	-3.4%	0.9%	-1.2%	-1.2%	-1.0%	-1.1%	0.5%	-2.8%	-1.3%
CoGS	31,472	37,083	68,555	31,009	36,006	67,015	30,950	36,270	67,220
Gross profit	**33,409**	**37,474**	**70,883**	**33,089**	**37,787**	**70,876**	**33,450**	**35,430**	**68,880**
YoY	-0.5%	3.2%	1.5%	-1.0%	0.8%	-0.0%	1.1%	-6.2%	-2.8%
GPM	51.5%	50.3%	50.8%	51.6%	51.2%	51.4%	51.9%	49.4%	50.6%
SG&A expenses	30,331	32,773	63,104	30,767	32,482	63,249	31,650	31,390	63,040
YoY	-3.5%	3.7%	0.1%	1.4%	-0.9%	0.2%	2.9%	-3.4%	-0.3%
SG&A ratio	46.7%	44.0%	45.3%	48.0%	44.0%	45.9%	49.1%	43.8%	46.3%
Operating profit	**3,078**	**4,701**	**7,779**	**2,322**	**5,305**	**7,627**	**1,800**	**4,040**	**5,840**
YoY	43.7%	0.1%	13.8%	-24.6%	12.8%	-2.0%	-22.5%	-23.8%	-23.4%
OPM	4.7%	6.3%	5.6%	3.6%	7.2%	5.5%	2.8%	5.6%	4.3%

Source: Shared Research, based on company data

Parent company sales forecast: Breakdown by channel

By channel	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Cumulative (JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	FY Est.
Sales (parent)	**154,316**	**149,985**	**156,280**	**159,930**	**158,273**	**148,332**	**141,096**	**139,438**	**137,891**	**136,100**
YoY	-1.6%	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%	-1.3%
Department stores	119,051	115,579	119,376	117,429	113,869	104,555	99,541	96,110	90,625	84,009
YoY	-0.5%	-2.9%	3.3%	-1.6%	-3.0%	-8.2%	-4.8%	-3.4%	-5.7%	-7.3%
% of sales	77.1%	77.1%	76.4%	73.4%	71.9%	70.5%	70.5%	68.9%	65.7%	61.7%
New channels	-	2,250	3,800	33,395	35,067	35,210	34,520	35,896	38,539	43,460
YoY	-	-	68.9%	778.8%	5.0%	0.4%	-2.0%	4.0%	7.4%	12.8%
% of sales	-	1.5%	2.4%	20.9%	22.2%	23.7%	24.5%	25.7%	27.9%	31.9%
E-commerce	-	2,250	3,800	5,400	7,300	8,600	11,089	15,250	19,334	22,911
YoY	-	-	68.9%	42.1%	35.2%	17.8%	28.9%	37.5%	26.8%	18.5%
% of sales	-	1.5%	2.4%	3.4%	4.6%	5.8%	7.9%	10.9%	14.0%	16.8%
Shopping centers, outlets	-	-	-	-	-	-	-	20,646	19,205	20,549
YoY	-	-	-	-	-	-	-	-	-7.0%	7.0%
% of sales	-	-	-	-	-	-	-	14.8%	13.9%	15.1%
Total other	-	-	-	-	-	-	-	7,432	8,727	8,631
YoY	-	-	-	-	-	-	-	-	17.4%	-1.1%
% of sales	-	-	-	-	-	-	-	5.3%	6.3%	6.3%
Speciality stores	4,061	4,337	4,247	3,553	3,814	3,558	3,455	3,550	-	-
YoY	-8.9%	6.8%	-2.1%	-16.3%	7.3%	-6.7%	-2.9%	2.7%	-	-
% of sales	2.6%	2.9%	2.7%	2.2%	2.4%	2.4%	2.4%	2.5%	-	-
Chain stores	1,073	772	641	642	573	499	292	252	-	-
YoY	-14.0%	-28.1%	-17.0%	0.2%	-10.7%	-12.9%	-41.5%	-13.7%	-	-
% of sales	0.7%	0.5%	0.4%	0.4%	0.4%	0.3%	0.2%	0.2%	-	-
Other	2,971	2,936	2,452	4,911	4,950	4,510	3,288	3,630	-	-
YoY	-8.4%	-1.2%	-16.5%	100.3%	0.8%	-8.9%	-27.1%	10.4%	-	-
% of sales	1.9%	2.0%	1.6%	3.1%	3.1%	3.0%	2.3%	2.6%	-	-

Source: Shared Research, based on company data

Parent company sales forecast: Breakdown by product category

By product	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Cumulative (JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	FY Est.
Sales (parent)	**154,316**	**149,985**	**156,280**	**159,930**	**158,273**	**148,332**	**141,096**	**139,438**	**137,891**	**136,100**
YoY	-1.6%	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%	-1.3%
Menswear	36,828	36,316	36,986	37,072	37,039	34,971	33,294	32,406	31,054	29,823
YoY	-3.2%	-1.4%	1.8%	0.2%	-0.1%	-5.6%	-4.8%	-2.7%	-4.2%	-4.0%
% of sales	23.9%	24.2%	23.7%	23.2%	23.4%	23.6%	23.6%	23.2%	22.5%	21.9%
Womenswear	104,590	101,490	106,859	110,403	109,001	102,552	97,833	97,205	96,138	95,920
YoY	-0.4%	-3.0%	5.3%	3.3%	-1.3%	-5.9%	-4.6%	-0.6%	-1.1%	-0.2%
% of sales	67.8%	67.7%	68.4%	69.0%	68.9%	69.1%	69.3%	69.7%	69.7%	70.5%
Children's	6,417	6,369	6,691	6,785	6,911	6,862	6,719	6,537	5,985	5,812
YoY	-1.4%	-0.7%	5.1%	1.4%	1.9%	-0.7%	-2.1%	-2.7%	-8.4%	-2.9%
% of sales	4.2%	4.2%	4.3%	4.2%	4.4%	4.6%	4.8%	4.7%	4.3%	4.3%
Other	4,475	4,215	4,134	4,262	4,260	3,947	3,250	3,291	4,714	4,545
YoY	-6.8%	-5.8%	-1.9%	3.1%	-0.0%	-7.3%	-17.7%	1.3%	43.2%	-3.6%
% of sales	2.9%	2.8%	2.6%	2.7%	2.7%	2.7%	2.3%	2.4%	3.4%	3.3%

Source: Shared Research, based on company data

Parent company sales forecast: Breakdown by brand

By brand Cumulative (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Est.
Sales (parent)	154,316	149,985	156,280	159,930	158,273	148,332	141,096	139,438	137,891	136,100
YoY	-1.6%	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%	-1.3%
Key department store brands	90,730	89,128	93,805	96,062	95,455	106,846	105,027	105,997	104,031	100,530
YoY	1.3%	-1.8%	5.2%	2.4%	-0.6%	11.9%	-1.7%	0.9%	-1.9%	-3.4%
% of sales	58.8%	59.4%	60.0%	60.1%	60.3%	72.0%	74.4%	76.0%	75.4%	73.9%
Core brands	53,350	52,074	55,147	57,405	56,716	55,667	55,333	56,419	55,515	57,505
YoY	2.9%	-2.4%	5.9%	4.1%	-1.2%	-1.8%	-0.6%	2.0%	-1.6%	3.6%
% of sales	34.6%	34.7%	35.3%	35.9%	35.8%	37.5%	39.2%	40.5%	40.3%	42.3%
Nijuysanku (W)	24,750	24,676	26,609	27,482	26,878	26,792	27,164	27,982	26,923	29,006
YoY	7.4%	-0.3%	7.8%	3.3%	-2.2%	-0.3%	1.4%	3.0%	-3.8%	7.7%
% of sales	16.0%	16.5%	17.0%	17.2%	17.0%	18.1%	19.3%	20.1%	19.5%	21.3%
Kumikyoku (W)	11,360	10,046	10,553	11,537	11,537	10,674	9,925	9,950	9,719	9,332
YoY	-8.0%	-11.6%	5.0%	9.3%	0.0%	-7.5%	-7.0%	0.3%	-2.3%	-4.0%
% of sales	7.4%	6.7%	6.8%	7.2%	7.3%	7.2%	7.0%	7.1%	7.0%	6.9%
ICB (W)	8,870	8,926	8,998	9,090	8,914	8,847	8,832	8,804	8,899	9,093
YoY	4.7%	0.6%	0.8%	1.0%	-1.9%	-0.8%	-0.2%	-0.3%	1.1%	2.2%
% of sales	5.7%	6.0%	5.8%	5.7%	5.6%	6.0%	6.3%	6.3%	6.5%	6.7%
Jiyuku (W)	8,370	8,426	8,987	9,296	9,387	9,354	9,412	9,683	9,974	10,074
YoY	4.6%	0.7%	6.7%	3.4%	1.0%	-0.4%	0.6%	2.9%	3.0%	1.0%
% of sales	5.4%	5.6%	5.8%	5.8%	5.9%	6.3%	6.7%	6.9%	7.2%	7.4%
Other key department store brands										
J.Press (M, W, ch)	8,300	8,524	9,196	9,676	9,847	9,469	9,166	9,127	9,290	9,472
YoY	5.1%	2.7%	7.9%	5.2%	1.8%	-3.8%	-3.2%	-0.4%	1.8%	2.0%
% of sales	5.4%	5.7%	5.9%	6.1%	6.2%	6.4%	6.5%	6.5%	6.7%	7.0%
Calvin Klein Platinum Label (M, W)	5,890	6,108	6,236	5,357	5,134	4,743	4,440	4,377	4,159	3,980
YoY	-2.3%	3.7%	2.1%	-14.1%	-4.2%	-7.6%	-6.4%	-1.4%	-5.0%	-4.3%
% of sales	3.8%	4.1%	4.0%	3.3%	3.2%	3.2%	3.1%	3.1%	3.0%	2.9%
Gotairiku (M)	4,780	4,434	4,422	4,459	4,792	4,703	4,634	4,550	4,447	4,179
YoY	-4.2%	-7.2%	-0.3%	0.8%	7.5%	-1.9%	-1.5%	-1.8%	-2.3%	-6.0%
% of sales	3.1%	3.0%	2.8%	2.8%	3.0%	3.2%	3.3%	3.3%	3.2%	3.1%
Sonia Rykiel Collection (W)	4,140	3,925	4,129	4,023	3,645	3,221	3,059	2,965	2,900	
YoY	-4.6%	-5.2%	5.2%	-2.6%	-9.4%	-11.6%	-5.0%	-3.1%	-2.2%	
% of sales	2.7%	2.6%	2.6%	2.5%	2.3%	2.2%	2.2%	2.1%	2.1%	
DAKS (M, golf)	3,430	3,225	3,264	3,203	3,203	2,966	2,791	2,661	2,481	2,320
YoY	-8.3%	-6.0%	1.2%	-1.9%	0.0%	-7.4%	-5.9%	-4.7%	-6.8%	-6.5%
% of sales	2.2%	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	1.9%	1.8%	1.7%
Paul Smith (W)	4,130	4,114	4,299	4,462	4,384	4,332	4,300	4,833	5,029	5,100
YoY	4.0%	-0.4%	4.5%	3.8%	-1.7%	-1.2%	-0.7%	12.4%	4.1%	1.4%
% of sales	2.7%	2.7%	2.8%	2.8%	2.8%	2.9%	3.0%	3.5%	3.6%	3.7%
JOSEPH (M, W)	3,730	3,877	4,157	4,542	4,902	4,948	4,906	5,050	4,938	5,024
YoY	4.8%	3.9%	7.2%	9.3%	7.9%	0.9%	-0.8%	2.9%	-2.2%	1.7%
% of sales	2.4%	2.6%	2.7%	2.8%	3.1%	3.3%	3.5%	3.6%	3.6%	3.7%
JANE MORE (W)	2,980	2,847	2,955	2,935	2,832	2,578	2,275	2,077	1,747	
YoY	-6.3%	-4.5%	3.8%	-0.7%	-3.5%	-9.0%	-11.8%	-8.7%	-15.9%	
% of sales	1.9%	1.9%	1.9%	1.8%	1.8%	1.7%	1.6%	1.5%	1.3%	
TOCCA (W, ch)						3,628	3,675	3,816	3,752	3,760
YoY						-	1.3%	3.8%	-1.7%	0.2%
% of sales						2.4%	2.6%	2.7%	2.7%	2.8%
Personal Order (M)						5,420	5,342	5,284	4,999	4,800
YoY						-	-1.4%	-1.1%	-5.4%	-4.0%
% of sales						3.7%	3.8%	3.8%	3.6%	3.5%
Nijyusanku Men's Casual (M)						5,171	5,106	4,838	4,774	4,390
YoY						-	-1.3%	-5.2%	-1.3%	-8.0%
% of sales						3.5%	3.6%	3.5%	3.5%	3.2%
New distribution channel brands	17,650	17,844	19,643	20,754	20,585	19,370	17,342	15,937	15,426	15,660
YoY	-1.9%	1.1%	10.1%	5.7%	-0.8%	-5.9%	-10.5%	-8.1%	-3.2%	1.5%
% of sales	11.4%	11.9%	12.6%	13.0%	13.0%	13.1%	12.3%	11.4%	11.2%	11.5%
anyFAM (W, ch)	7,690	7,692	8,435	8,548	8,155	7,393	6,867	6,805	6,542	6,617
YoY	-3.6%	0.0%	9.7%	1.3%	-4.6%	-9.3%	-7.1%	-0.9%	-3.9%	1.1%
% of sales	5.0%	5.1%	5.4%	5.3%	5.2%	5.0%	4.9%	4.9%	4.7%	4.9%
anySiS (W)	6,840	7,014	7,668	8,537	8,761	8,675	8,958	9,132	8,884	9,043
YoY	-0.3%	2.5%	9.3%	11.3%	2.6%	-1.0%	3.3%	1.9%	-2.7%	1.8%
% of sales	4.4%	4.7%	4.9%	5.3%	5.5%	5.8%	6.3%	6.5%	6.4%	6.6%
field/dream (M, W)	3,120	3,138	3,540	3,669	3,669	3,302	1,517			
YoY	-1.0%	0.6%	12.8%	3.6%	0.0%	-10.0%	-54.1%			
% of sales	2.0%	2.1%	2.3%	2.3%	2.3%	2.2%	1.1%			

Source: Shared Research, based on company data
Note: As of the beginning of FY02/20, the company will no longer carry the SONIA RYKIEL Collection; also, due to the small amount of sales, the Jane More brand will no longer be listed separately as one of the major brands sold through department stores

Sales forecast for major companies in the Onward Group

Main subsidiaries: sales (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Est.
Consolidated total	244,550	242,402	258,369	280,007	281,501	263,516	244,900	243,075	240,652	256,600
YoY	-1.6%	-0.9%	6.6%	8.4%	0.5%	-6.4%	-7.1%	-0.7%	-1.0%	6.6%
Parent (HD + Onward Kashiyama)	154,316	149,985	156,280	159,930	158,273	148,332	141,096	139,438	137,891	136,100
YoY	-1.6%	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%	-1.3%
% of sales	63.1%	61.9%	60.5%	57.1%	56.2%	56.3%	57.6%	57.4%	57.3%	53.0%
Onward Trading	14,868	14,418	14,727	15,470	15,675	15,579	15,807	16,628	15,663	16,150
YoY	-7.2%	-3.0%	2.1%	5.0%	1.3%	-0.6%	1.5%	5.2%	-5.8%	3.1%
% of sales	6.1%	5.9%	5.7%	5.5%	5.6%	5.9%	6.5%	6.8%	6.5%	6.3%
Chacott	10,048	10,127	10,541	10,718	10,956	11,119	11,128	11,243	10,988	11,700
YoY	-0.0%	0.8%	4.1%	1.7%	2.2%	1.5%	0.1%	1.0%	-2.3%	6.5%
% of sales	4.1%	4.2%	4.1%	3.8%	3.9%	4.2%	4.5%	4.6%	4.6%	4.6%
Creative Yoko	7,983	7,699	7,392	7,005	6,944	6,694	6,461	6,341	6,015	6,200
YoY	-4.2%	-3.6%	-4.0%	-5.2%	-0.9%	-3.6%	-3.5%	-1.9%	-5.1%	3.1%
% of sales	3.3%	3.2%	2.9%	2.5%	2.5%	2.5%	2.6%	2.6%	2.5%	2.4%
Island	7,305	8,188	8,481	8,414	8,554	8,743	8,391	8,891	8,796	9,052
YoY	336.9%	12.1%	3.6%	-0.8%	1.7%	2.2%	-4.0%	6.0%	-1.1%	2.9%
% of sales	3.0%	3.4%	3.3%	3.0%	3.0%	3.3%	3.4%	3.7%	3.7%	3.5%
Onward Creative Center	3,150	3,064	3,970	4,783	4,296	3,308	3,441	2,716	-	-
YoY	19.4%	-2.7%	29.6%	20.5%	-10.2%	-23.0%	4.0%	-21.1%	-	-
% of sales	1.3%	1.3%	1.5%	1.7%	1.5%	1.3%	1.4%	1.1%	-	-
Birz Group	-	-	5,058	6,136	4,735	2,259	1,211	-	-	-
YoY	-	-	-	21.3%	-22.8%	-52.3%	-46.4%	-	-	-
% of sales	-	-	2.0%	2.2%	1.7%	0.9%	0.5%	-	-	-
Onward Global Fashion	-	-	-	-	-	-	-	6,469	5,487	-
YoY	-	-	-	-	-	-	-	-	-15.2%	-
% of sales	-	-	-	-	-	-	-	2.7%	2.3%	-
Yamato	63,616	63,745	70,926							17,400
YoY	6.6%	0.2%	11.3%							-
% of sales	26.0%	26.3%	27.5%							6.8%
Onward Luxury Group	21,853	24,794	25,210	33,590	32,630	26,411	29,014	31,884	35,232	36,365
YoY	-17.4%	13.5%	1.7%	33.2%	-2.9%	-19.1%	9.9%	9.9%	10.5%	3.2%
% of sales	8.9%	10.2%	9.8%	12.0%	11.6%	10.0%	11.8%	13.1%	14.6%	14.2%
JOSEPH Group	9,011	8,312	8,818	12,147	13,718	13,621	10,174	10,517	9,813	10,826
YoY	-2.9%	-7.8%	6.1%	37.8%	12.9%	-0.7%	-25.3%	3.4%	-6.7%	10.3%
% of sales	3.7%	3.4%	3.4%	4.3%	4.9%	5.2%	4.2%	4.3%	4.1%	4.2%

Source: Shared Research. based on company data
Note: Starting in FY02/20, the Onward Luxury Group's name will change to Onward Italia, and Yamato Co. Ltd. will be added to consolidated results.

Operating profit forecast for major companies in the Onward Group

Main subsidiaries: operating profit (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Est.
Consolidated total	8,928	10,953	11,192	10,200	5,731	3,778	4,203	5,167	4,461	5,520
YoY	103.7%	22.7%	2.2%	-8.9%	-43.8%	-34.1%	11.2%	22.9%	-13.7%	23.7%
OPM	3.7%	4.5%	4.3%	3.6%	2.0%	1.4%	1.7%	2.1%	1.9%	2.2%
Parent (HD + Onward Kashiyama)	7,401	9,525	11,049	11,655	10,716	7,337	6,838	7,779	7,627	5,840
YoY	24.2%	28.7%	16.0%	5.5%	-8.1%	-31.5%	-6.8%	13.8%	-2.0%	-23.4%
OPM	4.8%	6.4%	7.1%	7.3%	6.8%	4.9%	4.8%	5.6%	5.5%	4.3%
Onward Trading	932	710	1,026	1,070	1,260	1,119	1,259	1,196	1,149	129
YoY	-24.7%	-23.8%	44.5%	4.3%	17.8%	-11.2%	12.5%	-5.0%	-3.9%	-88.8%
OPM	6.3%	4.9%	7.0%	6.9%	8.0%	7.2%	8.0%	7.2%	7.3%	0.8%
Chacott	619	693	745	576	503	663	715	634	555	693
YoY	11.5%	12.0%	7.5%	-22.7%	-12.7%	31.8%	7.8%	-11.3%	-12.5%	24.9%
OPM	6.2%	6.8%	7.1%	5.4%	4.6%	6.0%	6.4%	5.6%	5.1%	5.9%
Creative Yoko	708	725	696	307	176	201	224	306	325	371
YoY	-6.1%	2.4%	-4.0%	-55.9%	-42.7%	14.2%	11.4%	36.6%	6.2%	14.2%
OPM	8.9%	9.4%	9.4%	4.4%	2.5%	3.0%	3.5%	4.8%	5.4%	6.0%
Island	1,476	1,542	1,464	1,217	1,247	1,029	973	1,105	894	1,015
YoY	472.1%	4.5%	-5.1%	-16.9%	2.5%	-17.5%	-5.4%	13.6%	-19.1%	13.5%
OPM	20.2%	18.8%	17.3%	14.5%	14.6%	11.8%	11.6%	12.4%	10.2%	11.2%
Onward Creative Center	-43	-25	30	12	51	69	75	73	-	-
YoY	-	-	-	-60.0%	325.0%	35.3%	8.7%	-2.7%	-	-
OPM	-	-	0.8%	0.3%	1.2%	2.1%	2.2%	2.7%	-	-
Birz Group	-	-	-12	-684	-1,220	-523	-402	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
Onward Global Fashion	-	-	-	-	-	-	-	-1,094	-550	-
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
Yamato	3,720	3,480	3,916							700
YoY	35.8%	-6.5%	12.5%							-
OPM	5.8%	5.5%	5.5%							4.0%
Onward Luxury Group	-	-	-	-353	531	-500	61	-801	-1,372	-1,334
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	1.6%	-	0.2%	-	-	-
JOSEPH	-	-	-	97	373	80	-347	-762	-941	-630
YoY	-	-	-	-	284.5%	-78.6%	-	-	-	-
OPM	-	-	-	0.8%	2.7%	0.6%	-	-	-	-
Differences	-2,165	-2,217	-3,806	-3,697	-7,906	-5,697	-5,193	-3,269	-3,226	-564

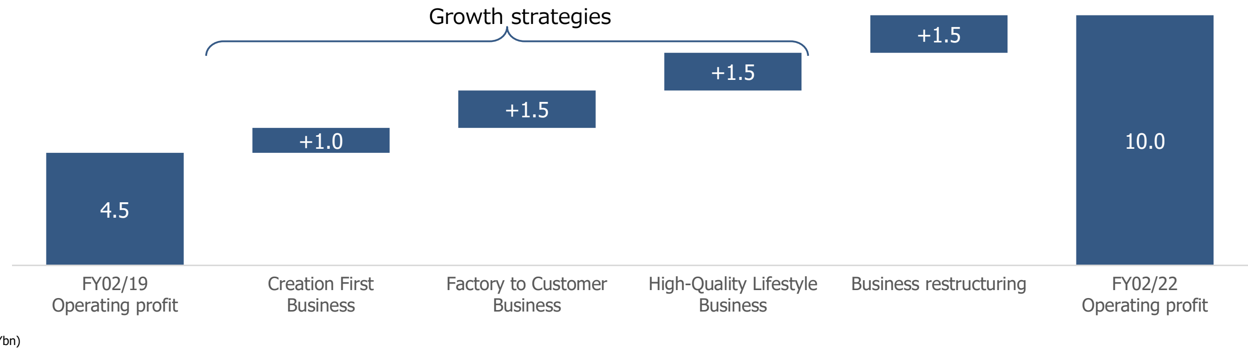
Source: Shared Research, based on company data
Note: Starting in FY02/20, the Onward Luxury Group's name will change to Onward Italia, and Yamato Co. Ltd. will be added to consolidated results.

Medium-term business plan

Medium-term plan (JPYmn)	FY02/19 FY	FY02/20 FY Est.	FY02/22 MTP	3-year CAGR
Consolidated sales	**240,652**	**256,600**	**280,000**	5.2%
YoY	-1.0%	6.6%		
Operating profit	**4,461**	**5,520**	**10,000**	30.9%
YoY	-13.7%	23.7%		
OPM	1.9%	2.2%	3.6%	
ROE	3.1%		5.0%	
E-commerce ratio	11.0%		15.0%	
Overseas ratio	24.0%		25.0%	

Source: Shared Research, based on company data

Outlook for operating profit



Source: Shared Research, based on company data

Taking another run at its JPY10.0bn target for operating profit

The company's results briefing on April 8, 2019 covered not only FY02/19 results but also its new medium-term business plan (covering the years from FY02/20 through FY02/22). Prior to the meeting, the company had announced that, effective May 23, 2019, long-time representative director Takeshi Hirouchi (who has been leading the company since 1997) will retire and become the honorary chairman, and Michio Osawa (whose has been serving as the president of Onward Kashiyama) will become Onward Holdings' new representative director and chairman (president Michinobu Yasumoto will remain in his current position). With this change in the company's senior executive team, it is fair to say that the new medium-term business plan will be in the hands of a new management team.

Key performance targets under the new medium-term plan include consolidated sales of JPY280.0bn, with at least 15% of sales coming from its e-commerce business and 25% of sales from overseas. The company also targets operating profit of JPY10.0bn and an ROE of 5.0%. The sales and operating profit targets for FY02/22 are the same as the targets the company initially set for FY02/19 under the previous medium-term plan, so the company is effectively having another go at them.

The operating profit target of JPY10.0bn set for FY02/22 represents a JPY5.5bn increase over the profit of JPY4.5bn reported for FY02/19. However, since JPY2.2bn of the operating profit in FY02/19 came from inventory valuation gains (stemming from the change in inventory accounting methodology), in real terms the company will need to increase operating profit by JPY7.7bn to meet its FY02/22 target. Of that amount, the company sees business structural reforms generating JPY1.5bn in cost-savings, its Creation First and other existing apparel business generating JPY1.0bn (JPY3.2bn if the impact of inventory valuation change is included), its new Factory to Customer (F2C) business (Kashiyama the Smart Tailor) adding JPY1.5bn, and High-Quality Lifestyle businesses (such as Yamato, Chacott, and Creative Yoko) adding JPY1.5bn.

Business structural reforms

On this front, the company is expecting most of the gains to come from the restructuring of unprofitable businesses. As the group still includes a number of small domestic brands that are not very profitable, the company is looking at downsizing its brand portfolio. In Europe, the main problem is the many small plants that are operating in the red; as a result, the company expects to need two to three years to put European operations in the black.

Creation First business

Expansion plans at the Creation First business will focus on the company's existing apparel businesses. At the mainstay Onward Kashiyama, plans call for 1) expanding its creative capabilities, 2) pushing ahead with its omni-channel marketing strategy, including e-commerce, 3) broadening distribution, and 4) improving accuracy of its supply chain management.

The increase in creative capabilities will be mainly at Onward's key brands, including Nijyusanku, Jiyuku, Kumikyoku, J.Press, and Gotairiku, and will involve even greater cooperation with outside creative talent and stylists. And while the company plans to cull some of its small, unprofitable brands, it will continue developing brands such as Aton, TOCCA, and ADS to help it win new customers from among younger generations.

The company's omni-channel marketing strategy will use messaging across all forms of media, including paper catalogues, online ads, e-mail, social media sites, and apps for members, and revitalize both its brick-and-mortar stores and e-commerce. Emulating the Jiyuku brand's successful use of its own paper catalogue as part of its omni-channel strategy in FY02/19, in FY02/20 the Nijyusanku brand will publish its own catalogue as part of its omni-channel strategy and other brands expect to follow suit with their own mix of digital and hard-copy messaging.

Under the company's distribution strategy, department stores will maintain their position as a key distribution channel even as the company continues working to increase online sales and makes increasing use of stores located in shopping centers and outlet malls. In the past the company rarely sold the same brands it distributed through department stores through stores located in shopping malls or outlet malls. However, with regional department stores struggling and more and more of its own customers starting to go to shopping centers instead of department stores for their apparel needs, the company has decided to break with tradition and start distributing its department stores brands through shopping centers and outlet mall locations as well.

On the supply chain management front, the company is looking to further increase the flexibility of its inventory management system and, toward this end, has already completed the switch from an individual store-based system to a unified inventory management system run out of its head office (although until FY02/19, there were some confusion in some areas). By making use of the flexible production system operated by Kashiyama the Smart Tailor and the expertise built up by Onward Kashiyama in distribution systems, the company aims to hold down inventory levels while at the same time minimizing opportunity losses resulting from stockouts.

Overseas, the company is looking to build on the success of its Jil Sander brand with its expanded lineup and turn around the now-struggling JOSEPH brand with the help of a new design team and new designs aimed at increasing the JOSEPH brand's appeal. Under the new medium-term business plan, the company is looking to increase the proportion of consolidated sales derived from overseas sales to at least 25%.

Factory to Consumer business: Kashiyama the Smart Tailor

The Factory to Consumer (F2C) business is mainly operated by Kashiyama the Smart Tailor. It is a new business for Onward and still fairly small, so the company has yet to include it in consolidated results. Still, the F2C business got off to a good start in FY02/19, selling 56,000 men's suits even before launching a big advertising campaign. The company expects to include the F2C business in consolidated results in either FY02/20 or FY02/21, and envisions the F2C business generating some JPY1.5bn in operating profit by FY02/22. Assuming the average suit sells for roughly JPY50,000, the company is projecting JPY6.0bn in sales in FY02/20, JPY10.0bn in sales in FY02/21, and JPY15.0bn in FY02/22. This compares with JPY3.7bn in sales in FY02/19.

At Kashiyama the Smart Tailor, the order process starts with taking the precise measurements of the person ordering the suit. This information is immediately sent to the company's dedicated factory in China that places much emphasis on speed, will then create the suit. The final step is the shipping of the suit in a special, vacuum-packed bag. The entire process can take as little as one week. After the first suit is ordered, there is no need to take the measurements again so customers can place additional orders using their smartphone.

This system gives the company an edge over competitors on a number of different fronts. First, the measurements are taken by experienced fitters and are based on analog communication; this reduces the chance of mistakes in measurements during the fitting or other mistakes on the order (the company noted that it has trained many fitters through its department store business). Second, because Kashiyama the Smart Tailor offers patterns for some 160 different sizes that can fit a wide range of body types, it can offer suits that look and feel good. Third, the order turnaround time at the company's dedicated factory in China is shortened not by reducing the number of processing steps but by adjusting the plant layout to permit faster processing. And fourth, the company is able to keep prices down by narrowing its product offering down to only certain items and styles.

In addition to men's suits, the Kashiyama the Smart Tailor custom-order business plans to steadily expand its product offering to include men's shirts and jackets, and suits for women. In terms of the geographic reach of the business, the company plans to put its efforts into developing this business in Japan first and then extending it to the East Coast of the US (keeping store costs down by renting space for consumer touchpoints from WeWork Companies Inc. or other shared workspace providers), and into China.

High-Quality Lifestyle business

Under its new medium-term business plan, the company is looking for its High-Quality Lifestyle business to add JPY1.5bn in operating profit. In FY02/20, its first year as a consolidated subsidiary, Yamato and its gift business is expected to add JPY700mn to consolidated operating profit, and contributions from Yamato are expected to continue to grow from FY02/21 as Yamato expands the group’s product offering to existing customers, generating synergies. At Chacott, which mainly handles ballet and other dance-related goods, the company is looking to grow its business by capturing a piece of the growth in value-based, experience-oriented consumption spending. The company also anticipates growth in sales at Creative Yoko, including sales of Sirotan (granting license).

Business

Business description

(JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/14 Cons. (*)	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Sales	**244,550**	**242,402**	**258,369**	**279,073**	**280,007**	**281,501**	**263,516**	**244,900**	**243,075**	**240,652**
Segments (per presentation materials)										
Domestic	217,932	213,730	227,206	233,718	233,571	237,271	223,491	201,887	196,406	192,392
Parent	154,316	149,985	156,280	159,723	159,930	158,273	148,332	141,096	139,438	137,891
Domestic subsidiaries	63,616	63,745	70,926	73,995	73,641	78,998	75,159	60,791	56,968	54,501
Overseas	41,500	43,955	46,845	61,909	61,210	62,604	55,050	52,748	55,884	58,096
Europe	32,042	34,170	35,316	48,057	47,420	48,208	41,978	40,761	44,041	46,528
Asia	6,464	6,895	7,543	8,697	8,635	8,439	7,334	6,383	6,599	6,803
US	2,994	2,890	3,986	5,155	5,155	5,957	5,738	5,604	5,244	4,765
Eliminations	-14,882	-15,283	-15,682	-16,554	-14,774	-18,374	-15,025	-9,735	-9,215	-9,836
Segments (per Securities Filings)										
Apparel	229,738	227,532	242,675	262,075	263,010	264,300	248,467	237,933	236,882	-
Japan	193,480	189,112	202,353	208,094	208,356	211,019	201,823	193,462	189,528	-
Europe	30,359	31,879	33,214	45,523	46,195	45,337	39,681	38,591	41,635	-
Asia and North America	5,898	6,540	7,107	8,457	8,459	7,943	6,962	5,880	5,819	-
Other	14,812	14,869	15,693	16,997	16,997	17,201	15,048	6,967	6,193	-
Gross profit	**115,825**	**115,113**	**124,490**	**129,959**	**130,737**	**129,063**	**119,452**	**113,262**	**113,576**	**111,633**
GPM	47.4%	47.5%	48.2%	46.6%	46.7%	45.8%	45.3%	46.2%	46.7%	46.4%
Onward Kashiyama	48.4%	49.2%	50.6%	49.9%	49.9%	49.5%	48.6%	49.5%	50.8%	51.4%
SG&A expenses	106,896	104,159	113,298	120,537	120,537	123,332	115,674	109,059	108,409	107,171
% of sales	43.7%	43.0%	43.9%	43.2%	43.0%	43.8%	43.9%	44.5%	44.6%	44.5%
Onward Kashiyama	67,244	64,311	67,996	68,156	68,125	67,644	64,824	63,022	63,104	63,249
Operating profit	**8,928**	**10,953**	**11,192**	**9,422**	**10,200**	**5,731**	**3,778**	**4,203**	**5,167**	**4,461**
OPM	3.7%	4.5%	4.3%	3.4%	3.6%	2.0%	1.4%	1.7%	2.1%	1.9%
Segments (per presentation materials)										
Domestic	11,121	13,005	14,965	13,850	14,037	10,974	7,597	7,085	10,457	10,813
Parent	7,401	9,525	11,049	11,543	11,655	10,716	7,337	6,838	7,779	7,627
Domestic subsidiaries	3,720	3,480	3,916	2,307	2,382	258	260	247	2,678	3,186
Overseas	-	1,090	-945	-941	-955	31	-637	-308	-2,091	-3,239
Europe	-	964	-607	-235	-235	950	-230	-182	-1,454	-2,224
Asia	-	333	-147	-224	-238	-687	-306	-80	-482	-747
US	-	-207	-191	-482	-482	-232	-101	-46	-155	-268
Eliminations	-	-3,142	-2,828	-3,487	-2,882	-5,274	-3,182	-2,574	-3,199	-3,113
Segments (per Securities Filings)										
Apparel	8,981	14,302	14,498	11,634	12,412	8,797	5,557	5,461	7,162	-
Japan	-	13,270	15,498	13,877	14,013	10,572	7,009	6,378	9,981	-
Europe	-	944	-438	-1,234	-563	62	-697	-459	-1,848	-
Asia and North America	-	87	-571	-1,008	-1,038	-1,837	-754	-457	-970	-
Other	-117	131	332	289	289	389	629	444	397	-
Eliminations	64	-3,480	-3,629	-2,501	-2,501	-3,455	-2,408	-1,702	-2,392	-

Source: Shared Research, based on company data
Note: The company changed the way it accounted for sales and the cost of goods sold in FY02/15. Instead of royalty income being reported as non-operating revenue and royalty payments as non-operating expenses, royalty income was moved to sales and royalty payments were moved to the cost of goods sold.

The company's core business is manufacturing and sales of fashion apparel, with the apparel business accounting for almost all of operating profit. By region, it derives the bulk of revenues from Japan but it is restructuring operations overseas, which are becoming increasingly important.

Domestically, the main channel is department stores, which comprised 65.7% of mainstay company Onward Kashiyama's overall sales in FY02/19. Onward Kashiyama sells most of its fashion brands (menswear and womenswear with smaller lines for children's wear and fashion accessories) at such stores. The company defines itself as an apparel manufacturer with strength in high-quality, high-value-added apparel.

The company is organized as a holding structure—Onward Holdings Co., Ltd. (Onward HD) is the reporting entity that controls about 72 consolidated subsidiaries (as of end FY02/19). By far the most important is Onward Kashiyama Co., Ltd., responsible for apparel sales in Japan.

Parent (Onward Kashiyama and Onward Holdings) sales breakdown

(JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/14 Act. (*)	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	**154,316**	**149,985**	**156,280**	**159,723**	**159,930**	**158,273**	**148,332**	**141,096**	**139,438**	**137,891**
By channel										
Department stores	119,051	115,579	119,376	119,828	117,429	113,869	104,555	99,541	96,110	90,625
New distribution channels	27,160	26,361	29,564	33,395	33,395	35,067	35,210	34,520	35,896	38,539
E-commerce		2,200	3,800	5,400	5,400	7,300	8,600	11,089	15,250	19,334
Shopping centers, outlets		24,200	25,800	28,000	28,000	27,800	26,600	23,400	20,600	19,205
Other	8,105	8,045	7,340	6,500	9,106	9,337	8,567	7,035	7,432	8,727
Specialty stores	4,061	4,337	4,247	3,553	3,553	3,814	3,558	3,455	3,550	-
Chain stores	1,073	772	641	642	642	573	499	292	252	-
Other	2,971	2,936	2,452	2,305	4,911	4,950	4,510	3,288	3,630	-
By product										
Menswear	36,828	36,316	36,986	37,072	37,072	37,039	34,971	33,294	32,406	31,054
Womenswear	104,590	101,490	106,859	110,403	110,403	109,001	102,552	97,833	97,205	96,138
Children's	6,417	6,369	6,691	6,785	6,785	6,911	6,862	6,719	6,537	5,985
Kimonos	2,006	1,595	1,610	1,408	1,408	1,062	-	-	-	-
Other	4,475	4,215	4,134	4,055	4,262	4,260	3,947	3,250	3,291	4,714
YoY	**-1.6%**	**-2.8%**	**4.2%**	**2.2%**		**-1.0%**	**-6.3%**	**-4.9%**	**-1.2%**	**-1.1%**
By channel										
Department stores	-0.5%	-2.9%	3.3%	0.4%		-3.0%	-8.2%	-4.8%	-3.4%	-5.7%
New distribution channels	-3.7%	-2.9%	12.2%	13.0%		5.0%	0.4%	-2.0%	4.0%	7.4%
E-commerce			69.4%	42.1%		34.1%	17.8%	28.9%	37.5%	26.8%
Shopping centers, outlets			6.6%	8.5%		-0.7%	-4.3%	-12.0%	-12.0%	-6.8%
Other	-9.4%	-0.7%	-8.8%	-11.4%		2.5%	-8.2%	-17.9%	5.6%	17.4%
Specialty stores	-8.9%	6.8%	-2.1%	-16.3%		7.3%	-6.7%	-2.9%	2.7%	
Chain stores	-14.0%	-28.1%	-17.0%	0.2%		-10.7%	-12.9%	-41.5%	-13.7%	
Other	-8.4%	-1.2%	-16.5%	-6.0%		0.8%	-8.9%	-27.1%	10.4%	
By product										
Menswear	-3.2%	-1.4%	1.8%	0.2%		-0.1%	-5.6%	-4.8%	-2.7%	-4.2%
Womenswear	-0.4%	-3.0%	5.3%	3.3%		-1.3%	-5.9%	-4.6%	-0.6%	-1.1%
Children's	-1.4%	-0.7%	5.1%	1.4%		1.9%	-0.7%	-2.1%	-2.7%	-8.4%
Kimonos	-17.7%	-20.5%	0.9%	-12.5%		-24.6%	-	-	-	-
Other	-6.8%	-5.8%	-1.9%	-1.9%		-0.0%	-7.3%	-17.7%	1.3%	43.2%

Source: Shared Research based on company data
Note: The company changed the way it accounted for sales and the cost of goods sold in FY02/15. Instead of royalty income being reported as non-operating revenue and royalty payments as non-operating expenses, royalty income was moved to sales and royalty payments were moved to the cost of goods sold.

Main segments

Womenswear

Womenswear focuses on upscale brand and fashion clothing. The target market in womenswear is working women in their 20s and to 40s. The core domestic labels are Nijyusanku, Kumikyoku, ICB, and Jiyuku (Kashiyama). JOSEPH and JIL SANDER are the main international brands. Grace Continental—an important brand for new distribution, department store, and directly managed store channels—has been added through the acquisition of Island Co., Ltd. (See Brand Strategy for more.)

Main brands:

- **Nijyusanku (est. 1993):** Onward Kashiyama's largest brand. Aimed mainly at working women from the second generation baby boomers (those born between years 1971 and 1974 to baby boomers) who want to maintain or try to maintain their own style. The brand concept is simplicity and comfort that offers a timeless, broad-based appeal that transcends generational lines.
- **Kumikyoku (est. 1992):** Aimed at working women around 30 years of age with feminine taste who desire sophisticated, conservative yet contemporary styling, a comfortable fit, and good quality with lasting appeal.
- **ICB (est. 1995):** International Concept Brand; aimed at career women in their 30s seeking a refined, urban style.
- **Jiyuku (est. 2000):** Aimed at fashion-conscious adult women in their 40s and 50s who are highly attuned to fashion trends and have cultivated the ability to distinguish quality products, and seek to express their own fashion sense. Offers quality and comfortable clothing with the theme of gorgeous daily wear.
- **any FAM (est. 2005):** Brand for new distribution channels such as shopping centers. Styling for women in their 30s with children. High-quality and easy-to-wear apparel at affordable prices.

- **any SiS (est. 2005):** Brand for new distribution channels such as shopping centers. Basic clothing for working women in their 20s. Basic items incorporating the essence of the recent fashion trends. “Natural and feminine” casual brand with marine motives incorporating the essence of seasonal fashion trends.
- **Grace Continental (from 2009):** Brand managed by Island. Highly popular among sophisticated, urbane women. The brand and its sub-brands offer a collection of wide-ranging items not only at new distribution channels (e.g., inside train station buildings, fashion malls) but also at department stores and directly managed stores.

Nijyusanku

Source: Shared Research based on company data

Menswear

Onward entered the apparel business by producing men’s suits and coats in 1950s. The company’s main products are suits, coats, and jackets, targeted mainly toward businessmen above 30.

Main brands:

- **Gotairiku (est. 1992):** Launched in 1992 as Tokyo-hatsu Kokusai-fuku, a “Japanese Gentle Standard” that combined British tradition, French flair, Italian style, American rationality, and Japanese subtlety. On the occasion of the brand’s 20th anniversary, the company revised each product—including the design, materials, and finish. It also worked with famous global cloth manufacturers and Japanese production sites to develop original materials. It will begin selling these new, higher-quality products from the 2015 autumn/winter season.
- **J.Press (from 1974):** Targeting traditionally minded conservative 40-year olds, with the concept of “Evolving tradition” of New York’s Madison Avenue.

Overseas brands

The company owns the brand businesses of JOSEPH and JIL SANDER after acquiring JOSEPH Group in 2005 and JIL SANDER Group in 2008. These brands form the core of the global strategy push of the company.

- **JOSEPH (from 2005):** High quality and easy-to-wear casual clothing based on the concept of “sleek & chic” targeting sophisticated urban men and women. Global brand with stores in major cities of the world starting with London.
- **JIL SANDER (from 2008):** Luxury brand born in Germany in 1973, known worldwide for its simple and minimalistic but at the same time sharp tailoring and high level of sewing technology.

Sales breakdown by brand (parent)

By brand Cumulative (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales (parent)	154,316	149,985	156,280	159,930	158,273	148,332	141,096	139,438	137,891
YoY	-1.6%	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%
Key department store brands	90,730	89,128	93,805	96,062	95,455	106,846	105,027	105,997	104,031
YoY	1.3%	-1.8%	5.2%	2.4%	-0.6%	11.9%	-1.7%	0.9%	-1.9%
% of sales	58.8%	59.4%	60.0%	60.1%	60.3%	72.0%	74.4%	76.0%	75.4%
Core brands	53,350	52,074	55,147	57,405	56,716	55,667	55,333	56,419	55,515
YoY	2.9%	-2.4%	5.9%	4.1%	-1.2%	-1.8%	-0.6%	2.0%	-1.6%
% of sales	34.6%	34.7%	35.3%	35.9%	35.8%	37.5%	39.2%	40.5%	40.3%
Nijuysanku (W)	24,750	24,676	26,609	27,482	26,878	26,792	27,164	27,982	26,923
YoY	7.4%	-0.3%	7.8%	3.3%	-2.2%	-0.3%	1.4%	3.0%	-3.8%
% of sales	16.0%	16.5%	17.0%	17.2%	17.0%	18.1%	19.3%	20.1%	19.5%
Kumikyoku (W)	11,360	10,046	10,553	11,537	11,537	10,674	9,925	9,950	9,719
YoY	-8.0%	-11.6%	5.0%	9.3%	0.0%	-7.5%	-7.0%	0.3%	-2.3%
% of sales	7.4%	6.7%	6.8%	7.2%	7.3%	7.2%	7.0%	7.1%	7.0%
ICB (W)	8,870	8,926	8,998	9,090	8,914	8,847	8,832	8,804	8,899
YoY	4.7%	0.6%	0.8%	1.0%	-1.9%	-0.8%	-0.2%	-0.3%	1.1%
% of sales	5.7%	6.0%	5.8%	5.7%	5.6%	6.0%	6.3%	6.3%	6.5%
Jiyuku (W)	8,370	8,426	8,987	9,296	9,387	9,354	9,412	9,683	9,974
YoY	4.6%	0.7%	6.7%	3.4%	1.0%	-0.4%	0.6%	2.9%	3.0%
% of sales	5.4%	5.6%	5.8%	5.8%	5.9%	6.3%	6.7%	6.9%	7.2%
Other key department store brands									
J.Press (M, W, ch)	8,300	8,524	9,196	9,676	9,847	9,469	9,166	9,127	9,290
YoY	5.1%	2.7%	7.9%	5.2%	1.8%	-3.8%	-3.2%	-0.4%	1.8%
% of sales	5.4%	5.7%	5.9%	6.1%	6.2%	6.4%	6.5%	6.5%	6.7%
Calvin Klein Platinum Label (M, W)	5,890	6,108	6,236	5,357	5,134	4,743	4,440	4,377	4,159
YoY	-2.3%	3.7%	2.1%	-14.1%	-4.2%	-7.6%	-6.4%	-1.4%	-5.0%
% of sales	3.8%	4.1%	4.0%	3.3%	3.2%	3.2%	3.1%	3.1%	3.0%
Gotairiku (M)	4,780	4,434	4,422	4,459	4,792	4,703	4,634	4,550	4,447
YoY	-4.2%	-7.2%	-0.3%	0.8%	7.5%	-1.9%	-1.5%	-1.8%	-2.3%
% of sales	3.1%	3.0%	2.8%	2.8%	3.0%	3.2%	3.3%	3.3%	3.2%
Sonia Rykiel Collection (W)	4,140	3,925	4,129	4,023	3,645	3,221	3,059	2,965	2,900
YoY	-4.6%	-5.2%	5.2%	-2.6%	-9.4%	-11.6%	-5.0%	-3.1%	-2.2%
% of sales	2.7%	2.6%	2.6%	2.5%	2.3%	2.2%	2.2%	2.1%	2.1%
DAKS (M, golf)	3,430	3,225	3,264	3,203	3,203	2,966	2,791	2,661	2,481
YoY	-8.3%	-6.0%	1.2%	-1.9%	0.0%	-7.4%	-5.9%	-4.7%	-6.8%
% of sales	2.2%	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	1.9%	1.8%
Paul Smith (W)	4,130	4,114	4,299	4,462	4,384	4,332	4,300	4,833	5,029
YoY	4.0%	-0.4%	4.5%	3.8%	-1.7%	-1.2%	-0.7%	12.4%	4.1%
% of sales	2.7%	2.7%	2.8%	2.8%	2.8%	2.9%	3.0%	3.5%	3.6%
JOSEPH (M, W)	3,730	3,877	4,157	4,542	4,902	4,948	4,906	5,050	4,938
YoY	4.8%	3.9%	7.2%	9.3%	7.9%	0.9%	-0.8%	2.9%	-2.2%
% of sales	2.4%	2.6%	2.7%	2.8%	3.1%	3.3%	3.5%	3.6%	3.6%
JANE MORE (W)	2,980	2,847	2,955	2,935	2,832	2,578	2,275	2,077	1,747
YoY	-6.3%	-4.5%	3.8%	-0.7%	-3.5%	-9.0%	-11.8%	-8.7%	-15.9%
% of sales	1.9%	1.9%	1.9%	1.8%	1.8%	1.7%	1.6%	1.5%	1.3%
TOCCA (W, ch)						3,628	3,675	3,816	3,752
YoY						-	1.3%	3.8%	-1.7%
% of sales						2.4%	2.6%	2.7%	2.7%
Personal Order (M)						5,420	5,342	5,284	4,999
YoY						-	-1.4%	-1.1%	-5.4%
% of sales						3.7%	3.8%	3.8%	3.6%
Nijyusanku Men's Casual (M)						5,171	5,106	4,838	4,774
YoY						-	-1.3%	-5.2%	-1.3%
% of sales						3.5%	3.6%	3.5%	3.5%
New distribution channel brands	17,650	17,844	19,643	20,754	20,585	19,370	17,342	15,937	15,426
YoY	-1.9%	1.1%	10.1%	5.7%	-0.8%	-5.9%	-10.5%	-8.1%	-3.2%
% of sales	11.4%	11.9%	12.6%	13.0%	13.0%	13.1%	12.3%	11.4%	11.2%
anyFAM (W, ch)	7,690	7,692	8,435	8,548	8,155	7,393	6,867	6,805	6,542
YoY	-3.6%	0.0%	9.7%	1.3%	-4.6%	-9.3%	-7.1%	-0.9%	-3.9%
% of sales	5.0%	5.1%	5.4%	5.3%	5.2%	5.0%	4.9%	4.9%	4.7%
anySiS (W)	6,840	7,014	7,668	8,537	8,761	8,675	8,958	9,132	8,884
YoY	-0.3%	2.5%	9.3%	11.3%	2.6%	-1.0%	3.3%	1.9%	-2.7%
% of sales	4.4%	4.7%	4.9%	5.3%	5.5%	5.8%	6.3%	6.5%	6.4%
field/dream (M, W)	3,120	3,138	3,540	3,669	3,669	3,302	1,517		
YoY	-1.0%	0.6%	12.8%	3.6%	0.0%	-10.0%	-54.1%		
% of sales	2.0%	2.1%	2.3%	2.3%	2.3%	2.2%	1.1%		

Source: Shared Research based on company data
M refers to menswear, W to womenswear, and ch to children's wear

Other

Includes logistics business, sports facilities, and resort operations; negligible impact on the company's performance.

Business model

The company's business model (manufacture and sale of apparel) is executed differently in Japan vs. internationally.

Domestically, Onward develops/designs apparel (for any of its multiple brands), manufactures at partner factories or through trading companies, and sells it (primarily in department stores). In case of department store sales, although the company bears risk from conception to final sale, the retail transaction is recorded as a sale by the department store; Onward books only a wholesale price. Any returns or unsold inventory are the company's responsibility, and it makes final decisions about merchandise price (full or discounted). The department store mark-up is a predetermined percentage of the price as discussed in more detail below.

Internationally (predominantly in Europe), the company owns two core brands, JOSEPH and JIL SANDER, and sells to department stores and other merchants, as well as in directly managed stores. A part of manufacturing is handled by GIBO'Co., an Italian manufacturing subsidiary.

Domestic business

While Onward defines itself as an apparel manufacturer, it bears most characteristics of an SPA retailer (Specialty Store Retailer of Private Label Apparel). The company has multiple brands and directs manufacturing (done by partner factories or trading companies) of apparel and accessories under those brands, rather than using its own factories. The key difference between Onward and other SPA retailers—such as Fast Retailing (UNIQLO) (TSE1: 9983), Inditex (ZARA), and Hennes & Mauritz (H&M)—is that in the majority of cases, Onward doesn't own directly managed stores. Instead the stores belong to department stores.

While in the past the company was a manufacturer (wholesaling to department stores), during the '90s and 2000s it transitioned into a retailer by all measures but technical details of who books sales and who owns stores.

When selling through the department stores, the company owns most fixtures, displays, and the inventory at stores. It also supplies sales staff. The store space itself is owned by a department store and items sold are booked as department store sales (going through its POS and accounting systems; Onward manages sales and inventory using its own store information system in parallel). Technically, Onward recognizes these as wholesale sales. The reality is that Onward acts as a retailer, taking inventory and other operational risks. Department stores provide store space, and as such are little different from landlords. The wholesale price is determined using a ratio called "buritsu." "Buritsu" is a department store's GPM and is essentially variable rent calculated as a percentage of sales. The ratios are determined in negotiations and differ by the product category, brand, and company involved. A typical "buritsu" rate for apparel is in the 30%-40% range.

> A note on the terminology employed in the apparel manufacturer vs. Japanese department store relationship. The Japanese term for the main transaction method is "shouka" ("purchase-as-sold"), generally translated as "consignment sales." Confusion can arise from the second method employed in the relationship, "itaku hanbai," also translated as "consignment sales." Despite common translation, the two methods have different accounting treatments. The former ("purchase-as-sold") presumes that the title is not transferred to a department store until actual sale, i.e. never booked as department store inventory; the latter ("consignment sales") implies the goods become department store inventory (returnable to the manufacturer if unsold).

The outright purchase method popular in the US (department stores purchase inventory and assume inventory risk) also exists in Japan, and is called "kaitori" ("outright purchase"). This method is uncommon in Japan and represents a negligible part of Onward's department store business.

Currently over 90% of all sales made by Onward are "purchase-as-sold" type. That means that the company is effectively acting as an SPA retailer in terms of inventory risk, even when selling at the department stores.

In other channels the model is different. In shopping centers and similar facilities, a retailer (and Onward would act as a retailer selling there) pays a fixed minimal rent and a percentage of sales on top of it for sales exceeding a predetermined minimum.

Shared Research understands that, in practice, the fixed rent portion dominates, with the overall rental payments typically being about 10% relative to the sales volume. In case of standalone stores, the company would typically pay a fixed rent.

Product development process and cycle at Onward Kashiyama

The process of product development is run by two main groups—sales (internal buyer) teams and planning (brand) teams. Production is driven by decisions of people who put product in stores—internal buyers (called "sales staff" by the company, they belong to one of eight domestic sales offices (branches) and internally source apparel for stores; customers are the end buyers of apparel). Their decisions are driven by performance and feedback from shops.

The company is seeking to reorganize its corporate restructure by introducing a branch office system. Each branch, which previously served as an outpost of mainstay company Onward Kashiyama, will be integrated into the group for its branding strategy. The traditional sales office (branch office) structure is optimal when servicing department stores where securing the sales floor space is more easily done on a company (Onward Kashiyama) rather than a brand level. For sales in other channels however it is better to manage by brand on a nationwide level.

In general, there are four main fashion seasons. For each of them, planning teams develop collection samples which are presented at internal exhibitions. An example of such an exhibition (typically twice a year) is an autumn/winter one, normally held in May. Among the samples shown at the exhibition, the patterns are selected and altered based on the opinions of internal buyers and clients. Then, items selected as a result of this process are ordered by the internal buyers and produced in initial quantities. Additional orders are made based on smaller interim exhibitions mid-season (4-6 per year) and viewings. Planning teams are responsible for making sure that items that are more likely to be reordered can be manufactured. That means securing materials early and keeping them in stock.

In terms of the additional production response, 30 days turnaround is the shortest possible cycle. If fabric and accessory parts are available, the order is dispatched to a domestic or overseas factory (in China and in the future likely in ASEAN countries) and a ready garment is shipped (mostly by sea). If fabric needs to be bought or patterns altered, this adds at least another 1-2 weeks to production.

The company sources fabric and accessory parts (including lining and interlining materials) in advance, which are kept at factories or warehouses of firms that actually "assemble" the apparel. It doesn't own or operate production facilities but rather provides guidance to its subcontractors.

Each collection or merchandising mix for a particular period consists of both items that would not be reordered when sold and items that are likely to be reordered. Normally around 20%-30% of the collection is designed with reorders and continuous production in mind. Those items (examples may include light casual tops, shirts, casual jackets, etc.) are generally responsible for about 70% of total sales. At the same time, one-off items create the collection's unique signature and add zest that increases the fashion statement of the brand. In a nutshell, the customer will most likely buy a pair of gray pants but she will remember that bold coat design in purple and associate her purchase at least partly with that design.

How much to allocate to each individual store is a complex decision based on a number of factors. As a manufacturer, the company has to guess which styles will sell. The management decides on how aggressive it wants to be in terms of the amount of inventory and the number of new items, based on current status of sales and achievement vs. forecasts as well as current economic conditions and future market outlook.

Sales

When selling at the department stores, discounting is done at the end of each season, during seasonal sales. The characteristic feature of Japanese department store's seasonal sales is that discounting tends to be lower and start earlier than in the US or Europe.

While discounts of 50%-70% are common during European bargain sales, in Japan 30%-50% are more prevalent. In a way, the Japanese model provides a relatively shorter window for early season full-price customers, instead offering items at 30% lower prices in the middle of the season and selling items at higher markdown levels early on without having to discount further at the end of each season. The net result is a somewhat smoother distribution of seasonal performance. In the recent years, the seasonal sales at the department stores have been affected by the changing patterns and growing influence of other channels and business models. Examples include the timing of seasonal bargain sales at the retailers selling apparel at railway station complexes and “fashion buildings” (an urban shopping center inside a multi-story building), weekend sales campaigns, and limited time sales at the “fast fashion” retailers.

Starting date for seasonal sales events at major department store chains

		Takashimaya	Daimaru Matsuzakaya	Isetan Mitsukoshi	Sogo & Seibu
2019	Summer				
	Winter	January 2	January 2	January 3	January 1
2018	Summer	June 29	June 29	June 29	June 29
	Winter	January 2	January 2	January 4	January 1
2017	Summer	June 30	June 30	July 12	June 30
	Winter	January 2	January 2	January 11	January 1
2016	Summer	July 1	July 1	July 13	July 1
	Winter	January 2	January 2	January 13	January 1
2015	Summer	July 8	July 8	July 15	July 1
	Winter	January 2	January 2	January 14	January 1
2014	Summer	June 27	June 27	July 16	June 27
	Winter	January 2	January 2	January 15	January 1
2013	Summer	June 28	June 28	July 17	June 28
	Winter	January 2	January 2	January 18	January 1

Source: Shared Research based on company data

Store staffing and sales practices

The company’s hiring trends have been changing—new hires have been mostly on more flexible term-based contracts, as well as part-time employees. It generally means benefits similar to permanent employees but makes termination easier. The issues, however, have been that as a result of this shift fewer young staff fill senior positions, as promotions are generally reserved for permanent employees. This may have created a situation where upper middle management is dominated by males in their 50s. While this means a wealth of experience, it can also mean conservatism and slower decision making. Senior management is aware of the problem and admits that changes are needed. One way to add “new blood” is M&A. The “rejuvenation” at the head office may take time however.

Salespeople at company stores are full-time employees (contract sales employees). Staff report sales and inventory data directly to the headquarters using proprietary store information system. This enables timely additional orders and manufacturing of popular items.

Store sizes and efficiency vary substantially by store location, channel, and the specific brand strategy. The merchandise mix is allocated by its sales organization. Individual stores have some freedom in terms of item placement and display inside the store.

E-commerce

As online shopping continues to spread, the relative importance of e-commerce for the company is growing as well. In FY02/19, sales via e-commerce comprised 14% of Onward Kashiyama’s total sales. The company notes that close to 90% of its e-commerce sales flow through the company’s own e-commerce platform rather than external e-commerce sites. The company employs a pricing principle such that prices customers pay do not change whether items are purchased at department stores or online. However the company books only wholesale prices for sales it makes at department stores. This means sales are higher for the company on an online sale, which pushes up GPM (however, logistics expenses are higher through e-commerce since delivery is required). The company says many consumers check on products at department stores before purchasing them online, meaning department stores serve as a base for its e-commerce sales. On the other hand, the company also helps to direct customers from its shops to department stores by introducing department store cards at its shops. Therefore the company seems to have become an important base to direct customers to the department stores.

Sales breakdown by channel (parent)

(JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/14 Act. (*)	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	**154,316**	**149,985**	**156,280**	**159,723**	**159,930**	**158,273**	**148,332**	**141,096**	**139,438**	**137,891**
By channel										
Department stores	119,051	115,579	119,376	119,828	117,429	113,869	104,555	99,541	96,110	90,625
New distribution channels	27,160	26,361	29,564	33,395	33,395	35,067	35,210	34,520	35,896	38,539
E-commerce		2,200	3,800	5,400	5,400	7,300	8,600	11,089	15,250	19,334
Shopping centers, outlets		24,200	25,800	28,000	28,000	27,800	26,600	23,400	20,600	19,205
Other	8,105	8,045	7,340	6,500	9,106	9,337	8,567	7,035	7,432	8,727
Specialty stores	4,061	4,337	4,247	3,553	3,553	3,814	3,558	3,455	3,550	-
Chain stores	1,073	772	641	642	642	573	499	292	252	-
Other	2,971	2,936	2,452	2,305	4,911	4,950	4,510	3,288	3,630	-
YoY	**-1.6%**	**-2.8%**	**4.2%**	**2.2%**		**-1.0%**	**-6.3%**	**-4.9%**	**-1.2%**	**-1.1%**
By channel										
Department stores	-0.5%	-2.9%	3.3%	0.4%		-3.0%	-8.2%	-4.8%	-3.4%	-5.7%
New distribution channels	-3.7%	-2.9%	12.2%	13.0%		5.0%	0.4%	-2.0%	4.0%	7.4%
E-commerce			69.4%	42.1%		34.1%	17.8%	28.9%	37.5%	26.8%
Shopping centers, outlets			6.6%	8.5%		-0.7%	-4.3%	-12.0%	-12.0%	-6.8%
Other	-9.4%	-0.7%	-8.8%	-11.4%		2.5%	-8.2%	-17.9%	5.6%	17.4%
Specialty stores	-8.9%	6.8%	-2.1%	-16.3%		7.3%	-6.7%	-2.9%	2.7%	
Chain stores	-14.0%	-28.1%	-17.0%	0.2%		-10.7%	-12.9%	-41.5%	-13.7%	
Other	-8.4%	-1.2%	-16.5%	-6.0%		0.8%	-8.9%	-27.1%	10.4%	

Source: Shared Research based on company data
Note: The company changed the way it accounted for sales and the cost of goods sold in FY02/15. Instead of royalty income being reported as non-operating revenue and royalty payments as non-operating expenses, royalty income was moved to sales and royalty payments were moved to the cost of goods sold.

Overseas business

Although the company operates in Europe, Asia and the US, Europe accounts for the majority of overseas business. European operations are mainly conducted by the Onward Luxury Group (OLG) operating a brand business (JIL SANDER) and OEM business and the UK-based JOSEPH Group. OLG was established in FY02/15 by merging GIBO'Co (Italian apparel company Onward acquired in 1990) and JIL SANDER (acquired by Onward in 2008; JIL SANDER's Japanese business was transferred to a domestic subsidiary). Therefore, OLG is engaged in both brand business and OEM/wholesale businesses. Both GIBO and JIL SANDER brands remain, but the company cut costs by aggregating the subsidiaries' European manufacturing, management, planning and production, and showrooms. Also, in a bid to cut operating costs, the company transferred the Japanese business to Onward Global Fashion, a Japanese subsidiary. In 2005, Onward acquired the JOSEPH Group.

The European fashion business is characterized by widespread outsourcing. Design houses rarely have planning and manufacturing capability—this is provided by OLG. The company develops samples, produces and sells the product, in exchange for a license payment to the designer. To enhance OLG's manufacturing capabilities, a number of specialty manufacturing firms were added over time.

- ▷ Erika s.r.l. in 2004 (luxury knitwear)
- ▷ Iris S.p.A. in 2005 (luxury shoe manufacturer)
- ▷ Frassineti s.r.l. in 2007 (handmade leather bags)
- ▷ Freeland in 2015 (luxury sneaker manufacturer)

> Freeland: Italian luxury brand shoes manufacturer acquired in August 2015. Freeland was consolidated from Q4 FY02/16 (November is the final month of the fiscal year for European operations). It underpins the production business's profit.

One of the issues GIBO'Co had over the years is that it was essentially a production and distribution purveyor for up-and-coming independent apparel labels. Arguably therefore, acquisitions of the JOSEPH Group and particularly JIL SANDER were game changing events and a real start for Onward's global expansion ambitions.

OLG is aiming to increase sales by signing new licensing agreements with companies outside the group while also working with group companies such as JIL SANDER, on their production and wholesale channels to improve production efficiency.

Brand business: MOREAU PARIS acquired in March 2016

In March 2016, the company acquired management rights to LA MAISON MOREAU, who owns French luxury leather brand MOREAU PARIS. The company plans to take advantage of its global network and production platform to expand global sales channels (including in Japan). Sales of MOREAU PARIS products started in autumn 2016 at JOSEPH shops in Paris and London. In Japan, the products will be carried by retailers who were already selling this brand before the acquisition, as well as by a MOREAU PARIS store opened at the flagship select store VIA BUS STOP in Aoyama at the end of April 2016. In the profit/loss forecasts at the time of acquisition, the company expected the brand to post a slight loss in the first year, but to contribute to profit thereafter.

> MOREAU PARIS was established in the early 19th century in Paris. The maker of bags and suitcases opened a retail shop in Paris in 1882, before halting operations in the early 20th century. The brand was brought back in 2011 by LA MAISON MOREAU, which runs boutiques in Paris and is expanding into prominent specialty shops in Russia, the Middle East, North America, and Asia (including Shinjuku Isetan in 2014). Products include bags, wallets, and other small leather goods using a variety of colors and materials. http://moreau-paris.com/

Strengths and weaknesses

Strengths

- **Original brands with high brand recognition:** The company has multiple brands that are well-known in Japan such as Nijyusanku, Kumikyoku, ICB, Jiyuku, and Gotairiku. The company has continued to design clothes that many people like while providing stable quality and implementing appropriate brand promotions, which has led to the high brand recognition.
- **Relatively high gross profit margin:** The company's robust branding has led to relatively high gross profit margin. Although the company books only wholesale prices for department store sales rather than retail prices, the company managed to secure GPM of 46.4% in FY02/19. This can be explained by the willingness of consumers to pay high prices for the design, quality, and brand names offered by the company.
- **Stable financial structure:** High-end apparel business is subject to the impacts of trends and economic cycles and it requires a stable financial structure. The company's equity ratio was 55.1% at end-FY02/19. The company's stable financial foundation had made it possible to pursue a management strategy for medium-to-long-term.

Weaknesses

- **Weak market growth:** In FY02/19, 69% of the company's sales came from domestic apparel. It is hard to expect demand for apparel to grow strongly, considering Japan's demographic issues. The company is centered on businesses aimed at the low-growth market, which Shared Research thinks is a weakness for the company's future growth.
- **Reliance on department stores:** Over 60% of the company's domestic apparel sales are through department store channels. Although the company owns brands with high brand recognition, it has to rely on department stores for attracting customers. The company is taking measures to reduce its reliance on department store sales by strengthening e-commerce front, however closures of regional department stores and shrinking available store space are constricting the company' opportunities to sell.
- **Fashion cycle:** High-end brands are expected to provide progressive designs. However, the company cannot be sure whether progressive designs will meet consumer tastes before selling them. Also, sales are affected by the abilities of designers in charge. This means the accuracy of sales forecasts is relatively low in this industry. The company aims to diversify risks by developing multiple brands. Even so it is highly subject to the fashion cycle changes, compared to other apparel companies which make volume sales of essential items.

Market and value chain

Market overview

Domestic apparel market has been heavily impacted by the declining and aging population. Furthermore, the economic situation of the past several years has changed apparel shopping patterns—more people feel it is fine to buy cheap apparel and fewer people can afford expensive one. While the womenswear market is facing challenges but is still robust, the high-end menswear market shrank dramatically both in term of volume and spending (down 20.2% from 2008-2012, data according to the Japan Department Stores Association). For all practical purposes, the market worth analyzing when assessing future growth domestically is womenswear.

The casual apparel revolution led by Fast Retailing's UNIQLO brand and furthered by domestic and overseas "fast fashion" brands has had profound implications for the entire apparel market, including the high-end market. The consumers came to believe that buying very cheap clothing is not embarrassing. As for first fashion brands, these brands have super short production and reordering cycle (sometimes only a week), and low prices at acceptable quality allowed the consumer to follow trends and buy multiple items without spending much money. In many ways, this contributed to hollowing out of the upscale apparel and created a substantial challenge for such apparel's main channel, department stores.

Customers

Although the company's main customer is department stores, the end customers (who buy apparel) have most bargaining power in the value chain. Customers can shop easily in different channels (stores, online, etc.). In this sense, the consumer is clearly the most important. In a way, the biggest problem for Onward over the past 10–15 years has been its inability to change with the consumer. Indeed, for the company "consumer" and "customer" were not the same—its customers are to a great extent the department stores. The company obviously sells to the end consumer. However, it has been constrained by the demands of its dominant channel and that slowed down the reform.

Suppliers

Onward doesn't own factories and its key suppliers are overseas factories (90% of manufacturing is done outside Japan, of which 70%-80% is done in China). The Japanese trading houses play an important role in the supply chain. They handle parts of the production process, connecting the company with manufacturing factories and suppliers, and taking on some risks. They generally guarantee prices for materials and produced items in yen, i.e. take on the currency fluctuation risks. The main partners for the company are Mitsubishi Corporation (TSE1: 8058), Mitsui Corporation (TSE1: 8031), and Nippon Steel Trading Corporation (TSE1: 9810). Onward has been also looking to develop its own manufacturing capabilities and the acquisition of Birz Group (a retailer with direct links to production factories in Asia) in early 2012 was a small step in that direction.

Competitive environment

In a larger sense the company competes with any apparel company, but World Co., Ltd. (TSE1: 3612) and Sanyo Shokai Ltd. (TSE1: 8011) are direct competitors that merit mentioning in Shared Research's view.

Strategy

The high-level strategy stated by the company is to offer highly fashionable, high quality products selling at prices appropriate to their value. For details refer to the section on longer-term strategy. Comments that follow are our previous views, however we retain them in this report as a reference for investors.

Brand strategy

While some US and European companies have won with multiple brands, this typically was via acquisitions. Japanese firms tend to have many smaller domestically-oriented brands, developed in-house.

One explanation for this has been the historic focus on specific channels. To some extent all major Japanese apparel firms defined their businesses first by sales channel and then by the target consumer.

Onward and some peers mentioned in Competition have historically focused on department stores. The company calls itself a "general apparel company," making all sorts of apparel including uniforms and pet wear. However both investors and consumers probably recognized it as a high-end apparel producer which sells in department stores.

While seemingly irrelevant to casual observers, Shared Research believes that the channels dictated business and brand strategies for many Japanese manufacturers. Furthermore, it is likely that preferences and needs of core channel clients, especially powerful department stores, promoted independence of individual operators and proliferation of multiple smaller brands.

Independence here means the remarkable absence of major domestic M&A in the apparel sector. Each manufacturer, especially those selling in department stores, had brands which were replaceable and of limited uniqueness. Buying a competitor would not necessarily guarantee an increase in the sales space allocated by a department store. Developing brands in-house and mastering the relationship with the channel has been the smartest choice. Onward is one of the smartest if not the smartest when it comes to department stores. Hence Onward's more than 70 brands, and deep but historically profitable dependence on department store sales.

Conveniently, the multi-brand approach also reduces risk. Japanese consumers in particular have relatively short-lived preferences and the Japanese fashion cycle is notoriously short and volatile; brands that become too popular too fast often face violent downturns as customers grow weary and flock elsewhere. This is why large overseas apparel companies (excluding sportswear) are multi-brand conglomerates (who buy brands, not create them). Therefore, in Shared Research's view, it is reasonable to conclude that developing multiple brands has been and probably remains the optimal strategy in Japan. While it doesn't create household names that carry on through generations, it allows apparel companies to manage their business in a manner not dissimilar from diversified asset management companies—a little bit of everything for a stable portfolio.

Some brands have distinct items which not only sell well but also distinguish the brand. Theory and Onward's own JOSEPH achieved that in women's pants. Similarly, mentioning Ralph Lauren invokes images of polo shirts, and Burberry, checkered pattern scarves and coats. Onward commented that selling such items is extremely easy and profitable, but finding the right balance between core and new items is one of the hardest parts of brand management.

Developing such brands requires bold vision and initial risk-taking. It's possible that Onward's (and other large and successful companies) relatively bureaucratic and consensus-based organization doesn't easily lend itself to individual risk-taking. It's therefore hard for Onward to repeat the success of acquired brands (JOSEPH, JIL SANDER) domestically. This is probably why the company seems to prefer developing overseas brands as a separate group, using its Italian subsidiary GIBO'Co (now Onward Luxury Group) as a manufacturing platform. This seems the optimal choice for the worldwide expansion.

Shared Research believes that Onward is a product-oriented company. It's less about fashion per se, but more about building a product portfolio uniquely suited to its main department store channel. Rather, the focus is on generating constant flow of apparel corresponding to individual styles of relatively narrowly defined brands.

Sales for higher-priced brands, even quite successful ones, typically range between JPY20-30bn (the biggest rarely reaching JPY50bn). They are different from mass-market brands bought by tens of millions of people. As prices increase so does fashion, i.e. the ability of the brand to respond to the unique needs of a particular group of customers.

Domestic business

Domestically, the company aims to grow by increasing the profitability of the existing business through the structural reform (but not a full-blown “restructuring”) while expanding new businesses and acquiring existing ones. The idea is to continue to see the department store channel as a core one but at the same time pursue growth through other channels.

(Shared Research notes that this commitment to department stores could be one reason why the declining sales do not automatically lead to restructurings across-the-board. Furthermore, the company argues that given low flexibility of the Japanese labor market and high costs associated with the restructurings (one time pay-offs), it is not clear whether a drastic cost reduction would produce any long-lived benefits.)

Shared Research estimates that the department store sales will likely move in-line with the general demographic trends, the economic cycle and be a function of total sales floor space of major department stores. It seems reasonable to assume that given strong core brands, Onward’s share in the channel remains stable or slowly increases. However, since FY02/08 the size of the company’s sales floor space in department stores has continued to decline.

Further domestic expansion would without doubt involve other distribution channels such as shopping centers, fashion buildings, multi-brand standalone stores, and the internet. The company sees growth in these “new distribution” channels as strategically important. Marketing research has shown that brand recognition of the company’s core brands is low in these channels (in FY02/16 as well). Therefore the company plans to spend on advertising and marketing to remedy this. In March 2014, the company launched Share Park, a new brand for new channels. The company plans to open large-scale Share Park stores, with a product line-up ranging from Japanese and foreign fashion and accessories to health and beauty items, and stationery.

Financial statements

Income statement

Income statement (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/14 Cons. *	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Sales	**244,550**	**242,402**	**258,369**	**279,073**	**280,007**	**281,501**	**263,516**	**244,900**	**243,075**	**240,652**
YoY	-1.6%	-0.9%	6.6%	8.0%	8.1%	0.5%	-6.4%	-7.1%	-0.7%	-1.0%
CoGS	128,725	127,288	133,878	149,113	149,270	152,438	144,063	131,638	129,498	129,019
Gross profit	**115,825**	**115,113**	**124,490**	**129,959**	**130,737**	**129,063**	**119,452**	**113,262**	**113,576**	**111,633**
GPM	47.4%	47.5%	48.2%	46.6%	46.7%	45.8%	45.3%	46.2%	46.7%	46.4%
SG&A expenses	106,896	104,159	113,298	120,537	120,537	123,332	115,674	109,059	108,409	107,171
Personnel	58,216	56,543	59,925	62,348	62,348	62,655	58,947	55,428	54,739	53,068
Advertising	5,376	5,128	6,312	7,172	7,172	7,124	5,904	5,965	6,635	6,460
Rent	13,324	12,974	15,925	17,790	17,790	18,233	17,108	15,503	14,445	12,770
Business supplies	2,811	2,715	3,094	3,426	3,426	3,438	3,229	3,487	3,275	3,392
Depreciation	4,943	4,804	4,953	5,750	5,750	6,063	6,567	5,509	5,170	5,299
Packaging, transportation, storage	1,334	1,368	1,980	2,137	2,137	2,512	2,539	3,436	3,512	3,837
Goodwill amortization	3,638	3,664	3,938	3,313	3,313	3,327	3,027	2,132	2,563	2,302
Other	17,254	16,963	17,171	18,601	18,601	19,980	18,353	17,599	18,070	20,043
YoY	-2.6%	-2.6%	8.8%	6.4%	6.4%	2.3%	-6.2%	-5.7%	-0.6%	-1.1%
Personnel	-1.6%	-2.9%	6.0%	4.0%	4.0%	0.5%	-5.9%	-6.0%	-1.2%	-3.1%
Advertising	-2.0%	-4.6%	23.1%	13.6%	13.6%	-0.7%	-17.1%	1.0%	11.2%	-2.6%
Rent	-2.1%	-2.6%	22.7%	11.7%	11.7%	2.5%	-6.2%	-9.4%	-6.8%	-11.6%
Business supplies	0.1%	-3.4%	14.0%	10.7%	10.7%	0.4%	-6.1%	8.0%	-6.1%	3.6%
Depreciation	-2.8%	-2.8%	3.1%	16.1%	16.1%	5.4%	8.3%	-16.1%	-6.2%	2.5%
Packaging, transportation, storage	-9.2%	2.5%	44.7%	7.9%	7.9%	17.5%	1.1%	35.3%	2.2%	9.3%
Goodwill amortization	6.8%	0.7%	7.5%	-15.9%	-15.9%	0.4%	-9.0%	-29.6%	20.2%	-10.2%
Other	-8.1%	-1.7%	1.2%	8.3%	8.3%	7.4%	-8.1%	-4.1%	2.7%	10.9%
% of sales	43.7%	43.0%	43.9%	43.2%	43.0%	43.8%	43.9%	44.5%	44.6%	44.5%
Personnel	23.8%	23.3%	23.2%	22.3%	22.3%	22.3%	22.4%	22.6%	22.5%	22.1%
Advertising	2.2%	2.1%	2.4%	2.6%	2.6%	2.5%	2.2%	2.4%	2.7%	2.7%
Rent	5.4%	5.4%	6.2%	6.4%	6.4%	6.5%	6.5%	6.3%	5.9%	5.3%
Business supplies	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.4%	1.3%	1.4%
Depreciation	2.0%	2.0%	1.9%	2.1%	2.1%	2.2%	2.5%	2.2%	2.1%	2.2%
Packaging, transportation, storage	0.5%	0.6%	0.8%	0.8%	0.8%	0.9%	1.0%	1.4%	1.4%	1.6%
Goodwill amortization	1.5%	1.5%	1.5%	1.2%	1.2%	1.2%	1.1%	0.9%	1.1%	1.0%
Other	7.1%	7.0%	6.6%	6.7%	6.6%	7.1%	7.0%	7.2%	7.4%	8.3%
Operating profit	**8,928**	**10,953**	**11,192**	**9,422**	**10,200**	**5,731**	**3,778**	**4,203**	**5,167**	**4,461**
YoY	103.7%	22.7%	2.2%	-15.8%	-13.7%	-43.8%	-34.1%	11.2%	22.9%	-13.7%
OPM	3.7%	4.5%	4.3%	3.4%	3.6%	2.0%	1.4%	1.7%	2.1%	1.9%
Non-operating income (expenses)	1,569	2,376	2,213	2,789	2,011	1,431	1,726	1,374	761	700
Financial income (expenses)	-323	-153	-100	3	3	-24	26	-63	-18	-58
Royalties (received and paid)	836	802	626	777			-	-	-	-
Forex gains (losses)	-984	-182	-237	501	464	397	49	535	-82	26
Equity in earnings of affiliates	499	715	250	-29	-28	-146	42	-315	-775	-83
Rent received	973	594	622	717	717	889	1,296	1,121	1,231	1,302
Other	567	600	1,051	820	855	315	313	96	406	-487
Recurring profit	**10,497**	**13,329**	**13,405**	**12,211**	**12,211**	**7,162**	**5,504**	**5,577**	**5,928**	**5,161**
YoY	71.5%	27.0%	0.6%	-8.9%	-8.9%	-41.3%	-23.1%	1.3%	6.3%	-12.9%
RPM	4.3%	5.5%	5.2%	4.4%	4.4%	2.5%	2.1%	2.3%	2.4%	2.1%
Extraordinary gains (losses)	-1,945	-2,259	-5,656	-2,737	-2,737	2,233	1,626	5,403	4,101	-2,007
Extraordinary gains	486	1,094	1,967	1,129	1,129	6,006	16,538	9,955	6,210	4,810
Extraordinary losses	2,431	3,353	7,623	3,866	3,866	3,773	14,912	4,552	2,109	6,817
Income taxes	5,708	7,450	3,188	4,781	4,781	5,172	2,868	6,239	3,241	-2,654
Implied tax rate	66.7%	67.3%	41.1%	50.5%	50.5%	55.1%	40.2%	56.8%	32.3%	-84.1%
Minority interests	120	90	56	34	34	18	-15	-3	1,421	860
Net income	**2,722**	**3,529**	**4,503**	**4,658**	**4,658**	**4,204**	**4,278**	**4,744**	**5,366**	**4,948**
YoY	24.5%	29.6%	27.6%	3.4%		-9.7%	1.8%	10.9%	13.1%	-7.8%
Net margin	1.1%	1.5%	1.7%	1.7%		1.5%	1.6%	1.9%	2.2%	2.1%

Source: Shared Research based on company data
Note: The company changed the way it accounted for sales and the cost of goods sold in FY02/15. Instead of royalty income being reported as non-operating revenue and royalty payments as non-operating expenses, royalty income was moved to sales and royalty payments were moved to the cost of goods sold.

Cost structure

Income statement (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/14 Cons. *	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Sales	**244,550**	**242,402**	**258,369**	**279,073**	**280,007**	**281,501**	**263,516**	**244,900**	**243,075**	**240,652**
YoY	-1.6%	-0.9%	6.6%	8.0%	8.1%	0.5%	-6.4%	-7.1%	-0.7%	-1.0%
CoGS	128,725	127,288	133,878	149,113	149,270	152,438	144,063	131,638	129,498	129,019
Gross profit	**115,825**	**115,113**	**124,490**	**129,959**	**130,737**	**129,063**	**119,452**	**113,262**	**113,576**	**111,633**
GPM	47.4%	47.5%	48.2%	46.6%	46.7%	45.8%	45.3%	46.2%	46.7%	46.4%
SG&A expenses	106,896	104,159	113,298	120,537	120,537	123,332	115,674	109,059	108,409	107,171
Personnel	58,216	56,543	59,925	62,348	62,348	62,655	58,947	55,428	54,739	53,068
Advertising	5,376	5,128	6,312	7,172	7,172	7,124	5,904	5,965	6,635	6,460
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Business supplies	2,811	2,715	3,094	3,426	3,426	3,438	3,229	3,487	3,275	3,392
Depreciation	4,943	4,804	4,953	5,750	5,750	6,063	6,567	5,509	5,170	5,299
Packaging, transportation, storage	1,334	1,368	1,980	2,137	2,137	2,512	2,539	3,436	3,512	3,837
Goodwill amortization	3,638	3,664	3,938	3,313	3,313	3,327	3,027	2,132	2,563	2,302
Other	17,254	16,963	17,171	18,601	18,601	19,980	18,353	17,599	18,070	20,043
YoY	-2.6%	-2.6%	8.8%	6.4%	6.4%	2.3%	-6.2%	-5.7%	-0.6%	-1.1%
Personnel	-1.6%	-2.9%	6.0%	4.0%	4.0%	0.5%	-5.9%	-6.0%	-1.2%	-3.1%
Advertising	-2.0%	-4.6%	23.1%	13.6%	13.6%	-0.7%	-17.1%	1.0%	11.2%	-2.6%
Rent	-2.1%	-2.6%	22.7%	11.7%	11.7%	2.5%	-6.2%	-9.4%	-6.8%	-11.6%
Business supplies	0.1%	-3.4%	14.0%	10.7%	10.7%	0.4%	-6.1%	8.0%	-6.1%	3.6%
Depreciation	-2.8%	-2.8%	3.1%	16.1%	16.1%	5.4%	8.3%	-16.1%	-6.2%	2.5%
Packaging, transportation, storage	-9.2%	2.5%	44.7%	7.9%	7.9%	17.5%	1.1%	35.3%	2.2%	9.3%
Goodwill amortization	6.8%	0.7%	7.5%	-15.9%	-15.9%	0.4%	-9.0%	-29.6%	20.2%	-10.2%
Other	-8.1%	-1.7%	1.2%	8.3%	8.3%	7.4%	-8.1%	-4.1%	2.7%	10.9%
% of sales	43.7%	43.0%	43.9%	43.2%	43.0%	43.8%	43.9%	44.5%	44.6%	44.5%
Personnel	23.8%	23.3%	23.2%	22.3%	22.3%	22.3%	22.4%	22.6%	22.5%	22.1%
Advertising	2.2%	2.1%	2.4%	2.6%	2.6%	2.5%	2.2%	2.4%	2.7%	2.7%
Rent	5.4%	5.4%	6.2%	6.4%	6.4%	6.5%	6.5%	6.3%	5.9%	5.3%
Business supplies	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.4%	1.3%	1.4%
Depreciation	2.0%	2.0%	1.9%	2.1%	2.1%	2.2%	2.5%	2.2%	2.1%	2.2%
Packaging, transportation, storage	0.5%	0.6%	0.8%	0.8%	0.8%	0.9%	1.0%	1.4%	1.4%	1.6%
Goodwill amortization	1.5%	1.5%	1.5%	1.2%	1.2%	1.2%	1.1%	0.9%	1.1%	1.0%
Other	7.1%	7.0%	6.6%	6.7%	6.6%	7.1%	7.0%	7.2%	7.4%	8.3%

Source: Shared Research based on company data
Figures may differ from company data due to differences in rounding methods.

Historical forecast accuracy

Results vs. Initial Est. (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Sales (Initial Est.)	250,000	244,800	266,600	273,000	290,700	264,000	254,000	239,300	248,500
Sales (Results)	244,550	242,402	258,369	279,073	281,501	263,516	244,900	243,075	240,652
Results vs. Initial Est.	**-2.2%**	**-1.0%**	**-3.1%**	**2.2%**	**-3.2%**	**-0.2%**	**-3.6%**	**1.6%**	**-3.2%**
Operating profit (Initial Est.)	6,600	10,200	13,800	12,900	12,300	9,000	4,500	5,700	7,200
Operating profit (Results)	8,928	10,953	11,192	9,422	5,731	3,778	4,203	5,167	4,461
Results vs. Initial Est.	**35.3%**	**7.4%**	**-18.9%**	**-27.0%**	**-53.4%**	**-58.0%**	**-6.6%**	**-9.4%**	**-38.0%**
Recurring profit (Initial Est.)	9,000	11,600	15,400	14,800	13,700	10,000	5,600	7,100	7,300
Recurring profit (Results)	10,497	13,329	13,405	12,211	7,162	5,504	5,577	5,928	5,161
Results vs. Initial Est.	**16.6%**	**14.9%**	**-13.0%**	**-17.5%**	**-47.7%**	**-45.0%**	**-0.4%**	**-16.5%**	**-29.3%**
Net income (Initial Est.)	3,500	3,500	5,000	5,000	5,400	5,000	4,500	5,300	6,000
Net income (Results)	2,722	3,529	4,503	4,658	4,204	4,278	4,744	5,366	4,948
Results vs. Initial Est.	**-22.2%**	**0.8%**	**-9.9%**	**-6.8%**	**-22.1%**	**-14.4%**	**5.4%**	**1.2%**	**-17.5%**

Source: Shared Research based on company data
Figures may differ from company data due to differences in rounding methods.

Balance sheet

Balance sheet (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
ASSETS									
Cash and deposits	30,939	33,192	24,677	27,375	31,122	29,407	26,096	26,334	31,284
Accounts receivable	25,399	25,256	25,863	28,250	30,792	27,818	26,008	25,057	25,508
Inventories	30,356	31,443	34,476	40,678	43,861	42,769	40,215	42,978	46,765
Deferred tax assets	4,074	3,820	7,931	5,108	4,065	4,704	3,270	4,130	2,973
Allowance for doubtful accounts	-723	-387	-452	-635	-923	-835	-497	-350	-753
Other current assets	5,499	5,571	7,826	9,568	8,132	17,603	8,477	7,826	11,520
Total current assets	**95,544**	**98,895**	**100,321**	**110,349**	**117,051**	**121,468**	**103,572**	**105,977**	**117,297**
Total tangible assets	**86,622**	**82,987**	**86,861**	**102,878**	**109,658**	**106,695**	**92,268**	**93,714**	**96,717**
Goodwill	43,731	40,793	32,769	29,740	26,568	15,652	18,522	16,228	9,455
Other	3,014	2,701	2,688	4,535	7,487	7,784	7,282	8,284	7,570
Total intangible assets	**46,745**	**43,495**	**35,457**	**34,276**	**34,055**	**23,436**	**25,805**	**24,512**	**17,025**
Investment securities	34,592	35,179	42,730	49,161	54,162	33,922	26,233	30,490	27,845
Long-term loans	4,839	5,028	5,275	5,446	2,294	2,276	2,225	1,888	2,469
Long-term prepaid expenses	750	743	1,212	1,182	1,119	660	579	360	446
Deferred tax assets	5,627	4,495	3,600	3,079	1,168	11,166	8,592	6,971	12,926
Other	9,273	8,916	13,862	10,028	21,993	13,085	11,332	10,632	10,343
Allowance for doubtful accounts	-2,354	-2,801	-2,541	-2,971	-648	-675	-561	-260	-436
Investments and other assets	**52,729**	**51,561**	**64,138**	**65,926**	**80,088**	**61,853**	**51,579**	**53,929**	**56,513**
Total fixed assets	**186,097**	**178,044**	**186,458**	**203,081**	**223,802**	**191,985**	**169,653**	**172,156**	**170,256**
Total assets	**281,642**	**276,939**	**286,779**	**313,430**	**340,854**	**313,454**	**273,226**	**278,133**	**287,554**
LIABILITIES									
Accounts payable	32,703	33,238	33,512	38,305	40,340	34,970	13,960	18,059	17,556
Short-term debt	30,886	29,865	47,581	44,956	45,653	49,154	37,365	35,332	56,685
Corporate taxes payable	4,533	5,699	4,829	955	3,178	5,911	1,096	2,084	475
Provision for bonuses	1,867	1,266	1,289	1,286	1,154	1,001	967	1,051	777
Provision for sales returns	869	513	528	496	404	303	304	271	241
Other	11,819	13,510	13,001	15,011	18,890	14,770	31,992	29,587	29,671
Total current liabilities	**82,677**	**84,091**	**100,740**	**101,009**	**109,619**	**106,109**	**85,684**	**86,384**	**105,405**
Long-term debt	22,665	19,730	1,573	14,051	21,078	16,076	3,418	6,818	4,706
Provision for retirement benefits	3,587	4,261	3,210	3,556	4,268	4,330	4,153	4,328	4,411
Consolidation adjustments	-	-	-	-	-	-	-	-	-
Deferred tax liabilities for land revaluation	5,941	3,966	3,966	3,966	3,209	2,818	2,674	2,259	1,746
Other	8,027	7,588	11,917	15,818	17,364	11,782	11,627	10,191	9,075
Total fixed liabilities	**40,220**	**35,545**	**20,666**	**37,391**	**45,919**	**35,006**	**21,872**	**23,596**	**19,938**
Total liabilities	**122,898**	**119,636**	**121,407**	**138,401**	**155,539**	**141,116**	**107,556**	**109,981**	**125,343**
Capital stock	30,079	30,079	30,079	30,079	30,079	30,079	30,079	30,079	30,079
Capital surplus	50,043	50,043	50,043	50,043	50,043	50,043	50,043	50,043	50,043
Retained earnings	117,776	119,524	120,164	121,007	122,589	114,181	113,071	115,798	107,139
Treasury stock	-23,445	-23,326	-23,146	-23,052	-22,832	-18,040	-24,167	-27,579	-19,833
Valuation and translation adjustments	-17,405	-20,327	-13,420	-4,981	3,410	-6,508	-5,673	-3,732	-9,113
Share subscription rights	532	653	724	823	871	843	779	729	559
Minority interests	1,163	656	926	1,109	1,153	1,738	1,537	2,813	3,336
Total net assets	**158,744**	**157,302**	**165,372**	**175,028**	**185,315**	**172,337**	**165,670**	**168,152**	**162,210**
Working capital	23,052	23,461	26,827	30,623	34,313	35,617	52,263	49,976	54,717
Total interest-bearing debt	53,551	49,595	49,154	59,007	66,731	65,230	40,783	42,150	61,391
Net debt	22,612	16,403	24,477	31,632	35,609	35,823	14,687	15,816	30,107

Source: Shared Research based on company data

Cash flow statement

Cash flow statement (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Cash flows from operating activities (1)	11,206	13,180	10,137	13,361	16,490	3,632	6,844	13,228	4,635
Cash flows from investing activities (2)	-5,151	-1,961	-10,682	-14,300	-15,656	1,782	25,270	-7,299	-10,305
Free cash flow (1+2)	**6,055**	**11,219**	**-545**	**-939**	**834**	**5,414**	**32,114**	**5,929**	**-5,670**
Cash flows from financing activities	-9,271	-7,449	-7,848	2,121	757	-6,357	-32,856	-6,593	11,542
Depreciation and amortization (A)	9,279	9,142	9,658	10,113	10,544	10,825	8,794	8,897	8,811
Capital expenditures (B)	-3,089	-4,163	-6,410	-13,677	-22,181	-12,139	-8,625	-9,458	-11,219
Working capital changes (C)	3,252	409	3,366	3,796	3,690	1,304	16,646	-2,287	4,741
Simple FCF (NI + A + B - C)	**5,660**	**8,099**	**4,385**	**-2,702**	**-11,123**	**1,660**	**-11,733**	**7,092**	**-2,201**

Cash conversion cycle	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Accounts receivable days	38	38	36	35	38	41	40	38	38
Days in inventory	87	89	90	92	101	110	115	117	127
Accounts payable days	97	95	91	88	94	95	68	45	50
Cash conversion cycle (days)	**28**	**32**	**35**	**39**	**45**	**55**	**87**	**110**	**115**

Source: Shared Research based on company data

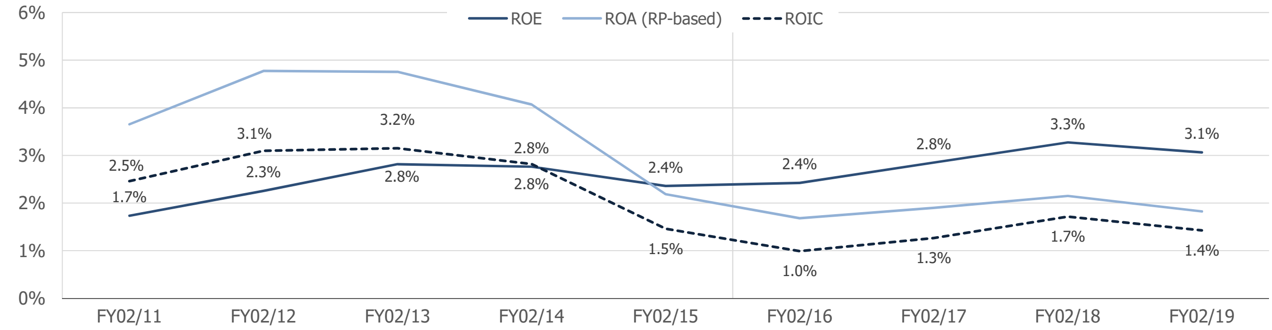
Profitability snapshot, financial ratios

Profit margins (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Gross profit	115,825	115,113	124,490	129,959	129,063	119,452	113,262	113,576	111,633
GPM	47.4%	47.5%	48.2%	46.6%	45.8%	45.3%	46.2%	46.7%	46.4%
Operating profit	8,928	10,953	11,192	9,422	5,731	3,778	4,203	5,167	4,461
OPM	3.7%	4.5%	4.3%	3.4%	2.0%	1.4%	1.7%	2.1%	1.9%
EBITDA	18,207	20,095	20,850	19,535	16,275	14,603	12,997	14,064	13,272
EBITDA margin	7.4%	8.3%	8.1%	7.0%	5.8%	5.5%	5.3%	5.8%	5.5%
Financial ratios									
ROA (RP-based)	3.7%	4.8%	4.8%	4.1%	2.2%	1.7%	1.9%	2.2%	1.8%
ROE	1.7%	2.3%	2.8%	2.8%	2.4%	2.4%	2.8%	3.3%	3.1%
Total asset turnover	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9
Inventory turnover	4.2	4.1	4.1	4.0	3.6	3.3	3.2	3.1	2.9
Days in inventory	87	89	90	92	101	110	115	117	127
Working capital	23,052	23,461	26,827	30,623	34,313	35,617	52,263	49,976	54,717
Current ratio	115.6%	117.6%	99.6%	109.2%	106.8%	114.5%	120.9%	122.7%	111.3%
Quick ratio	72.2%	73.6%	57.6%	59.5%	59.3%	57.6%	64.0%	63.9%	56.0%
OCF / Current liabilities	12.9%	15.8%	11.0%	13.2%	15.7%	3.4%	7.1%	15.4%	4.8%
Net debt / Equity	14.2%	10.4%	14.8%	18.1%	19.2%	20.8%	8.9%	9.4%	18.6%
OCF / Total liabilities	9.1%	11.0%	8.3%	9.7%	10.6%	2.6%	6.4%	12.0%	3.7%
Cash conversion cycle (days)	28	32	35	39	45	55	87	110	115
Change in working capital	3,252	409	3,366	3,796	3,690	1,304	16,646	-2,287	4,741

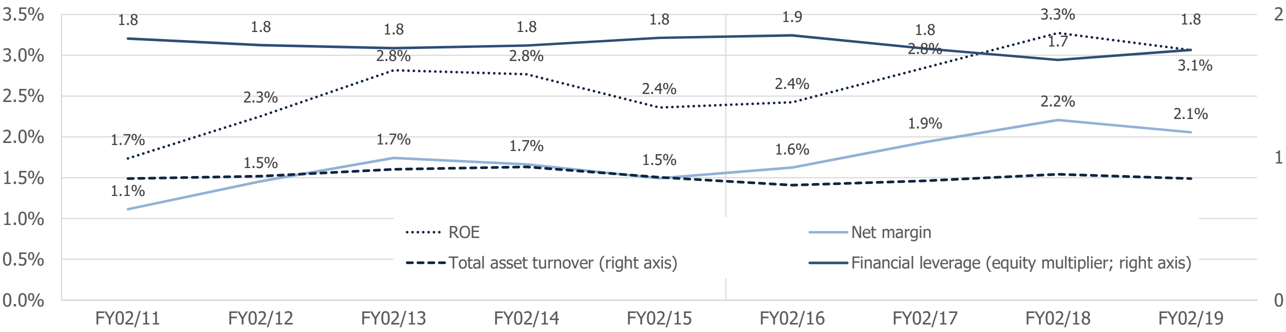
Source: Shared Research based on company data
Figures may differ from company data due to differences in rounding methods.

ROE, ROA, ROIC

(JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons. *	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
ROE	**1.7%**	**2.3%**	**2.8%**	**2.8%**	**2.4%**	**2.4%**	**2.8%**	**3.3%**	**3.1%**
Net margin	1.1%	1.5%	1.7%	1.7%	1.5%	1.6%	1.9%	2.2%	2.1%
Total asset turnover	0.85	0.87	0.92	0.93	0.86	0.81	0.83	0.88	0.85
Financial leverage (equity multiplier)	1.83	1.78	1.76	1.78	1.84	1.85	1.76	1.68	1.75
ROA (RP-based)	**3.7%**	**4.8%**	**4.8%**	**4.1%**	**2.2%**	**1.7%**	**1.9%**	**2.2%**	**1.8%**
ROIC	**2.5%**	**3.1%**	**3.2%**	**2.8%**	**1.5%**	**1.0%**	**1.3%**	**1.7%**	**1.4%**
NOPAT	5,295	6,496	6,638	6,323	3,553	2,432	2,813	3,573	3,095
Net assets + Interest-bearing debt	215,364	209,596	210,712	224,281	243,041	244,807	222,010	208,378	216,952
ROIC (pretax-based)	4.1%	5.2%	5.3%	4.5%	2.4%	1.5%	1.9%	2.5%	2.1%
OPM	3.7%	4.5%	4.3%	3.6%	2.0%	1.4%	1.7%	2.1%	1.9%
Sales / Invested capital	1.14	1.16	1.23	1.25	1.16	1.08	1.10	1.17	1.11



ROE



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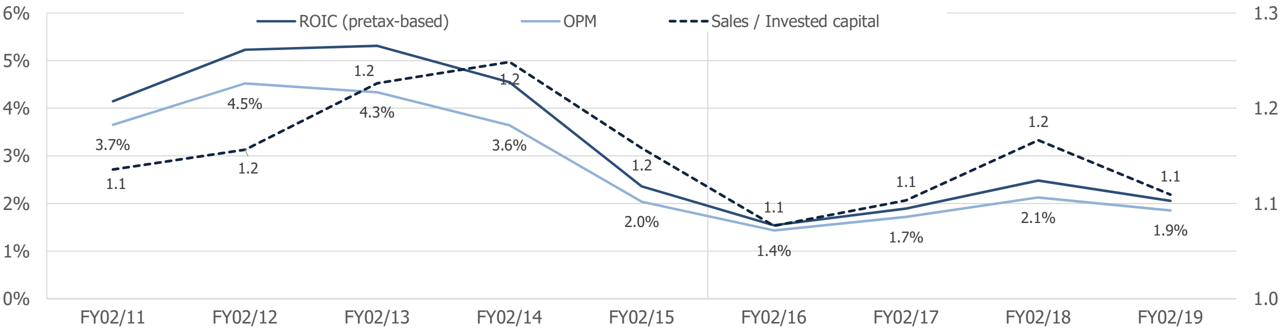
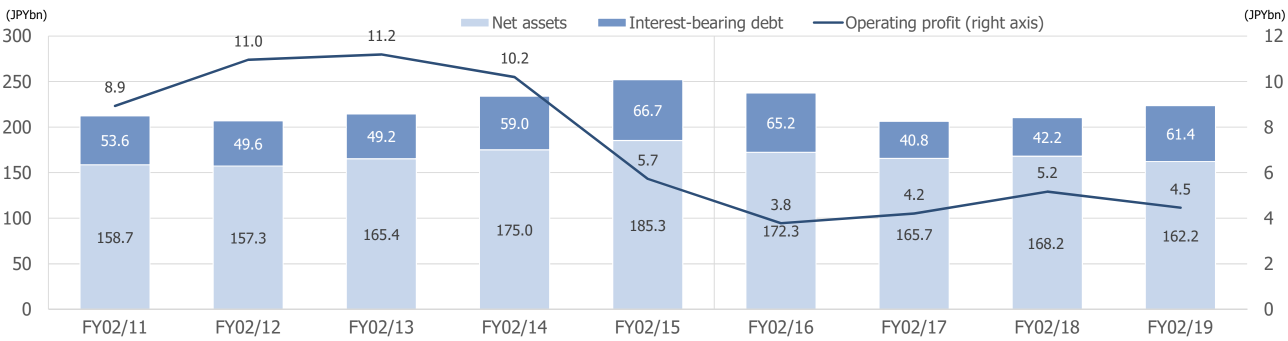




Source: Shared Research based on company data

Other information

History

October 1927	Established as Kashiyama Shoten (Kashiyama Trading) in Osaka.
March 1947	Company name changed to Kashiyama Kogyo (Kashiyama Co., Ltd.)
October 1960	Listed on the 2nd Section of the Tokyo, Osaka and Nagoya Stock Exchange
July 1964	Listed on the 1st Section of the Tokyo, Osaka and Nagoya Stock Exchange
September 1988	Company Name changed to Onward Kashiyama Co., Ltd.
September 2007	Established Onward Holdings Co., Ltd.

"Kashiyama" comes from its founder Junzo Kashiyama, who initially worked as an unpaid apprentice for Mitsukoshi kimono mercer (currently department store Mitsukoshi). In 1927, he set up his own apparel company called Kashiyama Shoten. Shortly after the Second World War, the company started making and selling ready-to-wear men's suits. Women's suits were added in 1960.

The company grew together with the Japanese economy and with fashion tastes (from tailored clothing to readymade). Onward has always had a main focus the fashion apparel business, which has been key in establishing durable relationships with department stores. In recent years Onward has heavily invested in overseas businesses by acquiring international labels such as JOSEPH in 2005, and JIL SANDER in 2008.

Top management

Onward Holdings

Michinobu Yasumoto, representative director and president (b. September 13, 1965)

Joined the Ministry of International Trade and Industry after graduating from the Faculty of Law, the University of Tokyo, in 1988. After joining Onward Holdings in 2006, he became executive officer at Onward Holdings and mainstay company Onward Kashiyama in 2007, managing executive officer at Onward Holdings in 2011, director, head of e-commerce, and head of information systems and environmental management at Onward Holdings and director and managing executive officer at Onward Kashiyama in May 2014, and director, head of omni-channel retailing, and head of corporate planning, information systems and environmental at Onward Holdings and director and senior managing director at Onward Kashiyama in September of the same year. In March 2015, he became representative director and president.

Onward Kashiyama

Michio Osawa, representative director and president (b. February 2, 1956)

Joined the company in 1978. He became an executive officer and the director of trading business division of Onward Kashiyama in 2006, representative director and president of Onward Trading in 2009 (representative director and chairman in 2015 and director and chairman in 2016), corporate executive officer and head of production of Onward Holdings in 2012, corporate executive officer, head of Asia, head of production, and representative director and president of Onward J Bridge in 2015, and senior managing director, head of Asia, and head of planning/production of Onward Holdings in 2016. Appointed senior managing representative director and head of Asia of Onward Holdings in 2019.

Employees

Onward employed 4,643 full-time employees as of end-FY02/19 on a consolidated basis. There were 51 employees at the parent level: average age 47.9, with the company for 22.7 years, and earning a salary of JPY9.9mn.

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Kashiyama Scholarship Foundation	8,710	6.31%
The Master Trust Bank of Japan, Ltd. (Trust account)	6,976	5.06%
BNYMSANV As Agent/Clients LUX UCITS Non Treaty1 (Standing proxy: Kanetsugu Mike, President, MUFG Bank, Ltd.)	6,078	4.40%
Japan Trustee Services Bank, Ltd. (Trust account)	5,714	4.14%
Nippon Life Insurance Company	4,671	3.38%
Onward Holdings Trading Partners' Shareholding Association	4,556	3.30%
Japan Trustee Services Bank, Ltd. (Trust account 9)	4,511	3.27%
The Dai-ichi Mutual Life Insurance Company, Ltd.	4,200	3.04%
Sumitomo Mitsui Banking Corporation	2,931	2.12%
SMBC Nikko Securities Inc.	2,785	2.02%
SUM	51,136	37.09%

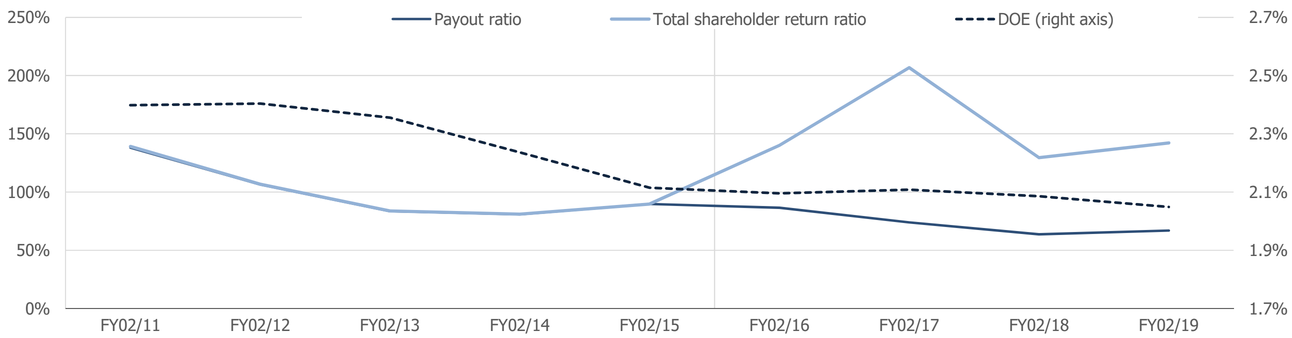
Source: Shared Research based on company data
(As of end-February 28, 2019)

Dividends

The company's target payout ratio is 35% or higher. It is the basic policy of the company that it allocates profits to stakeholders stably and appropriately according to earnings. According to the company, it intends to flexibly use internal reserve, with attention to balance among funding needs, for strategic investment to build a robust business structure and for improvement of financial strength. As for buy-back, it plans to examine elements including funding needs to decide whether to buy back shares.

Dividend payout ratio

(JPYmn)		FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.*	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Total dividends	a)	3,760	3,762	3,765	3,766	3,769	3,699	3,511	3,420	3,308
Total treasury stock acquired	b)	29	2	3	7	4	2,293	6,299	3,531	3,725
Total returns to shareholders	c) = a) + b)	3,789	3,764	3,768	3,773	3,773	5,992	9,810	6,951	7,033
Net income attributable to parent company shareholders	d)	2,722	3,529	4,503	4,658	4,204	4,278	4,744	5,366	4,948
Dividend payout ratio	a) / d)	138.1%	106.6%	83.6%	80.9%	89.7%	86.5%	74.0%	63.7%	66.9%
Total shareholder return ratio	c) / d)	139.2%	106.7%	83.7%	81.0%	89.7%	140.1%	206.8%	129.5%	142.1%
Net assets available to common shareholders (year end)		157,049	155,993	163,722	173,096	183,291	169,756	163,354	164,610	158,315
Avg. of beginning and end of year	f)	156,775	156,521	159,858	168,409	178,194	176,524	166,555	163,982	161,463
EPS	(JPY)	17.4	22.5	28.7	29.7	26.8	28.3	31.5	37.0	35.2
DPS	(JPY)	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
DOE	a) / f)	2.4%	2.4%	2.4%	2.2%	2.1%	2.1%	2.1%	2.1%	2.0%



Source: Shared Research based on company data

By the way

The name Onward, added in 1962 was derived from a Christian hymn ("Onward Christian Soldiers") that Junzo Kashiyama, the founder, liked.

Historical earnings results and news

Historical earnings results

Full-year FY02/19 results (out April 5, 2019)

- ▷ FY02/19 results: The company reported full-year sales of JPY240.7bn (-1.0% YoY), operating profit of JPY4.5bn (-13.7% YoY), and net income attributable to parent company shareholders of JPY4.9bn (-7.8% YoY), with gross profit having received a JPY2.2bn boost as a result of a change in the company's inventory valuation methodology.
- ▷ Q4: Q4 sales were down 0.4% YoY, an improvement over the 1.0% decline logged in Q3 and 2.6% decline in Q2. The gross profit margin of 43.6% was up from 42.9% in Q4 FY02/18. The Q4 operating loss of JPY28mn was also an improvement over the loss of JPY1.2bn in Q4 FY02/18, though this was due mainly to the JPY1.2bn boost to operating profit resulting from the change in the company's inventory valuation methodology.
- ▷ Versus plan: At the time of its Q3 results announcement the company lowered its full-year forecast, projecting sales of JPY243.1bn, operating profit of JPY4.2bn, and net income of 4.6bn. Full-year results were short on sales but the company kept SG&A spending below budget and brought operating profit and net income in ahead of targets.
- ▷ Domestic apparel business: Full-year sales of JPY167.1bn were down 1.9% YoY and operating profit of JPY9.0bn was up 5.3%.
  - ➢ E-commerce: By channel, online sales were the growth driver. At Onward Kashiyama, even as overall sales declined 1.1% YoY to JPY137.9bn, online sales rose 26.8% YoY to JPY19.3bn (consolidated e-commerce sales rose 25.8% YoY to JPY25.5bn). In contrast, sales through department stores were down 5.7% YoY and sales through shopping centers and outlet malls were down 7.0% YoY. In Q4, online sales were up 26.0% YoY, seeing very little impact from the company's decision to pull its online store from ZOZOTOWN.
  - ➢ Brands: Full-year sales of core brands were down 1.6% YoY, with Jiyuku sales up 3.0% YoY and ICB sales up 1.1% YoY versus a 3.8% YoY decline in Nijyusanku sales and 2.3% YoY decline in Kumikyoku sales. Nijyusanku and Kumikyoku sales finished down for the year, but were up YoY in Q4; the question now is whether this Q4 turnaround will continue.
- ▷ Overseas apparel business: Sales rose 4.4% YoY to JPY47.5bn but operating losses swelled to JPY3.8bn versus a loss of JPY2.7bn in FY02/18. Having announced plans for restructuring its European business, the company works to strengthen its management structure at the European business. It booked a total of JPY5.5bn in asset impairment losses under extraordinary losses in FY02/19 related to the restructuring of its European operations.
- ▷ FY02/20 forecast: For FY02/20 the company forecasts full-year sales of JPY256.0bn (+6.6% YoY), operating profit of JPY5.5bn (+23.7% YoY), net income attributable to parent company shareholders of JPY5.5bn (+11.2% YoY), and EPS of JPY39.89. Even without the one-time boost to earnings from the change in inventory accounting methodology in FY02/19, the company forecasts higher sales and higher earnings for the year ahead. The earnings forecast is heavily weighted towards 2H, though, with the company expecting only JPY620mn in operating profit in 1H versus JPY4.9bn in 2H. The hike in the consumption tax rate makes FY02/20 a challenging year for retailers.
- ▷ Medium-term business plan: The company unveiled its new medium-term business plan (for FY02/20–FY02/22) at its results briefing held on April 8, 2019. Under the new plan, the company is again targeting sales of JPY280.0bn and an operating profit of JPY10.0bn. In addition to projected cost-savings of JPY1.5bn from business restructuring, the company is looking for an additional JPY1.0bn in earnings from its existing apparel business (Creation First business), JPY1.5bn from its Factory to Customer (F2C) business, and another JPY1.5bn from its apparel peripherals business (High-Quality Lifestyle business).

- Returns to shareholders: In FY02/20, the company plans to pay an annual dividend of JPY24.0 per share, the same as in FY02/19. The company announced another round of share buybacks on April 5, authorizing the purchase of up to 3.0mn shares (equal to 2.17% of shares outstanding) at a maximum cost of JPY2.1bn between April 10 and August 30, 2019.

Q3 FY02/19 results (out January 11, 2019)

- Cumulative Q3 FY02/19: Operating profit declined 29.8% YoY to JPY4.5bn, despite the positive impact of changes to accounting estimates. The e-commerce business was robust, but sales and earnings fell due to the larger impact of dropping sales at the brick-and-mortar stores
- Domestic apparel business: Operating profit was down 20.9% (-JPY1.8bn) YoY. Changes in accounting methods added JPY997mn to profit
    - E-commerce: E-commerce sales at the parent were up 27.1% (+JPY2.8bn) YoY, accounting for 12.9% of parent sales (versus 10.0% in cumulative Q3 FY02/18); favorable results aided by ongoing "selection and concentration" strategy
    - Brands: Sales of core brands down 2.8% YoY as drop in sales of Nijyusanku and Kumikyoku offset ongoing growth at Jiyuku; new distribution channels also saw lower sales of key brands
    - Changes in accounting methods: With improvements in precise valuation of inventories, the company changed inventory valuation standards starting in Q1 FY02/19. For cumulative Q3, this boosted earnings by a total of JPY997mn
- Overseas apparel business: Sales were up 7.2% YoY and operating losses widened by JPY364mn; sales growth at JIL SANDER, improved profitability in China, and the new flagship store of J.Press in New York contributed to results. That said, overseas sales rose but operating profit fell due to costs associated with renewing some production business contracts
- Lifestyle business: Operating profit was down 20.2% (-JPY313mn) YoY due mainly to decline in sales and earnings at resort business, which was hit by a drop in Japanese tourist traffic to Guam
- Treasury stock: In 1H, the company repurchased 2.0mn shares and retired 5.0mn shares as scheduled. During Q3 the company repurchased 1.26mn shares at a cost of JPY848mn, of the planned repurchase of a maximum of 3.0mn shares at a cost of JPY2.7bn in 2H
- FY02/19: The company announced a downward revision to its full-year forecasts released on October 5. Operating profit was revised down from JPY5.4bn to JPY4.2bn due to sluggish domestic apparel sales in Q3. Sales of full-price items were below expectations for Q3, and GPM declined. Note that changes in accounting methods had a positive impact on earnings

Seasonality: the company's quarterly results fluctuate significantly due to seasonal bargain sales. Q1 (March–May) includes March—a peak season. Whereas Q2 (June–August) includes the summer sales period of July. Therefore the proportion of merchandise sold at normal prices is lower than in Q1 and profitability is likely to be affected. Similarly, Q4 profits are affected by winter bargain sales in January and valuation losses recorded at the end of the financial year.

Overview

Earnings overview

For cumulative Q3 FY02/19, the company reported sales of JPY178.6bn (-1.2% YoY), operating profit of JPY4.5bn (-29.8% YoY), recurring profit of JPY5.2bn (-33.4% YoY), and net income attributable to parent company shareholders of JPY4.7bn (-34.7% YoY). Operating profit was down JPY1.9bn YoY. There were declines in profit at all segments: -JPY1.8bn YoY for the domestic apparel-related business, -JPY364mn YoY for the overseas apparel-related business, and -JPY313mn YoY for the lifestyle business.

It should be noted that as the company became able to value inventories more precisely and fairly, it changed its inventory valuation methodology starting in Q1 FY02/19. As a result of the change in inventory valuations, CoGS was reduced by JPY997mn at both the parent and consolidated level, providing an artificial boost to operating profit YoY.

Impact of changes in inventory valuation standards: JPY477mn in Q1, JPY60mn in Q2, and JPY460mn in Q3; estimated to exceed JPY1.0bn in 2H on stronger impact in Q4.

For Q3 (September–November 2018), the company reported sales of JPY64.8bn, down 1.0% or JPY624mn YoY. With the gross profit margin declining 2.1pp YoY to 48.6%, operating profit of JPY3.9bn was down 21.8% or JPY1.1bn YoY. Q3 results would have been even worse had it not been for the JPY460mn addition to earnings stemming from the change in inventory valuation standards.

The domestic apparel-related business continued to face a harsh operating environment as overall apparel sales through department stores remained weak, and warm weather continued from October into November, impacting the autumn/winter fashion market. Despite increased sales at Jiyuku, ICB and J.Press, total sales of core brands were down 2.8% (-JPY1.2bn) YoY, with sales of Kashiyama's mainstay Nijyusanku brand down 6.0% (-JPY1.3bn) YoY, sales of Kumikyoku down 3.5% (-JPY264mn) YoY, and sales of Gotairiku down 2.4% YoY. In contrast, domestic e-commerce sales were robust, with sales up 27.1% (+JPY2.8bn) YoY, thanks in part to the company's ongoing "selection and concentration" strategy.

During Q3 (September–November), the domestic apparel business generated sales of JPY45.8bn (down 1.2% or JPY550mn YoY) and operating profit of 4.6bn (down 14.1% or JPY745mn YoY). The drop in sales reflected warmer-than-usual temperatures in October and November, which worked to depress sales at height of sales season for autumn and winter fashions. Sales of the Nijyusanku brand for women, which had been favorable in Q3 FY02/18, dropped sharply; sales of the Kumikyoku and Jiyuku women's brands were also down but ICB brand sales were up. Domestic e-commerce sales of JPY4.7bn for Q3 were up 19.2% YoY, a solid double-digit pace albeit slower than the 35.8% rise logged in Q1(March–May) and the 28.2% rise logged in Q2 (June–August).

In December 2018, Onward took down its online store on ZOZOTOWN, a Japanese shopping website specializing in fashion apparel (operated by ZOZO, Inc.). The company's decision stemmed from its desire to keep the prices for new goods uniform regardless of whether they were sold online or through department stores, which clashed with the ZOZOTOWN website's policy of displaying prices net of promotional costs (which are borne by the website operator). Onward noted that its own websites account for roughly 85% of its domestic online sales and external websites (including ZOZOTOWN) only account for about 15%.

The overseas apparel-related business saw some signs of improvement such as the sales of JIL SANDER growing in Europe following renewal of the creative division, profitability improving in China, the success of improved promotional efforts leveraging the new J.Press flagship store in the US, and sales growth in e-commerce. Meanwhile, the company incurred costs associated with the renewal of some production business contract. As such, overall sales increased but earnings decreased YoY.

At the lifestyle business, overall sales and earnings finished down as the resort business suffered from a drop in Japanese tourist traffic to Guam. Profit is expected to decline JPY160mn over the full-year. According to the company, there was improvement in the profitability of Creative Yoko and KOKOBUY.

New segment: The company's earnings results showed a change in reporting segments, effective Q1 FY02/19. The lifestyle business was established as an independent business unit that will serve as a growth driver for the group as a whole. Core subsidiaries under the new segment are Chacott (ballet and dance-related goods) and Creative Yoko (pet-related and character goods), and the new segment also includes KOKOBUY Inc. (cosmetics) and resort business.

FY02/19 full-year outlook: Along with the release of Q3 results, the company also lowered its earnings forecast for the full year. Following the downward revision, the company now forecasts full-year sales of JPY243.1bn (versus previous forecast of JPY243.6bn), a gross profit margin of 46.3% (47.1%), operating profit of JPY4.2bn (JPY5.4bn), and EPS of JPY32.48 (JPY39.09). For Q4, the company forecasts a 3.5% YoY rise in sales, a 0.3pp YoY rise in the gross profit margin to 43.2%, and an operating loss of JPY339mn (versus an operating loss of JPY1.2bn in Q4 FY02/18). With the Q4 forecast depending greatly on the company's ability to break the downtrend in sales thus far, Shared Research would like to keep a close watch on monthly sales. We note that products from the new team responsible for the Nijyusanku brand are expected to come out with the 2019 spring and summer fashion lines, at which time we could see things start heading in a new direction.

Shareholder returns

Along with the release of FY02/18 results on April 6, 2018, the company announced a) a new share buyback plan with an upper limit of 2.0mn shares (equal to 1.4% of shares outstanding) for JPY2.0bn, to be undertaken during 1H FY02/19; and b) plans to dispose 5.0mn of 25.4mn previously acquired treasury shares on April 27, 2018. The company reported that it disposed the 5.0mn treasury shares (equal to 2.97% of shares outstanding) as planned on April 27, 2018, and that it had also completed its share buyback program by May 24, 2018, buying back 2.0mn shares at the total cost of JPY1.8bn.

Together with the 1H FY02/19 earnings, the company announced on October 5, 2018 a new share buyback plan. According to the plan, the company will repurchase up to 3.0mn shares (equal to 2.13% of shares outstanding) for JPY2.7bn during 2H, and dispose 5.0mn shares (equal to 3.06% of shares outstanding) of the 22.23mn treasury shares it holds on October 31, 2018. The company will first aim to achieve an ROE of greater than 5%, and then target an ROE at 8% level.

1H FY02/19 results (out October 5, 2018)

- 1H FY02/19: Despite a plan to increase YoY consolidated operating profit by JPY1.1bn to JPY2.5bn, 1H profit was down 58% (-JPY800mn) YoY, finishing at JPY600mn. The e-commerce business saw solid gains. However, sales and earnings fell due to sales drop at physical stores and upfront spending for logistics reforms to centralize inventory. The company also revised down its 2H forecasts
- Domestic apparel business: Operating profit was down 32% (-JPY1.1bn) YoY. Although changes in accounting methods added JPY500mn to profit, sales and earnings fell at parent and major subsidiaries
    - E-commerce: E-commerce sales at parent were up 32% (+JPY2.1bn) YoY, accounting for 13.3% of parent sales (versus 10.0% in FY02/18); favorable results aided by ongoing "selection and concentration" strategy
    - Brands: Sales of core brands down 3.0% YoY as drop in sales of Nijyusanku and Kumikyoku offset ongoing growth at Jiyuku; new distribution channels also saw lower sales of two key brands
    - Inventory centralization: Efforts to centralize inventory for e-commerce and physical stores were completed in August. The company plans to add a function that enables real-time monitoring of store inventory and in-transit inventory
    - Changes in accounting methods: With improvements in precise valuation of inventories, the company changed inventory valuation standards starting in Q1 FY02/19. This boosted profit by JPY500mn in 1H and should add over JPY1.0bn in 2H
- Overseas apparel business: Sales were up 12% YoY and operating losses narrowed by JPY100mn; sales growth at JIL SANDER, improved profitability in China, and the new flagship store of J.Press in New York contributed to results
    - The company is pushing ahead with structural reforms. It has established a new senior managing executive officer position to oversee international operations, and appointed new COO for MOREAU PARIS and CEOs for JIL SANDER and JOSEPH
- Lifestyle business: Operating profit was down 18% (-JPY200mn) YoY due mainly to decline in sales and earnings at resort business, which was hit by a drop in Japanese tourist traffic to Guam
- Treasury stock: In 1H, the company repurchased 2.0mn shares and retired 5.0mn shares as scheduled. Plans to repurchase a maximum of 3.0mn shares at the cost of JPY2.7bn and dispose 5.0mn shares in 2H
- FY02/19: Announced a downward revision to full-year forecasts. Operating profit was revised down from JPY7.2bn to JPY5.4bn, factoring in the JPY1.9bn shortfall in 1H. The company aims to turnaround sales with the fully priced sale of new ADS down coats in 2H. Note that full-year accounting effects of over JPY1.5bn (JPY500mn in 1H) will drive profit upside against the initial forecasts

▷ FY02/20: The company plans to unveil a new medium-term plan. In addition to growth in e-commerce, the company targets an increase in sales of fully priced items in the domestic business, and anticipates restructuring effects overseas. It will strengthen promotion and pursue domestic and overseas expansion for Kashiyama the Smart Tailor business (non-consolidated) in conjunction with the launch of a new factory in China at end-2018, and consider consolidating the business

Overview

1H FY02/19: Despite solid gains in the e-commerce business, OP fell JPY800mn due to sales drop at physical stores and upfront spending for logistics reforms to centralize inventory

For 1H FY02/19, the company reported sales of JPY113.9bn (-1.3%) YoY, operating profit of JPY600mn (-57.6%) YoY, and recurring profit of JPY1.3bn (-37.6%) YoY. Consolidated operating profit was down JPY823mn YoY. While the overseas apparel-related business saw narrowing of losses by JPY75mn versus 1H FY02/18, declines in profit at the domestic apparel-related business (-JPY1.1bn YoY) and the lifestyle business (-JPY185mn YoY) pushed down overall OP.

It should be noted that as the company became able to value inventories more precisely and fairly, it changed its inventory valuation methodology starting in Q1 FY02/19. As a result of the change in inventory valuations, CoGS was reduced by JPY537mn at both the parent and consolidated level, providing an artificial boost to operating profit YoY.

The domestic apparel-related business continued to face a harsh operating environment as overall apparel sales through department stores remained weak. Total sales of Kashiyama's core brands were down 3.0% (-JPY798mn) YoY, with sales of the mainstay Nijyusanku brand down 7.3% (-JPY973mn) YoY and sales of Kumikyoku down 4.0% (-JPY191mn) YoY. In contrast, domestic e-commerce sales at the parent continued rising at a rapid pace (though was still slightly below plan) with 1H sales up 32.0% (+JPY2.1bn) YoY, thanks in part to the company's ongoing "selection and concentration" strategy. Nijyusanku struggled somewhat with sales of spring/summer fashion due to organizational factors, but sales of autumn/winter fashion are trending up.

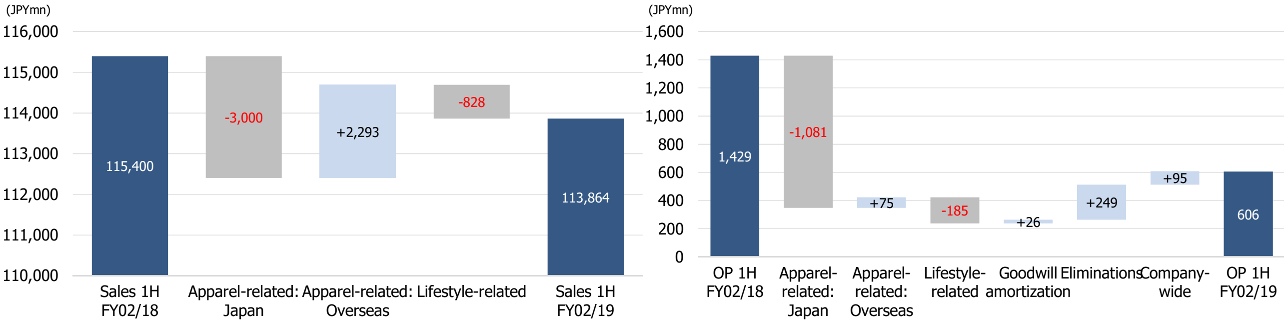
At overseas apparel-related business, overall sales increased but earnings decreased YoY as sales of JIL SANDER grew in the Europe branch, profitability improved in China, and improved promotional efforts leveraging the new J.Press flagship store in the US were successful. Operating losses narrowed by JPY75mn YoY, as performances in the Asian branch (+JPY135mn YoY) and the US (approx. +JPY40mn YoY) contributed. The combined results at two of its main subsidiaries in Europe, OLG and JOSEPH, were largely on par with 1H FY02/18; operating loss at OLG narrowed by JPY104mn to JPY491mn, and operating loss at JOSEPH widened by JPY106mn to JPY705mn.

In the beginning of FY02/19 the company established a new senior managing executive officer position overseeing international operations with a view to pushing ahead with more aggressive structural reforms in Q2 onward. It appointed the former CEO of JOSEPH and current senior managing executive officer overseeing European operations to the de-facto top position of OLG Europe, and appointed new CEO for JIL SANDER and COO for MOREAU PARIS from outside the company, thus strengthening its global sales structure. It also appointed a new CEO for JOSEPH (recruited externally) in an effort to revamp the management structure, and brought on a new creative director. It plans to launch a renewed JOSEPH from the autumn/winter 2019 season.

At the lifestyle business, overall sales and earnings finished down as the resort business suffered from a drop in Japanese tourist traffic to Guam amid rising geopolitical tension in the region. Profit fell about JPY190mn YoY in Guam, and is expected to decline JPY160mn over the full-year. According to the company, there was improvement in the profitability of Chacott and Creative Yoko.

New segment: The company's earnings results showed a change in reporting segments, effective Q1 FY02/19. The lifestyle business was established as an independent business unit that will serve as a growth driver for the group as a whole. Core subsidiaries under the new segment are Chacott (ballet and dance-related goods) and Creative Yoko (pet-related and character goods), and the new segment also includes KOKOBUY Inc. (cosmetics) and resort business.

Factors contributing to changes in segment sales (left) and operating profit (right)



Source: Shared Research based on company data

Shareholder returns

Together with the 1H FY02/19 earnings, the company announced on October 5, 2018 a new share buyback plan. According to the plan, the company will repurchase up to 3.0mn shares (equal to 2.13% of shares outstanding) for JPY2.7bn during 2H, and dispose 5.0mn shares (equal to 3.06% of shares outstanding) of the 22.23mn treasury shares it holds on October 31, 2018. The company will first aim to achieve an ROE of greater than 5%, and then target an ROE at 8% level.

Domestic business

Onward Kashiyama (parent)

Parent Onward Kashiyama reported 1H sales of JPY64.1bn (-1.2% or -JPY800mn YoY) and operating profit of JPY2.3bn (-2.5% or -JPY800mn YoY). The gross profit margin of 51.6% was up 0.1pp; the SG&A ratio was up 1.3pp to 48.0% (SG&A expenses +JPY400mn YoY), and operating profit margin fell 1.1pp to 3.6%. If not for the change in inventory accounting methodology, YoY comparison of 1H results would have been weaker, with the gross margin declining 0.7pp to 50.8%, the operating profit margin declining 2.0pp to 2.8%, and operating profit declining JPY1.3bn to JPY1.8bn.

E-commerce sales rose JPY2.1bn or 32% YoY driven by in-house e-commerce operations, but this was not sufficient to offset the JPY2.9bn or 4.9% YoY decline in physical store sales. Although the drop was attributable in part to a 4.4% contraction in floor space due to department store closures (department stores down 3.7%, shopping centers down 5.8%), the company was likely also late in addressing unexpected changes in consumption trends that led to such closures.

The decline in the gross margin reflected a shortfall in sales of spring fashion and increase in the proportion of e-commerce sales made at discount prices. In Q2, the company conducted two bargain sales campaigns in accordance with the "Premium Friday" campaign promoted by the Japanese government. The first campaign started on June 29 (Fri) and the second campaign on July 27 (Fri). In the intervening month, the company aimed to offer actual-demand mid-summer clothing at full, yet affordable retail prices. However, the period proved to be too short to clear the merchandise, resulting in only a modest contribution.

At the SG&A expense level, 1H saw increases in sales promotion spending (issuing of coupons, sales campaigns, and other measures); logistics-related expenses (part of outsourcing costs included under personnel expenses) also increased along with the rise in e-commerce sales. Meanwhile, the company curtailed advertising expenses, and personnel expenses, non-personnel expenses, and rent fell on a decline in the number of stores.

Trends by brand

Parent company e-commerce sales of JPY8.5bn were up 32.0% or JPY2.1bn YoY; however, overall sales fell YoY partly due to the decline in sales through brick-and-mortar stores, which at JPY55.6bn were down 4.9% or JPY2.9bn. Sales of core brands (40.5% of parent company sales in FY02/18) were down3.0% YoY, hurt especially by slumps in mainstay brands such as Nijyusanku (20.1% of sales) and Kumikyoku (7.1% of sales), which were down by 7.3% and 4.0%, respectively.

Nijyusanku appears to have suffered from changes in the business environment and temporary issues of an organizational nature such as distribution problems. However, such impact has dissipated for autumn/winter fashion and earnings have been steady in

September after factoring out weather and other special factors. Further, the company is working to restructure the brand, shifting its focus from department stores (currently comprising nearly 90% of the brand's operations) to shopping centers. It plans to increase the number of shopping center stores from 2H onward as trial store openings in shopping centers in some regions have proved successful. Nijyusanku may face a high YoY hurdle this year since it enjoyed solid sales of leather jackets in the autumn/winter 2017 season. Nonetheless, Shared Research would like to keep a close watch on its progress toward meeting the targets.

Jiyuku sales (6.9% of parent sales in FY02/18; +8.3% YoY in Q1, +5.0% YoY in Q2) have risen for seven consecutive quarters. The brand's strategic initiatives that focus on its customer base (self-published fashion magazine *Another Door*) are proving effective. The company forecasts steady results in 2H for Jiyuku alongside ICB (6.3% of parent sales in FY02/18; +2.7% YoY in Q1, +0.5% YoY in Q2).

September: Typhoon No. 24, which made landfall in the final weekend of the month, had a major impact on business conditions in major metropolitan areas such as Tokyo, Osaka, and Nagoya, where the number of department store visitors declined partly due to an early suspension of railway services. This coincided with the company's bargain sale events, which further added to the negative impact.

E-commerce

While parent company e-commerce sales finished 1H up 32% or JPY2.1bn YoY, this was still behind the pace needed to meet the company's initial full-year target of a 50% or JPY7.7bn YoY increase. As a result, the company revised the full-year e-commerce sales forecast from the initial JPY22.9bn to JPY21.0bn (+37% or JPY5.7bn YoY) in 1H.

To maximize e-commerce sales, the company will conduct initiatives such as starting full-scale operation of the centralized inventory (mid-August), revamping its official app (November), launching an online-exclusive brand for special occasion wear FeteRobe (November), collaborating with Stripe International by offering products on each other's e-commerce sites (early September), and launching wearable cosmetics brand tton on the company's e-commerce site and at physical stores of some key brands (November). The impact of the centralized inventory is sizeable, but the company is still unable to monitor store and in-transit inventory in real time (at present, it can confirm physical store inventory after closing times, but it is unable to track inventory status during sales hours). The benefits of the centralized inventory are substantial even at the current stage, but the company intends to pursue further improvements by making inventory conditions fully transparent.

Domestic subsidiaries

In 1H, sales at domestic subsidiaries Onward Trading and Island were sluggish. However, the fact that earnings improved at Onward Global Fashion (see table above), which handles imported brands such as JIL SANDER, ROCHAS, and MOREAU PARIS, and that subsidiaries overall are no longer incurring substantial losses is a positive development. The improvement at Onward Global Fashion was largely driven by structural reforms such as withdrawals from unprofitable brands and stores in roadside locations. Because the number of store closures due to restructuring will increase in 2H from 1H, the corresponding effects will also be more pronounced in 2H than in 1H.

Overseas business

Overseas, earnings were broadly in line with plan in Europe, North America, and Asia. The JPY190mn decline in operating profit at the resort business had a major impact on YoY growth, but this was mainly attributable to a drop in visitors to Guam as flights to the island were reduced amid tensions with North Korea. In the European branch, JIL SANDER recorded sales growth following the renewal of the creative division. In the Asian branch, profit margins improved in China. In the US branch, a successful advertising campaign leveraging the new flagship store of J.Press in New York contributed to results. However, sales and earnings at JOSEPH fell in both Q1 and Q2.

The production business in OLG is doing better following a tough year in FY02/18, but the company understands it needs further improvement in earnings. To make this happen the company is pushing ahead with structural reforms. In 1H FY02/19 (December–May), it appointed a de facto top officer of OLG (who is also serving as the senior managing executive officer overseeing European operations) and established a new senior managing executive officer position at headquarters to oversee

international operations in an effort to strengthen the management structure both at the local level and at holding company headquarters.
In 2H (June–November), the company plans to further revamp its management team and continue structural reforms with an eye toward FY02/20.

At OLG, the company appointed new CEO of JIL SANDER and COO of MOREAU PARIS with managers hired from outside the company, strengthening its global sales structure geared toward Japan and North America. In addition, it withdrew from unprofitable retail stores and strengthened wholesale and e-commerce operations, while enhancing efficiency at production sites and promoting their usage within the entire group, including in Japan. At JOSEPH, the company revamped the management structure by hiring a new CEO (also recruited externally) and bringing on a new creative director, and it plans to launch a renewed JOSEPH from the autumn/winter 2019 season. It will also strengthen digital strategy and withdraw from unprofitable stores. The company plans to unveil a new medium-term management plan in April 2019, and finalize concrete measures under the new management team. The company looks for upfront spending in 2H FY02/19, and expects corresponding effects to emerge in earnest from FY02/20. Further, luxury sneaker manufacturer Freeland also appears to be doing well.

The rebound in profitability at the company's Asian operations in 1H appears to have stemmed in large part from initiatives to improve profitability (withdrawal from loss-making stores and focus on highly profitable stores) launched in FY02/18. The sales growth was attributable to improved sales in China and increased utilization rate at the Dalian factory (effects were offset at the consolidated level) among other factors. In addition, Kashiyama the Smart Tailor will start operating in China. The company aims to strengthen its business in Japan for the brand and expand operations first to the US and subsequently to China by leveraging competitive advantages deriving from the combination of its production site in Dalian (manufacturing technology) and face-to-face customer service at direct sales shops that receive customers by appointment.

Kashiyama the Smart Tailor is operated by non-consolidated subsidiary Onward Personal Style in Japan. It was formed through a renewal launch of Sebiro&co., which has operated an online store and 13 physical stores across Japan since October 2017. In FY02/19, the brand is expected to generate sales of JPY3.6bn on sales volume of 53,000 products (estimate as of October 2018). The target for JPY02/20 is sales of 100,000 products and to this end, the company looks to establish 50 direct sales shops (that exclusively accept customers by appointment) in convenient locations (near train stations but on higher floors, e.g., 6th or 9th floor, or inside Onward Kashiyama stores) by end-FY02/19. Achieving sales of 100,000 products in FY02/20 would put it in the same league as Personal Order (JPY6.0–7.0bn). Although this will require personnel training and other upfront expenses, the brand has an earnings structure that steadily generates not only gross profit but also operating profit, so it is expected to deliver earnings contributions when it is consolidated. At a results briefing, the company indicated it sees the brand as a “star” that will contribute to earnings.

Kashiyama the Smart Tailor’s product line originally focused on made-to-measure suits for men. It expanded its offerings with made-to-measure shirts and ladies’ suits in August 2018, and plans to add a business casual line (for men and ladies) in February 2019, and custom-made shoes (for ladies) and whole-garment knitwear from 2019. Products already on offer are performing well, and the brand is aiming to broaden its customer base with its business casual offerings. Its strength derives from a combination of a diverse range of high-quality fabrics, advanced sewing technology, and short turnaround times.

The brand’s products are currently manufactured at the company’s factory in Dalian, China (which handled manufacturing of Gotairiku and J.Press products prior to being acquired by the company), and the factory is currently running at full capacity. The construction of a second factory that is expected to increase capacity by 2.5x is scheduled to be completed between late 2018 to early 2019, and the company plans to step up marketing activities accordingly. At the same time, it is accelerating training of high-level fitting specialists, and already considering adding a third and subsequent factories in the future. At present, it is holding back on advertising activities to ensure it can meet turnaround times.

Q1 FY02/19 results (out July 6, 2018)

- ▷ Q1 FY02/19: Consolidated operating profit down 22% (-JPY1.0bn) YoY as solid gains at domestic e-commerce business overwhelmed by drop in sales and earnings at main domestic apparel subsidiaries and affiliates
- ▷ Domestic apparel business: Operating profit down 15% (-JPY800mn), with sales and earnings down at parent and most major subsidiaries and affiliates; change in inventory accounting added nearly JPY500mn to earnings
  - E-commerce: E-commerce sales at parent up 36% (+JPY1.2bn), now account for 12.5% of parent sales (versus 9.1% in FY02/18); favorable results aided by ongoing "selection and concentration" strategy

- Brands: Sales of core brands down 2.3% as drop in sales of Nijyusanku and Kumikyoku offset ongoing growth at Jiyuku; new distribution channels also see lower sales of two key brands
- Changes in accounting methods: With improvements in precise valuation of inventories, the company changed inventory valuation standards starting in Q1 FY02/19, reducing CoGS by JPY477mn at both the parent and consolidated level

- Overseas apparel business: Operating losses increased by JPY100mn; overall sales increased while earnings declined despite improved profitability at European production business and in China
  - The larger losses in Europe reflected increased spending on advertising and promotion at the brand business. Regarding the overall overseas apparel business, the company pushed ahead with structural reforms, including establishing a new senior managing executive officer position to oversee international operations
- Lifestyle business: Operating profit down 28% (-JPY200mn) due mainly to decline in sales and earnings at resort business, which was hit by a drop in Japanese tourist traffic to Guam. Q2 performance so far has also been weak
- Topics: Company follows through on previously announced plans to buy back up to 2.0mn shares during 1H (completing buybacks by May 24) and extinguish 5.0mn treasury shares (on April 27)
- Outlook from Q2: The high inventory levels at the end of Q1seem to have an impact on Q2 performance, and hence the company is looking to turnaround sales with two rounds of department store bargain sales events and advance orders for new ADS down coats

Overview

Q1 FY02/19: Consolidated operating profit down 22% (-JPY1.0bn) YoY as solid gains at domestic e-commerce business overwhelmed by drop in sales and earnings at main domestic apparel subsidiaries and affiliates

For Q1 FY02/19, the company reported sales of JPY60.9bn (-0.2% YoY), operating profit of JPY3.6bn (-22.0%), and recurring profit of JPY4.1bn (-15.6%). Consolidated operating profit was down JPY1.0bn YoY, reflecting a JPY765mn decline in earnings at the domestic apparel business, JPY139mn decline at the overseas apparel business, and JPY224mn decline at the lifestyle business.

As the company became able to value inventories more precisely and fairly, it changed its inventory valuation methodology starting in Q1 FY02/19 (to a method that reduces the carrying value of inventory at a fixed rate after a certain period of time has passed). As a result of the change in inventory valuations, CoGS was reduced by JPY477mn at both the parent and consolidated level, providing an artificial boost to operating profit YoY.

The domestic apparel-related business continued to face a harsh operating environment as overall apparel sales through department stores remained weak. Total sales of Kashiyama’s core brands were down 2.3% (-JPY328mn), with sales of the mainstay Nijyusanku brand down 6.2% (-JPY442mn) and sales of Kumikyoku down 5.2% (-JPY141mn). In contrast, domestic e-commerce sales at the parent continued rising at a rapid pace (though was still slightly below plan) with Q1 sales up 36.1% (+JPY1.2bn), thanks in part to the company's ongoing "selection and concentration" strategy.

At overseas apparel-related business, overall sales increased while earnings were down even though profitability improved in China and at the company's European production business. Operating losses increased by JPY139mn, most of which was attributable to growing losses at two of its main subsidiaries in Europe, OLG and JOSEPH. Q1 operating losses of JPY219mn at OLG represented an increase of JPY182mn in losses YoY; at JOSEPH, operating losses of JPY444mn were up JPY60mn YoY. Following the establishment of a new senior managing executive officer position to oversee European operations, the company plans to push ahead with more aggressive structural reforms in Q2 onward.

At the lifestyle business, overall sales and earnings finished down as the resort business suffered from a drop in Japanese tourist traffic to Guam amid rising geopolitical tension in the region.

New segment: The company's earnings results showed a change in reporting segments, effective Q1 FY02/19. The lifestyle business was established as an independent business unit that will serve as a growth driver for the group as a whole. Core subsidiaries under the new segment are Chacott (ballet and dance-related goods) and Creative Yoko (pet-related and character goods), and the new segment also includes KOKOBUY Inc. (cosmetics) and resort business.

Domestic business

Parent Onward Kashiyama reported Q1 sales of JPY35.1bn (-1.0% or -JPY400mn YoY) and operating profit of JPY3.9bn (-8.0% or -JPY300mn YoY). The gross profit margin of 55.8% was up 1.0pp, but the gains at the gross profit level were offset by a JPY500mn increase in SG&A, which pushed the SG&A ratio up 1.8pp to 44.7% and pushed the operating profit margin down 0.9pp to 11.2%. If not for the change in inventory accounting methodology, YoY comparison of Q1 results would have been weaker, with the gross margin declining 0.4pp to 54.5%, the operating profit margin declining 2.2pp to 9.8%, and operating profit declining JPY800mn to JPY3.4bn.

The decline in the gross margin reflected a shortfall in sales of spring fashion and increase in the proportion of online sales made at discount prices. At the consolidated level, inventories rose 7.1% or JPY3.6bn YoY as of end-Q1 FY02/19; the YoY rise was aggravated to some extent by deliberate reductions in inventory levels in FY02/18, but inventories would have risen by even more excluding the impact of inventory accounting change. The elevated inventory levels are expected to weigh on margins during Q2, but the company is taking steps to rectify the situation in subsequent quarters (as detailed below). At the SG&A expense level, Q1 saw increases in promotion spending (issuing of coupons, sales campaigns, etc.); logistics-related expenses (part of outsourcing costs included under personnel expenses) also increased along with the rise in e-commerce sales, and spending in both these areas is likely to continue rising in Q2.

Parent company e-commerce sales of JPY4.4bn were up 36.1% or JPY1.2bn YoY; this offset much but not all the decline in parent sales through brick-and-mortar stores, which at JPY30.7bn were down 4.7% or JPY1.5bn. Sales of core brands (40.5% of parent company sales in FY02/18) were down 2.3% YoY, hurt especially by slumps in mainstay brands such as Nijyusanku (20.1% of sales) and Kumikyoku (7.1% of sales), which were down by 6.2% and 5.2%, respectively.

The company attributed the decline in Q1 sales of Nijyusanku and Kumikyoku to the lack of appeal of their spring/early summer lines, which led to weak sales in both April and May. Nijyusanku continued to fare poorly in June, with sales declining 7%, but Kumikyoku narrowed the YoY decline to 2%. Other core brands fared much better; sales of Jiyuku (6.9% of sales) were up 8.3% YoY and sales of ICB (6.3% of sales) were up 2.7%. Jiyuku sales have now risen for six consecutive quarters; the company attributed the gains in part to the exposure of the brand gained through its self-published fashion magazine, *Another Door*. Launched in 2H FY02/18, *Another Door* is issued once every season (autumn/winter and spring/summer). The rise in sales of Jiyuku suggests that the company's extensive distribution of this new fashion magazine is starting to bear fruit.

The Paul Smith brand accounts for only 3.5% of sales so any swings here do not have much of an impact on overall results, but it is nevertheless significant that it logged a 7.9% increase in sales in Q1 and, like Jiyuku, has also recorded six consecutive quarters of higher sales. The company had strived to improve the brand image of Paul Smith by slightly raising the quality and prices of its products, and thanks so such efforts, the Paul Smith brand has been faring well in recent quarters with the help of hit items coupled with store expansion. The company believes that its strategic efforts aimed at target customer bases of the Paul Smith and Jiyuku brands are starting to bear fruit in the form of positive structural changes, and that these positive changes are likely to continue boosting sales of these two brands in Q2 onward.

While parent company e-commerce sales finished Q1 up an impressive 36% or JPY1.2bn YoY, this was still slightly behind the pace needed to meet the company's full-year goal of a 50% or JPY7.7bn increase. Sluggish sales at Island limited the increase in domestic sales as a whole to 30%, well behind the pace needed to reach the full-year target of a 49% or JPY9.2bn increase. Q1 results falling short of plan may in part be due to high full-year targets, but the company plans to take steps that it believes will lead to a comeback in Q2 onward (as detailed below).

Among domestic subsidiaries, Q1 sales were down at Onward Trading and Island.

Overseas business

Overseas, Q1 saw profitability improve at the European production business and in Asia, but rising SG&A expenditures at the European brand business together with slumping sales and earnings at JOSEPH increased operating losses at the overseas apparel business by JPY139mn YoY to JPY838mn. The jump in SG&A spending was attributed largely to increased promotional spending following a change in the creative director at JIL SANDER. This also led to an increase in advertising spending and personnel spending as a percent of sales at the consolidated level even as the same ratios came down at the parent. The company is expecting the added spending on promotion to pay off in the form of higher sales at the brand business.

The European production business is doing better following a tough year in FY02/18, but the company understands it needs further improvement in earnings. To make this happen the company is pushing ahead with structural reforms and has replaced the head of OLG and established a new senior managing executive officer position at headquarters to oversee international operations in an effort to strengthen the management structure both at the local level and at holding company headquarters. Although European market conditions were tougher than expected during 1H (December 2017–May 2018), we at Shared Research are expecting the turnaround to get up to full speed now that new senior management is in place. At JOSEPH, the product offering during Q1 (December–February) was similar to the slow-selling merchandise lineup of the autumn/winter season in 2017, but sales are expected to start picking up from Q2 as a new and improved merchandise lineup is gradually rolled out.

The rebound in profitability at the company's Asian operations in Q1 appears to have stemmed in large part from its efforts to focus on highly profitable stores and other initiatives aimed at improving profitability launched in FY02/18.

News and topics

February 2019

On **February 8, 2019**, the company announced it had decided to acquire all shares in Yamato Co., Ltd., making it a subsidiary.

Specializing in planning and producing gifts and gift catalogs. Yamato posted sales of JPY15.6bn, operating profit of JPY605mn, total assets of JPY9.2bn, and net assets of JPY3.1bn in FY06/18. The date of share acquisition is scheduled for March 1, 2019. Acquisition price is not disclosed. Onward does not expect this acquisition to impact its consolidated earnings results for FY02/19. The company says it is currently analyzing the impact of the above on its FY02/20 consolidated earnings results.

January 2019

On **January 11, 2019**, the company announced revisions to its FY02/19 consolidated earnings forecast.

Revisions to FY02/19 consolidated earnings forecast

▷ Sales: JPY243.1bn (previous forecast JPY243.6bn)
▷ Operating profit: JPY4.2bn (JPY5.4bn)
▷ Recurring profit: JPY4.2bn (JPY5.6bn)
▷ Net income*: JPY4.6bn (JPY5.5bn)
▷ EPS: JPY32.48 (JPY39.09)

*Net income refers to net income attributable to parent company shareholders

Reasons for the revisions

The forecast was revised downwards because warm temperatures from October into November impacted the autumn/winter fashion market, causing sales of full-price items to come in below expectations and GPMs to decline in Q3 in the domestic apparel-related business.

August 2018

On **August 30, 2018**, the company announced that it expects to book a gain of roughly JPY2.2bn on the sale of fixed assets in Q2 FY02/19.

The company announced that it expects to book a gain of roughly JPY2.2bn on the sale of fixed assets (approx. JPY1.5bn from the sale of land in Chigasaki [book value of JPY2.1bn] and approx. JPY700mn from the sale of land and building in Sapporo [book value of JPY400mn]). Should the gain on sale of fixed assets and other factors require the company to revise its 1H and full-year earnings forecasts for FY02/19, the company will promptly disclose such revisions.

Company profile

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+81-3-4512-1020	Tokyo Stock Exchange 1st Section Nagoya Stock Exchange 1st Section
Established	**Exchange Listing**
September 4, 1947	October 2, 1961
Website	**Financial Year-End**
http://www.onward-hd.co.jp/site/english/	February
IR Contact	**IR Web**
-	http://www.onward-hd.co.jp/site/english/ir/message.html
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istyle Inc.
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Nippon Koei Co., Ltd.
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NIPRO CORPORATION
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Oki Electric Industry Co., Ltd
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YUMESHIN HOLDINGS CO., LTD.
Yume no Machi Souzou Iinkai Co., Ltd.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

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