Onward Holdings / 8016

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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 FY02/20, sales were JPY248.2bn and the operating loss was JPY3.1bn. Domestic apparel accounted for 64% of total sales, overseas apparel 19%, and lifestyle-related 17%.
- Its main sales channel for domestic apparel is department stores. Looking at sales channels for the core business Onward Kashiyama, 62% of total sales were through department stores, 17% though e-commerce, 15% through shopping centers and outlets, 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 catalogs), 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

- FY02/20 results: The company reported full-year consolidated sales of JPY248.2bn (+3.2% YoY), operating loss of JPY3.1bn (versus operating profit of JPY4.5bn in FY02/19), and net loss of JPY52.1bn (versus net income of JPY4.9bn in FY02/19). Despite a net improvement in sales thanks to a JPY16.6bn contribution from newly consolidated subsidiary Yamato, the company booked substantial net losses on a downturn in domestic apparel sales, mainly at department stores, a contraction in the overseas apparel business, including as a result of the company withdrawing from unprofitable operations, the booking of extra retirement expenses in line with the recruitment of volunteers for early retirement, the booking of impairment losses, and the reversal of deferred tax assets. In parallel with its initiatives to restructure the global business, the company is implementing growth strategies which it expects to produce favorable results in the three key growth areas of digital, customization, and lifestyle. The company anticipates its early retirement program contributing to personnel costs declining approximately JPY2.4bn in FY02/21.
- The company's full-year FY02/21 earnings forecast calls for sales of JPY187.5bn (-24.5% YoY), operating loss of JPY8.9bn (versus loss of JPY3.1bn in FY02/20), and net loss attributable to owners of the parent of JPY8.6bn (versus loss of JPY52.1bn). The company announced its full-year FY02/21 earnings forecast alongside its 1H FY02/21 results (previous forecast was "TBD"). For 2H, the company projects sales of JPY106.9bn (-17.6% YoY) and operating profit of JPY2.5bn (versus loss of JPY2.2bn in 2H FY02/20). It plans to expand domestic e-commerce sales to the scale of JPY50bn per annum (2.3x the FY02/20 figure) by developing exclusive products and strengthening online promotions. It also plans to improve GPM by curbing purchases and implementing thorough inventory management and substantially reducing SG&A expenses through structural reforms, including closure of unprofitable stores. The company expects to pay an annual dividend of JPY12 per share (versus JPY24 per share in FY02/20).
- Under the medium-term business plan (for FY02/20–FY02/22), the company is targeting 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%. 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 high ratio of sales via its own e-commerce platform. 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)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Est.
Sales	**242,402**	**258,369**	**279,073**	**281,501**	**263,516**	**244,900**	**243,075**	**240,652**	**248,233**	**187,500**
YoY	-0.9%	6.6%	8.0%	0.9%	-6.4%	-7.1%	-0.7%	-1.0%	3.2%	-24.5%
Gross profit	115,113	124,490	129,959	129,063	119,452	113,262	113,576	111,633	112,683	83,385
YoY	-0.6%	8.1%	4.4%	-0.7%	-7.4%	-5.2%	0.3%	-1.7%	0.9%	-26.0%
Gross profit margin	47.5%	48.2%	46.6%	45.8%	45.3%	46.2%	46.7%	46.4%	45.4%	44.5%
Operating profit	**10,953**	**11,192**	**9,422**	**5,731**	**3,778**	**4,203**	**5,167**	**4,461**	**-3,061**	**-8,945**
YoY	22.7%	2.2%	-15.8%	-39.2%	-34.1%	11.2%	22.9%	-13.7%	-	-
Operating profit margin	4.5%	4.3%	3.4%	2.0%	1.4%	1.7%	2.1%	1.9%	-1.2%	-4.8%
Recurring profit	13,329	13,405	12,211	7,162	5,504	5,577	5,928	5,161	-3,835	-8,450
YoY	27.0%	0.6%	-8.9%	-41.3%	-23.1%	1.3%	6.3%	-12.9%	-	-
Recurring profit margin	5.5%	5.2%	4.4%	2.5%	2.1%	2.3%	2.4%	2.1%	-1.5%	-4.5%
Net income	**3,529**	**4,503**	**4,658**	**4,204**	**4,278**	**4,744**	**5,366**	**4,948**	**-52,135**	**-8,560**
YoY	29.6%	27.6%	3.4%	-9.7%	1.8%	10.9%	13.1%	-7.8%	-	-
Net margin	1.5%	1.7%	1.7%	1.5%	1.6%	1.9%	2.2%	2.1%	-21.0%	-4.6%
Per share data (JPY)										
Shares issued (year-end: '000)	172,922	172,922	172,922	172,922	167,922	167,922	167,922	157,922	157,922	-
EPS	22.5	28.7	29.7	26.8	28.3	31.5	37.0	35.2	-384.0	-63.3
Dividend per share	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	12.0
Book value per share	995	1,044	1,103	1,167	1,101	1,116	1,155	1,148	665	-
Balance sheet (JPYmn)										
Cash and cash equivalents	33,192	24,677	27,375	31,122	29,407	26,096	26,334	31,284	28,795	
Inventories	31,443	34,476	40,678	43,861	42,769	40,215	42,978	46,765	43,222	
Total current assets	98,895	100,321	110,349	117,051	121,468	103,572	105,977	117,297	106,782	
Tangible fixed assets	82,987	86,861	102,878	109,658	106,695	92,268	93,714	96,717	83,231	
Investments and other assets	51,561	64,138	65,926	80,088	61,853	51,579	53,929	56,513	32,142	
Intangible fixed assets	43,495	35,457	34,276	34,055	23,436	25,805	24,512	17,025	12,160	
Total fixed assets	178,044	186,458	203,081	223,802	191,985	169,653	172,156	170,256	127,534	
Total assets	**276,939**	**286,779**	**313,430**	**340,854**	**313,454**	**273,226**	**278,133**	**287,554**	**234,316**	
Accounts payable	33,238	33,512	38,305	40,340	34,970	13,960	18,059	31,738	33,014	
Short-term borrowings	29,865	47,581	44,956	45,653	49,154	37,365	35,332	56,685	49,359	
Total current liabilities	84,091	100,740	101,009	109,619	106,109	85,684	86,384	105,405	108,743	
Long-term borrowings	19,730	1,573	14,051	21,078	16,076	3,418	6,818	4,706	17,028	
Total fixed liabilities	35,545	20,666	37,391	45,919	35,006	21,872	23,596	19,938	31,536	
Total liabilities	**119,636**	**121,407**	**138,401**	**155,539**	**141,116**	**107,556**	**109,981**	**125,343**	**140,279**	
Total net assets	**157,302**	**165,372**	**175,028**	**185,315**	**172,337**	**165,670**	**168,152**	**162,210**	**94,036**	
Total interest-bearing debt	49,595	49,154	59,007	66,731	65,230	40,783	42,150	61,391	66,387	
Cash flow statement (JPYmn)										
Cash flows from operating activities	13,180	10,137	13,361	16,490	3,632	6,844	13,228	4,635	8,003	
Cash flows from investing activities	-1,961	-10,682	-14,300	-15,656	1,782	25,270	-7,299	-10,305	-10,758	
Cash flows from financing activities	-7,449	-7,848	2,121	757	-6,357	-32,856	-6,593	11,542	-1,595	
Financial ratios										
ROA (RP-based)	4.8%	4.8%	4.1%	2.2%	1.7%	1.9%	2.2%	1.8%	-1.5%	
ROE	2.3%	2.8%	2.8%	2.4%	2.4%	2.8%	3.3%	3.1%	-42.0%	
Equity ratio	56.8%	57.7%	55.8%	54.4%	55.0%	60.6%	60.5%	56.4%	40.1%	

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

Recent updates

Highlights

On October 9, 2020, Onward Holdings Co., Ltd. announced earnings results for 1H FY02/21; see the results section for details.

On August 11, 2020, the company released monthly sales data for July 2020; see the monthly section for details.

On August 7, 2020, Shared Research updated the report following interviews with the company.

On July 10, 2020, the company announced earnings results for Q1 FY02/21.

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

Trends and outlook

Monthly trends

Onward Kashiyama monthly sales

FY02/21 YoY	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	FY
Total	**-36%**	**-68%**	**-55%**	**-18%**	**-32%**								
Menswear	-45%	-83%	-69%	-28%	-38%								
Womenswear	-32%	-67%	-47%	-14%	-31%								
Children's wear	-30%	-69%	-45%	4%	-16%								
Other	-53%	-39%	-68%	-39%	-48%								
Core brands	-30%	-66%	-52%	-16%	-32%								
Core + key dept. store brands	-35%	-72%	-58%	-19%	-33%								
Shopping center brands	-29%	-62%	-37%	0%	-17%								
Core + dept. + sc. brands	-34%	-71%	-52%	-16%	-31%								
E-commerce	45%	32%	68%	52%	18%								
FY02/20 YoY	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**FY**
Total	**1%**	**-7%**	**2%**	**-2%**	**-8%**	**-4%**	**2%**	**-19%**	**-11%**	**-12%**	**-12%**	**-10%**	**-7%**
Menswear	-1%	-12%	0%	-4%	-15%	-2%	0%	-24%	-10%	-15%	-11%	-10%	-9%
Womenswear	1%	-5%	3%	-1%	-6%	-4%	4%	-17%	-11%	-11%	-10%	-11%	-6%
Children's wear	-13%	-12%	-3%	-7%	-13%	-9%	-5%	-8%	-5%	-14%	-10%	-5%	-9%
Other	21%	3%	-6%	-9%	-1%	8%	-9%	-29%	-1%	-15%	-34%	0%	-12%
Core brands	3%	-1%	8%	0%	-7%	-1%	12%	-15%	-9%	-7%	-5%	-6%	-3%
Core + key dept. store brands	1%	-5%	4%	-1%	-8%	-2%	7%	-18%	-9%	-10%	-8%	-8%	-5%
Shopping center brands	0%	-8%	2%	1%	-2%	9%	1%	0%	-4%	-5%	-2%	-1%	-1%
Core + dept. + sc. brands	1%	-5%	4%	-1%	-7%	-1%	6%	-16%	-9%	-10%	-7%	-7%	-5%
E-commerce	11%	5%	19%	27%	17%	26%	30%	-7%	13%	9%	-1%	10%	11%
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 wear	-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 wear	-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 wear	-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 wear	-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%

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	FY02/19				FY02/20				FY02/21		FY02/21	
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	60,882	113,864	178,648	240,652	64,878	118,466	182,874	248,233	42,265	80,585	43.0%	187,500
YoY	-0.2%	-1.3%	-1.2%	-1.0%	6.6%	4.0%	2.4%	3.2%	-34.9%	-32.0%		-24.5%
Gross profit	29,922	53,113	84,594	111,633	31,005	54,307	84,805	112,683	19,271	33,878	40.6%	83,385
YoY	-1.3%	-1.2%	-2.6%	-1.7%	3.6%	2.2%	0.2%	0.9%	-37.8%	-37.6%		-26.0%
GPM	49.1%	46.6%	47.4%	46.4%	47.8%	45.8%	46.4%	45.4%	45.6%	42.0%		-
SG&A expenses	26,363	52,507	80,104	107,171	28,065	55,168	82,379	115,744	21,383	45,365	49.1%	92,330
YoY	2.4%	0.4%	-0.5%	-1.1%	6.5%	5.1%	2.8%	8.0%	-23.8%	-17.8%		-20.2%
SG&A ratio	43.3%	46.1%	44.8%	44.5%	43.3%	46.6%	45.0%	46.6%	50.6%	56.3%		-
Operating profit	3,558	606	4,489	4,461	2,940	-861	2,426	-3,061	-2,112	-11,487	-	-8,945
YoY	-22.0%	-57.6%	-29.8%	-13.7%	-17.4%	-	-46.0%	-	-	-		-
OPM	5.8%	0.5%	2.5%	1.9%	4.5%	-0.7%	1.3%	-1.2%	-5.0%	-14.3%		-4.8%
Recurring profit	4,128	1,342	5,203	5,161	3,206	-817	1,983	-3,835	-1,746	-11,454	-	-8,450
YoY	-15.6%	-37.6%	-33.4%	-12.9%	-22.3%	-	-61.9%	-	-	-		-
RPM	6.8%	1.2%	2.9%	2.1%	4.9%	-0.7%	1.1%	-1.5%	-4.1%	-14.2%		-4.5%
Net income	2,145	1,479	4,677	4,948	1,621	-24,432	-22,672	-52,135	-2,417	-15,188	-	-8,560
YoY	-27.8%	-34.8%	-34.7%	-7.8%	-24.4%	-	-	-	-	-		-
Net margin	3.5%	1.3%	2.6%	2.1%	2.5%	-20.6%	-12.4%	-21.0%	-5.7%	-18.8%		-4.6%
EBITDA	5,725	4,963	11,075	13,272	5,185	3,782	8,812	5,079	-604	-8,573	-	-2,705
YoY	-14.3%	-13.1%	-14.5%	-5.6%	-9.4%	-23.8%	-20.4%	-61.7%	-	-		-
EBITDA margin	9.4%	4.4%	6.2%	5.5%	8.0%	3.2%	4.8%	2.0%	-1.4%	-10.6%		-1.4%

Consolidated	FY02/19				FY02/20				FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	60,882	52,982	64,784	62,004	64,878	53,588	64,408	65,359	42,265	38,320
YoY	-0.2%	-2.6%	-1.0%	-0.4%	6.6%	1.1%	-0.6%	5.4%	-34.9%	-28.5%
Gross profit	29,922	23,191	31,481	27,039	31,005	23,302	30,498	27,878	19,271	14,607
YoY	-1.3%	-1.0%	-5.0%	1.3%	3.6%	0.5%	-3.1%	3.1%	-37.8%	-37.3%
GPM	49.1%	43.8%	48.6%	43.6%	47.8%	43.5%	47.4%	42.7%	45.6%	38.1%
SG&A expenses	26,363	26,144	27,597	27,067	28,065	27,103	27,211	33,365	21,383	23,982
YoY	2.4%	-1.6%	-2.1%	-3.1%	6.5%	3.7%	-1.4%	23.3%	-23.8%	-11.5%
SG&A ratio	43.3%	49.3%	42.6%	43.7%	43.3%	50.6%	42.2%	51.0%	50.6%	62.6%
Operating profit	3,558	-2,952	3,883	-28	2,940	-3,801	3,287	-5,487	-2,112	-9,375
YoY	-22.0%	-	-21.8%	-	-17.4%	-	-15.3%	-	-	-
OPM	5.8%	-5.6%	6.0%	0.0%	4.5%	-7.1%	5.1%	-8.4%	-5.0%	-24.5%
Recurring profit	4,128	-2,786	3,861	-42	3,206	-4,023	2,800	-5,818	-1,746	-9,708
YoY	-15.6%	-	-31.8%	-	-22.3%	-	-27.5%	-	-	-
RPM	6.8%	-5.3%	6.0%	-0.1%	4.9%	-7.5%	4.3%	-8.9%	-4.1%	-25.3%
Net income	2,145	-666	3,198	271	1,621	-26,053	1,760	-29,463	-2,417	-12,771
YoY	-27.8%	-	-34.7%	-	-24.4%	-	-45.0%	-	-	-
Net margin	3.5%	-1.3%	4.9%	0.4%	2.5%	-48.6%	2.7%	-45.1%	-5.7%	-33.3%
EBITDA	5,725	-762	6,112	2,197	5,185	-1,403	5,030	-3,733	-604	-7,969
YoY	-14.3%	-	-15.7%	98.6%	-9.4%	-	-17.7%	-	-	-
EBITDA margin	9.4%	-1.4%	9.4%	3.5%	8.0%	-2.6%	7.8%	-5.7%	-1.4%	-20.8%

Source: Shared Research based on company data

By segment	FY02/19				FY02/20				FY02/21		FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	60,882	52,982	64,784	62,004	64,878	53,588	64,408	65,359	42,265	38,320	43.0%	187,500
YoY	-0.2%	-2.6%	-1.0%	-0.4%	6.6%	1.1%	-0.6%	5.4%	-34.9%	-28.5%		-24.5%
Apparel	54,246	46,595	58,010	55,712	54,139	43,276	53,130	54,720	33,892	30,180	41.8%	153,334
YoY	0.7%	-2.3%	-0.9%	0.1%	-0.2%	-7.1%	-8.4%	-1.8%	-37.4%	-30.3%		-25.3%
Domestic	42,589	35,615	45,774	43,079	42,254	33,240	41,989	41,471	23,179	25,996	41.7%	117,931
YoY	-2.3%	-5.3%	-1.2%	0.9%	-0.8%	-6.7%	-8.3%	-3.7%	-45.1%	-21.8%		-25.8%
Overseas	11,657	10,980	12,235	12,634	11,884	10,036	11,142	13,248	10,713	4,183	42.1%	35,403
YoY	13.5%	9.0%	0.3%	-2.6%	1.9%	-8.6%	-8.9%	4.9%	-9.9%	-58.3%		-23.6%
Lifestyle	6,636	6,387	6,774	6,291	10,738	10,313	11,277	10,640	8,372	8,141	48.3%	34,166
YoY	-7.4%	-4.4%	-1.6%	-4.8%	61.8%	61.5%	66.5%	69.1%	-22.0%	-21.1%		-20.5%
Operating profit	3,558	-2,952	3,883	-28	2,940	-3,801	3,287	-5,487	-2,112	-9,375	-	-8,945
YoY	-22.0%	-	-21.8%	-	-17.4%	-	-15.3%	-	-	-		-
Apparel	3,476	-2,722	3,917	583	2,749	-3,404	2,421	-5,191	-2,227	-8,872	-	-7,264
YoY	-20.6%	-	-23.2%	-	-20.9%	-	-38.2%	-	-	-		-
Domestic	4,315	-1,945	4,554	2,094	3,351	-2,001	2,846	-1,682	-1,699	-6,569	-	-94
YoY	-15.1%	-	-14.1%	-	-22.3%	-	-37.5%	-	-	-		-
Overseas	-838	-777	-637	-1,511	-602	-1,404	-424	-3,510	-527	-2,304	-	-7,170
YoY	-	-	-	-	-	-	-	-	-	-		-
Lifestyle	569	269	395	308	784	217	751	-199	119	-155	-	-822
YoY	-28.2%	17.0%	-24.5%	70.2%	37.8%	-19.3%	90.1%	-	-84.8%	-		-
Adjustments	-487	-499	-428	-920	-594	-613	114	-96	-4	-346		-

Source: Shared Research based on company data

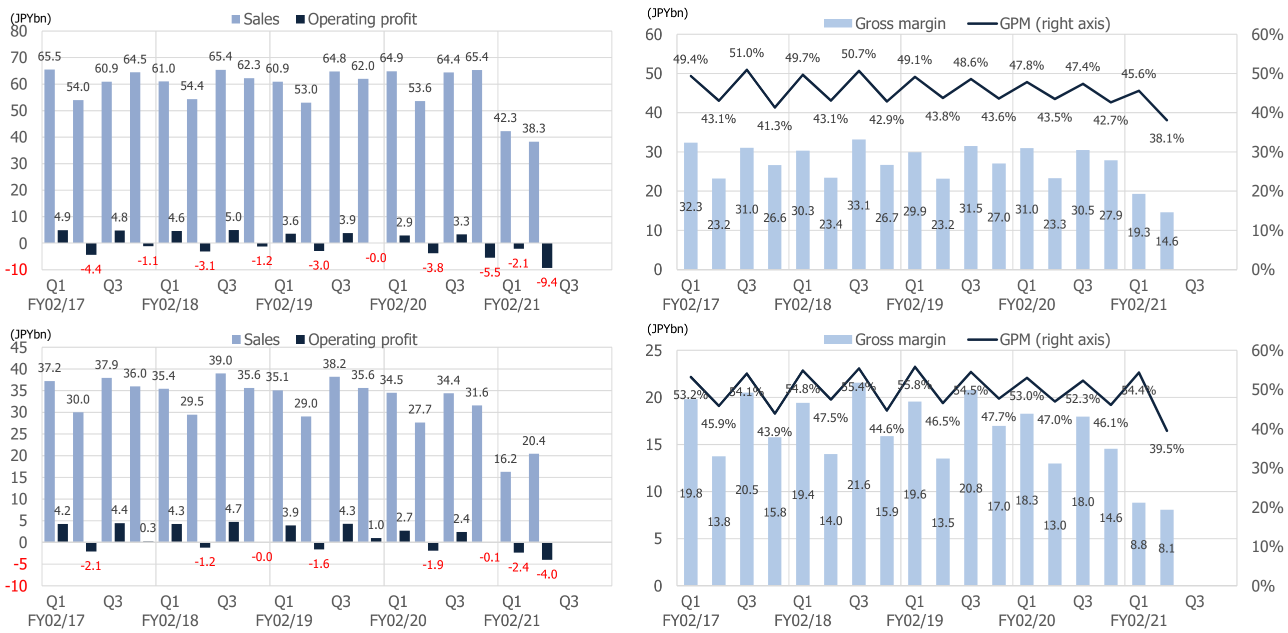
1H FY02/21 results (out October 9, 2020)

Results summary

- In 1H FY02/21, the company reported sales of JPY80.6bn (-32.0% YoY), operating loss of JPY11.5bn (versus loss of JPY861mn in 1H FY02/20), pretax loss of JPY14.8bn (versus loss of JPY23.2bn), and net loss attributable to owners of the parent of JPY15.2bn (versus loss of JPY24.4bn). EBITDA (operating profit + depreciation + goodwill amortization) was -JPY8.6bn (versus JPY3.8bn in 1H FY02/20). The impact of the novel coronavirus pandemic continued to affect the company, with shortened operating hours of commercial facilities, a decline in consumer confidence as people refrained from going out, changes in purchasing preferences, and a slump in inbound travel creating an extremely challenging business environment. The company worked to expand its e-commerce business by airing TV commercials for Onward Closet, but this was not enough to offset the sales decline in traditional sales channels such as department stores. In 1H, the company recorded extraordinary gains of JPY3.8bn, which included gains on sales of non-current assets of JPY2.0bn and employment adjustment subsidies of JPY1.8bn. On the other hand, the company posted JPY7.2bn in extraordinary losses, which included losses due to temporary store closures of JPY3.3bn, loss on valuation of investment securities of JPY1.7bn, loss on liquidation of business of JPY953mn, and impairment losses of JPY904mn. The company's shareholders' equity at end-1H was JPY64.7bn, down from JPY89.8bn at end-FY02/20 due to dividend payments, the booking of net loss, and a change in accounting methods. The equity ratio was 29.7% at end-1H (38.3% at end-FY02/20), partly due to an increase in borrowings.
- For the three-month period in Q2 (June—August 2020), the company reported sales of JPY38.3bn (-28.5% YoY), operating loss of JPY9.4bn (versus loss of JPY3.8bn in Q2 FY02/20), and net loss attributable to owners of the parent of JPY12.8bn (versus loss of JPY26.1bn). EBITDA was -JPY8.0bn (versus -JPY1.4bn in Q2 FY02/20). Domestic apparel sales were down 21.8% YoY in Q2, an improvement from Q1 (-45.1% YoY) as the Japanese government lifted the state of emergency and department stores reopened for business, but sales for the overseas apparel business, which has a different financial year-end, were down 58.3% YoY, worsening from Q1 (-9.9% YoY). GPM was 38.1%, down from 43.5% in Q2 FY02/20. SG&A expenses were reduced to JPY24.0bn (-11.5% YoY), but this was not enough to offset the decline in sales.
- The company's full-year FY02/21 earnings forecast calls for sales of JPY187.5bn (-24.5% YoY), operating loss of JPY8.9bn (versus loss of JPY3.1bn in FY02/20), net loss attributable to owners of the parent of JPY8.6bn (versus loss of JPY52.1bn), and EBITDA of -JPY2.7bn (versus JPY5.1bn in FY02/20). Previously, the forecast was "TBD." For 2H, the company projects sales of JPY106.9bn (-17.6% YoY), operating profit of JPY2.5bn (versus loss of JPY2.2bn in 2H FY02/20), and EBITDA of JPY5.9bn (4.5x the 2H FY02/20 figure). The company plans to expand domestic e-commerce sales to the scale of JPY50bn per annum (2.3x the FY02/20 figure) by developing exclusive products and strengthening online promotions. It also plans to improve GPM by curbing purchases and implementing thorough inventory management and substantially reducing SG&A expenses through structural reforms, including closure of unprofitable stores. In 1H FY02/21, domestic e-commerce sales were about JPY19.7bn (+38% YoY). The company expects to pay an annual dividend of JPY12 per share (versus JPY24 per share in FY02/20).
- In Q2, the domestic apparel business posted sales of JPY26.0bn (-21.8% YoY) and operating loss of JPY6.6bn (loss of JPY2.0bn in Q2 FY02/20). Changes in consumer spending, such as the emergence of stay-at-home demand amid the pandemic, as well as stronger advertising helped boost e-commerce sales, but sales were sluggish at department stores, the company's main sales channel. In addition, an increase in inventory write-downs led to widened losses.
- In Q2, the overseas apparel business posted sales of JPY4.2bn (-58.3% YoY) and operating loss of JPY2.3bn (loss of JPY1.4bn in Q2 FY02/20). Most overseas subsidiaries have a financial year-end of November, and their March–May performance is reflected in Q2 results. Commercial facilities were closed and lockdowns were implemented in various countries due to the pandemic, resulting in a substantial sales decline, and while the company made progress in reducing fixed costs such as through structural reforms, losses widened.

- In Q2, the Lifestyle business posted sales of JPY8.1bn (-21.1% YoY) and operating loss of JPY155mn (versus profit of JPY217mn in Q2 FY02/20). Yamato (gift catalog business) and Kokobuy (organic haircare products) performed relatively well. However, Chacott (ballet and dance-related goods), Creative Yoko (pet-related goods), and Guam-related offerings saw their performance deteriorate on the impact of temporary closings or shorter business hours at commercial facilities, hitting the Lifestyle business hard.

Consolidated earnings (top) and parent earnings (bottom)



Source: Shared Research based on company data

Performance seasonality: Quarterly earnings in Q1 and Q3 tend to be higher than in Q2 and Q4. The company increases new spring/summer items in Q1 and new autumn/winter items in Q3, and there is a higher ratio of merchandise sold at normal prices at these times. In contrast, it conducts sales primarily in Q2 and Q4 and, depending on inventory levels, may book inventory valuation losses.

Domestic apparel business

Domestic apparel	FY02/19				FY02/20				FY02/21		FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	42,589	35,615	45,774	43,079	42,254	33,240	41,989	41,471	23,179	25,996	41.7%	117,931
YoY	-2.3%	-5.3%	-1.2%	0.9%	-0.8%	-6.7%	-8.3%	-3.7%	-45.1%	-21.8%		-25.8%
Onward HD + Onward Kashiyama	35,071	29,027	38,188	35,605	34,485	27,649	34,381	31,582	16,247	20,433	40.5%	90,500
YoY	-1.0%	-1.5%	-2.0%	0.0%	-1.7%	-4.7%	-10.0%	-11.3%	-52.9%	-26.1%		-29.4%
Onward Trading	4,397	3,393	4,195	3,678	4,583	3,128	5,090	4,451	5,614	3,167	51.5%	17,041
YoY	-8.8%	-28.1%	9.3%	13.0%	4.2%	-7.8%	21.3%	21.0%	22.5%	1.2%		-1.2%
Island	2,040	2,153	2,323	2,280	1,990	1,937	2,013	2,212	939	1,368	38.9%	5,923
YoY	-6.3%	2.9%	-1.6%	0.8%	-2.5%	-10.0%	-13.3%	-3.0%	-52.8%	-29.4%		-27.3%
Other, eliminations	1,081	1,042	1,068	1,516	1,196	526	505	3,226	379	1,028	31.5%	4,467
YoY	-7.2%	-23.0%	-8.2%	-3.7%	10.6%	-49.5%	-52.7%	112.8%	-68.3%	95.4%		-18.1%

Source: Shared Research based on company data

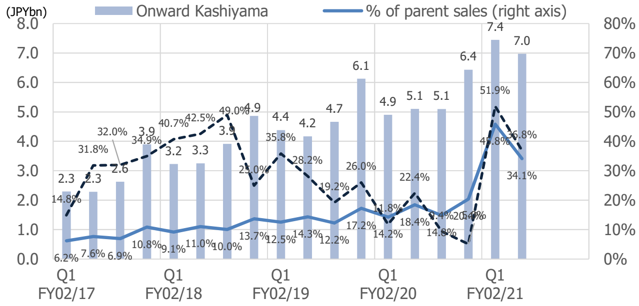
Sales: Parent company (Onward Kashiyama) and major brands

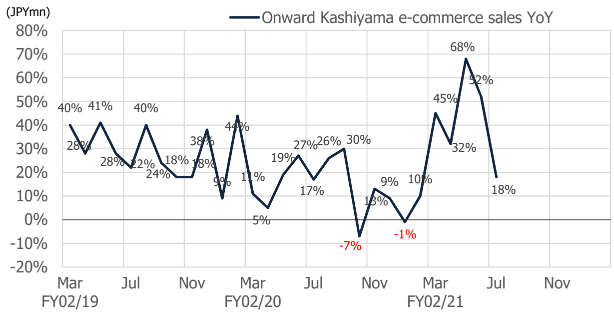
Onward Holdings + Onward Kashiyama	FY02/19				FY02/20				FY02/21		FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	35,071	29,027	38,188	35,605	34,484	27,650	34,381	31,582	16,247	20,433	40.5%	90,500
YoY	-1.0%	-1.5%	-2.0%	0.0%	-1.7%	-4.7%	-10.0%	-11.3%	-52.9%	-26.1%		-29.4%
Gross profit	19,577	13,512	20,805	16,982	18,277	12,984	17,967	14,560	8,835	8,073	37.2%	45,430
YoY	0.8%	-3.4%	-3.6%	6.9%	-6.6%	-3.9%	-13.6%	-14.3%	-51.7%	-37.8%		-28.8%
GPM	55.8%	46.5%	54.5%	47.7%	53.0%	47.0%	52.3%	46.1%	54.4%	39.5%		50.2%
SG&A expenses	15,661	15,106	16,513	15,969	15,592	14,884	15,556	14,645	11,197	12,114	51.4%	45,380
YoY	3.2%	-0.4%	-2.0%	0.3%	-0.4%	-1.5%	-5.8%	-8.3%	-28.2%	-18.6%		-25.2%
SG&A ratio	44.7%	52.0%	43.2%	44.9%	45.2%	53.8%	45.2%	46.4%	68.9%	59.3%		50.1%
Operating profit	3,916	-1,594	4,292	1,013	2,685	-1,900	2,411	-85	-2,362	-4,041	-	50
YoY	-8.0%	-	-9.2%	-	-31.4%	-	-43.8%	-	-	-		-98.4%
OPM	11.2%	-5.5%	11.2%	2.8%	7.8%	-6.9%	7.0%	-0.3%	-14.5%	-19.8%		0.1%

By product (quarterly; JPYmn)	FY02/19				FY02/20				FY02/21		FY02/21	
Onward Hld. + Onward Kashiyama	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Total sales	**35,071**	**29,027**	**38,188**	**35,605**	**34,484**	**27,650**	**34,381**	**31,582**	**16,247**	**20,433**	**40.5%**	**90,500**
YoY	-1.0%	-1.5%	-2.0%	0.0%	-1.7%	-4.7%	-10.0%	-11.3%	-52.9%	-26.1%		-29.4%
Menswear	8,532	5,413	8,939	8,170	8,137	5,013	7,871	7,153	2,634	3,849	-	-
YoY	-4.0%	-4.5%	-5.8%	-2.3%	-4.6%	-7.4%	-11.9%	-12.4%	-67.6%	-23.2%		-
% of total sales	24.3%	18.6%	23.4%	22.9%	23.6%	18.1%	22.9%	22.6%	16.2%	18.8%		-
Womenswear	24,104	21,222	26,660	24,152	23,874	20,459	24,334	21,454	12,295	14,103	-	-
YoY	-0.7%	-1.8%	-1.9%	0.0%	-1.0%	-3.6%	-8.7%	-11.2%	-48.5%	-31.1%		-
% of total sales	68.7%	73.1%	69.8%	67.8%	69.2%	74.0%	70.8%	67.9%	75.7%	69.0%		-
Children's wear	1,449	1,366	1,302	1,868	1,304	1,236	1,224	1,682	714	1,136	-	-
YoY	-5.8%	-4.7%	-12.3%	-10.2%	-10.0%	-9.5%	-6.0%	-10.0%	-45.2%	-8.1%		-
% of total sales	4.1%	4.7%	3.4%	5.2%	3.8%	4.5%	3.6%	5.3%	4.4%	5.6%		-
Other	986	1,026	1,287	1,415	1,169	942	952	1,293	604	1,345	-	-
YoY	37.2%	37.2%	57.2%	40.7%	18.6%	-8.2%	-26.0%	-8.6%	-48.3%	42.8%		-
% of total sales	2.8%	3.5%	3.4%	4.0%	3.4%	3.4%	2.8%	4.1%	3.7%	6.6%		-

Source: Shared Research based on company data
Note: Q1 FY02/21 is Onward Kashiyama's results.

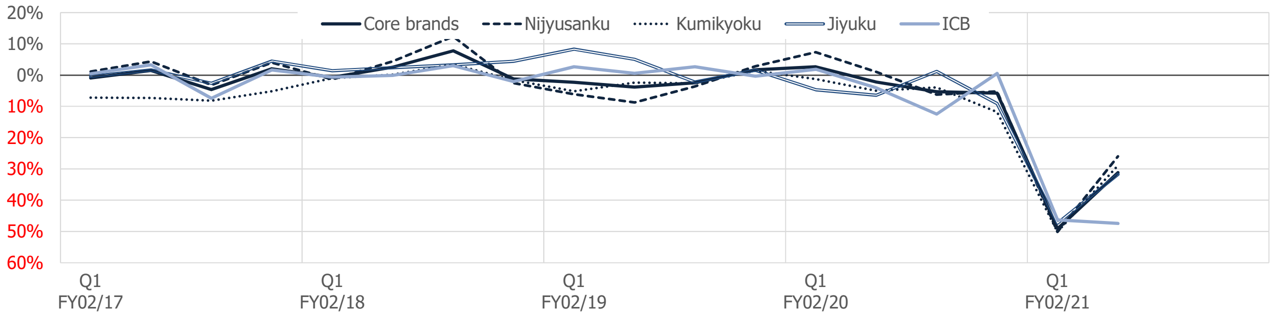
Parent company e-commerce sales





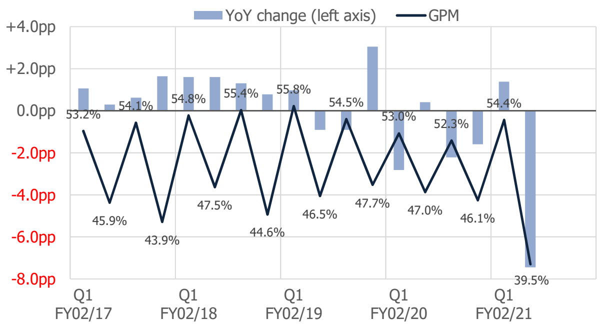
Source: Shared Research based on company data

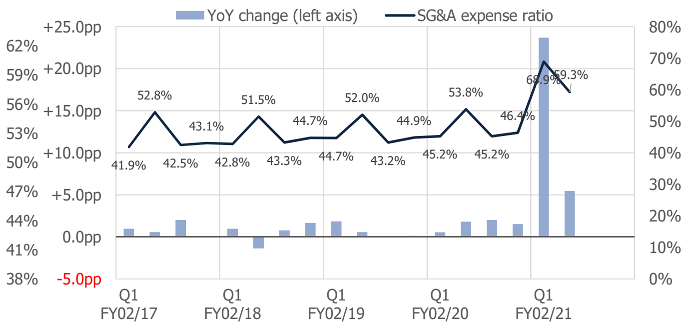
Sales YoY of core brands



Source: Shared Research based on company data

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





Source: Shared Research based on company data

By brand (quarterly; JPYmn)	FY02/19				FY02/20				FY02/21		FY02/21	
Onward Hld. + Onward Kashiyama	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Total sales	35,071	29,027	38,188	35,605	34,484	27,650	34,381	31,582	16,247	20,433	40.5%	90,500
YoY	-1.0%	-1.5%	-2.0%	0.0%	-1.7%	-4.7%	-10.0%	-11.3%	-52.9%	-26.1%		-29.4%
Key department store brands	26,161	22,540	27,235	28,095	24,905	20,785	23,978	24,528	11,494	13,946	-	-
YoY	-1.8%	-2.9%	-2.9%	-0.1%	-4.8%	-7.8%	-12.0%	-12.7%	-53.8%	-32.9%		-
% of total sales	74.6%	77.7%	71.3%	78.9%	72.2%	75.2%	69.7%	77.7%	70.7%	68.3%		-
Core brands	13,857	11,745	14,487	15,426	14,222	11,481	13,714	14,538	7,231	7,899	-	-
YoY	-2.3%	-3.8%	-2.5%	1.7%	2.6%	-2.2%	-5.3%	-5.8%	-49.2%	-31.2%		-
% of total sales	39.5%	40.5%	37.9%	43.3%	41.2%	41.5%	39.9%	46.0%	44.5%	38.7%		-
Nijyusanku (W)	6,727	5,541	7,427	7,228	7,220	5,598	6,962	6,851	3,598	4,143	-	-
YoY	-6.2%	-8.7%	-3.6%	2.8%	7.3%	1.0%	-6.3%	-5.2%	-50.2%	-26.0%		-
% of total sales	19.2%	19.1%	19.4%	20.3%	20.9%	20.2%	20.2%	21.7%	22.1%	20.3%		-
Kumikyoku (W)	2,589	2,036	2,658	2,436	2,555	1,934	2,554	2,148	1,273	1,375	-	-
YoY	-5.2%	-2.4%	-2.7%	1.4%	-1.3%	-5.0%	-3.9%	-11.8%	-50.2%	-28.9%		-
% of total sales	7.4%	7.0%	7.0%	6.8%	7.4%	7.0%	7.4%	6.8%	7.8%	6.7%		-
ICB (W)	1,814	2,087	1,865	3,133	1,848	2,002	1,632	3,150	992	1,052	-	-
YoY	2.7%	0.5%	2.6%	-0.3%	1.9%	-4.1%	-12.5%	0.5%	-46.3%	-47.5%		-
% of total sales	5.2%	7.2%	4.9%	8.8%	5.4%	7.2%	4.7%	10.0%	6.1%	5.1%		-
Jiyuku (W)	2,727	2,081	2,537	2,629	2,599	1,947	2,566	2,389	1,368	1,329	-	-
YoY	8.3%	5.0%	-2.2%	1.6%	-4.7%	-6.4%	1.1%	-9.1%	-47.4%	-31.7%		-
% of total sales	7.8%	7.2%	6.6%	7.4%	7.5%	7.0%	7.5%	7.6%	8.4%	6.5%		-
Other key department store brands												
J.Press (M, W, ch)	2,410	1,916	2,300	2,664	2,460	1,930	2,169	2,498	1,138	1,519	-	-
YoY	0.4%	2.1%	1.1%	3.5%	2.1%	0.7%	-5.7%	-6.2%	-53.7%	-21.3%		-
% of total sales	6.9%	6.6%	6.0%	7.5%	7.1%	7.0%	6.3%	7.9%	7.0%	7.4%		-
Calvin Klein platinum label (M, W)	998	877	1,119	1,165	915	807	956	986	280	594	-	-
YoY	-2.8%	-7.1%	-6.6%	-3.6%	-8.3%	-8.0%	-14.6%	-15.4%	-69.4%	-26.4%		-
% of total sales	2.8%	3.0%	2.9%	3.3%	2.7%	2.9%	2.8%	3.1%	1.7%	2.9%		-
Gotairiku (M)	1,043	1,468	1,143	793	1,000	1,356	950	613	293	360	-	-
YoY	-4.3%	-0.5%	-3.1%	-1.5%	-4.1%	-7.6%	-16.9%	-22.7%	-70.7%	-73.5%		-
% of total sales	3.0%	5.1%	3.0%	2.2%	2.9%	4.9%	2.8%	1.9%	1.8%	1.8%		-
DAKS (M, golf)	650	489	768	574	609	455	636	443	152	282	-	-
YoY	-5.7%	-9.9%	-7.1%	-4.7%	-6.3%	-7.0%	-17.2%	-22.8%	-75.0%	-38.0%		-
% of total sales	1.9%	1.7%	2.0%	1.6%	1.8%	1.6%	1.8%	1.4%	0.9%	1.4%		-
Paul Smith (W)	1,148	973	1,316	1,592	1,172	1,006	1,321	1,437	546	774	-	-
YoY	7.9%	-3.6%	6.3%	4.6%	2.1%	3.4%	0.4%	-9.7%	-53.4%	-23.1%		-
% of total sales	3.3%	3.4%	3.4%	4.5%	3.4%	3.6%	3.8%	4.6%	3.4%	3.8%		-
JOSEPH (M, W)	1,289	1,033	1,254	1,362	1,210	1,015	1,113	1,179	408	684	-	-
YoY	2.8%	-2.1%	-5.3%	-3.9%	-6.1%	-1.7%	-11.2%	-13.4%	-66.3%	-32.6%		-
% of total sales	3.7%	3.6%	3.3%	3.8%	3.5%	3.7%	3.2%	3.7%	2.5%	3.3%		-
Tocca (W, ch)	904	921	934	993	804	827	778	885	457	592	-	-
YoY	-0.6%	6.8%	-2.5%	-8.6%	-11.1%	-10.2%	-16.7%	-10.9%	-43.2%	-28.4%		-
% of total sales	2.6%	3.2%	2.4%	2.8%	2.3%	3.0%	2.3%	2.8%	2.8%	2.9%		-
Personal Order (M)	1,450	1,006	1,286	1,257	1,315	919	1,113	993	529	398	-	-
YoY	-0.8%	-7.2%	-10.0%	-4.0%	-9.3%	-8.6%	-13.5%	-21.0%	-59.8%	-56.7%		-
% of total sales	4.1%	3.5%	3.4%	3.5%	3.8%	3.3%	3.2%	3.1%	3.3%	1.9%		-
Nijyusanku men's casual (M)	1,206	1,103	1,364	1,101	1,198	989	1,228	956	460	844	-	-
YoY	-5.0%	0.5%	-1.1%	0.7%	-0.7%	-10.3%	-10.0%	-13.2%	-61.6%	-14.7%		-
% of total sales	3.4%	3.8%	3.6%	3.1%	3.5%	3.6%	3.6%	3.0%	2.8%	4.1%		-
Key new distribution channel brands	4,186	3,228	3,532	4,480	4,083	3,282	3,505	4,351	2,340	3,024	-	-
YoY	-2.4%	-2.4%	-6.4%	-1.8%	-2.5%	1.7%	-0.8%	-2.9%	-42.7%	-7.9%		-
% of total sales	11.9%	11.1%	9.2%	12.6%	11.8%	11.9%	10.2%	13.8%	14.4%	14.8%		-
any FAM (W, ch)	1,678	1,435	1,538	1,891	1,662	1,456	1,604	1,928	1,050	1,470	-	-
YoY	-3.5%	-3.7%	-5.7%	-2.8%	-1.0%	1.5%	4.3%	2.0%	-36.8%	1.0%		-
% of total sales	4.8%	4.9%	4.0%	5.3%	4.8%	5.3%	4.7%	6.1%	6.5%	7.2%		-
any SiS (W)	2,508	1,793	1,994	2,589	2,421	1,826	1,901	2,423	1,290	1,554	-	-
YoY	-1.7%	-1.4%	-6.9%	-1.1%	-3.5%	1.8%	-4.7%	-6.4%	-46.7%	-14.9%		-
% of total sales	7.2%	6.2%	5.2%	7.3%	7.0%	6.6%	5.5%	7.7%	7.9%	7.6%		-
Core and key brands total	30,347	25,768	30,767	32,575	28,988	24,067	27,483	28,879	13,834	16,970	-	-
YoY	-1.8%	-2.9%	-3.3%	-0.3%	-4.5%	-6.6%	-10.7%	-11.3%	-52.3%	-29.5%		-
% of total sales	86.5%	88.8%	80.6%	91.5%	84.1%	87.0%	79.9%	91.4%	85.1%	83.1%		-
Other	4,724	3,259	7,421	3,030	5,496	3,583	6,898	2,703	2,413	3,463	-	-
YoY	4.9%	11.2%	3.8%	3.7%	16.3%	9.9%	-7.0%	-10.8%	-56.1%	-3.3%		-
% of total sales	13.5%	11.2%	19.4%	8.5%	15.9%	13.0%	20.1%	8.6%	14.9%	16.9%		-

Source: Shared Research based on company data

Overseas apparel business

Overseas apparel business performance

Overseas apparel	FY02/19				FY02/20				FY02/21		FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	11,657	10,980	12,235	12,634	11,884	10,036	11,142	13,248	10,713	4,183	42.1%	35,403
YoY	13.5%	9.0%	0.3%	-2.6%	1.9%	-8.6%	-8.9%	4.9%	-9.9%	-58.3%		-23.6%
Europe	11,131	9,931	11,680	11,881	11,229	9,199	9,986	11,737	10,064	3,270	44.1%	30,247
YoY	-	-	-	-	0.9%	-7.4%	-14.5%	-1.2%	-10.4%	-64.5%		-28.2%
Asia	1,560	1,786	1,655	1,802	1,706	1,527	1,508	2,012	1,085	1,096	48.7%	4,481
YoY	-	-	-	-	9.4%	-14.5%	-8.9%	11.7%	-36.4%	-28.2%		-33.6%
North America	157	150	129	157	153	152	129	241	131	58	33.2%	570
YoY	-	-	-	-	-2.5%	1.3%	0.0%	53.5%	-14.4%	-61.8%		-15.6%
Other, eliminations	-1,191	-887	-1,229	-1,206	-1,204	-842	-481	-742	-567	-241		105
YoY	-	-	-	-	-	-	-	-	-	-		-

Source: Shared Research based on company data

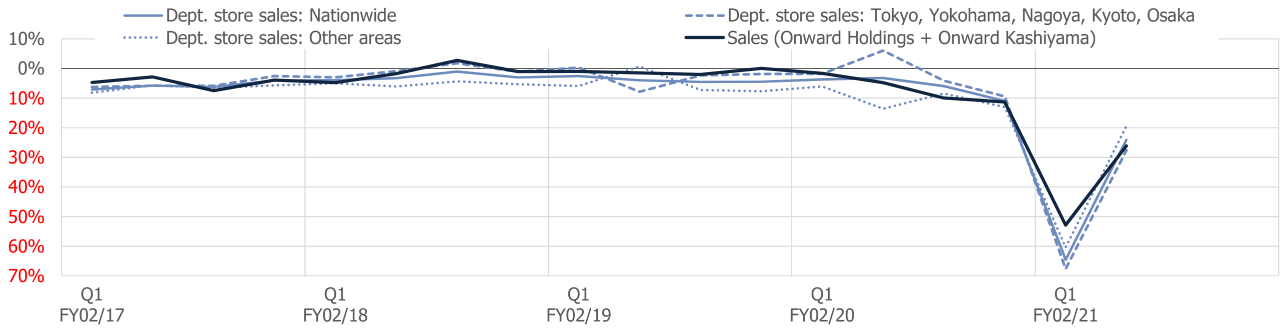
Lifestyle business

Lifestyle	FY02/19				FY02/20				FY02/21		FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	6,636	6,387	6,774	6,291	10,738	10,313	11,277	10,640	8,372	8,141	48.3%	34,166
YoY	-7.4%	-4.4%	-1.6%	-4.8%	61.8%	61.5%	66.5%	69.1%	-22.0%	-21.1%		-20.5%
Yamato	-	-	-	-	4,087	3,741	4,356	4,439	4,476	4,480	50.5%	17,741
YoY	-	-	-	-	-	-	-	-	9.5%	19.8%		6.7%
Chacott	2,781	3,027	2,728	2,452	2,708	3,051	2,755	2,333	1,058	1,892	39.2%	7,524
YoY	-0.1%	-1.3%	-4.3%	-3.5%	-2.6%	0.8%	1.0%	-4.9%	-60.9%	-38.0%		-30.6%
Creative Yoko	1,410	1,379	1,462	1,764	1,394	1,403	1,406	1,673	829	1,275	40.8%	5,163
YoY	-4.1%	-4.0%	-5.9%	-6.2%	-1.1%	1.7%	-3.8%	-5.2%	-40.5%	-9.1%		-12.1%
Other, eliminations	2,445	1,981	2,584	2,075	2,549	2,118	2,760	2,195	2,009	494	67.0%	3,738
YoY	-	-9.0%	4.2%	-5.1%	4.3%	6.9%	6.8%	5.8%	-21.2%	-76.7%		-61.2%

Source: Shared Research based on company data

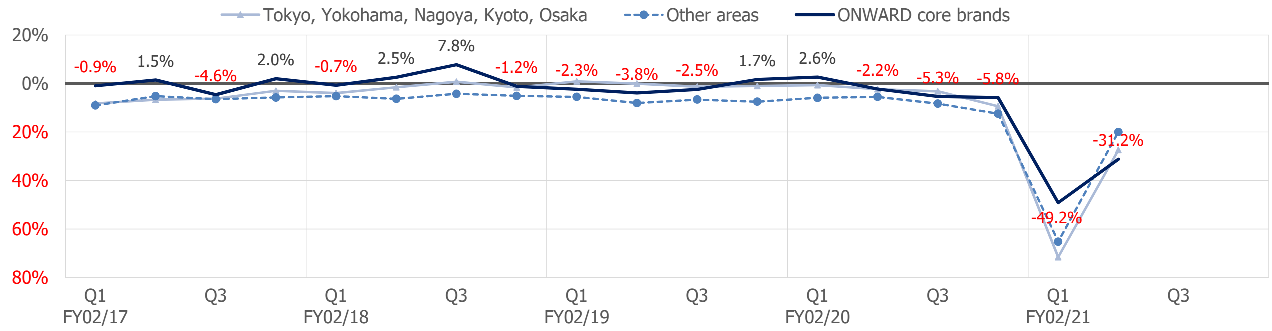
Reference data

Onward sales and department store sales



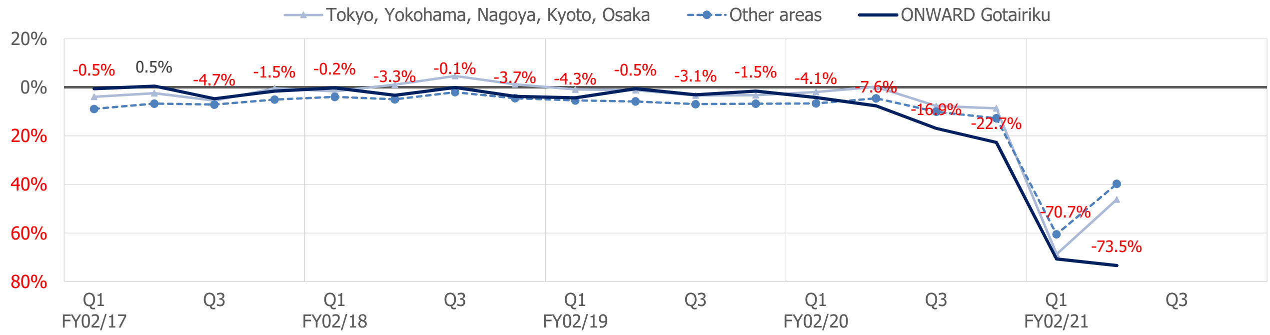
Source: Shared Research based on company data

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



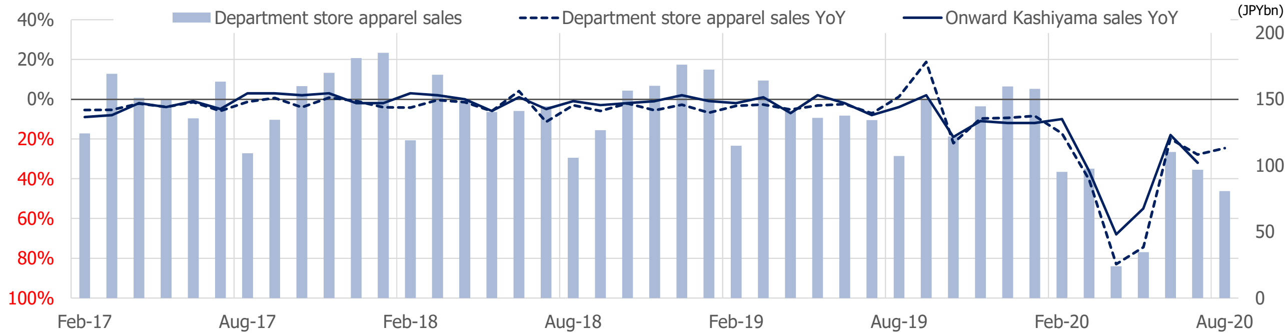
Source: Shared Research based on Japan Department Stores Association and company data

Domestic menswear sales at department stores by region and Gotairiku sales



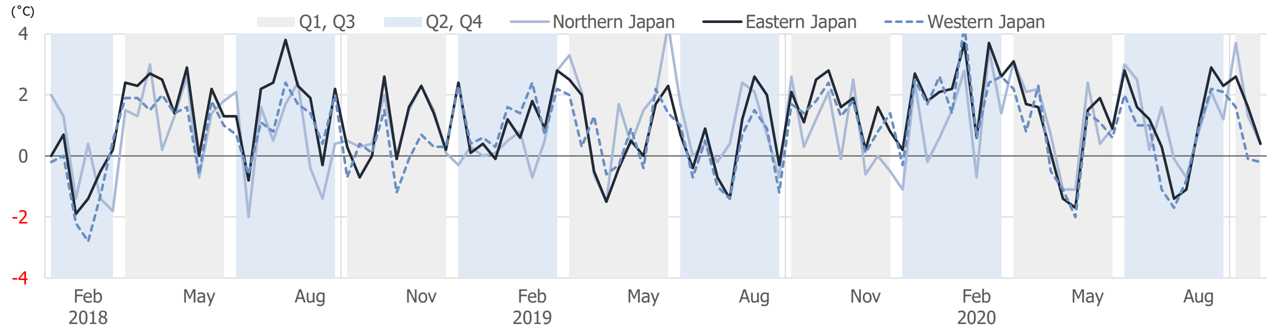
Source: Shared Research based on Japan Department Stores Association and company data

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 FY02/21

	FY02/19			FY02/20			FY02/21 Est.		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Act.	2H Est.	FY Est.
Sales	**113,864**	**126,788**	**240,652**	**118,466**	**129,767**	**248,233**	**80,585**	**106,915**	**187,500**
YoY	-1.3%	-0.7%	-1.0%	4.0%	2.3%	3.2%	-32.0%	-17.6%	-24.5%
Cost of sales	60,751	68,268	129,019	64,159	71,391	135,550	46,707	57,408	104,115
Gross profit	**53,113**	**58,520**	**111,633**	**54,307**	**58,376**	**112,683**	**33,878**	**49,507**	**83,385**
YoY	-1.2%	-2.2%	-1.7%	2.2%	-0.2%	0.9%	-37.6%	-15.2%	-26.0%
Gross profit margin	46.6%	46.2%	46.4%	45.8%	45.0%	45.4%	42.0%	46.3%	44.5%
SG&A expenses	52,507	54,664	107,171	55,168	60,576	115,744	45,365	46,965	92,330
YoY	0.4%	-2.6%	-1.1%	5.1%	10.8%	8.0%	-17.8%	-22.5%	-20.2%
SG&A ratio	46.1%	43.1%	44.5%	46.6%	46.7%	46.6%	56.3%	43.9%	49.2%
Operating profit	**606**	**3,855**	**4,461**	**-861**	**-2,200**	**-3,061**	**-11,487**	**2,542**	**-8,945**
YoY	-57.6%	3.1%	-13.7%	-	-	-	-	-	-
Operating profit margin	0.5%	3.0%	1.9%	-0.7%	-1.7%	-1.2%	-14.3%	2.4%	-4.8%
Recurring profit	**1,342**	**3,819**	**5,161**	**-817**	**-3,018**	**-3,835**	**-11,454**	**3,004**	**-8,450**
YoY	-37.6%	1.1%	-12.9%	-	-	-	-	-	-
Recurring profit margin	1.2%	3.0%	2.1%	-0.7%	-2.3%	-1.5%	-14.2%	2.8%	-4.5%
Net income	**1,479**	**3,469**	**4,948**	**-24,432**	**-27,703**	**-52,135**	**-15,188**	**6,628**	**-8,560**
YoY	-34.8%	12.0%	-7.8%	-	-	-	-	-	-
Net margin	1.3%	2.7%	2.1%	-20.6%	-21.3%	-21.0%	-18.8%	6.2%	-4.6%
EBITDA	**4,963**	**8,309**	**13,272**	**3,782**	**1,297**	**5,079**	**-8,573**	**5,868**	**-2,705**
YoY	-13.1%	-0.6%	-5.6%	-23.8%	-84.4%	-61.7%	-	352.4%	-
EBITDA margin	4.4%	6.6%	5.5%	3.2%	1.0%	2.0%	-10.6%	5.5%	-1.4%

Source: Shared Research based on company data

The company announced its full-year FY02/20 earnings forecast alongside its 1H FY02/20 results. The comments below were made prior to the forecast announcement, and Shared Research will provide an update following an interview with the company.

Forecast remains undetermined (as of July 10, 2020)

The company's FY02/21 earnings forecast remains pending. Since the beginning of FY02/21, Onward Holdings has experienced a range of negative effects related to the COVID-19 outbreak, including temporary closings and shorter business hours at commercial facilities such as department stores and station buildings, stagnation in inbound demand, and a cooling in consumer sentiment as people refrain from going out. At the time of its Q1 earnings announcement on July 10, the company restated that it is unable to provide a reasonable estimate of the outbreak's impact on its earnings. It intends to disclose a forecast as soon as the situation resolves itself enough that reasonable estimates can be calculated. The company aims to announce its dividend forecast when it releases its earnings forecast.

Notable points from results briefing (held April 13, 2020)

Restructuring and growth strategy: President Michinobu Yasumoto said at the briefing that Onward Holdings will promote restructuring of the global business and push ahead with its growth strategy based on the three key growth areas of digital, customization, and lifestyle. There is concern that the recent COVID-19 pandemic will trigger lifestyle changes, including changes in people's apparel buying. Sales of department store brands were already in a gradual decline, but Mr. Yasumoto says COVID-19 is causing people to avoid department stores and other places where people gather and the customer count may not return to previous levels even after the COVID-19 outbreak is suppressed. It is also possible that customers may try out online shopping for apparel while they voluntarily remain indoors to prevent spreading COVID-19, and then find that the merits of shopping in physical stores are harder to identify.

Reduction in number of physical stores: Onward Holdings plans to further reduce the number of physical stores. In FY02/20, it reduced the store count by about 700 through store integration and closure, with a focus on domestic stores, taking its global store count from about 3,000 down to about 2,300. As a result, at end-FY02/20, department store sales space totaled 94,446sqm (-20.6% YoY) and shopping center and outlet sales space totaled 55,408sqm (-11.9% YoY). The company aims to reduce the store count by a further 700 in FY02/21, which will take the total count to about 1,600. The reduction in sales space will result in fewer opportunities to sell the company's products, which will lead to a drop in sales. However, the reduction will also lead to improved efficiency, with reduced in-store inventory and higher sales per square meter of sales space and per salesperson. The company's apparel-related businesses employed 3,903 full-time and 7,640 part-time employees as of February 2019. These numbers tend to fall as the store count and sales space are reduced.

Onward Holdings began working on global restructuring in FY02/20, but progress has been delayed due partly to coronavirus-related quarantines overseas (especially in Europe). However, in China it has reduced its fixed expense burden by effectively withdrawing from the operation of physical stores and shifting to a format in which it grants licenses. In its manufacturing division in Europe, the company shifted from a three-factory to a two-factory system as it seeks to improve factory capacity utilization rates and produce goods with high added value. In North America, the JOSEPH Group decided to withdraw from the retail business, which had proven unprofitable. These are just some of the effects arising from restructuring. Onward Holdings plans to establish a schedule for major restructuring of the European businesses during FY02/21.

Utilization of digital channel: With an increase in e-commerce sales (+11.4% YoY) at Onward Kashiyama and the consolidation of subsidiary Yamato (gifts and gift catalogs), FY02/20 consolidated e-commerce sales rose 30.6% YoY to JPY33.3bn. However, the ratio of e-commerce sales to total sales was just 13.4%. Prioritizing e-commerce, the company aims to accelerate the growth of e-commerce sales. It plans to conduct marketing utilizing data on some 3.13mn loyalty card members, refer more customers to its e-commerce sites rather than relying on its physical stores as it has done in the past, and develop merchandise suited to sales via its e-commerce platform.

Personalization: In FY02/20, Onward Holdings made Onward Personal Style (OPS) a consolidated subsidiary. OPS operates KASHIYAMA the Smart Tailor and in FY02/20 generated sales of JPY4.3bn and operating loss of JPY1.8bn. At KASHIYAMA the Smart Tailor, customers visit a physical store to be measured by a fitter when buying their first suit, but thereafter they can order suits via their smartphone or other device using their personal measurements. Suits are produced at the company's factory in China and shipped directly to customers in as little as a week. Initially the focus was on men's suits, but the lineup has expanded to include men's casual clothing and women's suits and shoes. Some aspects of the operation are still undergoing a process of trial and error, and the company is reviewing the location of stores at which customers can have their measurements taken. All stores including stores for measurements are temporarily closed due to the COVID-19 pandemic, but the company expects to expand the business and win new customers once the stores reopen. It has plans to develop this business in North America and China as well.

With the KASHIYAMA the Smart Tailor concept, 1) the customer is measured for their first suit at a physical store, 2) the store immediately sends the measurement data to the company's dedicated factory in China, 3) the factory produces the suit with an emphasis on speed, and 4) the factory ships the suit in a special vacuum bag in as little as one week. After the first suit, there is no need to take measurements again, so the customer can place additional orders using their smartphone. This system gives the company an edge over competitors on a number of different fronts. Experienced fitters take the measurements based on analog communication, reducing the chance of mistakes during the fitting or on the order (the company has trained many fitters through its department store business). 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. Lead times at the company's dedicated factory in China are shortened not by reducing the number of processing steps but by adjusting the factory layout to permit faster processing. The company is able to keep prices down by narrowing its product line down to only certain items and styles.

Additional points

In FY02/20, Onward Holdings booked a sizeable impairment loss (JPY27.8bn), conducted a voluntary retirement program (413 employees retired, excluding salespeople), and closed street-level stores in the US (booking one-time expenses of about JPY1.0bn as operating expenses). In FY02/21, the company expects depreciation expenses to fall by about JPY2.0bn YoY, personnel costs to fall by about JPY2.4bn YoY, and one-time expenses to fall by about JPY1.0bn YoY. In addition, it expects shrinking sales area to result in lower personnel costs related to salespeople.

Due to declining sales at physical stores and shrinking sales space, Onward Holdings anticipates more instances in which two or more of its brands are sold in the same sales space. Salespeople will need to learn about brands they had not previously handled in order to provide customers with the information they require, so the company will have to provide retraining. In addition, some brands slid into the red as sales declined. This means the company will need to reconsider some of its brands, including in terms of whether or not to maintain them.

The company has already decided on additional integration and closure of stores, but is not currently considering asking for further voluntary retirements. Instead it is looking to reassign personnel to the e-commerce division, where it expects sales to grow, and to the logistics division.

The COVID-19 pandemic has resulted in production and distribution delays in China. In addition, with a state of emergency declared in Japan, many of the commercial facilities (including department stores and shopping centers) where the company's stores are located have temporarily closed, resulting in lost sales opportunities. In an ordinary year, the company introduces new merchandise that, if not sold after a year in inventory, is discounted, but it is considering holding merchandise that was to have been introduced in 2020 for introduction in 2021 instead. With the impact of COVID-19 pandemic, the Guam resort business is struggling, as occupancy has fall to zero.

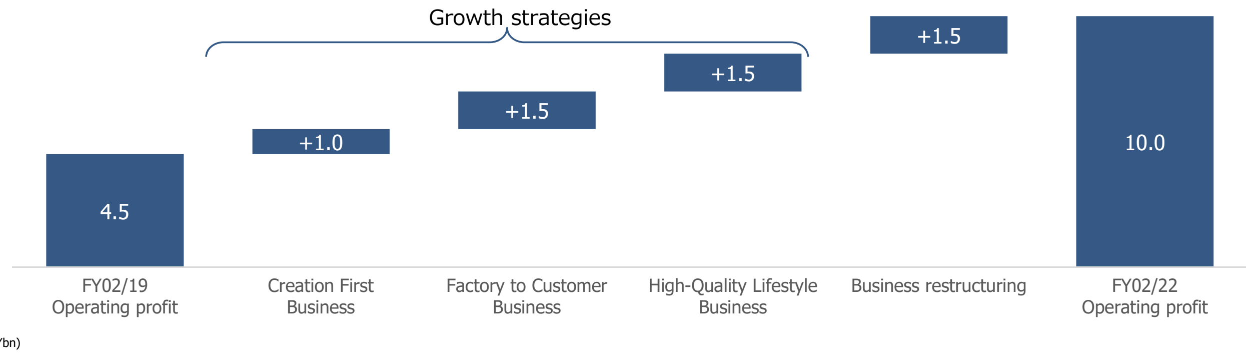
The company unveiled a medium-term business plan (FY02/20–FY02/22) in April 2019. FY02/22 targets included sales of JPY280.0bn, operating profit of JPY10.0bn, ROE of 5%, e-commerce ratio of 15%, and overseas ratio of 25%. However, since the plan was announced, the sales environment at physical stores has deteriorated significantly, and the company has merged or closed some stores and reduced personnel. Shared Research therefore believes the company will need to set new targets.

Medium-term business plan (out April 2019)

Medium-term plan (JPYmn)	FY02/19 FY	FY02/20 FY Est.	FY02/22 MTP	3-year CAGR
Consolidated sales	**240,652**	**256,000**	**280,000**	5.2%
YoY	-1.0%	6.4%		
Operating profit	**4,461**	**1,200**	**10,000**	30.9%
YoY	-13.7%	-73.1%		
OPM	1.9%	0.5%	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

In April 2019, Onward Holdings announced its new medium-term business plan (covering the years from FY02/20 through FY02/22). Prior to this, the company had announced that long-time representative director Takeshi Hirouchi, who has been leading the company since 1997, would leave the position (to become honorary chairman), so the medium-term plan would effectively be in the hands of a new management team led by Michinobu Yasumoto as representative director and president.

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 catalogs, 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 catalog as part of its omni-channel strategy in FY02/19, in FY02/20 the Nijyusanku brand will publish its own catalog 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 had not included it in consolidated results as of April 2019. 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 will include the F2C business in consolidated results in FY02/20 (full-year results for the business will be added all at once in Q4) 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 are 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)	FY02/12 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.	FY02/20 Cons.
Sales	**242,402**	**258,369**	**279,073**	**280,007**	**281,501**	**263,516**	**244,900**	**243,075**	**240,652**	**248,233**
Apparel				-	-	-	-	215,732	214,563	205,265
Domestic				-	-	-	-	170,215	167,057	158,955
Overseas				-	-	-	-	45,516	47,506	46,310
Lifestyle				-	-	-	-	27,343	26,088	42,968
Gross profit	**115,113**	**124,490**	**129,959**	**130,737**	**129,063**	**119,452**	**113,262**	**113,576**	**111,633**	**112,683**
GPM	47.5%	48.2%	46.6%	46.7%	45.8%	45.3%	46.2%	46.7%	46.4%	45.4%
Onward Kashiyama	49.2%	50.6%	49.9%	49.9%	49.5%	48.6%	49.5%	50.8%	51.4%	49.8%
SG&A expenses	104,159	113,298	120,537	120,537	123,332	115,674	109,059	108,409	107,171	115,744
% of sales	43.0%	43.9%	43.2%	43.0%	43.8%	43.9%	44.5%	44.6%	44.5%	46.6%
Onward Kashiyama	64,311	67,996	68,156	68,125	67,644	64,824	63,022	63,104	63,249	60,677
Operating profit	**10,953**	**11,192**	**9,422**	**10,200**	**5,731**	**3,778**	**4,203**	**5,167**	**4,461**	**-3,061**
OPM	4.5%	4.3%	3.4%	3.6%	2.0%	1.4%	1.7%	2.1%	1.9%	-1.2%
Apparel				-	-	-	-	5,846	5,254	-3,425
Domestic				-	-	-	-	8,562	9,018	2,515
Overseas				-	-	-	-	-2,716	-3,763	-5,940
Lifestyle				-	-	-	-	1,727	1,541	1,553

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. 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 62.3% of mainstay company Onward Kashiyama's overall sales in FY02/20. 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 76 consolidated subsidiaries (as of end-FY02/20). By far the most important is Onward Kashiyama Co., Ltd., responsible for apparel sales in Japan.

Parent (Onward Kashiyama and Onward Holdings) sales breakdown

By channel (JPYmn) Onward Hld. + Onward Kashiyama	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 Act.
Total sales	**149,985**	**156,280**	**159,930**	**158,273**	**148,332**	**141,096**	**139,438**	**137,891**	**128,097**
YoY	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%	-7.1%
Department stores	115,579	119,376	117,429	113,869	104,555	99,541	96,110	90,625	79,867
YoY	-2.9%	3.3%	-1.6%	-3.0%	-8.2%	-4.8%	-3.4%	-5.7%	-11.9%
% of total sales	77.1%	76.4%	73.4%	71.9%	70.5%	70.5%	68.9%	65.7%	62.3%
New channels	2,250	3,800	33,395	35,067	35,210	34,520	35,896	38,539	40,391
YoY	-	68.9%	778.8%	5.0%	0.4%	-2.0%	4.0%	7.4%	4.8%
% of total sales	1.5%	2.4%	20.9%	22.2%	23.7%	24.5%	25.7%	27.9%	31.5%
E-commerce	2,250	3,800	5,400	7,300	8,600	11,089	15,250	19,334	21,530
YoY	-	68.9%	42.1%	35.2%	17.8%	28.9%	37.5%	26.8%	11.4%
% of total 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	18,861
YoY	-	-	-	-	-	-	-	-7.0%	-1.8%
% of total sales	-	-	-	-	-	-	14.8%	13.9%	14.7%
Other	-	-	-	-	-	-	7,432	8,727	7,839
YoY	-	-	-	-	-	-	-	17.4%	-10.2%
% of total sales	-	-	-	-	-	-	5.3%	6.3%	6.1%
Specialty stores	4,337	4,247	3,553	3,814	3,558	3,455	3,550	-	-
YoY	6.8%	-2.1%	-16.3%	7.3%	-6.7%	-2.9%	2.7%	-	-
% of total sales	2.9%	2.7%	2.2%	2.4%	2.4%	2.4%	2.5%	-	-
Chain stores	772	641	642	573	499	292	252	-	-
YoY	-28.1%	-17.0%	0.2%	-10.7%	-12.9%	-41.5%	-13.7%	-	-
% of total sales	0.5%	0.4%	0.4%	0.4%	0.3%	0.2%	0.2%	-	-
Other	2,936	2,452	4,911	4,950	4,510	3,288	3,630	-	-
YoY	-1.2%	-16.5%	100.3%	0.8%	-8.9%	-27.1%	10.4%	-	-
% of total sales	2.0%	1.6%	3.1%	3.1%	3.0%	2.3%	2.6%	-	-

By product (JPYmn) Onward Hld. + Onward Kashiyama	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 Act.
Total sales	**149,985**	**156,280**	**159,930**	**158,273**	**148,332**	**141,096**	**139,438**	**137,891**	**128,097**
YoY	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%	-7.1%
Menswear	36,316	36,986	37,072	37,039	34,971	33,294	32,406	31,054	28,174
YoY	-1.4%	1.8%	0.2%	-0.1%	-5.6%	-4.8%	-2.7%	-4.2%	-9.3%
% of total sales	24.2%	23.7%	23.2%	23.4%	23.6%	23.6%	23.2%	22.5%	22.0%
Womenswear	101,490	106,859	110,403	109,001	102,552	97,833	97,205	96,138	90,121
YoY	-3.0%	5.3%	3.3%	-1.3%	-5.9%	-4.6%	-0.6%	-1.1%	-6.3%
% of total sales	67.7%	68.4%	69.0%	68.9%	69.1%	69.3%	69.7%	69.7%	70.4%
Children's wear	6,369	6,691	6,785	6,911	6,862	6,719	6,537	5,985	5,446
YoY	-0.7%	5.1%	1.4%	1.9%	-0.7%	-2.1%	-2.7%	-8.4%	-9.0%
% of total sales	4.2%	4.3%	4.2%	4.4%	4.6%	4.8%	4.7%	4.3%	4.3%
Other	4,215	4,134	4,262	4,260	3,947	3,250	3,291	4,714	4,356
YoY	-5.8%	-1.9%	3.1%	-0.0%	-7.3%	-17.7%	1.3%	43.2%	-7.6%
% of total sales	2.8%	2.6%	2.7%	2.7%	2.7%	2.3%	2.4%	3.4%	3.4%

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.

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. 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.

Main brands

- **Nijyusanku (est. 1993):** Onward Kashiyama's largest brand. Aimed mainly at working women from the second generation of 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: Company material

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 for higher-quality products.
- **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)

Sales by channel (JPYmn) Onward Hld. + Onward Kashiyama	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 Act.
Total sales	149,985	156,280	159,930	158,273	148,332	141,096	139,438	137,891	128,097
YoY	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%	-7.1%
Key department store brands	89,128	93,805	96,062	95,455	106,846	105,027	105,997	104,031	94,196
YoY	-1.8%	5.2%	2.4%	-0.6%	11.9%	-1.7%	0.9%	-1.9%	-9.5%
% of total sales	59.4%	60.0%	60.1%	60.3%	72.0%	74.4%	76.0%	75.4%	73.5%
Core brands	52,074	55,147	57,405	56,716	55,667	55,333	56,419	55,515	53,955
YoY	-2.4%	5.9%	4.1%	-1.2%	-1.8%	-0.6%	2.0%	-1.6%	-2.8%
% of total sales	34.7%	35.3%	35.9%	35.8%	37.5%	39.2%	40.5%	40.3%	42.1%
Nijuysanku (W)	24,676	26,609	27,482	26,878	26,792	27,164	27,982	26,923	26,631
YoY	-0.3%	7.8%	3.3%	-2.2%	-0.3%	1.4%	3.0%	-3.8%	-1.1%
% of total sales	16.5%	17.0%	17.2%	17.0%	18.1%	19.3%	20.1%	19.5%	20.8%
Kumikyoku (W)	10,046	10,553	11,537	11,537	10,674	9,925	9,950	9,719	9,191
YoY	-11.6%	5.0%	9.3%	0.0%	-7.5%	-7.0%	0.3%	-2.3%	-5.4%
% of total sales	6.7%	6.8%	7.2%	7.3%	7.2%	7.0%	7.1%	7.0%	7.2%
ICB (W)	8,926	8,998	9,090	8,914	8,847	8,832	8,804	8,899	8,632
YoY	0.6%	0.8%	1.0%	-1.9%	-0.8%	-0.2%	-0.3%	1.1%	-3.0%
% of total sales	6.0%	5.8%	5.7%	5.6%	6.0%	6.3%	6.3%	6.5%	6.7%
Jiyuku (W)	8,426	8,987	9,296	9,387	9,354	9,412	9,683	9,974	9,501
YoY	0.7%	6.7%	3.4%	1.0%	-0.4%	0.6%	2.9%	3.0%	-4.7%
% of total sales	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)	8,524	9,196	9,676	9,847	9,469	9,166	9,127	9,290	9,057
YoY	2.7%	7.9%	5.2%	1.8%	-3.8%	-3.2%	-0.4%	1.8%	-2.5%
% of total sales	5.7%	5.9%	6.1%	6.2%	6.4%	6.5%	6.5%	6.7%	7.1%
Calvin Klein Platinum Label (M, W)	6,108	6,236	5,357	5,134	4,743	4,440	4,377	4,159	3,664
YoY	3.7%	2.1%	-14.1%	-4.2%	-7.6%	-6.4%	-1.4%	-5.0%	-11.9%
% of total sales	4.1%	4.0%	3.3%	3.2%	3.2%	3.1%	3.1%	3.0%	2.9%
Gotairiku (M)	4,434	4,422	4,459	4,792	4,703	4,634	4,550	4,447	3,919
YoY	-7.2%	-0.3%	0.8%	7.5%	-1.9%	-1.5%	-1.8%	-2.3%	-11.9%
% of total sales	3.0%	2.8%	2.8%	3.0%	3.2%	3.3%	3.3%	3.2%	3.1%
Sonia Rykiel Collection (W)	3,925	4,129	4,023	3,645	3,221	3,059	2,965	2,900	-
YoY	-5.2%	5.2%	-2.6%	-9.4%	-11.6%	-5.0%	-3.1%	-2.2%	-
% of total sales	2.6%	2.6%	2.5%	2.3%	2.2%	2.2%	2.1%	2.1%	-
DAKS (M, golf)	3,225	3,264	3,203	3,203	2,966	2,791	2,661	2,481	2,143
YoY	-6.0%	1.2%	-1.9%	0.0%	-7.4%	-5.9%	-4.7%	-6.8%	-13.6%
% of total sales	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	1.9%	1.8%	1.7%
Paul Smith (W)	4,114	4,299	4,462	4,384	4,332	4,300	4,833	5,029	4,936
YoY	-0.4%	4.5%	3.8%	-1.7%	-1.2%	-0.7%	12.4%	4.1%	-1.8%
% of total sales	2.7%	2.8%	2.8%	2.8%	2.9%	3.0%	3.5%	3.6%	3.9%
JOSEPH (M, W)	3,877	4,157	4,542	4,902	4,948	4,906	5,050	4,938	4,517
YoY	3.9%	7.2%	9.3%	7.9%	0.9%	-0.8%	2.9%	-2.2%	-8.5%
% of total sales	2.6%	2.7%	2.8%	3.1%	3.3%	3.5%	3.6%	3.6%	3.5%
JANE MORE (W)	2,847	2,955	2,935	2,832	2,578	2,275	2,077	1,747	-
YoY	-4.5%	3.8%	-0.7%	-3.5%	-9.0%	-11.8%	-8.7%	-15.9%	-
% of total sales	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	3,294
YoY					-	1.3%	3.8%	-1.7%	-12.2%
% of total sales					2.4%	2.6%	2.7%	2.7%	2.6%
Personal Order (M)					5,420	5,342	5,284	4,999	4,340
YoY					-	-1.4%	-1.1%	-5.4%	-13.2%
% of total sales					3.7%	3.8%	3.8%	3.6%	3.4%
Nijyusanku Men's Casual (M)					5,171	5,106	4,838	4,774	4,371
YoY					-	-1.3%	-5.2%	-1.3%	-8.4%
% of total sales					3.5%	3.6%	3.5%	3.5%	3.4%
New distribution channel brands	17,844	19,643	20,754	20,585	19,370	17,342	15,937	15,426	15,221
YoY	1.1%	10.1%	5.7%	-0.8%	-5.9%	-10.5%	-8.1%	-3.2%	-1.3%
% of total sales	11.9%	12.6%	13.0%	13.0%	13.1%	12.3%	11.4%	11.2%	11.9%
any FAM (W, ch)	7,692	8,435	8,548	8,155	7,393	6,867	6,805	6,542	6,650
YoY	0.0%	9.7%	1.3%	-4.6%	-9.3%	-7.1%	-0.9%	-3.9%	1.7%
% of total sales	5.1%	5.4%	5.3%	5.2%	5.0%	4.9%	4.9%	4.7%	5.2%
any SiS (W)	7,014	7,668	8,537	8,761	8,675	8,958	9,132	8,884	8,571
YoY	2.5%	9.3%	11.3%	2.6%	-1.0%	3.3%	1.9%	-2.7%	-3.5%
% of total sales	4.7%	4.9%	5.3%	5.5%	5.8%	6.3%	6.5%	6.4%	6.7%
Field Dream (M, W)	3,138	3,540	3,669	3,669	3,302	1,517	-	-	-
YoY	0.6%	12.8%	3.6%	0.0%	-10.0%	-54.1%	-	-	-
% of total sales	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

Lifestyle business

Major business units under the company's lifestyle business include Chacott (which specializes in ballet and dance-related goods), Yamato (which designs and produces gifts and gift catalogs), and Creative Yoko (which designs and produces pet-related goods and character goods, such as its popular Sirotan character). The company's lifestyle business also includes a resort business located in Guam and Kashiyama Daikanyama, which operates a cafe, gallery, apparel retail shop, restaurant, and bar in the Daikanyama district of Tokyo. Chacott joined the group as a wholly owned subsidiary in 2004, while Creative Yoko became a subsidiary in October 2008, and Yamato became a wholly owned subsidiary in March 2019. Kashiyama Daikanyama was founded in April 2019.

The company says it will consider additional acquisitions of companies with businesses in the lifestyle field to help it build up a high-quality lifestyle business that is capable of generating synergies with its apparel business.

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), outsources production to factories in Japan and China, and sells the apparel to customers at its stores located in department stores and in shopping centers. In the 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 the wholesale price paid by the department store as sales. Any returns or unsold inventory are the company's responsibility, so the department store has no inventory risk. The company makes final decisions about retail price (full or discounted). The department store's share is a predetermined percentage of the retail price.

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 does not 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 to department stores 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.

In general, there are four main fashion seasons. For each of them, planning teams develop collection samples and present them at internal exhibitions, which are ordinarily held twice a year. The autumn/winter exhibition is normally held in May. From among the samples shown at the exhibition, items are selected and altered based on the opinions of internal buyers and clients. Then, items selected as a result of this process are produced in initial quantities determined by the internal buyers. Additional orders are made based on smaller interim exhibitions mid-season (4–6 per year) and viewings. Planning teams are responsible for maintaining a production system that can handle the additional orders. 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 ready garments are shipped (mostly by sea). If fabric procurement or pattern alteration is needed, 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 does not 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 are likely to be reordered and items that will not be reordered once sold out. Normally around 20%-30% of the collection (based on item count) 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. On the other hand, one-off items have the roll of creating the collection's unique signature and adding zest that increases the fashion statement of the brand. In other words, the company expects the majority of customers to buy a pair of gray pants, for example, but to remember that bold, fashionable coat seen in a prominent place in the store.

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 shorter window for early season full-price customers, instead offering items at 30% lower prices in the middle of the season. Selling items at a markdown early on helps Japanese companies minimize huge discounts 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. For example, the timing of bargain sales at retailers selling apparel at railway station complexes and "fashion buildings" (an urban shopping center inside a multi-story building) could differ from that as department stores. Retailers seek to attract customers with weekend sales campaigns, limited time sales, and the like. Such sales methods used at area competitors have an impact on the methods employed at department stores.

Starting date for seasonal sales events at major department store chains

		Takashimaya	Daimaru Matsuzakaya	Isetan Mitsukoshi	Sogo & Seibu
2020	Summer	June 26	June 26	June 9	June 15
	Winter	January 2	January 2	January 2	January 1
2019	Summer	June 28	June 28	June 28	June 28
	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. These generally offer benefits similar to permanent employees but also make 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.

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 FY02/20, sales via e-commerce comprised 17% of Onward Kashiyama's total sales. The company notes that more than 90% of its e-commerce sales flow through the company's own e-commerce platform rather than external e-commerce sites. The company sets prices such that customers pay the same whether they purchase items at department stores or online, but books wholesale prices for sales at department stores and retail prices for online sales, which means GPM is higher for the latter (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 to its customers. Therefore, the company seems to have become an important base to direct customers to the department stores.

Sales breakdown by channel (parent)

By channel (JPYmn) Onward Hld. + Onward Kashiyama	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 Act.
Total sales	**149,985**	**156,280**	**159,930**	**158,273**	**148,332**	**141,096**	**139,438**	**137,891**	**128,097**
YoY	-2.8%	4.2%	2.3%	-1.0%	-6.3%	-4.9%	-1.2%	-1.1%	-7.1%
Department stores	115,579	119,376	117,429	113,869	104,555	99,541	96,110	90,625	79,867
YoY	-2.9%	3.3%	-1.6%	-3.0%	-8.2%	-4.8%	-3.4%	-5.7%	-11.9%
% of total sales	77.1%	76.4%	73.4%	71.9%	70.5%	70.5%	68.9%	65.7%	62.3%
New channels	2,250	3,800	33,395	35,067	35,210	34,520	35,896	38,539	40,391
YoY	-	68.9%	778.8%	5.0%	0.4%	-2.0%	4.0%	7.4%	4.8%
% of total sales	1.5%	2.4%	20.9%	22.2%	23.7%	24.5%	25.7%	27.9%	31.5%
E-commerce	2,250	3,800	5,400	7,300	8,600	11,089	15,250	19,334	21,530
YoY	-	68.9%	42.1%	35.2%	17.8%	28.9%	37.5%	26.8%	11.4%
% of total 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	18,861
YoY	-	-	-	-	-	-	-	-7.0%	-1.8%
% of total sales	-	-	-	-	-	-	14.8%	13.9%	14.7%
Other	-	-	-	-	-	-	7,432	8,727	7,839
YoY	-	-	-	-	-	-	-	17.4%	-10.2%
% of total sales	-	-	-	-	-	-	5.3%	6.3%	6.1%
Specialty stores	4,337	4,247	3,553	3,814	3,558	3,455	3,550	-	-
YoY	6.8%	-2.1%	-16.3%	7.3%	-6.7%	-2.9%	2.7%	-	-
% of total sales	2.9%	2.7%	2.2%	2.4%	2.4%	2.4%	2.5%	-	-
Chain stores	772	641	642	573	499	292	252	-	-
YoY	-28.1%	-17.0%	0.2%	-10.7%	-12.9%	-41.5%	-13.7%	-	-
% of total sales	0.5%	0.4%	0.4%	0.4%	0.3%	0.2%	0.2%	-	-
Other	2,936	2,452	4,911	4,950	4,510	3,288	3,630	-	-
YoY	-1.2%	-16.5%	100.3%	0.8%	-8.9%	-27.1%	10.4%	-	-
% of total sales	2.0%	1.6%	3.1%	3.1%	3.0%	2.3%	2.6%	-	-

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 Onward Italia, operating a brand business (Jil Sander) and OEM business, and the UK-based JOSEPH Group. Onward Italia presides over production and wholesale businesses and the Jil Sander business (acquired in 2008), along with Japan businesses including Jil Sander Japan. The JOSEPH Group, acquired in 2005, also owned a US sales business (but withdrew from this business in FY02/20).

The European fashion business is characterized by widespread outsourcing. Design houses rarely have planning and manufacturing capability. In its production and wholesale businesses, the company develops samples and produces and sells products, in exchange for a license payment to the designer. Previously, it actively acquired the following manufacturing businesses in Europe, but is currently operating just two factories.

- ▷ 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 s.r.l. in 2015 (luxury sneaker manufacturer)

Freeland s.r.l.: Italian luxury brand shoes manufacturer acquired in July 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.

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.

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 45.4% in FY02/20. This can be explained by the willingness of consumers to pay high prices for the design, quality, and brand names offered by the company.
- **High ratio of sales via its own e-commerce platform:** It seems unlikely Onward Holdings can expect any significant growth in what has been its main sales channel, the department store channel, but its e-commerce channel will almost certainly continue growing. Most of Onward Kashiyama's e-commerce sales (more than 90%) are generated through its own e-commerce platform. The retail prices for e-commerce, where the company is selling directly to its customers, match department store retail prices (the company's wholesale price plus department store margin). For this reason, the e-commerce business (especially its own e-commerce platform) provides a higher GPM.

Weaknesses

- **Weak market growth:** In FY02/20, 64% 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 must 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. According to statistics from the Japan Department Stores Association, during the last ten years (2009 to 2019), department store sales of womenswear have declined by roughly 20% and sales of menswear have declined by roughly 20%. The drop in sales reflects not only a decline in the sales floor space of Japanese department stores (resulting largely from department store closures), but is also attributed to a shift in the tastes of Japanese consumers away from brands and designs in favor of fashionable casual apparel that is also highly functional.

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 does not 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 & Co., Ltd. (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.

Financial statements

Income statement

Income statement (JPYmn)	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.	FY02/20 Cons.
Sales	**242,402**	**258,369**	**279,073**	**280,007**	**281,501**	**263,516**	**244,900**	**243,075**	**240,652**	**248,233**
YoY	-0.9%	6.6%	8.0%	8.0%	0.5%	-6.4%	-7.1%	-0.7%	-1.0%	3.2%
Cost of sales	127,288	133,878	149,113	149,270	152,438	144,063	131,638	129,498	129,019	135,550
Gross profit	**115,113**	**124,490**	**129,959**	**130,737**	**129,063**	**119,452**	**113,262**	**113,576**	**111,633**	**112,683**
YoY	-0.6%	8.1%	4.4%	4.4%	-1.3%	-7.4%	-5.2%	0.3%	-1.7%	0.9%
Gross profit margin	47.5%	48.2%	46.6%	46.7%	45.8%	45.3%	46.2%	46.7%	46.4%	45.4%
SG&A expenses	104,159	113,298	120,537	120,537	123,332	115,674	109,059	108,409	107,171	115,744
YoY	-2.6%	8.8%	6.4%	6.4%	2.3%	-6.2%	-5.7%	-0.6%	-1.1%	8.0%
% of sales	43.0%	43.9%	43.2%	43.0%	43.8%	43.9%	44.5%	44.6%	44.5%	46.6%
Operating profit	**10,953**	**11,192**	**9,422**	**10,200**	**5,731**	**3,778**	**4,203**	**5,167**	**4,461**	**-3,061**
YoY	22.7%	2.2%	-15.8%	-13.7%	-43.8%	-34.1%	11.2%	22.9%	-13.7%	-168.6%
Operating profit margin	4.5%	4.3%	3.4%	3.6%	2.0%	1.4%	1.7%	2.1%	1.9%	-1.2%
Non-operating income (expenses)	2,376	2,213	2,789	2,011	1,431	1,726	1,374	761	700	-774
Non-operating income	3,860	3,726	3,274		3,434	4,166	3,338	3,445	3,342	2,810
Non-operating expenses	1,484	1,514	1,263		2,004	2,440	1,964	2,683	2,642	3,584
Financial income (expenses)	-153	-100	3	3	-24	26	-63	-18	-58	-116
Royalties (received and paid)	802	626	777			-	-	-	-	-
Forex gains (losses)	-182	-237	501	464	397	49	535	-82	26	-1
Equity in earnings of affiliates	715	250	-29	-28	-146	42	-315	-775	-83	-1,390
Rent received	594	622	717	717	889	1,296	1,121	1,231	1,302	1,288
Other	600	1,051	820	855	315	313	96	406	-487	-555
Recurring profit	**13,329**	**13,405**	**12,211**	**12,211**	**7,162**	**5,504**	**5,577**	**5,928**	**5,161**	**-3,835**
YoY	27.0%	0.6%	-8.9%	-8.9%	-41.3%	-23.1%	1.3%	6.3%	-12.9%	-174.3%
Recurring profit margin	5.5%	5.2%	4.4%	4.4%	2.5%	2.1%	2.3%	2.4%	2.1%	-1.5%
Extraordinary gains (losses)	-2,259	-5,656	-2,737	-2,737	2,233	1,626	5,403	4,101	-2,007	-33,744
Extraordinary gains	1,094	1,967	1,129	1,129	6,006	16,538	9,955	6,210	4,810	2,988
Extraordinary losses	3,353	7,623	3,866	3,866	3,773	14,912	4,552	2,109	6,817	36,732
Income taxes	7,450	3,188	4,781	4,781	5,172	2,868	6,239	3,241	-2,654	13,855
Implied tax rate	67.3%	41.1%	50.5%	50.5%	55.1%	40.2%	56.8%	32.3%	-84.1%	-36.9%
Net income attrib. to non-controlling interests	90	56	34	34	18	-15	-3	1,421	860	700
Net income	**3,529**	**4,503**	**4,658**	**4,658**	**4,204**	**4,278**	**4,744**	**5,366**	**4,948**	**-52,135**
YoY	29.6%	27.6%	3.4%	3.4%	-9.7%	1.8%	10.9%	13.1%	-7.8%	-
Net margin	1.5%	1.7%	1.7%	1.7%	1.5%	1.6%	1.9%	2.2%	2.1%	-21.0%

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

Cost structure (JPYmn)	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.	FY02/20 Cons.
Sales	**242,402**	**258,369**	**279,073**	**280,007**	**281,501**	**263,516**	**244,900**	**243,075**	**240,652**	**248,233**
YoY	-0.9%	6.6%	8.0%	8.1%	0.5%	-6.4%	-7.1%	-0.7%	-1.0%	3.2%
Cost of sales	127,288	133,878	149,113	149,270	152,438	144,063	131,638	129,498	129,019	135,550
Gross profit	**115,113**	**124,490**	**129,959**	**130,737**	**129,063**	**119,452**	**113,262**	**113,576**	**111,633**	**112,683**
YoY	-0.6%	8.1%	4.4%	8.1%	-1.3%	-7.4%	-5.2%	0.3%	-1.7%	0.9%
Gross profit margin	47.5%	48.2%	46.6%	46.7%	45.8%	45.3%	46.2%	46.7%	46.4%	45.4%
SG&A expenses	104,159	113,298	120,537	120,537	123,332	115,674	109,059	108,409	107,171	115,744
YoY	-2.6%	8.8%	6.4%	6.4%	2.3%	-6.2%	-5.7%	-0.6%	-1.1%	8.0%
% of sales	43.0%	43.9%	43.2%	43.0%	43.8%	43.9%	44.5%	44.6%	44.5%	46.6%
Personnel	56,543	59,925	62,348	62,348	62,655	58,947	55,428	54,739	53,068	-
YoY	-2.9%	6.0%	4.0%	4.0%	0.5%	-5.9%	-6.0%	-1.2%	-3.1%	-
% of sales	23.3%	23.2%	22.3%	22.3%	22.3%	22.4%	22.6%	22.5%	22.1%	-
Advertising	5,128	6,312	7,172	7,172	7,124	5,904	5,965	6,635	6,460	-
YoY	-4.6%	23.1%	13.6%	13.6%	-0.7%	-17.1%	1.0%	11.2%	-2.6%	-
% of sales	2.1%	2.4%	2.6%	2.6%	2.5%	2.2%	2.4%	2.7%	2.7%	-
Rent	12,974	15,925	17,790	17,790	18,233	17,108	15,503	14,445	12,770	-
YoY	-2.6%	22.7%	11.7%	11.7%	2.5%	-6.2%	-9.4%	-6.8%	-11.6%	-
% of sales	5.4%	6.2%	6.4%	6.4%	6.5%	6.5%	6.3%	5.9%	5.3%	-
Business supplies	2,715	3,094	3,426	3,426	3,438	3,229	3,487	3,275	3,392	-
YoY	-3.4%	14.0%	10.7%	10.7%	0.4%	-6.1%	8.0%	-6.1%	3.6%	-
% of sales	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.4%	1.3%	1.4%	-
Depreciation	4,804	4,953	5,750	5,750	6,063	6,567	5,509	5,170	5,299	-
YoY	-2.8%	3.1%	16.1%	16.1%	5.4%	8.3%	-16.1%	-6.2%	2.5%	-
% of sales	2.0%	1.9%	2.1%	2.1%	2.2%	2.5%	2.2%	2.1%	2.2%	-
Packaging, transportation, storage	1,368	1,980	2,137	2,137	2,512	2,539	3,436	3,512	3,837	-
YoY	2.5%	44.7%	7.9%	7.9%	17.5%	1.1%	35.3%	2.2%	9.3%	-
% of sales	0.6%	0.8%	0.8%	0.8%	0.9%	1.0%	1.4%	1.4%	1.6%	-
Goodwill amortization	3,664	3,938	3,313	3,313	3,327	3,027	2,132	2,563	2,302	-
YoY	0.7%	7.5%	-15.9%	-15.9%	0.4%	-9.0%	-29.6%	20.2%	-10.2%	-
% of sales	1.5%	1.5%	1.2%	1.2%	1.2%	1.1%	0.9%	1.1%	1.0%	-
Other	16,963	17,170	18,600	18,601	19,980	18,353	17,599	18,070	20,043	-
YoY	-1.7%	1.2%	8.3%	8.3%	7.4%	-8.1%	-4.1%	2.7%	10.9%	-
% of sales	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)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Sales (Initial Est.)	244,800	266,600	273,000	290,700	264,000	254,000	239,300	248,500	256,000
Sales (Results)	242,402	258,369	279,073	281,501	263,516	244,900	243,075	240,652	248,233
Results vs. Initial Est.	**-1.0%**	**-3.1%**	**2.2%**	**-3.2%**	**-0.2%**	**-3.6%**	**1.6%**	**-3.2%**	**-3.0%**
Operating profit (Initial Est.)	10,200	13,800	12,900	12,300	9,000	4,500	5,700	7,200	5,520
Operating profit (Results)	10,953	11,192	9,422	5,731	3,778	4,203	5,167	4,461	-3,061
Results vs. Initial Est.	**7.4%**	**-18.9%**	**-27.0%**	**-53.4%**	**-58.0%**	**-6.6%**	**-9.4%**	**-38.0%**	**-**
Recurring profit (Initial Est.)	11,600	15,400	14,800	13,700	10,000	5,600	7,100	7,300	5,700
Recurring profit (Results)	13,329	13,405	12,211	7,162	5,504	5,577	5,928	5,161	-3,835
Results vs. Initial Est.	**14.9%**	**-13.0%**	**-17.5%**	**-47.7%**	**-45.0%**	**-0.4%**	**-16.5%**	**-29.3%**	**-**
Net income (Initial Est.)	3,500	5,000	5,000	5,400	5,000	4,500	5,300	6,000	5,500
Net income (Results)	3,529	4,503	4,658	4,204	4,278	4,744	5,366	4,948	-52,135
Results vs. Initial Est.	**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)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
ASSETS									
Cash and deposits	33,192	24,677	27,375	31,122	29,407	26,096	26,334	31,284	28,795
Accounts receivable	25,256	25,863	28,250	30,792	27,818	26,008	25,057	25,508	25,715
Inventories	31,443	34,476	40,678	43,861	42,769	40,215	42,978	46,765	43,222
Deferred tax assets	3,820	7,931	5,108	4,065	4,704	3,270	4,130	2,973	-
Allowance for doubtful accounts	-387	-452	-635	-923	-835	-497	-350	-753	-488
Other current assets	5,571	7,826	9,568	8,132	17,603	8,477	7,826	11,520	9,536
Total current assets	**98,895**	**100,321**	**110,349**	**117,051**	**121,468**	**103,572**	**105,977**	**117,297**	**106,782**
Total tangible assets	**82,987**	**86,861**	**102,878**	**109,658**	**106,695**	**92,268**	**93,714**	**96,717**	**83,231**
Goodwill	40,793	32,769	29,740	26,568	15,652	18,522	16,228	9,455	6,127
Other	2,701	2,688	4,535	7,487	7,784	7,282	8,284	7,570	6,033
Total intangible assets	**43,495**	**35,457**	**34,276**	**34,055**	**23,436**	**25,805**	**24,512**	**17,025**	**12,160**
Investment securities	35,179	42,730	49,161	54,162	33,922	26,233	30,490	27,845	13,340
Long-term loans	5,028	5,275	5,446	2,294	2,276	2,225	1,888	2,469	1,612
Long-term prepaid expenses	743	1,212	1,182	1,119	660	579	360	446	300
Deferred tax assets	4,495	3,600	3,079	1,168	11,166	8,592	6,971	12,926	4,232
Other	8,916	13,862	10,028	21,993	13,085	11,332	10,632	10,343	10,256
Allowance for doubtful accounts	-2,801	-2,541	-2,971	-648	-675	-561	-260	-436	-306
Investments and other assets	**51,561**	**64,138**	**65,926**	**80,088**	**61,853**	**51,579**	**53,929**	**56,513**	**32,142**
Total fixed assets	**178,044**	**186,458**	**203,081**	**223,802**	**191,985**	**169,653**	**172,156**	**170,256**	**127,534**
Total assets	**276,939**	**286,779**	**313,430**	**340,854**	**313,454**	**273,226**	**278,133**	**287,554**	**234,316**
LIABILITIES									
Accounts payable	33,238	33,512	38,305	40,340	34,970	13,960	18,059	31,738	33,014
Short-term debt	29,865	47,581	44,956	45,653	49,154	37,365	35,332	56,685	49,359
Corporate taxes payable	5,699	4,829	955	3,178	5,911	1,096	2,084	475	527
Provision for bonuses	1,266	1,289	1,286	1,154	1,001	967	1,051	777	835
Provision for sales returns	513	528	496	404	303	304	271	241	228
Other	13,510	13,001	15,011	18,890	14,770	31,992	29,587	15,489	24,780
Total current liabilities	**84,091**	**100,740**	**101,009**	**109,619**	**106,109**	**85,684**	**86,384**	**105,405**	**108,743**
Long-term debt	19,730	1,573	14,051	21,078	16,076	3,418	6,818	4,706	17,028
Provision for retirement benefits	4,261	3,210	3,556	4,268	4,330	4,153	4,328	-	-
Consolidation adjustments	-	-	-	-	-	-	-	-	-
Deferred tax liabilities for land revaluation	3,966	3,966	3,966	3,209	2,818	2,674	2,259	1,746	-
Other	7,588	11,917	15,818	17,364	11,782	11,627	10,191	9,075	10,284
Total fixed liabilities	**35,545**	**20,666**	**37,391**	**45,919**	**35,006**	**21,872**	**23,596**	**19,938**	**31,536**
Total liabilities	**119,636**	**121,407**	**138,401**	**155,539**	**141,116**	**107,556**	**109,981**	**125,343**	**140,279**
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	119,524	120,164	121,007	122,589	114,181	113,071	115,798	107,139	46,338
Treasury stock	-23,326	-23,146	-23,052	-22,832	-18,040	-24,167	-27,579	-19,833	-21,437
Valuation and translation adjustments	-20,327	-13,420	-4,981	3,410	-6,508	-5,673	-3,732	-9,113	-15,211
Share subscription rights	653	724	823	871	843	779	729	559	484
Non-controlling interests	656	926	1,109	1,153	1,738	1,537	2,813	3,336	3,740
Total net assets	**157,302**	**165,372**	**175,028**	**185,315**	**172,337**	**165,670**	**168,152**	**162,210**	**94,036**
Working capital	23,461	26,827	30,623	34,313	35,617	52,263	49,976	40,535	35,923
Total interest-bearing debt	49,595	49,154	59,007	66,731	65,230	40,783	42,150	61,391	66,387
Net debt	16,403	24,477	31,632	35,609	35,823	14,687	15,816	30,107	37,592

Source: Shared Research based on company data

Cash flow statement

Cash flow statement (JPYmn)	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 Cons.
Cash flows from operating activities (1)	13,180	10,137	13,361	16,490	3,632	6,844	13,228	4,635	8,003
Pre-tax profit	11,070	7,748	9,474	9,395	7,130	10,980	10,029	3,154	-37,579
Depreciation	5,478	5,721	6,800	7,218	7,799	6,662	6,334	6,510	6,392
Impairment losses	351	6,918	322	1,660	14,051	1,658	1,202	5,533	27,756
Amortization of goodwill	3,664	3,937	3,313	3,326	3,026	2,132	2,563	2,301	1,748
Change in working capital	-871	-2,294	-1,835	-2,222	-2,579	-380	590	-5,840	5,426
Income taxes	-4,739	-7,576	-4,799	-1,574	-4,117	-7,120	-115	-2,292	176
Other	-1,773	-4,317	86	-1,313	-21,678	-7,088	-7,375	-4,731	4,084
Cash flows from investing activities (2)	-1,961	-10,682	-14,300	-15,656	1,782	25,270	-7,299	-10,305	-10,758
Acquisition of tangible/intangible fixed assets	-4,163	-6,410	-13,677	-22,181	-12,139	-8,625	-9,458	-11,219	-5,701
Proceeds from sale of tangible/intangible fixed assets	4,753	23	694	2,805	15,575	21,764	6,392	4,802	4,056
Acquisition of shares in subsidiaries	-	-1,939	-12	-204	-11,282	931	-	18	-8,304
Other	-2,551	-2,356	-1,305	3,924	9,628	11,200	-4,233	-3,906	-809
FCF (1+2)	11,219	-545	-939	834	5,414	32,114	5,929	-5,670	-2,755
Cash flows from financing activities	-7,449	-7,848	2,121	757	-6,357	-32,856	-6,593	11,542	-1,595
Net change in short-term borrowings	-329	-367	10,503	-875	4,224	-19,267	6,003	24,799	-8,043
Net change in long-term borrowings	-2,753	-2,833	-3,661	6,643	-3,436	-2,644	-22,569	-5,085	12,314
Issuance and redemption of bonds	-	-	-	-	-	-	-	-	-
Acquisition of treasury stock	-2	-3	-7	-4	-2,293	-6,299	-3,531	-3,725	-1,757
Dividends paid	-3,760	-3,762	-3,765	-3,766	-3,769	-3,699	-3,511	-3,420	-3,308
Other	-607	-886	-956	-1,245	-3,376	-7,246	13,484	-4,752	-2,558
Other	-315	850	1,486	835	-546	-1,565	291	-284	-498
Change in cash and cash equivalents	3,453	-7,542	2,668	2,426	-1,488	-2,306	-373	5,587	-4,848
Cash and cash equivalents (year-end)	32,087	24,544	27,230	29,818	28,329	26,023	25,649	31,237	28,780
Depreciation and amortization (A)	9,142	9,658	10,113	10,544	10,825	8,794	8,897	8,811	8,140
Capital expenditures (B)	590	-6,387	-12,983	-19,376	3,436	13,139	-3,066	-6,417	-1,645
Change in working capital (C)	-871	-2,294	-1,835	-2,222	-2,579	-380	590	-5,840	5,426
Simple FCF (NI+A+B-C)	21,673	13,313	8,439	2,785	23,970	33,293	15,270	11,388	-36,510

Cash conversion cycle	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 Cons.
Days in accounts receivable	38	36	35	38	41	40	38	38	38
Days in inventory	89	90	92	101	110	115	117	127	121
Days in accounts payable	95	91	88	94	95	68	45	70	87
Cash conversion cycle (days)	**32**	**35**	**39**	**45**	**55**	**87**	**110**	**95**	**72**

Source: Shared Research based on company data

Profitability snapshot, financial ratios

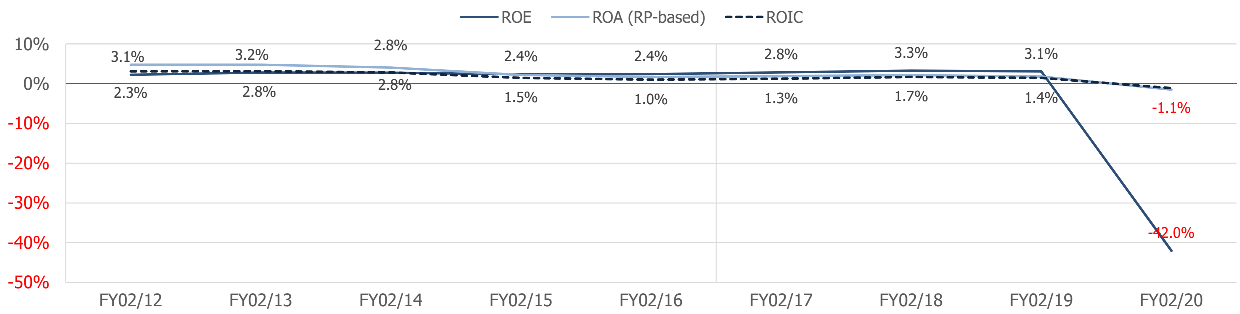
Profit margins (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Gross profit	115,113	124,490	129,959	129,063	119,452	113,262	113,576	111,633	112,683
Gross profit margin	47.5%	48.2%	46.6%	45.8%	45.3%	46.2%	46.7%	46.4%	45.4%
Operating profit	10,953	11,192	9,422	5,731	3,778	4,203	5,167	4,461	-3,061
Operating profit margin	4.5%	4.3%	3.4%	2.0%	1.4%	1.7%	2.1%	1.9%	-1.2%
EBITDA	20,095	20,850	19,535	16,275	14,603	12,997	14,064	13,272	5,079
EBITDA margin	8.3%	8.1%	7.0%	5.8%	5.5%	5.3%	5.8%	5.5%	2.0%
Financial ratios									
ROA (RP-based)	4.8%	4.8%	4.1%	2.2%	1.7%	1.9%	2.2%	1.8%	-1.5%
ROE	2.3%	2.8%	2.8%	2.4%	2.4%	2.8%	3.3%	3.1%	-42.0%
Total asset turnover	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9	1.0
Inventory turnover	4.1	4.1	4.0	3.6	3.3	3.2	3.1	2.9	3.0
Days in inventory	89	90	92	101	110	115	117	127	121
Working capital	23,461	26,827	30,623	34,313	35,617	52,263	49,976	40,535	35,923
Current ratio	117.6%	99.6%	109.2%	106.8%	114.5%	120.9%	122.7%	111.3%	98.2%
Quick ratio	73.6%	57.6%	59.5%	59.3%	57.6%	64.0%	63.9%	56.0%	49.7%
OCF / Current liabilities	15.8%	11.0%	13.2%	15.7%	3.4%	7.1%	15.4%	4.8%	7.5%
OCF / Total liabilities	11.0%	8.3%	9.7%	10.6%	2.6%	6.4%	12.0%	3.7%	5.7%
Cash conversion cycle (days)	32	35	39	45	55	87	110	95	72
Change in working capital	409	3,366	3,796	3,690	1,304	16,646	-2,287	-9,441	-4,612

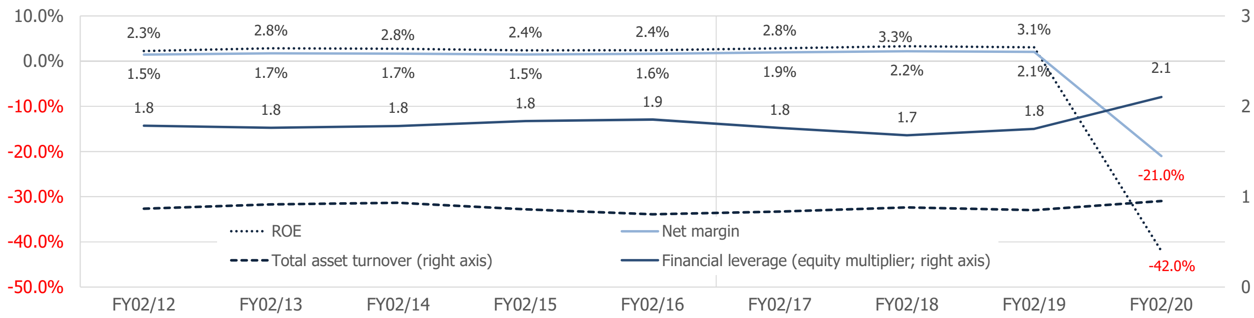
Source: Shared Research based on company data
Figures may differ from company data due to differences in rounding methods.

ROE, ROA, ROIC

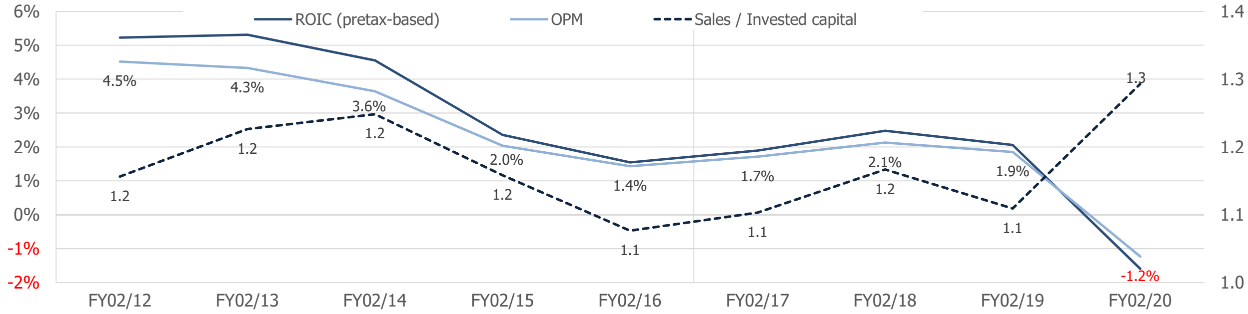
(JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons. *	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
ROE	**2.3%**	**2.8%**	**2.8%**	**2.4%**	**2.4%**	**2.8%**	**3.3%**	**3.1%**	**-42.0%**
Net margin	1.5%	1.7%	1.7%	1.5%	1.6%	1.9%	2.2%	2.1%	-21.0%
Total asset turnover	0.87	0.92	0.93	0.86	0.81	0.83	0.88	0.85	0.95
Financial leverage (equity multiplier)	1.78	1.76	1.78	1.84	1.85	1.76	1.68	1.75	2.10
ROA (RP-based)	**4.8%**	**4.8%**	**4.1%**	**2.2%**	**1.7%**	**1.9%**	**2.2%**	**1.8%**	**-1.5%**
ROIC	**3.1%**	**3.2%**	**2.8%**	**1.5%**	**1.0%**	**1.3%**	**1.7%**	**1.4%**	**-1.1%**
NOPAT	6,496	6,638	6,323	3,553	2,432	2,813	3,573	3,095	-2,124
Net assets + Interest-bearing debt	209,596	210,712	224,281	243,041	244,807	222,010	208,378	216,952	192,012
ROIC (pretax-based)	5.2%	5.3%	4.5%	2.4%	1.5%	1.9%	2.5%	2.1%	-1.6%
OPM	4.5%	4.3%	3.6%	2.0%	1.4%	1.7%	2.1%	1.9%	-1.2%
Sales / Invested capital	1.16	1.23	1.25	1.16	1.08	1.10	1.17	1.11	1.29

ROE

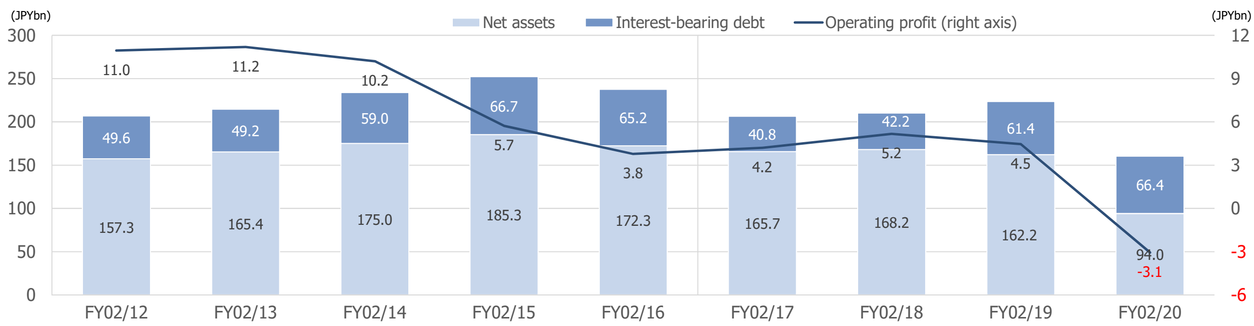




ROIC



Net assets



Source: Shared Research based on company data

Other information

History

Date		
Oct	1927	Kashiyama Trading established in Osaka
Sep	1947	Established Kashiyama Trading Co., Ltd.
Oct	1960	Listed shares on the Second Section of the Tokyo Stock Exchange, Osaka Securites Exchange, and Nagoya Stock Exchange
Apr	1962	Established Onward Sales Co., Ltd. (now Onward Trading Co., Ltd.)
Jul	1964	Listed shares on the First Section of the Tokyo Stock Exchange, Osaka Securites Exchange, and Nagoya Stock Exchange
Sep	1988	Renamed Kashiyama Co., Ltd. to Onward Kashiyama Co., Ltd.
Sep	2007	Transition to a pure holding company structure through company splits; changed the trading name to Onward Holdings Co., Ltd.
Oct	2008	Acquired VIOLINE S.à.r.L. (JiL Sander Group; later merged with ONWARD LUXURY GROUP S.p.A.) Acquired Creative Yoko Co., Ltd.
Dec	2009	Acquired Island Co., Ltd.
Jul	2015	Acquired Freeland s.r.l.
Mar	2016	Acquired La Maison Moreau
Apr		Acquired Tiaclasse Inc.
Aug		Made Onward Kaisei (Dalian) Co, Ltd. (now Kashiyama [Dalian] Co., Ltd.) a wholly owned subsidiary
Jan	2017	Acquired Kokobuy Inc. and Innovate Organics, Inc.
Mar	2018	Acquired General Clothing Co., Ltd. (now Kashiyama Saga Co., Ltd.)
Mar	2019	Acquired Yamato Co., Ltd.

Source: Shared Research based on company data

“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 maintained a primary focus on 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 management 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

Tsunenori Suzuki, representative director and president (b. April 2, 1958)

Joined Onward Kashiyama in 1982. In 2006 he became executive officer and head of the men’s casual, Nijyusanku Homme, sports, JOSEPH Men’s, and Nave Men’s divisions, and director of the men’s business suits, DAKS, and J.Press divisions at Onward Kashiyama. In 2007, he became managing executive officer, assistant director of the sales division, and director of the men’s and sports divisions at Onward Kashiyama. In 2012, he continued as managing executive director at Onward Kashiyama and also became director of sales for the Donna Karan Collection, DKNY, and SR divisions, and representative director and president of Donna Karan Japan Co., Ltd. In 2015, he became managing executive officer and Tokyo regional manager at Onward Holdings and managing executive director and head of the Tokyo store at Onward Kashiyama. In 2017, he continued as managing executive director at Onward Holdings and also became the head of the North America and logistics development divisions, director and senior managing executive officer, and head of sales at Onward Kashiyama. In 2018, he became senior managing executive officer in charge of the international operations and North America divisions at Onward Holdings and director, senior managing director, and head of operations at Onward Kashiyama. In 2019, he became senior managing director and head of international operations at Onward Holdings and director, senior managing director, and head of sales at Onward Kashiyama. In March 2020, he became representative director and president at Onward Kashiyama.

Employees

Onward employed 5,153 full-time employees as of end-FY02/20 on a consolidated basis. There were 87 employees at the parent level: average age 48.9, with the company for 25.4 years, and earning a salary of JPY7.9mn.

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Kashiyama Scholarship Foundation	8,710	6.45%
Japan Trustee Services Bank, Ltd. (Trust account)	8,011	5.93%
The Master Trust Bank of Japan, Ltd. (Trust account)	7,677	5.69%
BNYMSANV As Agent/Clients LUX UCITS Non Treaty1 (Standing proxy: Kanetsugu Mike, President, MUFG Bank, Ltd.)	4,825	3.57%
Nippon Life Insurance Company	4,671	3.46%
Onward Holdings Trading Partners Shareholding Association	4,665	3.46%
Japan Trustee Services Bank, Ltd. (Trust account 9)	4,536	3.36%
The Dai-ichi Life Insurance Company, Ltd.	4,200	3.11%
STATE STREET BANK AND TRUST COMPANY 505001 (Standing proxy: Tomoaki Sako, Senior Manager, Settlement Department, Mizuho Bank, Ltd.)	3,481	2.58%
Sumitomo Mitsui Banking Corporation	2,931	2.17%
SUM	53,710	39.78%

Source: Shared Research based on company data (As of end-February 2020)

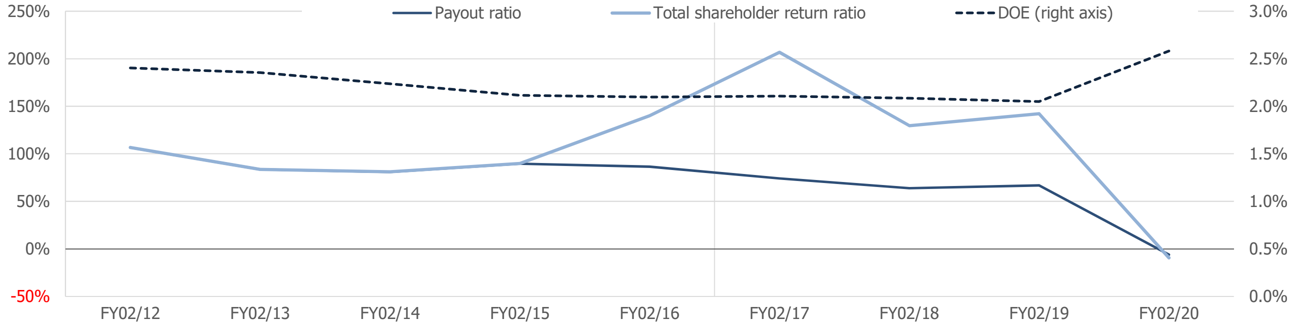
Dividends

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.

The company reported a net loss in FY02/20, but prioritizes stable dividends. It therefore maintained the same annual dividend level as in FY02/19, paying JPY24 per share (only at fiscal year-end).

Dividend payout ratio

(JPYmn)		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 Cons.
Total dividends	a)	3,762	3,765	3,766	3,769	3,699	3,511	3,420	3,308	3,204
Total treasury stock acquired	b)	2	3	7	4	2,293	6,299	3,531	3,725	1,757
Total returns to shareholders	c) = a) + b)	3,764	3,768	3,773	3,773	5,992	9,810	6,951	7,033	4,961
Net income attributable to parent company shareholders	d)	3,529	4,503	4,658	4,204	4,278	4,744	5,366	4,948	-52,135
Dividend payout ratio	a) / d)	106.6%	83.6%	80.9%	89.7%	86.5%	74.0%	63.7%	66.9%	-6.1%
Total shareholder return ratio	c) / d)	106.7%	83.7%	81.0%	89.7%	140.1%	206.8%	129.5%	142.1%	-9.5%
Net assets available to common shareholders (year-end)		155,993	163,722	173,096	183,291	169,756	163,354	164,610	158,315	89,812
Avg. of beginning and end of year	f)	156,521	159,858	168,409	178,194	176,524	166,555	163,982	161,463	124,064
EPS	(JPY)	22.5	28.7	29.7	26.8	28.3	31.5	37.0	35.2	-384.0
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%	2.2%	2.1%	2.1%	2.1%	2.1%	2.0%	2.6%



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

Q1 FY02/21 results (out July 10, 2020)

Results summary

- In Q1 FY02/21, the company reported sales of JPY42.3bn (-34.9% YoY), operating loss of JPY2.1bn (versus operating profit of JPY2.9bn in Q1 FY02/20), pretax loss of JPY3.1bn (versus pretax profit of JPY3.2bn), and net loss attributable to owners of the parent of JPY2.4bn (versus net income of JPY1.6bn). Sales at brick-and-mortar stores, mainly department stores, were sharply depressed by the COVID-19 outbreak. E-commerce sales surged 50.3% YoY to JPY9.1bn, but this was not enough to compensate for the decline in physical store sales. Onward Holdings booked an extraordinary loss of JPY2.4bn for fixed costs associated with store closings as a direct consequence of the declaration of a state of emergency. Extraordinary gains and losses also included gain on sales of non-current assets of JPY2.0bn, impairment loss of JPY452mn, and loss on valuation of investment securities of JPY458mn.
- The company's shareholders' equity was JPY77.4bn at end-Q1, down from JPY89.8bn at end-FY02/20. Negative factors included a drop in retained earnings (JPY10.0bn) accompanying a change in accounting methods, dividend payments (JPY3.2bn), and booking of net loss (JPY2.4bn), while a positive factor was a JPY2.9bn increase in valuation difference on available-for-sale securities. Inventories were JPY48.1bn at end-Q1 (+11.2% versus end-FY02/20 and +1.9% YoY). The equity ratio was 32.5% at end-Q1 (38.3% at end-FY02/20).

Drop in shareholders' equity due to application of IFRS 16 "Leases": Starting with Q1 FY02/21, Onward Holdings began applying IFRS 16 to its subsidiaries that have adopted IFRS (mostly Italian subsidiaries). Until now, the company had been booking store rent incurred during the period as an expense on its income statement. From FY02/21, it will recognize the total amount of future rent payments during the term of its lease agreements discounted to present value as lease assets/liabilities on its balance sheet, with lease liabilities diminishing each time payment is made and lease assets depreciated as expenses across the term of the lease agreements. The company applied this change for the bulk of lease assets at the beginning of FY02/21 (reducing lease assets while at the same time reducing retained earnings; this has no impact on the income statement or on cash flows). As a result, retained earnings at the start of FY02/21 declined by JPY10.0bn. In connection with this change, depreciation (about JPY1.1bn annually) of lease assets subject to this treatment will disappear, lightening the expense burden on the income statement from FY02/21 (cash outflows for rent payments will continue).

- FY02/21 full-year forecast remains undetermined as the company cites difficulty in reasonably calculating the impact of the COVID-19 pandemic on consolidated earnings. The company aims to disclose the forecast as soon as the current situation is resolved and it becomes possible to reasonably calculate the estimate.

Performance seasonality: Quarterly earnings in Q1 and Q3 tend to be higher than in Q2 and Q4. The company increases new spring/summer items in Q1 and new autumn/winter items in Q3, and there is a higher ratio of merchandise sold at normal prices at these times. In contrast, it conducts sales primarily in Q2 and Q4 and, depending on inventory levels, may book inventory valuation losses.

Domestic apparel business

In Q1, the domestic apparel business posted sales of JPY23.2bn (-45.1% YoY) and an operating loss of JPY1.7bn (operating profit of JPY3.4bn in Q1 FY02/20).

Onward Kashiyama's sales declined substantially to JPY16.2bn (-52.9% YoY). In its key sales channel, many department stores were either temporarily closed or had shorter business hours with the aim of preventing the spread of COVID-19, so Onward Kashiyama's sales to department stores fell to JPY5.3bn (-75.8% YoY). Shopping centers and other physical stores also had temporary closings or shorter business hours as customers stayed home, so sales through these sales channels also fell to JPY3.5bn (-54.4% YoY).

The company believes that even after the pandemic winds down, it will not really be able to expect sales growth at department stores and other physical stores in the medium term, so it is working to improve sales efficiency by closing or integrating some stores. In FY02/20, it closed or integrated roughly 700 stores, mostly in Japan, bringing the total global number of stores down to about 2,300, with the bulk of them in Japan. It expects to conduct more closures and integration in FY02/21, bringing the total down to about 1,600 by end-Q2.

At the same time, people staying home because of the pandemic have provided a tailwind to e-commerce, where sales surged to JPY7.4bn (+51.9% YoY). As a result, e-commerce accounted for 45.8% of total sales, surpassing the 32.6% through department stores. The company has used television commercials and other methods to improve name recognition for its proprietary online store Onward Crosset, and this has helped it win new customers. In Onward Kashiyama's case, the ratio of e-commerce sales conducted through its proprietary online store is high at 94.8%. The rapid increase in orders temporarily placed severe pressure on warehouse operations at the Onward Narashino Operation Center. By temporarily reassigning some management staff to the warehouse, the company was able to normalize warehouse operations again by mid-July.

Onward Kashiyama's gross profit declined sharply to JPY8.8bn (-51.7% YoY) on lower sales, but GPM improved to 54.4% from 53.0% in Q1 FY02/20. An increase in the percentage of total sales conducted through the e-commerce channel, which has a higher GPM than the department store channel, led to improvement in Onward Kashiyama's GPM. A drop in discounted sales also contributed as the company's members-only sale event usually held from the end of March into April was cancelled to prevent the spread of COVID-19. However, its inventories grew by about 20% YoY due to the cancellation of the sale event and the fact that the bulk of ordering for spring/summer items had been completed before the pandemic reared its head. The company plans to sell a portion of the items planned for 2020 as new items in 2021, and therefore does not intend to conduct any intensive inventory reduction via sales in the short term. However, it will seek to shrink inventory by substantially reducing initial order volume for 2020 autumn/winter items (and placing additional orders later for items in danger of selling out).

Onward Kashiyama's Q1 SG&A expenses were JPY11.2bn (-27.3% YoY). The company booked fixed costs incurred during temporary store closings accompanying the government's state of emergency declaration as an extraordinary loss. On a consolidated basis, it classified JPY2.4bn in fixed costs (JPY1.9bn in personnel expenses, JPY444mn in store rent, JPY50mn in depreciation, and JPY50mn in other expenses) as extraordinary loss. In addition, personnel expenses declined by about JPY600mn after the company sought employees willing to take voluntary retirement in FY02/20, and depreciation fell by about JPY800mn after it booked impairment losses in FY02/20. In terms of variable expenses, overtime pay and provision for bonuses declined, as did rents linked to sales (for stores located in shopping centers), leading to lower SG&A expenses.

Among domestic apparel-related subsidiaries, Onward Trading performed favorably, posting sales of JPY5.6bn (+22.5% YoY). Onward Trading deals mainly in corporate uniforms and other products with a long lead time, so it is not as sensitive to sudden phenomena such as the COVID-19 pandemic. Onward Holdings says it expects Onward Trading to maintain solid performance for at least the remainder of 2020. Island, which handles brands such as Grace Continental, posted sales of JPY939mn (-52.8% YoY). Island also experienced a difficult quarter with the impact of temporary closings and shorter business hours at commercial facilities such as department stores.

Onward Personal Style (OPS), which operates the KASHIYAMA the Smart Tailor business, also had a weak Q1 performance. KASHIYAMA the Smart Tailor allows customers to place orders online for custom suits and shirts once they have visited a physical store to be measured. OPS sends measurement data to its dedicated factory in China, and the finished product goes directly from the factory to the consumer in as little as one week. However, in Q1, OPS was unable to grow the business as the COVID-19 pandemic made it impossible to bring in new customers for the initial measurement session. In July 2020, the company announced a partnership with ZOZO, Inc. (TSE1: 3092). Together they plan to offer new bespoke fashion items based on the company's rich knowledge built up over many years regarding sizes suited to Japanese frames and big data ZOZO has accumulated via its ZOZOSUIT. In addition, starting in late August, Onward Holdings plans to develop on the ZOZOTOWN website 11 brands and 13 shops it believes will be compatible with ZOZOTOWN customers.

With the KASHIYAMA the Smart Tailor concept, 1) the customer is measured for their first suit at a physical store, 2) the store immediately sends the measurement data to the company's dedicated factory in China, 3) the factory produces the suit with an emphasis on speed, and 4) the factory ships the suit in a special vacuum bag in as little as one week. After the first suit, there is no need to take measurements again, so the customer can place additional orders using their smartphone. This system gives the company an edge over competitors on a number of different fronts. Experienced fitters take the measurements based on analog communication, reducing the chance of mistakes during the fitting or on the order (the company has trained many fitters through its department store business). 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. Lead times at the company's dedicated factory in China are shortened not by reducing the number of processing steps but by adjusting the factory layout to permit faster processing. The company is able to keep prices down by narrowing its product line down to only certain items and styles.

Overseas apparel business

In Q1, the overseas apparel business posted sales of JPY10.7bn (-9.9% YoY) and an operating loss of JPY527mn (operating loss of JPY602mn in Q1 FY02/20). Most overseas subsidiaries have a financial year-end of November, and their December–February performance is reflected in Q1 results. In the mainstay European operations, sales fell 10.4% YoY, but the operating loss shrank due in part to past restructuring. In Asia, the company has effectively withdrawn from retail business in China (except for KASHIYAMA the Smart Tailor) and shifted to a business model in which it receives licensing fees, meaning it can secure a certain amount of income even as sales decline.

In Q2 (March–May), main European cities went into lockdown, resulting in a YoY drop in sales of some 60–70% in the overseas apparel business. The lockdowns have also slowed the restructuring that was underway. The company will strive to make up for any delays in restructuring, and it aims to push the European business into the black in FY02/22.

Lifestyle business

In Q1, the lifestyle business posted sales of JPY8.4bn (-22.0% YoY) and operating profit of JPY119mn (-84.8% YoY). Yamato (gift catalog business) and Kokobuy (organic haircare products) secured higher sales and profit. However, Chacott (ballet and dance-related goods) and Creative Yoko (pet-related goods) saw their performance deteriorate on the impact of temporary closings or shorter business hours at commercial facilities, hitting the Lifestyle business hard.

Onward Holdings says financing was tightest in May and June 2020, primarily because income declined sharply as sales via domestic department stores plummeted, and this coincided with the timing of payments for spring/summer items ordered before the COVID-19 outbreak occurred. However, the company took prompt action and made it through without taking advantage of a commitment line established on May 27, 2020 (JPY20.0bn for May 29, 2020–May 30, 2023). Onward Kashiyama's June sales were down 18% YoY, much improved from Q1's 53% YoY drop, so it appears to have withstood the worst of the crisis related to the COVID-19 pandemic. Moving forward, it plans to continue promoting restructuring of the global business, with a growth strategy centered on the three key areas of digital, customization, and lifestyle. It will actively work to restructure its supply chain, especially product planning, production, and distribution.

Full-year FY02/20 results (out April 10, 2020)

Results summary

▷ FY02/20 results: The company reported full-year consolidated sales of JPY248.2bn (+3.2% YoY), operating loss of JPY3.1bn (versus operating profit of JPY4.5bn in FY02/19) and net loss of JPY52.1bn (versus net income of JPY4.9bn in FY02/19). EBITDA was JPY5.1bn (-61.7% YoY). Despite a net improvement in sales thanks to a JPY16.6bn contribution from newly consolidated subsidiary Yamato, the company booked substantial net losses on a downturn in domestic apparel sales, mainly at department stores, a contraction in the overseas apparel business, including as a result of the company withdrawing from unprofitable operations, the booking of extra retirement expenses (JPY3.4bn) in line with the recruitment of volunteers for early retirement, the booking of impairment losses (JPY27.8bn), and the reversal of deferred tax assets (JPY13.5bn). Net assets per share stood at JPY665.2, down from JPY1,148.3 at the end of FY02/19, with the company's equity ratio dropping to 38.3% from 55.1% at the end of FY02/19. The company's annual dividend in FY02/20 of JPY24 per share was unchanged YoY.

- Q4 sales were JPY65.4bn (+5.4% YoY) and operating loss was JPY5.5bn (loss of JPY28mn in Q4 FY02/19). EBITDA was a loss of JPY3.7bn (profit of JPY2.2bn in Q4 FY02/19). Partly due to the impact of new consolidation, the domestic apparel business had operating loss of JPY1.7bn (profit of JPY2.1bn in Q4 FY02/19), and the overseas apparel business had a wider operating loss YoY at JPY3.5bn (loss of JPY1.5bn in Q4 FY02/19). The Lifestyle business also had operating loss of JPY199mn (profit of JPY308mn in Q4 FY02/19).
- Growth strategy: The company expects personnel costs to fall by about JPY2.4bn YoY in FY02/21 due to its voluntary retirement program and depreciation expenses to fall by about JPY2.0bn YoY due to booking of impairment losses. It will be pushing forward with business restructuring already in progress. In FY02/20, the company reduced its store count by about 700 through store integration or closure and aims to reduce the count by a further 700 or so in FY02/21, leaving a total of some 1,600 stores. In parallel, management has high hopes for its growth strategies in the three key growth areas of digital, customization, and lifestyle.
- FY02/21 earnings forecast undetermined: The company announced its FY02/21 earnings forecast is undetermined. While impacted by the COVID-19 outbreak, including as a result of closings and shorter business hours at commercial facilities, such as department stores and station buildings, a deterioration in inbound demand, and a cooling in consumer sentiment as people refrain from going out, the company has indicated that it is unable at this point to provide a reasonable estimate for the outbreak's impact on company earnings. It intends to disclose its targets as soon as the situation resolves itself and reasonable estimates can be calculated. The company aims to announce its dividend forecast when it releases its earnings forecast.

Domestic apparel business

In FY02/20, the domestic apparel business generated sales of JPY159.0bn (-4.9% YoY) and operating profit of JPY2.5bn (-72.1% YoY). Onward Personal Style Co., Ltd. (OPS), which operates KASHIYAMA the Smart Tailor, was newly consolidated in Q4. OPS had full-year sales of JPY4.3bn and operating loss of JPY1.8bn (full-year earnings were booked all at once in Q4). Excluding the impact of the consolidation of OPS, sales declined 7.4% YoY and operating profit 51.8% YoY.

Onward Kashiyama

Onward Holdings and Onward Kashiyama together generated sales of JPY128.1bn (-7.1% YoY). By channel, mainstay department stores had sales of JPY70.9bn (-11.9% YoY; 62.3% of sales), shopping centers and outlets JPY18.9bn (-1.8% YoY; 14.7% of sales), other physical stores JPY7.8bn (-10.2% YoY; 6.1% of sales). These three channels generated lower sales YoY, but the e-commerce channel grew to JPY21.5bn in sales (+11.4% YoY; 16.8% of sales). At end-FY02/20, department store sales space totaled 94,446sqm (-20.6% YoY) and shopping center and outlet sales space totaled 55,408sqm (-11.9% YoY). In addition to external factors negatively impacting sales, including a cool summer, consumption tax hike, and warm winter, the main internal factor was the reduction in total sales floor area caused by the integration and closure of stores. However, most of the store closures were those stores with poor sales productivity, so productivity per square meter actually improved.

Gross profit was JPY63.8bn (-10.0% YoY) and GPM was 49.8%, down 1.6pp from 51.4% in FY02/19. Of the drop, 0.9pp was the result of an accounting change (change in inventory valuation method) that temporarily boosted GPM in FY02/19, so the YoY drop was effectively 0.7pp. A higher ratio of comparatively high margin e-commerce sales was not enough to counter a lower ratio of merchandise that could be sold at regular prices due mainly to a slump in department store sales.

SG&A expenses were JPY60.7bn (-4.1% YoY). Although higher logistics expenses accompanied an increase in e-commerce sales, shrinking sales area resulted in lower personnel costs. However, there was a significant decline in gross profit because of lower sales in the department store channel, so operating profit for Onward Holdings and Onward Kashiyama together was down 59.2% YoY at JPY3.1bn.

KASHIYAMA the Smart Tailor

In FY02/20, Onward Personal Style (OPS), which operates KASHIYAMA the Smart Tailor, generated sales of JPY4.3bn (estimated +17% YoY) and operating loss of JPY1.8bn (booked all at once in Q4 in consolidated results). The Dalian factory suspended operations due to the COVID-19 outbreak (operations resumed on February 10) and the company was unable to adequately capture spring demand (for suits purchased for school entrance ceremonies or when starting a new job or changing job location). As a result, OPS fell short of the company's sales target of JPY6.0bn (+62% YoY). However, OPS had some success in capturing youth demand, an area where the various brands of Onward Kashiyama have proven inadequate. Although store closures will make it difficult to increase the new customer count in the short term, expanding the lineup from men's suits to include men's casual clothing and women's suits and shoes should help the company to grow its customer base.

With the robust performance of corporate uniforms and promotional products, Onward Trading generated sales of JPY17.3bn (+10.1% YoY) and operating profit of JPY1.4bn (+25.7% YoY). Island generated sales of JPY8.2bn (-7.3% YoY) and operating profit of JPY295mn (-67.0% YoY) as it struggled in regard to the autumn/winter collection in particular.

Overseas apparel business

In FY02/20, the overseas apparel business generated sales of JPY46.3bn (-2.5% YoY) and operating loss of JPY5.9bn (loss of JPY3.8bn in FY02/19).

In the mainstay European operations, sales were JPY42.2bn (-5.5% YoY) and operating loss was JPY4.7bn (loss of JPY2.1bn in FY02/19). In the manufacturing division, a main earnings source for European operations, the company shifted from a three-factory to a two-factory system, one of which is dedicated to the Jil Sander brand, leaving just one factory taking external orders. The company expects this change to improve factory capacity utilization rates and allow it to focus on highly profitable orders. Sales of the Jil Sander brand are growing, but the brand has yet to move into the black. The JOSEPH Group has decided to withdraw from the North American retail business. In Q4, there were expenses of about JPY1.0bn related to the closure of street-level stores. Restructuring of European operations is still underway, but the company is hoping to move into the black in Europe as soon as possible.

The effects of restructuring have begun to appear in Asia, resulting in YoY higher profit despite lower sales. The company has effectively decided to withdraw from the retail business in China (except for KASHIYAMA the Smart Tailor). Instead, it will grant licenses to local partners and only receive licensing fees, which will reduce fixed costs. In the US, it plans to strengthen KASHIYAMA the Smart Tailor to capture new demand.

Lifestyle business

In FY02/20, the Lifestyle business generated sales of JPY43.0bn (+64.7% YoY) and operating profit of JPY1.6bn (+0.8% YoY). Yamato, which designs and produces gifts and gift catalogs and was included in consolidation at the beginning of FY02/20, contributed a net increase JPY16.6bn to sales and JPY636mn to operating profit. Excluding this impact, both sales and operating profit rose slightly YoY in the Lifestyle business. Some subsidiaries (including Kokobuy, which manufactures, sells, imports, and exports cosmetics) generated higher sales YoY. The restaurant and bar division of Kashiyama Daikanyama (included in consolidation in FY02/20) performed robustly, but its merchandise sales division experienced a slump.

Q3 FY02/20 results (out January 10, 2020)

Results summary

- Cumulative Q3 results: Sales over the nine months through Q3 FY02/20 were JPY182.9bn (+2.4% YoY) and the operating profit was JPY2.4bn (-46.0% YoY). The company posted a net loss of JPY22.7bn (vs. net profit of JPY4.7bn in cumulative Q3 FY02/19), primarily due to the booking of impairment losses (JPY22.1bn) and business liquidation losses (JPY3.1bn) associated with the initiatives to restructure the global business in Q2. Full-year FY02/20 forecast was left unchanged at sales of JPY256.0bn (+6.4% YoY), operating profit of JPY1.2bn (-73.1% YoY) and a net loss of JPY24.0bn (vs. net profit of JPY4.9bn in FY02/19). Contributions from the gift business operator, Yamato—newly consolidated from FY02/20—were sales of JPY12.2bn and operating profit of JPY677mn. Onward HD's results for Q3 alone were sales of JPY64.4bn (-0.6% YoY), gross profit of JPY30.5bn (-3.1% YoY), operating profit of JPY3.3bn (-15.3% YoY), and net income of JPY1.8bn (-45.0% YoY).

▷ Domestic apparel: In the apparel business in Japan, sales were JPY42.0bn (-8.3% YoY) and operating profit was JPY2.8bn (-37.5% YoY) in Q3. Performance in September was strong due primarily to a last-minute surge in demand before the consumption tax hike, but performance from October onward was affected by a reactionary drop-off in the wake of this surge in demand, a reduction in sales floor space caused in part by the closing of some department stores, a temporary interruption to e-commerce caused by a major typhoon, and lower demand for winter clothing caused by a warm winter. Onward Kashiyama sales declined 10.0% YoY. Sales of womenswear fell 8.7% YoY, menswear declined 11.9% YoY, and children's wear declined 6.0% YoY. By channel, e-commerce sales rose 9.4% YoY despite stunted growth caused by typhoons. However, shopping center and outlet sales were down 0.8% YoY, and mainstay department stores sales declined 14.9% YoY (with department stores referring customers to e-commerce in some cases). Onward HD and Onward Kashiyama's gross profit margin fell YoY from 54.5% to 52.3%. This was because the company changed its inventory valuation method, which boosted gross profit margin in Q3 FY02/19; gross profit margin was mostly level YoY when excluding the impact from this change. Meanwhile, a YoY decrease of 5.8% in SG&A expenses that was due primarily to a decline in personnel expenses helped to underpin operating profit. On December 6, Onward HD announced a voluntary retirement scheme for employees. It is seeking around 350 applicants. The company expects to book special severance payments and expenses relating to reemployment support as extraordinary losses (the impact of this booking has not been factored into the current company forecast).

▷ Overseas apparel: In the overseas apparel business, Q3 sales were JPY11.1bn (-8.9% YoY) and the operating loss was JPY424mn (vs. a loss of JPY637mn in Q3 FY02/19). In Europe and Asia, the operating loss narrowed despite falling sales, but performance has not fully recovered.

▷ Lifestyle: Lifestyle business sales were JPY11.3bn (+66.5% YoY) and operating profit was JPY751mn (+90.1% YoY). Newly consolidated Yamato contributed to the net increase with JPY4.4bn in sales and JPY442mn in operating profit. Without this, sales would have only marginally increased and operating profit would have fallen YoY.

▷ Intersegment adjustments: Intersegment adjustments had a positive impact of JPY114mn on operating profit, versus a negative impact of JPY428mn in Q3 FY02/20, an improvement of JPY542mn. In 1H, the company booked JPY10.8bn in impairment loss on goodwill. The Q3 decline in goodwill resulted in a decrease of approximately JPY200mn in expenses.

▷ Restructuring-based medium-term strategy: Onward Kashiyama sales in December were rough, dropping 12% YoY, and the company expects to incur extraordinary loss associated with its voluntary retirement scheme for employees. Additionally, it is increasingly likely that the COVID-19 outbreak could hinder product imports from China (about 80% of domestic sales are from foreign products and 90% of these foreign products are manufactured in China; The company plans to domestically procure products that can be alternatively manufactured in Japan). The outlook for business results in Q4 remains uncertain. On the other hand, when considering bookings of impairment loss and restructuring costs in 1H, as well as voluntary retirements, it appears as if the effects of restructuring will become apparent in FY02/21 through reductions in fixed cost burden and other positive results. Shared Research will pay close attention to the restructuring-based medium-term strategy during the financial results briefing the company plans to hold in April.

Domestic apparel business

Q3 sales in the domestic apparel business were JPY42.0bn (-8.3% YoY), and operating profit was JPY2.8bn (-37.5% YoY). Sales and operating profit from Onward HD and Onward Kashiyama combined were central to these results, and came in at JPY34.4bn (-10.0% YoY) and JPY2.4bn (-43.8% YoY), respectively. Sales increased 2% YoY in September but fell in both October and November, by 19% YoY and 11% YoY, respectively. In September, before the consumption tax increase, the ratio of full-price sales increased as the company took in various forms of last-minute demand, including e-commerce demand. However, sales fell substantially in October due to a reactionary drop-off in the wake of the last-minute surge in demand, a decrease in sales floor space caused primarily by the closing of some department stores, and a temporary interruption to e-commerce caused by a major typhoon. Despite recovery in terms of the pace of e-commerce growth, November sales also declined due in part to a decrease in sales through department stores that was primarily attributable to the warm winter season.

Gross profit margin of Onward HD and Onward Kashiyama combined fell YoY from 54.5% to 52.3%. This was primarily because the gross profit margin in Q3 FY02/19 was temporarily elevated by a change in inventory valuation method. However, when excluding this impact, gross profit margin was normal and mostly level YoY. SG&A expenses were JPY15.6bn (-5.8% YoY). SG&A expenses declined primarily due to lower personnel expenses resulting from a decrease in sales staff that primarily reflected a reduction in sales floor space.

Sales through department stores were rough in Q3, coming in at JPY22.3bn (-14.9% YoY). This decline was due to discontinued sales of the SONIA RYKIEL Collection and other department store brands and the reduction of sales floor space, which were both expected factors, and reduced demand for winter apparel caused by a warm winter. E-commerce sales were relatively strong, and finished at JPY5.1bn (+9.4% YoY). They rose substantially in September by 30% YoY due in part to rush demand but contracted by 7% YoY in October as a result of reactionary drop-off and a temporary interruption to e-commerce caused by a major typhoon that disabled operations at the company's logistics center. E-commerce sales rebounded in November, rising 13% YoY, as normal operations resumed. The increase in the ratio of e-commerce sales, which have a relatively high gross profit margin, was a primary factor contributing to an increase in overall gross profit margin. However, the gross profit margin of e-commerce sales is currently declining due to a rise in the share of clearance sales.

In terms of other major subsidiaries in Japan, Onward Trading (which handles corporate uniforms and promotional products) posted operating profit of JPY540mn (up from JPY128mn in Q3 FY02/19), while Island (which handles brands such as Grace Continental) finished with JPY1mn (down from JPY205mn in Q3 FY02/19).

Overseas apparel business

In the overseas apparel business, the company reported Q3 sales of JPY11.1bn (-8.9% YoY) and an operating loss of JPY424mn (JPY637mn in Q3 FY02/20). European operations, which are particularly large in scale, posted sales of JPY10.0bn (-14.5% YoY) and operating loss of JPY467mn (JPY892mn in Q3 FY02/19). At Onward Italia, lower sales and deteriorating trading conditions at the subsidiary handling OEM production have hindered business results, says the company. Jil Sander, a mainstay brand of Onward Italia, is currently in the red, but its performance is improving as sales continue to increase thanks in part to the contributions of the creative director, who has been in charge since the 2018 spring and summer fashion lines. JOSEPH Group sales continue to fall, partly due to the closure of underperforming stores. However, reforms have started under new management and a new creative director in FY02/20. The company aims to improve the JOSEPH Group by increasing e-commerce sales and wholesales while decreasing the number of brick-and-mortar stores.

In Asia, the company continues to shift its focus from a business that conducts sales through its own brick-and-mortar stores to a business that grants licenses to local partners. Onward Holdings anticipates a shift from a business model subject to fixed costs and large variations in profit and loss to a business model based on license fees that is unlikely to generate large earnings but is also low-risk.

Lifestyle business

Q3 sales in the lifestyle business were JPY11.3bn (+66.5% YoY), and operating profit was JPY751mn (+90.2% YoY). Yamato, (handles items such as gift catalogs), consolidated in FY02/20, was a major factor contributing to these increases, boosting sales by JPY4.4bn and operating profit by JPY442mn. At Yamato, gains on the reversal of provision associated with unused gift cards tend to be generated entirely in Q3. Accordingly, Q3 profit was higher than in Q1 or Q2.

At Chacott, which mainly handles ballet and other dance-related goods, sales were JPY2.8bn (+1.0% YoY), and operating profit was JPY122mn (-12.9% YoY). Sales at Creative Yoko, which handles Sirotan and other commodities, were JPY1.4bn (-3.8% YoY), and operating profit came in at JPY86mn (+10.3% YoY).

1H FY02/20 results (out October 4, 2019)

Results summary

- 1H FY02/20 results: For the six-month period through Q2 FY02/20, sales were JPY118.5bn (+4.0% YoY) and the operating loss was JPY861mn (vs. profit of JPY606mn in 1H FY02/19). The net loss was JPY24.4mn (vs. net income of JPY1.5bn in 1H FY02/19). The company had announced revisions to its earnings forecast on October 3, and 1H results were in line with revised forecast. EBITDA (operating profit + depreciation + goodwill amortization), which the company regards as a key management indicator, was JPY3.8bn (-23.8% YoY). Versus Onward Holdings' initial plan (sales JPY121.8bn, operating profit JPY620 million, net income JPY1.5bn, EBITDA JPY14.5bn), the results were affected by impacts of a sales shortfall at its mainstay Onward Kashiyama, lower GPM, and an impairment loss of JPY22.1bn and restructuring costs of JPY3.1bn, following the implementation of structural reforms in the global business. In addition, Yamato, the gift business which is consolidated from FY02/20 results, recorded sales of JPY7.8bn and operating profit of JPY235mn.
- Domestic apparel: In the apparel business in Japan, sales were JPY75.5bn (-3.5% YoY) and operating profit was JPY1.4bn (-43.0% YoY). Onward Kashiyama sales declined 3.1% YoY. Sales of womenswear fell 2.2% YoY, menswear declined 5.7% YoY, and children's wear declined 9.8% YoY. By channel, e-commerce sales rose 17.0% YoY, accounting for 16.1% of total sales, and shopping center and outlets sales were up 0.9% YoY, while mainstay department stores sales declined 7.6% YoY (with department stores referring customers to e-commerce in some cases). Onward HD and Onward Kashiyama's gross profit margin was 50.3%, down 1.3%pp YoY. SG&A expenses declined JPY291mn, which helped underpin operating profit. Other operating companies, Onward Trading and Island, also reported lower sales and profits.
- Overseas apparel: In the overseas apparel business, sales were JPY21.9bn (-3.2% YoY) and the operating loss was JPY2.0bn (vs. a loss of JPY1.6bn in t1H FY02/19). The decline in sales reflected the impact of foreign exchange and wider operating losses in Europe and North America. In Asia the company secured a small profit (vs. a loss in 2H FY02/19).
- Lifestyle: Lifestyle business sales were JPY21.1bn (+61.6% YoY) and operating profit was JPY1.0bn (+19.5% YoY). Newly consolidated Yamato boosted results significantly. Chacott (the ballet goods business) and the Guam resort business also contributed to profit growth.
- Structural reforms in the global business: The company announced that it will implement global business structure reforms in response to the current uncertainty outlooking the global business environment. In Europe, America, Asia and its domestic market, the company will withdraw from unprofitable businesses, reduce scale, and eliminate unprofitable stores. Meanwhile, the company plans to enhance investment in growth areas such as digital, customization and lifestyle.
- Extraordinary gains and losses: During the period the company booked a total of JPY2.9bn in extraordinary gains, including gains on the sale of fixed assets, and JPY25.3bn in extraordinary losses, including impairment charges and restructuring- related charge-offs. Of the JPY22.1bn in impairment charges, JPY502mn were booked under the domestic apparel business, JPY5.0bn under the overseas apparel business, and JPY5.7bn under the lifestyle business. The company also booked JPY10.9bn in impairment charges against group assets not assigned to any one business. By type, write-offs of goodwill against group assets not assigned to any one business accounted for JPY10.9bn of the impairment charges while other impairment charges accounted for JPY11.2bn. Other impairment charges largely reflect write-downs of the value of buildings, structures, and investment securities related to the group's domestic apparel, overseas apparel, and lifestyle businesses.
- Q2 results (June–August): Q2 sales were JPY 53.6bn (+1.1% YoY) and an operating loss of JPY3.8bn (vs. a loss of JPY3.0bn in Q2 FY02/19). Domestic apparel sales declined 6.7% YoY, but the operating loss slightly widened to JPY2.0bn (vs. loss of JPY1.9bn in Q2 FY02/19). Overseas apparel sales were down 8.6% YoY, and the operating loss widened to JPY1.4bn (vs. a loss of JPY777mn in Q2 FY02/19). In the Lifestyle business, sales increased 61.5% YoY, while operating profit declined 19.3% YoY.

▷ Full-year forecast for FY02/20: Following its downward revision on October 3, 2019, the company forecasts full-year consolidated sales of JPY256.0bn (+6.4% YoY), operating profit of JPY1.2bn (-73.1% YoY), recurring profit of JPY1.2bn (-77.7% YoY), and a net loss attributable to owners of the parent of JPY24.0bn (versus year-earlier profit of JPY4.9bn). For the most part, the revisions to the company's full-year forecast reflect 1) the shortfall in 1H sales and earnings, 2) an increasingly harsh market environment that prompted the company to lower its 2H outlook for its major businesses, and 3) the addition of full-year results for its KASHIYAMA the Smart Tailor business to consolidated results in Q4, which is expected to add some JPY6.0bn in sales while breaking even at the operating profit level in 2H.

Domestic apparel business

For the six-month period through Q2 FY02/20, the domestic apparel business reported sales of JPY75.5bn (-3.5% YoY) and an operating profit of JPY1.4bn (-43.0% YoY).

At Onward Kashiyama, the mainstay company within the domestic apparel business, 1H sales of JPY62.1bn were down 3.1% YoY, with sales of womenswear down 2.2% YoY to JPY44.3bn, sales of menswear falling 5.7% to JPY13.2bn, and sales of children's wear falling 9.8% YoY to JPY2.5bn.

By channel, e-commerce sales of JPY10.0bn were up 17.0% YoY and accounted for 16.1% of sales at Onward Kashiyama. The company's proprietary online stores (such as Onward Crosset) accounted for 91.0% of online sales versus 85.1% in the same period last year. At brick-and-mortar stores, sales through stores in shopping centers and outlet malls managed a modest 0.9% rise to JPY9.9bn while sales through the company's mainstay department store channel declined 7.6% YoY to JPY38.2bn. In relation to these changes, the company noted that its department store channel plays a vital role in directing shoppers to its online store, and that online sales and department stores together generated sales of JPY48.2bn, down 3.4% versus the same period last year.

By brand, the company's core brands saw combined sales decline 0.4% YoY, with Nijyusanku sales rising 4.5% (to JPY12.8bn), Kumikyoku sales declining 2.9%, ICB sales falling 1.3%, and Jiyuku sales dropping 5.4%. The gains at Nijyusanku reflect the company's successful efforts to connect with consumers across a wide range of media, using both paper and digital catalogs, email, social media messaging, and in-store signage and displays. Outside of its core brands, the company saw most of its smaller brands struggle during the period, but YoY comparisons were also hurt by the discontinuation of some brands.

Onward Holdings and Onward Kashiyama reported a gross profit margin of 50.3%, down 1.3pp versus the same period last year. The decline in the gross profit margin reflects greater use of discount sales events held to bring down inventory levels, particularly those of old products that have remained unsold for a year or more since their releases, and the dropout of JPY537mn in inventory valuation gains booked in the same period last year as a result of a change in the company's inventory valuation methodology. The resulting decline in operating profit was mitigated in part by a JPY291mn YoY reduction in SG&A spending. Sales and earnings were also down in other businesses under the domestic apparel segment, including Onward Trading (which handles uniforms and promotional products) and Island (which handles planning, manufacturing, and sales of Grace Continental and other apparel brands).

In Q2 alone (June–August), the domestic apparel business reported sales of JPY33.2bn (-6.7% YoY) and an operating loss of JPY2.0bn (versus year-earlier loss of JPY1.9bn). Following a modest 0.8% YoY decline in Q1 (March–May), sales in Q2 were hit hard by a later-than-usual rainy season, which especially hurt sales in July, though the domestic apparel business still managed to report only a slightly larger operating loss. Growth in online sales accelerated from 11.8% in Q1 to 22.4% in Q2, thanks in part to changes in the mix of the company's online sales channels.

Overseas apparel business

For the six-month period through Q2 FY02/20, the overseas apparel business reported sales of JPY21.9bn (-3.2% YoY) and an operating loss of JPY2.0bn (versus year-earlier loss of JPY1.6bn). The sagging top-line reflects a combination of weak sales in terms of local currency and a strong yen. In Asia, sales were down, but the company still managed to finish in the black with an operating profit of JPY39mn (versus year-earlier loss of JPY11mn). In contrast, the company's much larger European operations slipped deeper into the red as operating losses grew at both Onward Italia and the JOSEPH Group; operating losses also increased in North America.

In Q2 alone (June–August), operating losses swelled overseas as the company stepped up the pace of restructuring, with its businesses in Europe reporting an operating loss of JPY1.2bn versus a year-earlier loss of JPY488mn and North American businesses reporting an operating loss of JPY148mn versus a year-earlier loss of JPY111mn. Asian businesses reported an operating profit of JPY56m versus a loss of JPY44mn in the same quarter last year.

Company efforts aimed at putting its overseas apparel business back on a solid financial footing included 1) the closure of unprofitable stores, 2) bolstering its Jil Sander business with the rollout of its new Jil Sander+ line, the discontinuation of the Jil Sander Navy line, and the establishment of a dedicated production center for Jil Sander, 3) streamlining manufacturing operations in Europe, including shuttering some plants, and 4) the liquidation of its business in South Korea.

Lifestyle business

For the six-month period through Q2 FY02/20, the lifestyle business reported sales of JPY21.1bn (+61.6% YoY) and an operating profit of JPY1.0bn (+19.5% YoY). The jump in sales and earnings reflects the large contribution from the addition of Yamato to consolidated results. If not for the contribution from Yamato and its gift/gift catalog business, 1H sales in the lifestyle business would have been up only 1.5% YoY and operating profit would have finished down 8.6% YoY. The ballet goods business of Chacott and the Guam resort business also made positive contributions to sales and earnings, but other businesses struggled.

For Q2 alone (June-August), the lifestyle business reported sales of JPY10.3bn (+61.5% YoY) and an operating profit of JPY217mn (-19.3% YoY). The addition of Yamato to consolidated results added JPY3.7bn to Q2 sales and JPY62mn to operating profit on a net basis. Chacott reported Q2 sales of JPY3.1bn (+0.8% YoY) and an operating profit of JPY443mn (+39.7% YoY). Other businesses struggled.

Intersegment adjustments of JPY1.2bn in 1H FY02/20 exceeded adjustments of JPY986mn during the same period last year, and thus worked to depress consolidated operating profit. Included in intersegment adjustments was goodwill amortization of JPY1.3bn (versus JPY1.2bn in 1H FY02/19). At the end of Q1 FY02/20, the company's balance sheet showed acquired goodwill of JPY18.4bn; following the large impairment charges taken in Q2, goodwill on the company's balance sheet was down to JPY6.6bn as of the end of Q2 FY02/20. The company projects that goodwill amortization will come down in 2H FY02/20. Shared Research estimates that the recording of impairment losses will have upward impacts of about JPY1.0bn on operating profit in 2H FY02/20 and JPY2.0bn on operating profit in FY02/21.

News and topics

May 2020

On May 27, 2020, the company announced that it concluded a committed credit line agreement.

On the same day, the company concluded a committed credit line agreement with a syndicate of four banks (Sumitomo Mitsui Banking Corp., MUFG Bank, Mizuho Bank, and Sumitomo Mitsui Trust Bank) with Sumitomo Mitsui Banking Corp. as the arranger. The agreement provides the company with a JPY20.0bn line of credit with a variable interest rate based on the market rate of interest for a period lasting from May 29, 2020 to May 30, 2023. The company concluded this agreement to secure backup funds so that it can thoroughly prepare for the potential impact its businesses would suffer in the event that the novel coronavirus pandemic is prolonged. Combined with a previous syndicated committed credit line agreement (with a maximum amount of JPY30.0bn), the conclusion of this agreement brings the company’s line of committed credit to JPY50.0bn in total. Onward Holdings has concluded separate overdraft agreements with 10 financial institutions securing JPY34.7bn in unused credit as of April 30, 2020. The company expects related impact on its business results in FY02/21 to be minimal.

February 2020

On February 7, 2020, the company announced the results of a voluntary retirement program.

The company announced the results of a voluntary retirement program (targeting 350 employees) that began December 6, 2019. Onward Holdings accepted retirements from 413 employees, and expects to incur approximately JPY3.9bn in extra retirement expenses, which it will book as an extraordinary loss in Q4 FY02/20. The company says it will promptly disclose any revisions to FY02/20 forecast that this development may necessitate.

December 2019

On December 6, 2019, the company announced that it is accepting retirements from willing employees.

In response to drastic change in both the domestic and international apparel markets, the company is aiming to improve its corporate competitiveness by reforming its global business structure and implementing growth strategies. Accordingly, the company is promoting the establishment of efficient organizational and personnel frameworks. During a period of substantial change, Onward Holdings has decided to accept retirements from willing employees, providing options to staff who are looking for a change in direction or a second life. The company plans to book special severance payments and reemployment support expenses incurred as a result of this decision as an extraordinary loss in FY02/20. Currently, retiree numbers and classifications remain undetermined, and the company has made no changes to its earnings forecast. Onward Holdings indicates that it will promptly make an announcement once it has determined the impact this decision will have on its FY02/20 forecast.

Outline of conditions

- ▷ Eligible employees: General staff who are at least 40 years old and have worked at the company for at least three consecutive years (excluding sales positions)
- ▷ Number of retirees sought: Approximately 350 (4,643 employees on a consolidated basis as of end-FY02/19)
- ▷ Period of initiative: January 7–January 30, 2020
- ▷ Date of retirement: February 29, 2020
- ▷ Incentive: Special severance pay provided in addition to the standard retirement allowance. Additionally, the company will provide reemployment support for interested retirees.

Company profile

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+81-3-4512-1020	Tokyo Stock Exchange 1st Section Nagoya Stock Exchange 1st Section
Established	**Listed On**
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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Daiseki Co., Ltd.
Demae-Can CO., LTD
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Digital Arts Inc.
Digital Garage Inc.
DIP Corporation
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
en-Japan Inc.
Estore Corporation.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Col, Ltd.
FreeBit Co., Ltd.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HENNGE K.K.
Hope, Inc.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
JAFCO Co.,Ltd.
JMDC Inc.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
KLab Inc.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Media Do Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
Mortgage Service Japan Limited.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
Seikagaku Corporation
Seria Co.,Ltd.
Serverworks Co.,Ltd.
SHIFT Inc.
Shikigaku Co., Ltd
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Star Mica Holdings Co., Ltd.
Strike Co., Ltd.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Take and Give Needs Co., Ltd.
Takihyo Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
The Hokkoku Bank,Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
TOCALO Co., Ltd.
TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
World Holdings Co., Ltd.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS 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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