

This is an English translation of the original Japanese-language Summary of Financial Statements of DESCENTE LTD. (the Company) and is provided for reference purposes only. Readers are advised that the Company does not guarantee the accuracy of the content contained in this report. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.



Summary of Financial Statements for the First Quarter Ended June 30, 2020
[Japan GAAP] (Consolidated)

August 5, 2020

Name of the Company: DESCENTE LTD.

Listed Exchange: TSE

Code No.: 8114

URL: <http://www.descente.co.jp>

Representative: Shuichi Koseki, President

Person responsible for inquiry: Akira Tsuchihashi, Director, Managing Executive Officer, CFO

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Date of Submission of Quarterly Report: August 7, 2020

Date of Dividend Payments: -

Preparation of Supplementary Financial Statements: Yes

Holding of Financial Results Briefing: None

(Note: Amounts less than one million yen are rounded down)

1. Consolidated Results for the First Quarter Ended Jun 30, 2020 (April 1, 2020 - June 30, 2020)

(1) Consolidated operating results (cumulative)

(%, YoY)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%
1Q ended June 30, 2020	15,553	△47.2	△3,159	—	△3,149	—	△2,018	—
1Q ended June 30, 2019	29,479	△4.2	451	△59.6	577	△51.7	354	△63.6

(Note) Comprehensive income 1Q ended June 30, 2020: △4,354 million (-%) Comprehensive income 1Q ended June 30, 2019: △306 million (-%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
1Q ended June 30, 2020	△26.76	—
1Q ended June 30, 2019	4.71	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Yen in millions	Yen in millions	%
1Q ended June 30, 2020	96,781	67,836	70.1
FY ended March 31, 2020	108,504	72,193	66.5

(reference) Equity 1Q ended June 30, 2020: ¥67,836 million, FY ended March 31, 2020: ¥72,193 million

2. Dividends

	Annual cash dividend per share				
	End of the 1st quarter	End of the 2nd quarter	End of the 3rd quarter	End of the 4th quarter	Total
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2020	—	0.00	—	0.00	0.00
FY ending March 31, 2021	—	—	—	—	—
FY ending March 31, 2021 (Forecast)	—	—	—	—	—

(Note) Considering the situation of borrowing from financial institutions due to COVID-19 infection, the year-end dividends for the fiscal year ending March 31, 2021 are undecided at this time and will be announced promptly after making decision.

3. Consolidated earnings forecast for the fiscal year ending March 31, 2021 (April 1, 2020 - March 31, 2021)

(%, YoY)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		EPS
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen
First half of fiscal year	41,000	△37.8	△4,000	—	△4,100	—	△2,000	—	△26.52
Full year	101,000	△18.9	500	31.7	550	20.4	5,000	—	66.29

(Note) Revisions to earnings forecasts published most recently: None

*Notes

(1) Changes in significant subsidiaries during the quarterly fiscal year: None

(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

New: None

Exclude: None

(2) Application of accounting treatment specific to the preparation of quarterly consolidated financial statements:
Yes

(Note) See Appendix page 9 "(3) Notes to Quarterly Consolidated Financial Statements" for details.

(3) Changes in accounting policies, accounting estimates, and restatements

1. Changes in accounting policies associated with revision of accounting standards: None

2. Changes in accounting policies other than 1: None

3. Changing in accounting estimates: None

4. Restatements: None

(4) Number of shares issued and outstanding (common stock)

1. Number of shares issued and outstanding at the end of fiscal year (including treasury stock):	1Q ended June 30, 2020	76,924,176	FY ended March 31, 2020	76,924,176
2. Number of treasury stock at the end of fiscal year:	1Q ended June 30, 2020	1,490,824	FY ended March 31, 2020	1,489,862
3. Average number of shares during the term:	1Q ended June 30, 2020	75,434,073	1Q ended June 30, 2019	75,408,031

Note: Summary of quarterly financial statement is not subject to auditing procedures by independent auditors or auditing firms.

Note: Explanation of appropriate use of business performance forecasts and other special items

(Notes on future descriptions) The earnings forecasts in this document are based on the current information and certain assumptions that are considered reasonable, and actual results may vary greatly depending on various factors. Prerequisites for earnings forecast or notes for using it, please refer to "(3) Explanation of Future Forecast Information such as Consolidated Performance Forecasts" on page 4.

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1. Qualitative Information on the Quarterly

Consolidated Performance

(1) Explanation of Operating Results

Consolidated net sales for cumulative 1Q was ¥15,553 million (down 47.2% YoY), operating loss was ¥3,159 million (previous year: operating income of ¥451 million), ordinary loss was ¥3,149 million (previous year: ordinary income of ¥577 million), and quarterly loss attributable to owners of parent was ¥2,018 million (previous year: profit attributable to owners of parent of ¥354 million).

The business results of the reportable segments are as follows. The fiscal year end of major overseas subsidiaries is December, and the financial statements of overseas subsidiaries as of March 31, 2020 (from January 1, 2020 to March 31, 2020) were used in the consolidated financial statements. The business results for each segment do not include figures for affiliated companies accounted for by the equity method.

(Net Sales by Segment)

Segment	Net Sales (Yen in millions) (year on year)	Segment Income or Loss (Yen in millions) (year on year)
Japan	5,083 (△52.9%)	△2,595 (Previous year: △1,486 million)
South Korea	9,375 (△43.7%)	△494 (Previous year: 2,197 million)
China	875 (△34.4%)	△34 (Previous year: △10 million)
Others	218 (△69.1%)	△40 (Previous year: △218 million)
Adjustments	—	5 (Previous year: △30 million)
Total	15,553 (△47.2%)	△3,159 (Previous year: 451 million)

(Japan)

In April, due to the spread of COVID-19 infection, the state of emergency was issued, and 57 directly managed stores, stores in shopping malls, and wholesale stores such as department stores were temporarily closed. Stores gradually resumed operations from May. In June, all stores resumed operations, but the number of customers visiting stores including inbound tourists was sluggish. Therefore, sales at actual stores declined throughout the period. E-commerce sales were significantly higher than the previous year due to the implementation of marketing campaign such as the 2nd anniversary of the establishment of the e-commerce site. However, even including the reduction of SG&A expenses such as advertising promotion expenses, it did not cover the decrease in actual store sales, resulting in a large decrease in sales and an increase in loss.

(South Korea)

Under the “umbro” brand, we are working to improve profitability by opening stores while closing unprofitable stores of other brands. In January, sales of products for early spring were strong, but in South Korea, the impact of the spread of COVID-19 infection from February to March was large, resulting in a significant decrease in sales and profit.

(China)

Due to the spread of COVID-19 infection, segment sales significantly decreased, profits and losses and equity in earnings of affiliated companies fell sharply from late January to February due to temporary store closures. On the other hand, although it is not included in the consolidated net sales, the “DESCENTE” brand business, which is run by one of equity method affiliates, continues to perform well, with double sales from the previous year in e-commerce. Both sales and profits for the brand have increased compared to the same quarter of the previous year.

(Others)

Sales fell below the previous year as a result of withdrawing from the INOVEIGHT Group business and restructuring into a wholesale business due to business suspension of the subsidiaries, DESCENTE ATHLETIC AMERICAS INC., DESCENTE NORTH AMERICA INC., and SINGAPORE DESCENTE PTE. LTD. However, losses decreased due to a decrease in fixed costs of the above subsidiaries.

Net Sales by Item
(Sales by Item)

Item	Amount (Yen in millions)	Composition Ratio (%)	Year on year (%)
Athletic wear and related products	10,901	70.1	△48.7
Golf wear and related products	3,804	24.5	△41.6
Outdoor wear and related products	848	5.5	△50.5
Total	15,553	100.0	△47.2

(Note) The above amounts do not include consumption tax.

(Athletic Wear and Related Products)

In the “umbro” brand, sales are expanding in lifestyle products such as the backpack “DANKER” and dad shoes mainly in South Korea. However, due to the spread of COVID-19 infections, sales in the athletic category were ¥10,901 million (down 48.7% YoY).

(Golf Wear and Related Products)

E-commerce sales in each country increased significantly from the previous year, but total sales in the golf category were ¥3,804 million (down 41.6% YoY), because of a decrease in actual store sales due to the spread of COVID-19 infection.

(Efforts as DESCENTE Group)

As another topic, we announced on July 15, 2020 about the reorganization of a joint venture company that handles the “DESCENTE” brand business in China. Through the newly established trademark management company, the joint venture will hold the trademark rights etc. of the “DESCENTE” brand we own in China to further accelerate and expand future business expansion in China. We will increase our investment ratio in the joint venture company from the current 30% to 40%, and increase the profits related to the brand's China business.

In Japan, top athletes representing each of our brands participated as ambassadors in the “TEAM DESCENTE” project, which was launched as a new project to connect us with customers. In this project, under the state of emergency of COVID-19 infection, we introduced a video entitled “Sports to Play at Home” which was created by athletes to help customers maintain their health and ease their anxiety, as they continue to refrain from going out. We launched the owned media “ULLR MAG.” for strengthening DTC (Direct to Consumer) business to improve profitability of Japanese business. “Improving profitability of Japan business” is one of priority strategies in our medium-term management plan “D-Summit 2021” announced in August 2019. In order to deepen communication with a wider range of customers, we will not only introduce products, but also provide valuable information to help customers lead enriching lives through our owned media. As part of our sustainability efforts incorporating ESG perspective based on the “D-Summit 2021”, DESCENTE APPAREL LTD.'s Mizusawa Factory, which produces the “Mizusawa Down”, switched to supplying 100% of its electric power from renewable energy in March, 2020. We will continue to practice manufacturing that achieve a reduction in environmental impact.

(2) Explanation of Financial Position

As of the end of the consolidated 1Q ended June 30, 2020, total assets decreased ¥11,722 million from the previous fiscal year to ¥96,781 million.

Current assets decreased ¥9,621 million to ¥58,394 million. This was mainly due to a decreased in cash and deposits of ¥6,060 million, a decrease in notes and accounts receivable-trade of ¥6,829 million and an increase in goods and products of ¥3,308 million.

Fixed assets decreased ¥2,101 million to ¥38,387 million. This is mainly due to a decrease in buildings and structures, net of ¥372 million, a decrease in right to use assets included other in property, plant and equipment of ¥785 million and a decrease in investment securities included in investments and other assets of ¥295 million.

Total liabilities decreased ¥7,366 million to ¥28,944 million. This is mainly due to a decrease in notes and accounts payable-trade of ¥4,432 million, a decrease in accounts payable-other included in current liabilities of ¥2,214 million and an increase in short-term loans payable of ¥1,563 million.

Net assets decreased ¥4,356 million to ¥67,836 million. This is mainly due to a decrease in retained earnings of ¥2,018 million and a decrease in foreign currency translation adjustments of ¥2,161 million.

As a result, the equity ratio increased 3.6% to 70.1%.

(3) Explanation of Future Forecast Information such as Consolidated Performance Forecasts

DESCENTE group has drawn up a new medium-term management plan, “D-Summit 2021”, covering the 3 years from the fiscal year ended March 31, 2020 to the fiscal year ending March 31, 2022. Under the key strategies of “Enhance our manufacturing capabilities”, “Consolidate in Asia” and “Improving profitability of Japan business”, we will continue to provide society with unique values based on our corporate philosophy of “To bring the enjoyment of sports to all” and strive to further increase corporate value.

We did not disclose our earnings forecast of the fiscal year ending March 31, 2021 which is usually disclosed at the time of full year financial results disclosure because it was difficult to rationally estimate the impact of the spread of COVID-19 infection on its business activities. But based on currently available information and forecasts, we released the earnings forecast on July 15, 2020. The impact of COVID-19 infection is expected to continue for a certain period of time, but all stores in South Korea and China resumed operations at the end of April, 2Q of South Korea and China, and sales are recovering. Based on this situation, we expect sales to recover to a certain level in 3Q and beyond, and to post a profit in the second half. As a result of the reorganization of the joint venture company in China, profit attributable to owners of the parent is expected to significantly exceed the previous fiscal year's results, mainly due to the recording of approximately ¥4 billion in the balance of changes in equity (extraordinary profit).

For details, please refer to the “Notice of Earnings Forecast for Fiscal Year Ending March 31, 2021” announced on July 15, 2020.

2. Quarterly Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Yen in millions)

	FY2019 (March 31, 2020)	1Q FY2020 (June 30, 2020)
Assets		
Current assets		
Cash and deposits	20,309	14,248
Notes and accounts receivable - trade	17,319	10,490
Merchandise and finished goods	26,575	29,883
Work in process	195	155
Raw materials and supplies	726	688
Other	3,006	3,017
Allowance for doubtful accounts	△118	△90
Total current assets	68,015	58,394
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	11,485	11,112
Other	16,265	15,233
Total property, plant and equipment	27,750	26,346
Intangible assets	2,961	2,797
Investments and other assets		
Other	9,832	9,297
Allowance for doubtful accounts	△55	△54
Total investments and other assets	9,777	9,242
Total non-current assets	40,488	38,387
Total assets	108,504	96,781
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,648	12,216
Short-term loans payable	1,436	3,000
Current portion of long-term loans payable	225	225
Income taxes payable	38	143
Provision for bonuses	965	474
Provision for sales returns	837	583
Other	8,625	5,786
Total current liabilities	28,776	22,428
Non-current liabilities		
Long-term loans payable	295	294
Net defined benefit liability	968	1,139
Other	6,270	5,081
Total non-current liabilities	7,534	6,516
Total liabilities	36,311	28,944

(Yen in millions)

	FY2019 (March 31, 2020)	1Q FY2020 (June 30, 2020)
Net assets		
Shareholders' equity		
Capital stock	3,846	3,846
Capital surplus	25,316	25,315
Retained earnings	43,190	41,171
Treasury shares	△633	△633
Total shareholders' equity	71,719	69,699
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	373	235
Deferred gains or losses on hedges	13	11
Foreign currency translation adjustment	218	△1,943
Remeasurements of defined benefit plans	△131	△165
Total accumulated other comprehensive income	473	△1,862
Total net assets	72,193	67,836
Total liabilities and net assets	108,504	96,781

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Statements of Income
 First Quarter ended June 30, 2020 (accumulated)

(Yen in millions)

	1Q FY2019 (April 1, 2019-June 30, 2019)	1Q FY2020 (April 1, 2020-June 30, 2020)
Net Sales	29,479	15,553
Cost of sales	12,209	7,151
Gross profit	17,269	8,401
Reversal of provision for sales returns	104	253
Gross profit - net	17,374	8,655
Selling, general and administrative expenses	16,923	11,815
Operating income or Operating loss (Δ)	451	Δ 3,159
Non-operating income		
Interest income	92	50
Dividend income	25	25
Equity in earnings of affiliates	88	—
Foreign exchange gains	—	42
Other	77	79
Total non-operating income	283	197
Non-operating expenses		
Interest expense	71	28
Loss on retirement of non-current assets	17	20
Equity in losses of affiliates	—	129
Foreign exchange losses	66	—
Other	2	9
Total non-operating expenses	157	187
Ordinary income or Ordinary loss (Δ)	577	Δ 3,149
Extraordinary income		
Gain on sales of investment securities	—	403
Total extraordinary income	—	403
Income before income taxes or Loss before income taxes (Δ)	577	Δ 2,745
Income taxes - current	319	45
Income taxes - deferred	Δ 96	Δ 509
Refund of income taxes	—	Δ 263
Total income taxes	222	Δ 727
Quarterly net income or Quarterly net loss	354	Δ 2,018
Quarterly profit attributable to owners of parent or Loss attributable to owners of parent (Δ)	354	Δ 2,018

Quarterly Consolidated Statements of Comprehensive Income
 First Quarter ended June 30, 2020 (accumulated)

(Yen in millions)

	1Q FY2019 (April 1, 2019-June 30, 2019)	1Q FY2020 (April 1, 2020-June 30, 2020)
Quarterly net income or Quarterly net loss (△)	354	△2,018
Other comprehensive income		
Valuation difference on available-for-sale securities	△132	△138
Deferred gains or losses on hedges	32	△1
Foreign currency translation adjustment	△599	△2,058
Remeasurements of defined benefit plans, net of tax	8	△33
Share of other comprehensive income of entities accounted for using equity method	29	△103
Total other comprehensive income	△661	△2,336
Comprehensive income	△306	△4,354
(Breakdown)		
Comprehensive income attributable to owners of parent	△306	△4,354

(3) Notes to Quarterly Consolidated Financial Statements

(Going Concern Assumptions)

None

(Significant Changes in Shareholders' Equity)

None

(Application of Accounting Treatment Specific to the Preparation of Quarterly Consolidated Financial Statements)

For some consolidated subsidiaries, the tax expense is calculated by rationalizing the effective tax rate after the application of tax effect accounting to income before income taxes and minority interests for the fiscal year including the first quarter, and multiplying the net income before taxes by the estimated effective tax rate.

Income taxes of the consolidated subsidiaries are included in the corporate tax, inhabitant tax and business tax.

(Segment Information)

I Previous First Quarter ended June 30, 2019 (April 1, 2019-June 30, 2019)
Information about Net Sales, Profit (Loss) by Reportable Segment

(Yen in millions)

	Reportable Segments					Adjustments (Note 1)	Amount of Shown on Consolidated Income Statements (Note 2)
	Japan	South Korea	China	Others	Total		
Net Sales							
Sales to External Customers	10,782	16,656	1,334	706	29,479	—	29,479
Intersegment Sales of Transfers	204	275	8	24	512	△512	—
Total	10,986	16,931	1,343	730	29,992	△512	29,479
Segment Income (Loss)	△1,486	2,197	△10	△218	481	△30	451
Other Items							
Equity in earnings of affiliates	—	43	33	—	76	11	88
Investments in equity-method affiliates	—	291	2,132	—	2,424	—	2,424

(Note 1) Segment income (loss) adjustment of △¥30 million includes intersegment transaction eliminations of ¥7 million and inventory unrealized income adjustment of △¥37 million.

(Note 2) Segment income (loss) is adjusted for operating income reported in the quarterly consolidated statements of income.

II Current First Quarter ended June 30, 2020 (April 1, 2020-June 30, 2020)
Information about Net Sales, Profit (Loss) by Reportable Segment

(Yen in millions)

	Reportable Segments					Adjustments (Note 1)	Amount of Shown on Consolidated Income Statements (Note 2)
	Japan	South Korea	China	Others	Total		
Net Sales							
Sales to External Customers	5,083	9,375	875	218	15,553	—	15,553
Intersegment Sales of Transfers	227	89	—	2	319	△319	—
Total	5,311	9,465	875	220	15,873	△319	15,553
Segment Income (Loss)	△2,595	△494	△34	△40	△3,164	5	△3,159
Other Items							
Equity in earnings of affiliates	—	△28	△84	—	△112	△17	△129
Investments in equity-method affiliates	—	273	1,982	—	2,255	—	2,255

(Note 1) Segment income (loss) adjustments of ¥5 million includes intersegment transaction eliminations of △¥0 million and inventory unrealized income adjustment of ¥5 million.

(Note 2) Segment income (loss) is adjusted for operating income reported in the quarterly consolidated statements of income.

2. Matters Related to Changes in Reportable Segments

In recent years, the importance of our business in South Korea and China has increased, therefore the Company has changed its reportable segments up to FY2019 Asia to South Korea, China and Others from the 1Q of FY2020.

As a result of the resolution to liquidate all U.S. and European subsidiaries that were included Europe/Americas segment until FY2019 the importance of the business of Europe/Americas subsidiaries has declined. As a result, the business of Europe/Americas have been included in Others.

Segment information for the 1Q of FY2019 is prepared by the segment classification method after the change.

3. Supplemental Information

Overseas Sales

Previous First Quarter ended June 30, 2019 (April 1, 2019-June 30, 2019)

(Yen in millions, %)

	South Korea	China	Others	Total
I Overseas Net Sales	16,661	1,620	842	19,124
II Consolidated Net Sales				29,479
III Percentage of overseas net sales in consolidated net sales	56.5	5.5	2.9	64.9

Current First Quarter ended June 30, 2020 (April 1, 2020-June 30, 2020)

(Yen in millions, %)

	South Korea	China	Others	Total
I Overseas Net Sales	8,964	1,369	348	10,682
II Consolidated Net Sales				15,553
III Percentage of overseas net sales in consolidated net sales	57.6	8.8	2.2	68.7

(Note) Net sales are based on the customer's location and classified into countries or regions.