

To our stakeholders

DESCENTE LTD.

Security code : 8114

INTERIM BUSINESS REPORT 2020

April 1, 2020 - September 30, 2020



About the Photo on the Cover :
Yuta Wakimoto (TEAM BRIDGESTONE Cycling)
(公財)JKA・補助事業

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DESCENTE GROUP

DESCENTE group offer high-quality and high-performance sporting goods by 12 brands, including the house brand "DESCENTE".

Each brand is conducting their own marketing and challenging the improvement of brand's value for the pleasure of everyone from top athletes to recreational and leisure enthusiasts.

Corporate Philosophy

To bring the enjoyment of sports to all

Sport is based on the idea of enjoyment through movement of the body and competing; and it is through sports that DESCENTE contributes to life being lived -by everyone- to the full.

Corporate Slogan

Design for Sports

Origin of the Corporate Name and Logo



Descente is the French term for downhill skiing. The logo represents the three basic skiing techniques of schussing, traversing and sliding. It embodies our quest to be the best in all we do and our focus on the future.

Brand Lineup

(As of September 30, 2020)

Owned Brands (No Territory Limitation)

Brands that Descente group is the owner of the trademark



Owned Brands (Limited Territory)

Brands that Descente group is the owner of the trademark in limited country and area

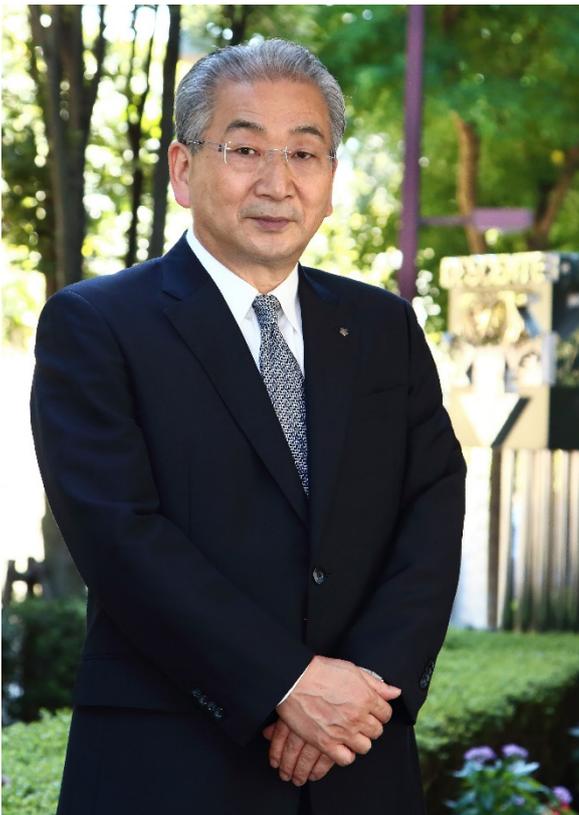


Licensed Brands/Others

Brands that Descente develop based on the license agreement, etc.



PRESIDENT'S MESSAGE



DESCENTE LTD.
President and Representative Director
Shuichi Koseki

We will prioritize the expansion of directly managed stores and e-commerce that connect us directly to our customers, and promote the improved profitability in Japan faster than ever before.

Regarding the signature initiatives in FY2020 2Q, tell us about the situation in China

On July 15, 2020, we announced a new structure for Descente China Holding Limited ("DCH"), a joint venture company established by DESCENTE, ANTA Sports Products Limited and ITOCHU Corporation. Starting in the fiscal year ending March 31, 2022 (FY2021), we will increase our ownership in DCH from the existing 30% to 40%, and transfer the DESCENTE brand trademark rights for China to DCH to expand the business.

Given that DESCENTE is our most important corporate brand, this decision to have DCH own the trademark was a major one, but today, when marketing a brand, owning the trademark has become a standard business model not only in China, but around the world. Over 90% of our sales come from our own brands. In the past, we had the experience of licensing the adidas brand only to have the contract terminated, and in China there have been many similar examples. Doing business under license exposes a company to the risk that, if the contract is cancelled, all the hard work that went into building the brand could disappear overnight. This could lead to that brand receiving lower priority. Having DCH own the trademark as it develops its business not only eliminates the risk of termination but also the need to pay royalties. This will allow DCH to accumulate revenue internally, which it can then invest in growing the business even more. We are also looking at taking DCH public in the Chinese market sometime in the near future. Giving DCH ownership of the trademark as it conducts its business will create a positive cycle, leading to even greater growth for DCH and increasing the profits we take in based on our increased ownership stake. Of course, given the importance of our brand, we entered into multiple discussions before closing contracts that ensures the trademark will not be transferred to a third party without our consent.

Excluding the initial period in which the coronavirus spread, since May sales of the DESCENTE brand in China grew 85% year on year (local currency basis), and continue to expand steadily, making a possible public offering for DCH increasingly viable.

How about the situation in South Korea?

In light of political problems between Japan and South Korea, our business there faced an enormous struggle last year. While the impact of those issues has settled down considerably since the beginning of this year, it has not yet completely disappeared. On top of that, the effects of the coronavirus pandemic have brought a slowdown in retailing as a whole. We are keeping a close eye on the impact of the coronavirus during this fall and winter season, a time in which we would normally expect to see sales of heavier winter apparel take off and greater activity in the stores. Excluding those issues, I see no problems with our current product planning and marketing.

Tell us about business in Japan

While our business in China and South Korea centers primarily on directly managed stores, in Japan the business is still overwhelmingly focused on wholesale, which represents over 80% of sales but struggles to generate a profit. An absolute requirement for us in the future will be to create a structure that allows us to connect directly to and converse with our customers, giving shape to the various needs and ideas that come out of that interaction and reflecting them in the products we manufacture. To survive in the apparel industry, we need to push ahead quickly with even bigger structural reforms. Although I realize this will not be easy, without these reforms we will no longer have the option of continuing our wholesale business. I am determined to stay on this course until we succeed.

We will give top priority to expanding directly managed stores, which connect us directly with our customers, and to expanding EC. EC is one area in which DESCENTE has lagged, and although it was the middle of the fiscal year, in May we significantly boosted personnel and began working on upgrading our systems with the goal of lifting EC's share of sales to around 20% as quickly as possible.

We will soon switch over to a new platform, and should be able to build a strong EC site that is even more convenient and user-friendly than before.

With DESCENTE in the lead, we enjoy good brand recognition, and are proud of the quality of our products. Still, that message is not being effectively communicated to our customers, which is why we will be using ULLR MAG, an inhouse digital platform launched in June, along with other tools, to increase customer contact points and boost the ratio of directly managed stores and EC sales as soon as possible.



EC-only campaigns, such as delivering products in limited boxes with original illustrations to customers who purchased through EC

How is the progress on Selection and Concentration set out in the D-Summit 2021, medium-term management plan?

During FY2019 we liquidated three subsidiaries in Europe and North America and completed a refocusing of our regions and brands, putting in place a structure that will allow us to concentrate on markets in Japan, South Korea and China. While this resulted in a slimming down of our business in Europe and North America, we also know that our product development, and our relationships with the top international teams we supply with our products, can be leveraged in our marketing efforts in Asia. We will thus continue to focus on supplying top athletes and national teams in Europe and North America. In the Chinese market in particular, the fact that our brand is chosen by national teams in the West generates significant trust, and advertising employing those visuals can be highly effective, so ANTA also understands the advantages of working with us. That effectiveness is the result of our long years of conducting research and development on behalf of the world's top athletes, and is, I think, one of our strengths.

Selection and concentration is also needed in manufacturing, another of our strengths. The first step is to fully utilize our two DISC R&D centers in Osaka and Busan, along with our four factories in Japan and our directly owned factory in Beijing. In general, apparel companies manufacture only about 2% of their products domestically, but ownership of our own factories allows us to manufacture 15% of our products at home. The question of how to take advantage of this manufacturing capacity in Japan is an extremely important one, and is a significant point of differentiation for us.

The same is true in the South Korean and Chinese markets, where customers expect the most from our ability to offer strong products. To respond to those expectations, we must focus on developing and manufacturing more highly functional, distinctive products. Ensuring that our manufacturing remains in constant pursuit of the kinds of products customers want and markets demand will, I think, require our employees to be more closely involved with what our directly owned factories are doing.

We have always remained committed to manufacturing. Our quality standards are strict, and our employees highly motivated. That said, we still have room for improvement in the way we communicate and sell our products, and there are still areas that need more work, including our production base and production volume. We will continue to value a manufacturing process that always keeps the full picture in mind - from the creation of a product, to its appearance on store shelves and its purchase, resulting in a satisfied customer.



Running shoes with cushioning developed by DISC BUSAN
Running events are also held at stores

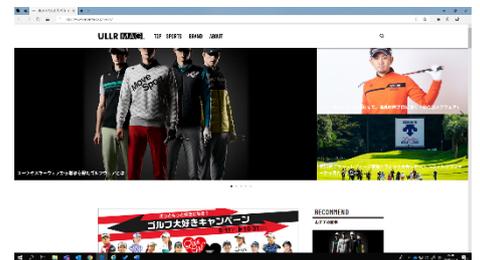
To Our Stakeholders

FY2019 closed with a significant loss, and while conditions this fiscal year continue to be difficult with the impact of the coronavirus, we have established a structure for the Chinese market and can see a path to recovery for our business in South Korea. We are now working as hard as we can to push ahead with reforms in Japan. This fiscal year will determine our direction and everything will begin moving forward. I think you can expect a great deal in terms of a revival of our business in Japan in the next fiscal year and beyond. To respond to those expectations, we will move forward with improvements to management on our way to achieving a structure that can generate steady revenue through our business pillars in Japan, South Korea and China.

TOPICS

Enhancing Tools for Digital Communication with Customers

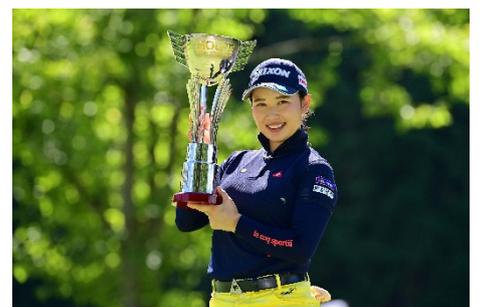
As part of promoting its omni-channel approach, DESCENTE is also focused on enhancing digital services designed to provide customers with greater enjoyment and allow them to feel special. In order to increase our points of contact with customers, we established CLUB DESCENTE, an official app offering membership services through our directly managed stores and online shop, delivering a variety of information on everything from products and stores to upcoming events. We have launched a lifestyle magazine, ULLR MAG, our first inhouse digital media platform, intended to deepen communication with an even wider range of customers. We will also be approaching new customers not previously reached, offering suggestions for selecting first-time items and providing other problem-solving tools to those looking to start a sport.



Designing the mind from the body
—ULLR MAG lifestyle magazine.

News on Pro Golfers Wearing DESCENTE Apparel in Japan

Pro golfers wearing our apparel made a strong showing again this year. Ayaka Watanabe (in DESCENTE), Sakura Koiwai (in le coq sportif) and Rikuya Hoshino (in Srixon) each posted a win, and Watanabe and Koiwai were joined by Ai Suzuki (in le coq sportif) in the top 5 of the JLPGA prize money rankings (as of September 30).



(above) Ayaka Watanabe
(below) Sakura Koiwai

Strong Performance from Items Designed to Address Heat

This year DESCENTE brought to market the CORE COOLER, a glove-type item that cools the palm of the hand to a comfortable 12°C, helping to control core body temperature. In April we initiated a crowd funding offer, and raised more than 20 times our target amount. The product has generated an enormous response, selling out in a week after sales commenced on our e-commerce site. Meanwhile, umbro's REI GRAB series offers a neck cooler, gloves and arm covers that are cool on contact and feature UV protection, with a three step activation process - moisten, lightly squeeze and shake. Improved versions have also come out, based on feedback from players and staff who have been wearing the products at Gamba Osaka, a professional J-League soccer team. They asked for a neck cooler that would stay in place even when pulled up to cover the nose. We are leveraging a variety of knowledge and technology in developing products not just for professional athletes, but for a wide range of users.



The series also offers a face guard to cool the cheeks

Limited Offer of Customized Mizusawa Down

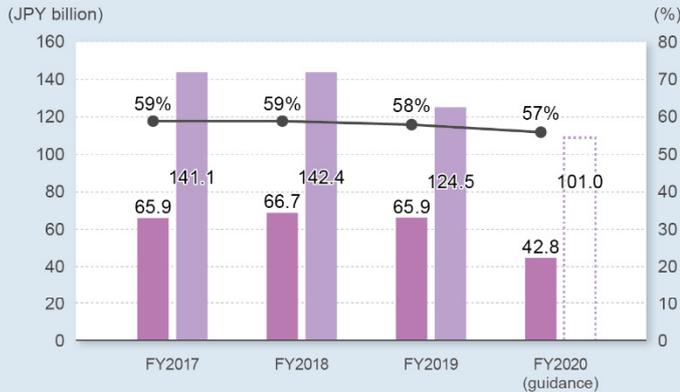
A MADE TO MEASURE service was offered for DESCENTE's highly functional, Made in Japan hero jacket, Mizusawa Down. The offer was limited to 70 pieces and was available at directly managed DESCENTE BLANC stores in Daikanyama and Fukuoka. It allowed customers to choose their own color combinations for the inner and outer fabrics and to customize both length and fit. Our pattern engineers would then create a pattern based on each order and each unique jacket was cut and sewn at our Mizusawa Factory. Customer response was immediate, with the entire limited offer reserved in just about a week. We hope customers will enjoy wearing their personalized jackets and will take good care of them for years to come. This, too, is part of DESCENTE's approach to sustainability.



Each special, one-of-a-kind jacket comes with a tag bearing a MADE TO MEASURE logo and a serial number.

Financial Information

◆ Net Sales Transition and Overseas Sales Ratio



■ Consolidated cumulative second quarter(Left axis) ■ Full year(Left axis)
 —●— Overseas Sales Ratio(Right axis)

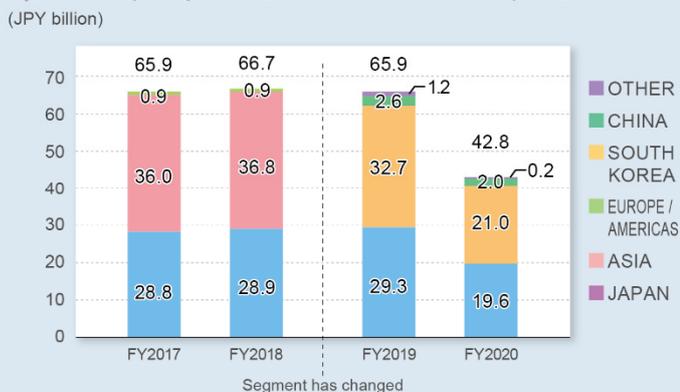
*Net sales is based on the location of the customer, and classified according to country and area

◆ Profit Attributable to Owners of Parent Transition



■ Consolidated cumulative second quarter
 ■ Full year

◆ Sales by Segment (first half of the fiscal year) Transition

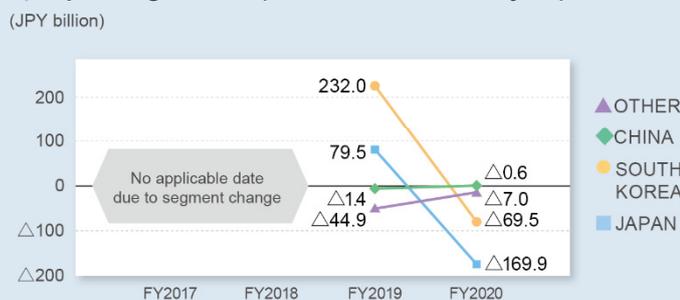


*Net sales is based on the location of the customer, and classified according to country and area

◆ Full-year Consolidated Earnings Forecast

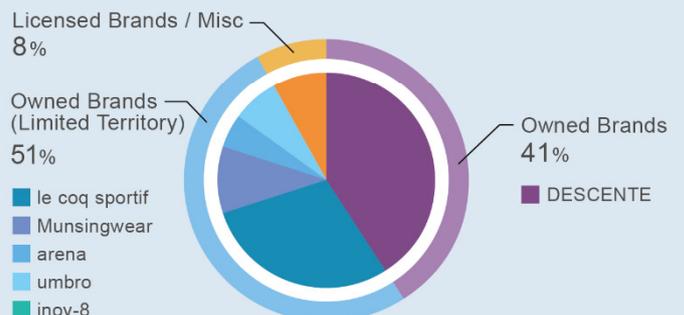
	FY2018	FY2019	FY2020 (Plan)
Net sales (JPY billions)	142.4	124.5	101.0
Operating income (JPY billions)	7.9	0.3	0.5
Ordinary income (JPY billions)	8.4	0.4	0.5
Profit attributable to owners of parent (JPY billions)	3.9	△2.4	5.0
EPS (JPY)	52.31	△32.9	—

◆ Operating Income (first half of the fiscal year) Transition



*Sales and operating income by segment are based on the location of the company, and classified according to country and area.

◆ Sales Composition by Brands and Ownership Structure



More than 90% of sales is in owned brands led by our corporate brand DESCENTE

Quarterly Consolidated Balance Sheet

Subject	2020/3/31	2020/9/30
Assets		
Current assets	68,015	61,692
Non-current assets	40,488	37,858
Property, plant and equipment	27,750	25,816
Intangible assets	2,961	2,695
Investments and other assets	9,777	9,346
TOTAL ASSETS	108,504	99,551
Liabilities		
Current liabilities	28,776	24,189
Non-current liabilities	7,534	6,438
TOTAL LIABILITIES	36,311	30,628
Net assets		
Shareholders' equity	71,719	70,490
Capital stock	3,846	3,846
Capital surplus	25,316	25,344
Retained earnings	43,190	41,924
Treasury shares	△633	△623
Accumulated other comprehensive income	473	△1,567
Valuation difference on available-for-sale securities	373	268
Deferred gains or losses on hedges	13	△4
Foreign currency translation adjustment	218	△1,680
Remeasurements of defined benefit plans	△131	△151
TOTAL NET ASSETS	72,193	68,923
TOTAL LIABILITIES AND NET ASSETS	108,504	99,551

Quarterly Consolidated Statements of Income

Subject	2019/4/1 ~2019/9/30	2020/4/1 ~2020/9/30
Net Sales	65,926	42,897
Cost of sales	28,497	19,931
Gross profit	37,429	22,965
Gross profit-net	37,262	23,109
SG&A expenses	34,623	25,558
Operating income	2,638	△2,449
Non-operating income	556	572
Non-operating expenses	288	200
Ordinary income	2,906	△2,077
Extraordinary income	—	403
Extraordinary loss	—	65
Income before income taxes	2,906	△1,739
Income taxes-current	789	92
Income taxes-deferred	△93	△565
Quarterly net income	2,210	△1,265
Quarterly Profit attributable to owners of parent	2,210	△1,265

Quarterly Consolidated Statements of Cash Flow

Subject	2019/4/1 ~2019/9/30	2020/4/1 ~2020/9/30
Cash flow from operating activities	3,474	△3,568
Cash flow from investing activities	△1,234	△484
Cash flow from financing activities	△3,658	316
Effect of exchange rate change on cash and cash equivalents	△994	△378
Net increase (decrease) in cash and cash equivalents	△2,412	△4,114
Cash and cash equivalents at beginning of the period	27,229	19,559
Cash and cash equivalents at the end of the period	24,817	15,444

ABOUT US

Company Profile

DESCENTE LTD.

Founded	February, 1935
Incorporated	February, 1958
President	Shuichi Koseki
Capital	¥3.8 billion
Turnover	¥124.5billion (FY ended March 2020, Consolidated)
Employees	Consolidated 3,263 / Non-consolidated 35 (As of September 30, 2020)
Business	Manufacture and sales of sportswear and related articles
Office	
Tokyo Office	1-4-8 Mejiro, Toshima-ku, Tokyo 171-8580 TEL. +81-3-5979-6006 (HR/Administration, Tokyo)
Osaka Office	1-11-3 Dogashiba, Tennoji-ku, Osaka 543-8921 TEL. +81-6-6774-0365 (Administration/Secretariat, Osaka)

Executives

President and Representative Director Shuichi Koseki	Outside Director Tomonori Azuma*
Director and Senior Managing Executive Officer Hoon-Do Kim	Outside Director Seiji Sato*
Director and Managing Executive Officer Akira Tsuchihashi	Auditor (full-time) Masatsugu Morimitsu
Director and Managing Executive Officer Norio Ogawa	Auditor (outside) Koichi Yoshioka*
	Auditor (outside) Akira Matsumoto*

* All Directors (outside) and Auditors (outside) are designated as independent Directors or independent Auditors specified by the TOKYO Stock Exchange in Japan.

Subsidiary Companies

◆ Consolidated Subsidiary Companies

DESCENTE JAPAN LTD.

(Tokyo, Japan)
Manufacture and sale of sportswear and related articles

DESCENTE APPAREL LTD.

(Osaka, Japan)
Manufacture of sportswear and related articles

BEN-GENERAL CORPORATION

(Osaka, Japan)
Sale of sportswear and related articles

BEIJING DESCENTE CO., LTD.

(Beijing, China)
Manufacture of sportswear and related articles

SHANGHAI DESCENTE COMMERCIAL CO., LTD.

(Shanghai, China)
Sale of sportswear and related articles

HONG KONG DESCENTE TRADING, LTD.

(Hong Kong, China)
Sale of sportswear and related articles

DESCENTE KOREA LTD.

(Seoul, South Korea)
Sale of sportswear and related articles

DESCENTE GLOBAL RETAIL LTD.

(Seoul, South Korea)
Sales of sportswear and related articles

SINGAPORE DESCENTE PTE. LTD.*

(Singapore)
Sale of sportswear and related articles

DESCENTE MOUNTAIN AMERICAS*

*DESCENTE MOUNTAIN AMERICAS's registered name is
DESCENTE NORTH AMERICA INC.

(Utah, United States)
Sale of sportswear and related articles

DESCENTE ATHLETIC AMERICAS INC.*

(Georgia, United States)
Sale of sportswear and related articles

*Subsidiary companies scheduled for liquidation

◆ Affiliated Companies Accounted for under the Equity Method

LE COQ SPORTIF (NINGBO) CO., LTD.

(Ningbo, China)
Sale of sportswear and related articles

DESCENTE (CHINA) CO., LTD.

(Shanghai, China)
Sale of sportswear and related articles

ARENA (SHANGHAI) INDUSTRIAL CO., LTD.

(Shanghai, China)
Sale of sportswear and related articles

ARENA KOREA LTD.

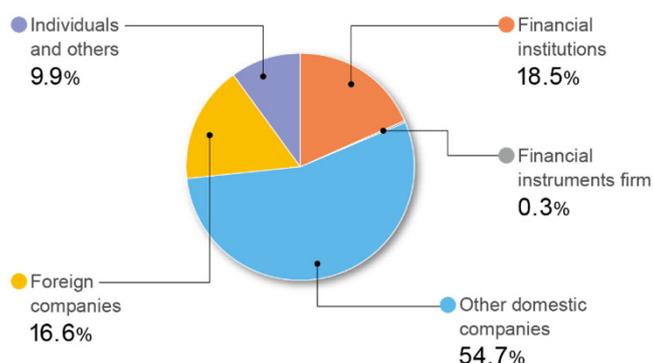
(Seoul, South Korea)
Sale of sportswear and related articles

SHAREHOLDER INFORMATION

Number of shares and shareholders

(As of September 30, 2020)

Number of shares authorized for issuance	160,000,000
Number of shares issued	76,924,176
	(including 1,467,406 own shares)
Number of shareholders	4,894



Principal shareholder

(As of September 30, 2020)

Name	Shareholdings (Thousands)
BS Investment Corporation	30,164
UBS AG HONG KONG	3,465
Nippon Life Insurance Company	3,238
TEIJIN FRONTIER Co., Ltd.	2,465
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,186
Sumitomo Mitsui Banking Corporation	2,110
THE DESCENTE AND ISHIMOTO MEMORIAL FOUNDATION FOR THE PROMOTION OF SPORTS SCIENCE	1,652
TOYOBO STC CO., LTD	1,594
The Hokkoku Bank, Ltd.	1,039
Kazuyuki Ishimoto	1,010