

# DESCENTE

## 2Q FY2020 Earnings

### November 6, 2020

This is an English translation of the original Japanese-language Consolidated Financial Summary of DESCENTE LTD. (the Company) for the second quarter of the fiscal year ending March 31, 2021 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.

**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.**

**According to 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 has been included in Others. Segment information for the 2Q of FY2019 is prepared by the segment classification method after the change.**

# Description of the Terms

## Definitions of Terms

**Segment:** Classified according to country and area of a **company**.

*Example: Net sales from DESCENTE LTD. to JV in China is counted in Japan segment.*

**\*Segment changed from [Japan-Asia-Europe/Americas] to [Japan-South Korea-China-Others] from FY2020.**

**Area:** Classified according to country and area of the location of **customers**.

*Example: Net sales from DESCENTE LTD. to JV in China is counted in China area.*

**Business Year:**

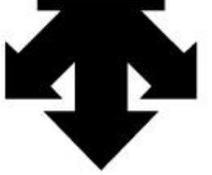
**<Japan> April-March** *Example: 1Q=April-June*

**<Overseas Subsidiaries/Affiliates> January-December** *Example: 1Q=January-March*

**\*Group internal sales is eliminated in either of these cases. (Not Counted)**

## Rules for Numerical Description

**The number is truncated and percentage is rounded off.**



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## **1. 2Q FY2020**

### **(1) Financial Summary**

(2) Brand Review

(3) Area Review

(4) Number of Stores

## **2. Plan for FY2020**

# Results of 2Q FY2020 (Consolidated)



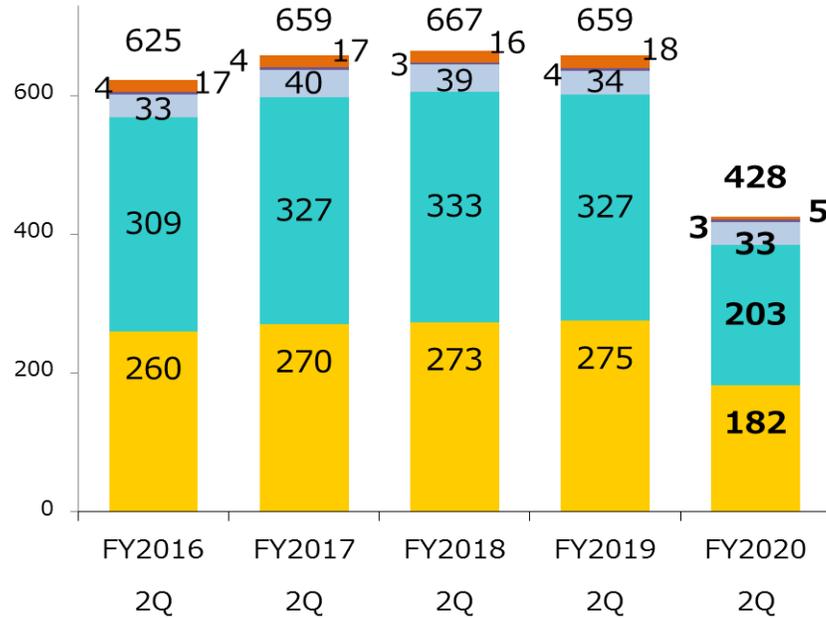
1. 2Q FY2020 (1) Financial Summary

In the 2Q (Japan: April to September; Overseas: January to June), sales and profits decreased due to the spread of COVID-19 infection.

(Unit: JPY million)	FY2020	FY2019		FY2020
	2nd Quarter Performance	2nd Quarter Performance	YoY	Full Year Earnings Forecast
Net sales	42,897	65,926	▲ 34.9%	101,000
Operating income	▲ 2,449	2,638	-	500
( % )	▲ 5.7%	4.0%		0.5%
Ordinary income	▲ 2,077	2,906	-	550
( % )	▲ 4.8%	4.4%		0.5%
Profit attributable to owners of parent	▲ 1,265	2,210	-	5,000
( % )	▲ 2.9%	3.4%		5.0%

Sales decreased in all areas, but increased in China after 2Q.

(Unit: JPY 0.1 billion)



Overseas Ratio	FY2016	FY2017	FY2018	FY2019	FY2020
Overseas Ratio	58%	59%	59%	58%	57%

- Japan
- South Korea
- China (incl. Hong Kong/Taiwan)
- Other Asian Countries
- Europe/Americas

**YoY ▲23.0 billion(▲35%)**

- Japan ▲9.22billion
- South Korea ▲12.37billion
- (Foreign exchange factors ▲1.5 billion)
- China (Incl. Hong Kong/Taiwan) ▲0.08billion
- Other Asian Countries ▲0.07billion
- Europe/Americas ▲1.26billion

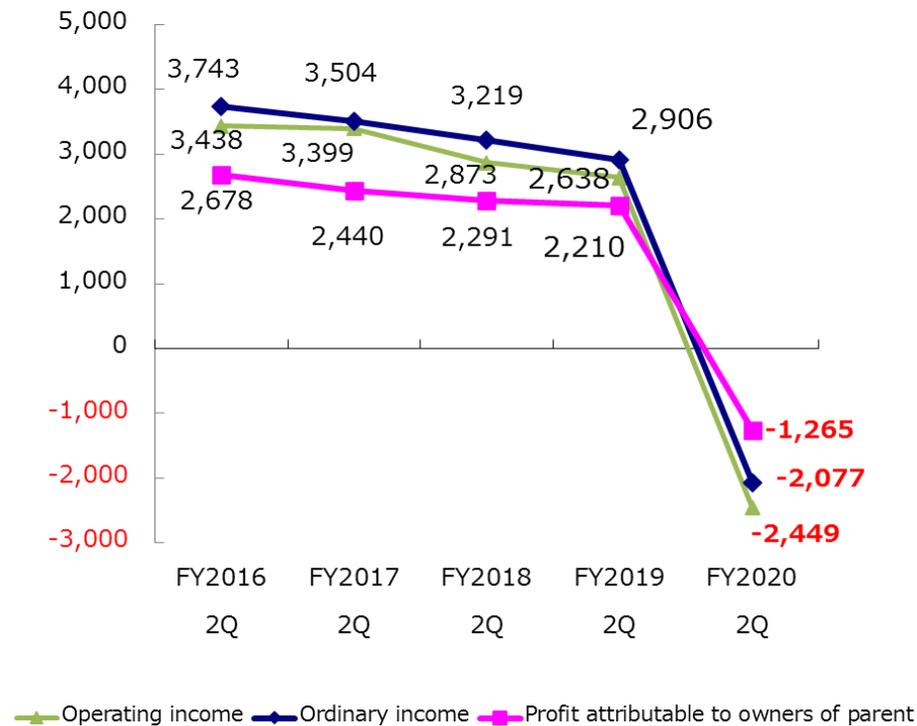
# Income (Consolidated)



1. 2Q FY2020 (1) Financial Summary

Each profit item is in the red, although in the Japan business, the extraordinary profit (gain on sales of securities +JPY 400 million) and the decrease in the amount of corporation tax due to the recording of deferred tax assets, etc. (+JPY470 million) contributed.

(Unit: JPY million)



(Unit: JPY million)	FY2020 2Q	FY2019 2Q	Change
<b>Operating income</b>	<b>▲ 2,449</b>	<b>2,638</b>	<b>▲ 5,087</b>
Non-operating income	572	556	<b>15</b>
Non-operating expenses	200	288	<b>▲ 87</b>
<b>Ordinary income</b>	<b>▲ 2,077</b>	<b>2,906</b>	<b>▲ 4,984</b>
Extraordinary income	403	0	<b>403</b>
Extraordinary loss	65	0	<b>65</b>
Total income taxes	<b>▲ 473</b>	695	<b>▲ 1,169</b>
<b>Profit attributable to owners of parent</b>	<b>▲ 1,265</b>	<b>2,210</b>	<b>▲ 3,476</b>

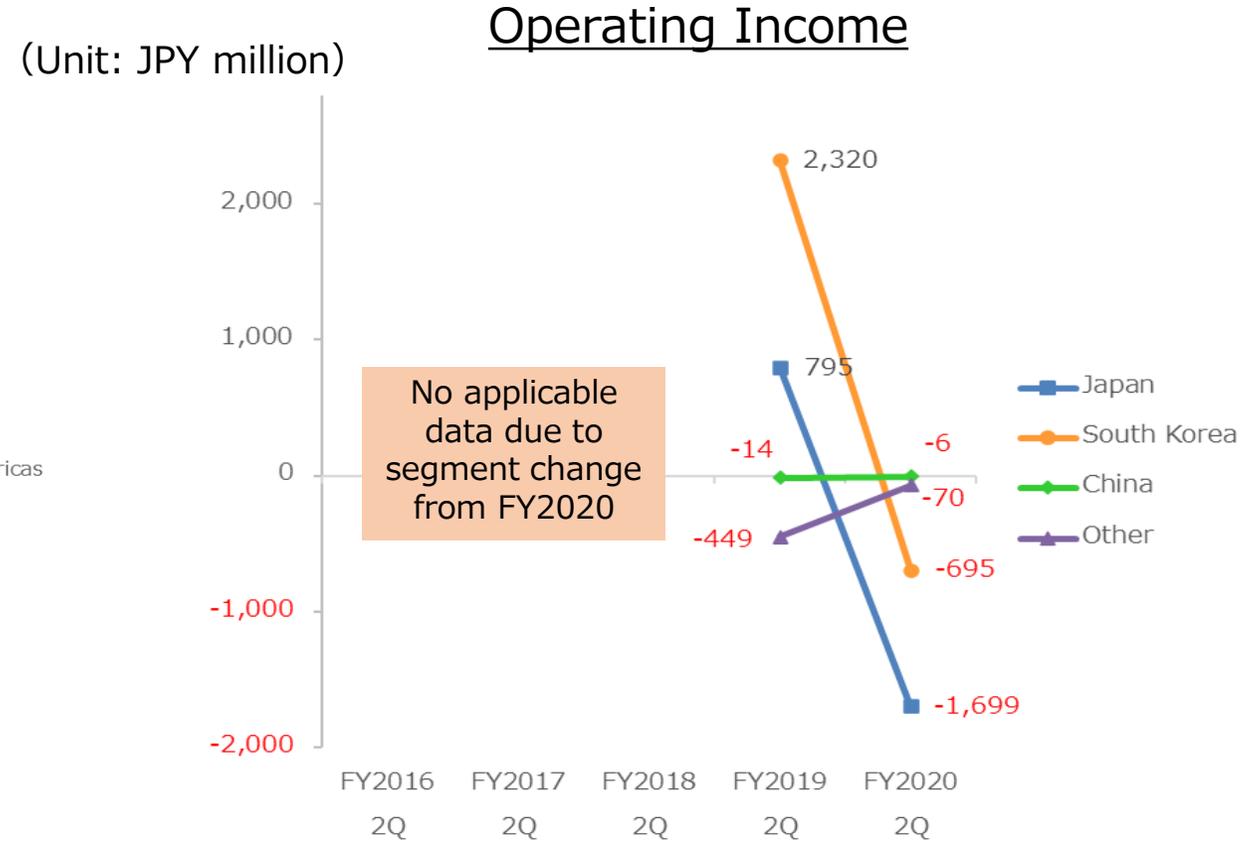
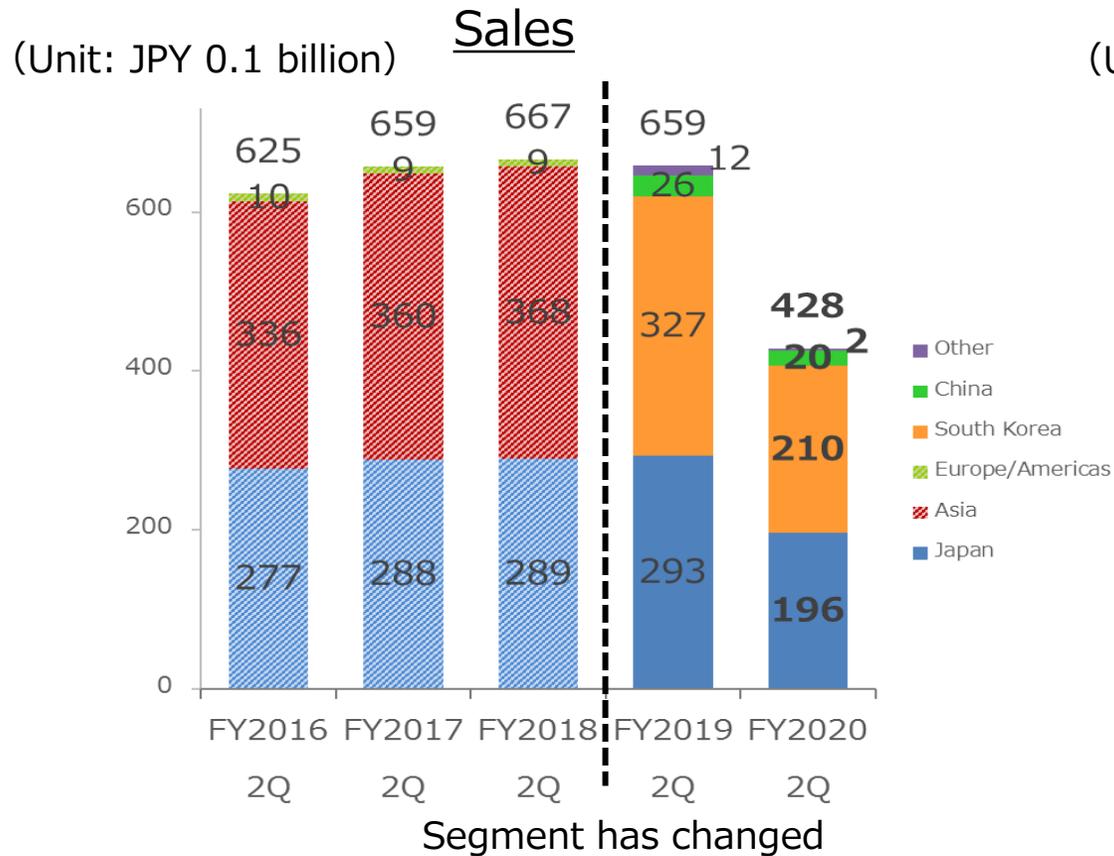
Note: FY2020=FY ending March 31, 2021

# Sales and Operating Income by Segments (Consolidated)



1. 2Q FY2020 (1) Financial Summary

- Reportable segments are changed from the current fiscal year ending March, 2021.
- Sales and profits decreased in the Japan and South Korea segments.
- Although sales decreased in China and other (including Europe/Americas) segments, the loss decreased.



Note: FY2020=FY ending March 31, 2021

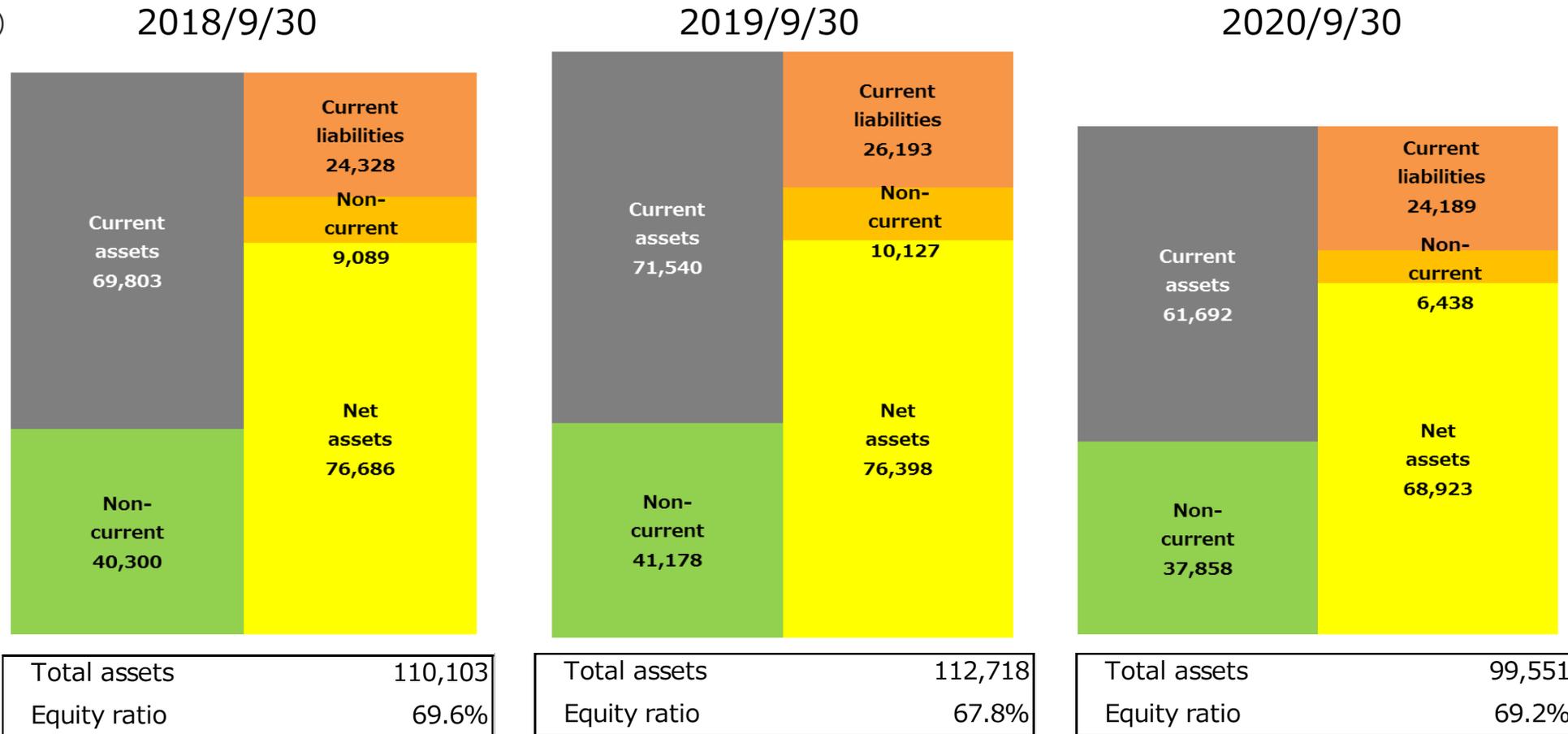
# Balance Sheets (Consolidated)



1. 2Q FY2020 (1) Financial Summary

**Total assets decreased.**  
**Current assets declined due to the following reasons;**  
 -Transfer of shares of Inov-8, which was a subsidiary until the previous fiscal year  
 -Impact of foreign exchange rates (Approx. JPY▲1.7 billion)  
 -Decrease in sales in Japan and South Korea

(Unit: JPY million)



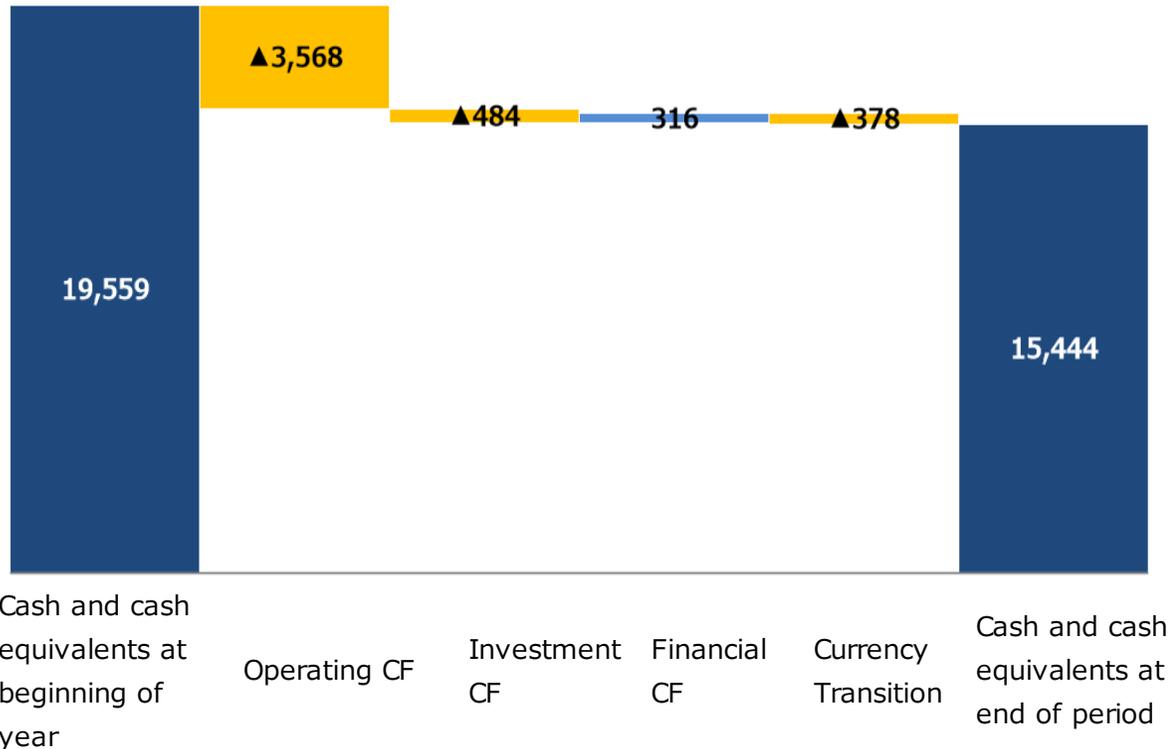
# Cash Flow (Consolidated)



1. 2Q FY2020 (1) Financial Summary

**Operating CF was ▲JPY 3.5billion, Investment CF was ▲JPY 0.4billion, and Financial CF was +JPY 0.3billion due to new borrowing (JPY 3.0billion) in response to the spread of COVID-19.**

(Unit: JPY million)



## Compared to the beginning of FY2020 ▲4,114m

**CF from operating activities ▲3,568m**

(YoY ▲7,042m)

EBITDA<sup>※1</sup> +892m

Changes in working capital<sup>※2</sup> ▲4,059m

**CF from investing activities ▲484m**

(YoY +750m)

Purchase of property, plant and equipment ▲957m

Purchase of intangible assets ▲228m

**CF from financing activities +316m**

(YoY +3,974m)

Repayment of lease obligations ▲1,223m

Repayment of loans payable +1,570m

※1 EBITDA = Income before income taxes + Depreciation

※2 Working capital is the change in notes and accounts receivable-trade, inventories and notes and accounts payable-trade

## **1. 2Q FY2020**

(1) Financial Summary

**(2) Brand Review**

(3) Area Review

(4) Number of Stores

## **2. Plan for FY2020**

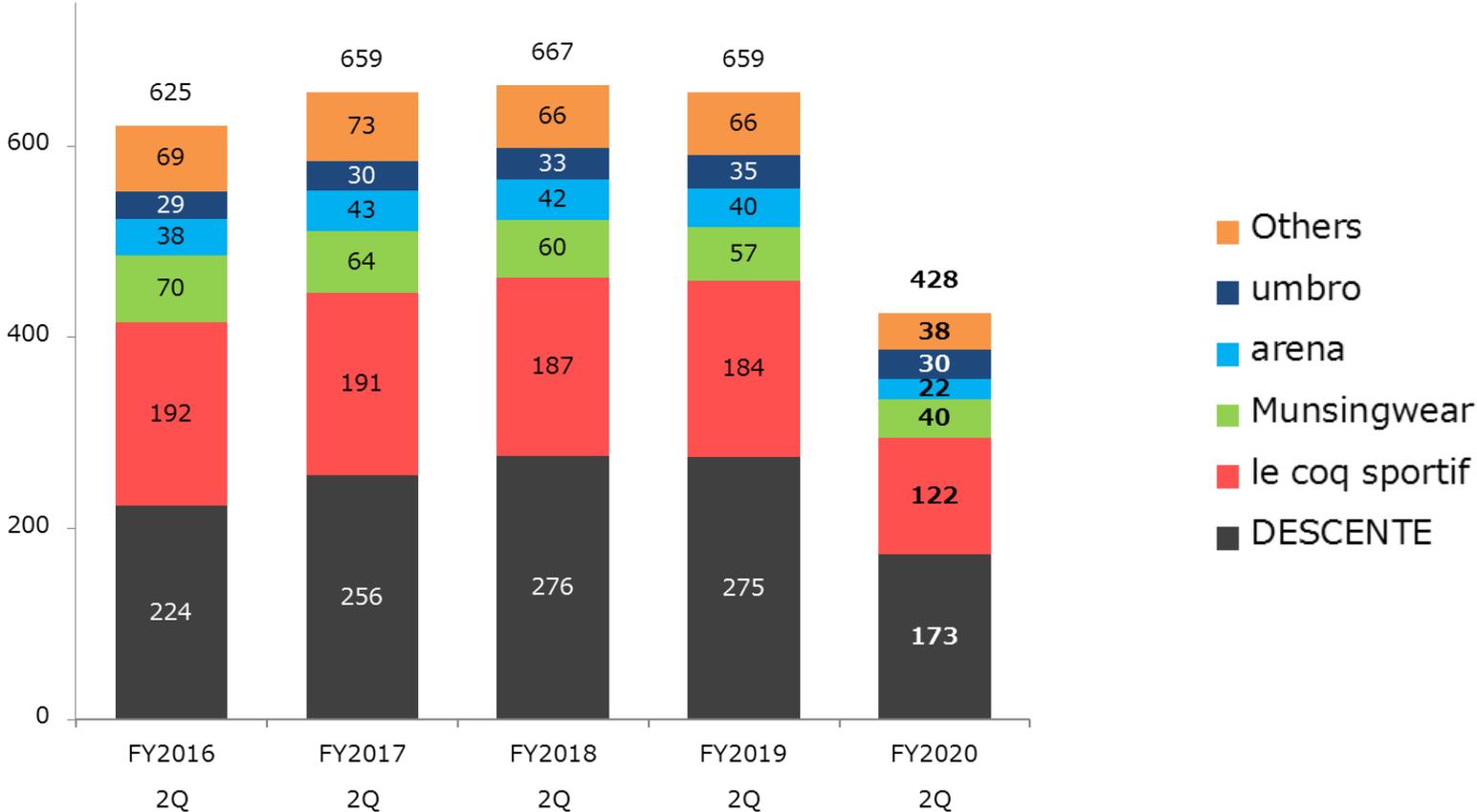
# Brand Sales (Consolidated)



1. 2Q FY2020 (2) Brand Review

**Sales of all brands decreased due to the spread of COVID-19, but sales of “umbro” in South Korea exceeded the same period of the previous year.**

(Unit: JPY 0.1 billion)



Note: FY2020=FY ending March 31, 2021

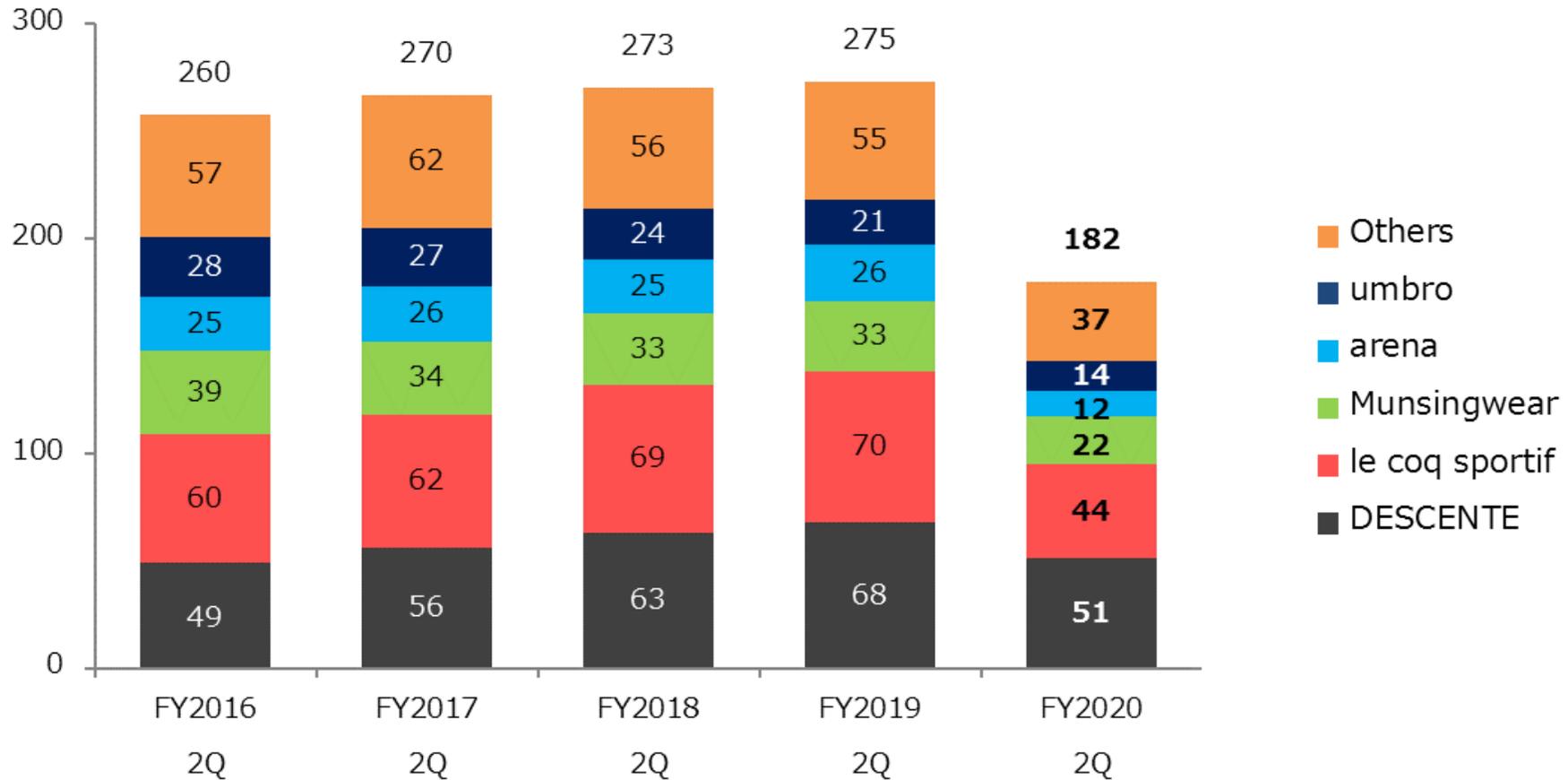
# Brand Sales (Japan)



1. 2Q FY2020 (2)Brand Review

- Despite a significant decrease in sales, the decline stopped after July and business conditions have been on a recovery trend.
- Sales of “DESCENTE” golf category grew +27% YoY.

(Unit: JPY 0.1 billion)



Note: FY2020=FY ending March 31, 2021

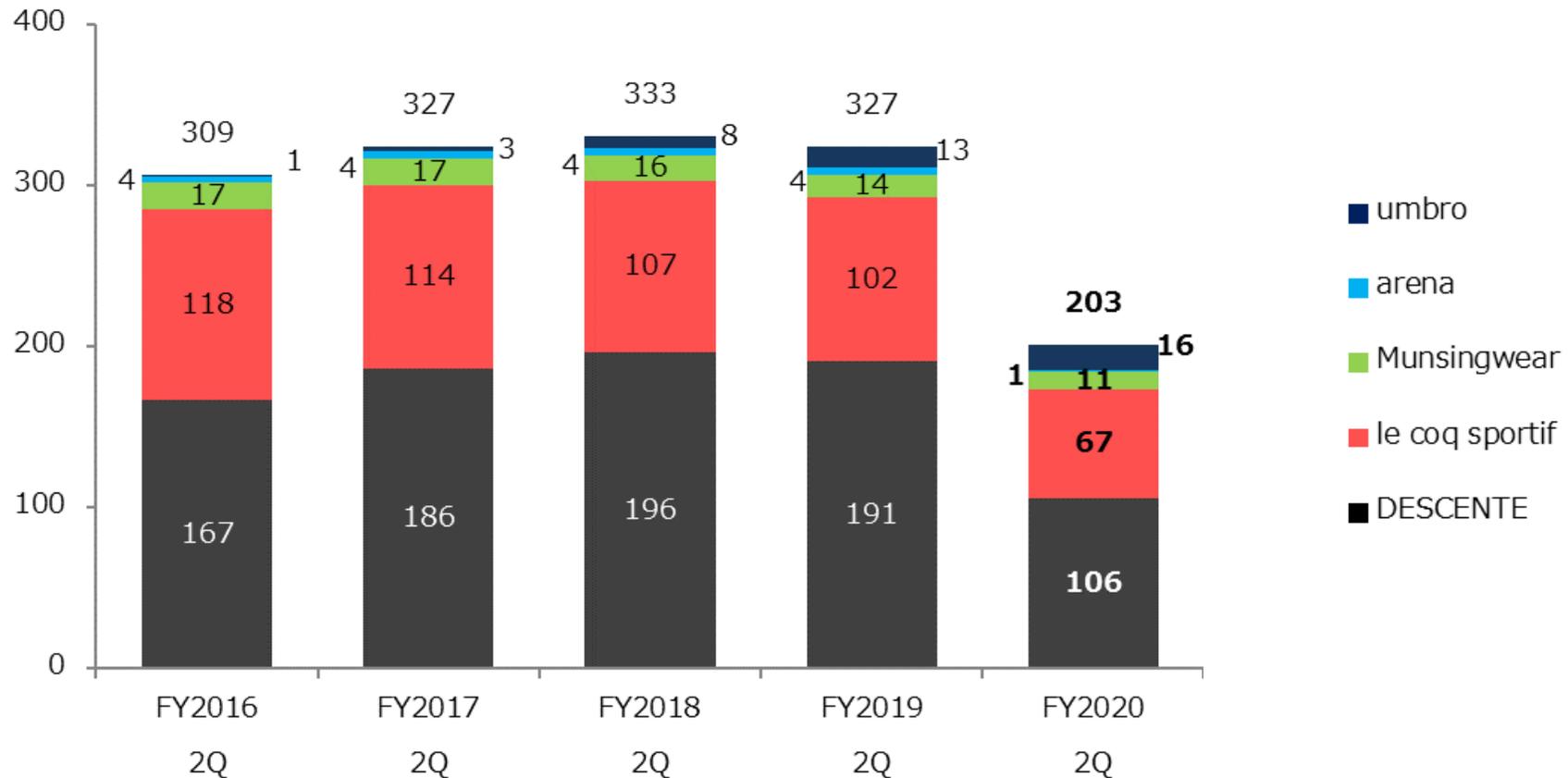
# Brand Sales (South Korea)



1. 2Q FY2020 (2)Brand Review

- In addition to the impact of foreign exchange rates (▲JPY 1.5billion), sales decreased significantly after April due to the spread of COVID-19.
- “umbro” continues to grow.

(Unit: JPY 0.1 billion)



Note: FY2020=FY ending March 31, 2021

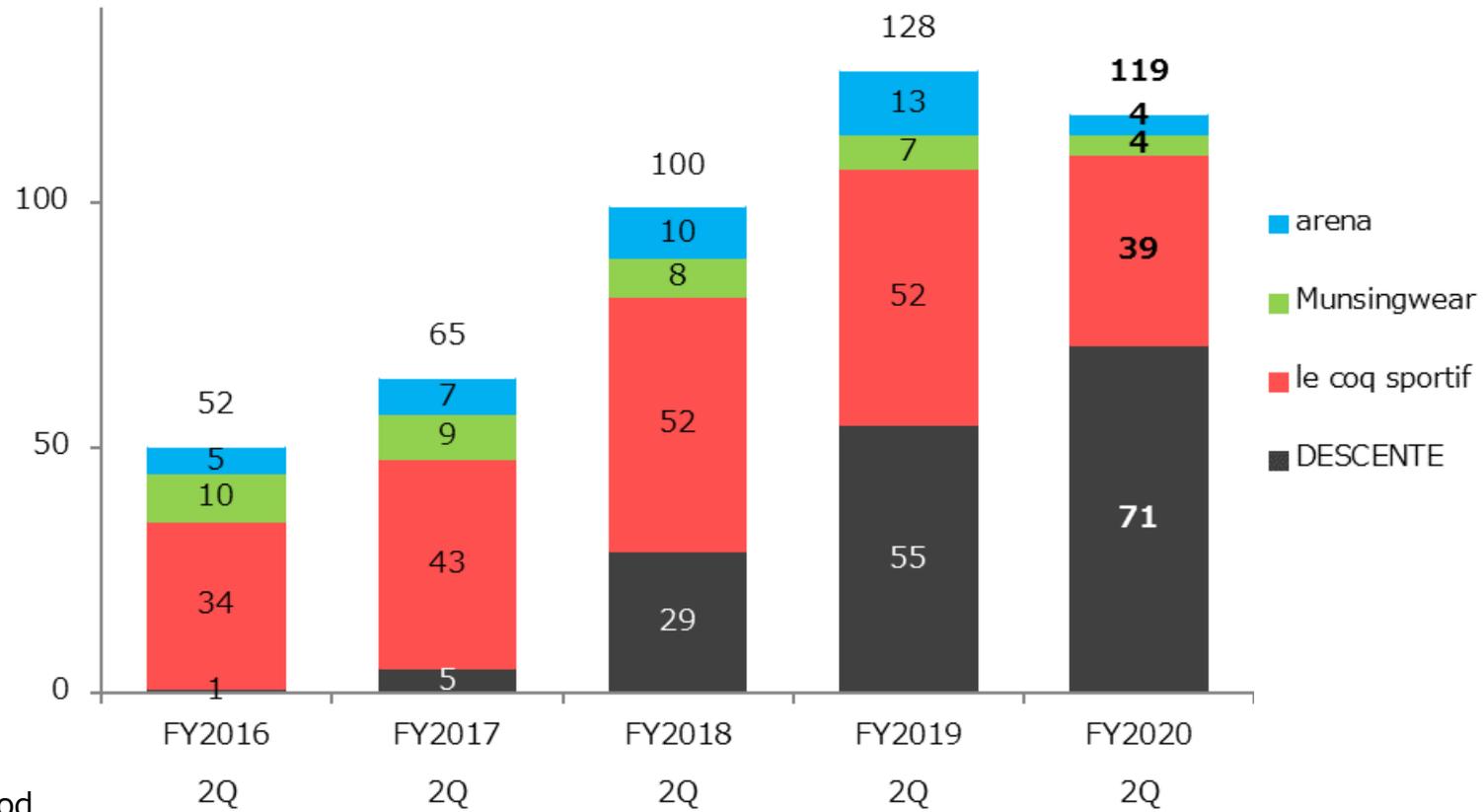
# Combined Local Sales\* (China excl. Taiwan)



1. 2Q FY2020 (2) Brand Review

Despite the impact of the spread of COVID-19, "DESCENTE" brand continues to grow at +40% YoY on a local currency basis, with significant revenue growth.

(Unit: JPY 0.1 billion)

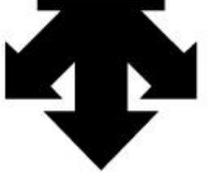


Note:  
 FY2020=FY ending March 31, 2021  
 Combined Local Sales\*  
 =sales of local subsidiary  
 +sales of local JVs under equity method  
 -sales from local subsidiary to local JVs

# Affiliated Companies in China: Summary



Company Name	SHANGHAI DESCENTE COMMERCIAL CO., LTD.	LE COQ SPORTIF (NINGBO) CO., LTD	DESCENTE (CHINA) CO., LTD	ARENA(SHANGHAI)INDUSTRIAL CO.,LTD	HONG KONG DESCENTE TRADING, LTD
<b>Location</b>	Shanghai, China	Ningbo, China	Shanghai, China	Shanghai, China	Hong Kong
<b>Incorporated</b>	August, 2005	February, 2004	July, 2016	December, 2016	November, 2003
<b>Fiscal Year</b>	December	December	December	December	December
<b>Relations</b>	Consolidated subsidiary	Affiliated Companies Accounted for under the Equity Method	Affiliated Companies Accounted for under the Equity Method	Affiliated Companies Accounted for under the Equity Method	Consolidated subsidiary
<b>Investment Ratio</b>	100%	40%	30%	30%	100%
<b>Other Investors/ Investment Ratio</b>		ShanShan group 50% Itochu group 10%	ANTA group 60% Itochu group 10%	Symphony Holdings Limited 70%	
<b>Brands</b>					
<b>Business</b>	Munsingwear: product planning, development, production, selling Arena: product planning, development, production	product planning, development, production, and selling	product planning, development, production, and selling	Selling	Selling
<b>Royalty</b>	Pay royalty to DESCENTE LTD.	Pay royalty to DESCENTE LTD.	Pay royalty to DESCENTE GLOBAL RETAIL LTD.	NO royalty payment (Buy all products from SHANGHAI DESCENTE COMMERCIAL CO., LTD.)	Pay royalty to DESCENTE LTD.
<b>Segment</b>	China	Not included	Not included	Not included	China
<b>Area</b>	China	Not included	Not included	Not included	China, Other Asia



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## **1. 2Q FY2020**

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## **2. Plan for FY2020**

# Japan: Promote DTC Business Expansion



1. 2Q FY2020 (3) Area Review

- **Inhouse online sales increased +90% YoY.**
- **Our first inhouse digital media platform ULLR MAG. was launched.**
- **DESCENTE and arena SNS's followers grow steadily, and the number of visitors to the online store also grows.**



Some online store's limited campaigns were carried out, such as sending products in a box with an original illustration.



ULLR MAG. posts original contents which attract new customers and promotes the expansion of sales in directly managed stores and online stores by increasing contact points with customers.

# South Korea: Continuing topical activities and events



1. 2Q FY2020 (3) Area Review



- The sneaker “Toby” was popular following the hit sneaker “Bumpy”.
- Expand online sales by selling at the largest select online store “MUSINSA” in South Korea.



Acquire new customers who are highly interested in fashion by utilizing influencers and celebrities who have a strong influence on SNS.

“umbro” hit products in MUSINSA  
1: Trendy loose-fitting shorts  
2: Collaboration products with a popular fashion YouTuber

# China: Aiming to Increase Earnings as a Key Market



1. 2Q FY2020 (3) Area Review

- Stores of “DESCENTE” golf category will continue to open.
- Online sales increased in “DESCENTE” and “le coq sportif”, and “Munsingwear”.



“DESCENTE” golf category store opened in May (Beijing SKP)



618 sale of “Munsingwear” held at Tmall  
Total sales of Tmall and JD.com grew +70% YoY

# Enhance our Manufacturing Capabilities (Japan)



1. 2Q FY2020 (3) Area Review



- Items against hot weather were focused by media and exposure was expanded.
- “DESCENTE Athletic Mask” was released in September and sold out on inhouse online store.



Items developed jointly with Sharp Corporation and WINGATE.

CORE COOLER: cools palms at an appropriate temperature

FACE GUARD: cools cheeks



Originally developed mask designed to make it easier to breath even during exercise such as running.

# Enhance our Manufacturing Capabilities (South Korea)



1. 2Q FY2020 (3) Area Review

Launched running shoes utilizing the know-how of the shoe R&D center "DISC BUSAN".



ENERZITE WING+  
Running shoes utilizing the know-how of  
DISC BUSAN and developed jointly with shoe  
manufacturers.



DISC BUSAN is developing molds measuring  
many Korean foot shape.

- Launched “RE:DESCENTE” as a challenge for sustainable manufacturing.
- Implemented the first customized service for Mizusawa Down, a representative product of “DESCENTE” brand.

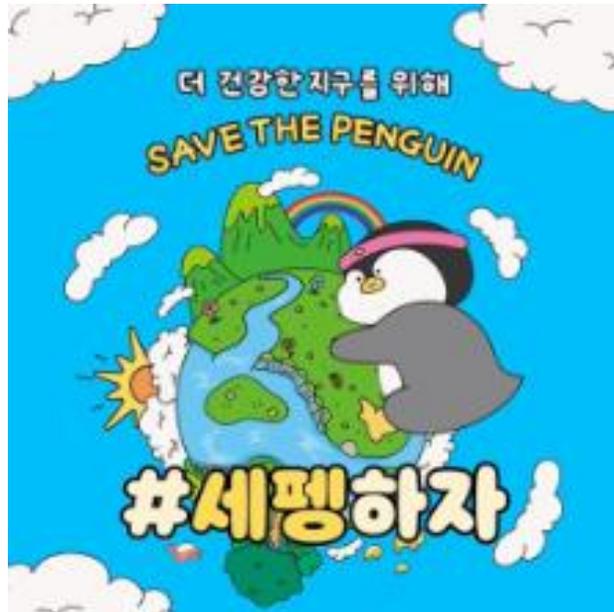


Development of products using biodegradable materials that decompose naturally series and recycled polyester made by recycling collected clothing.

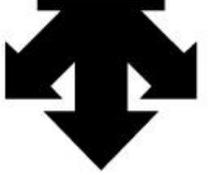


Our desire “Use your own one for a long time”  
Customized service of Mizusawa Down in a limited quantity.

Continue the “Save the penguin” campaign across the entire company.



Promote “Protect the Environment with Sports” activity through SNS. Pouches made by effectively using the fabric were presented as free gift to customers who purchase the products during the campaign.



## **1. 2Q FY2020**

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**(4) Number of Stores**

## **2. Plan for FY2020**

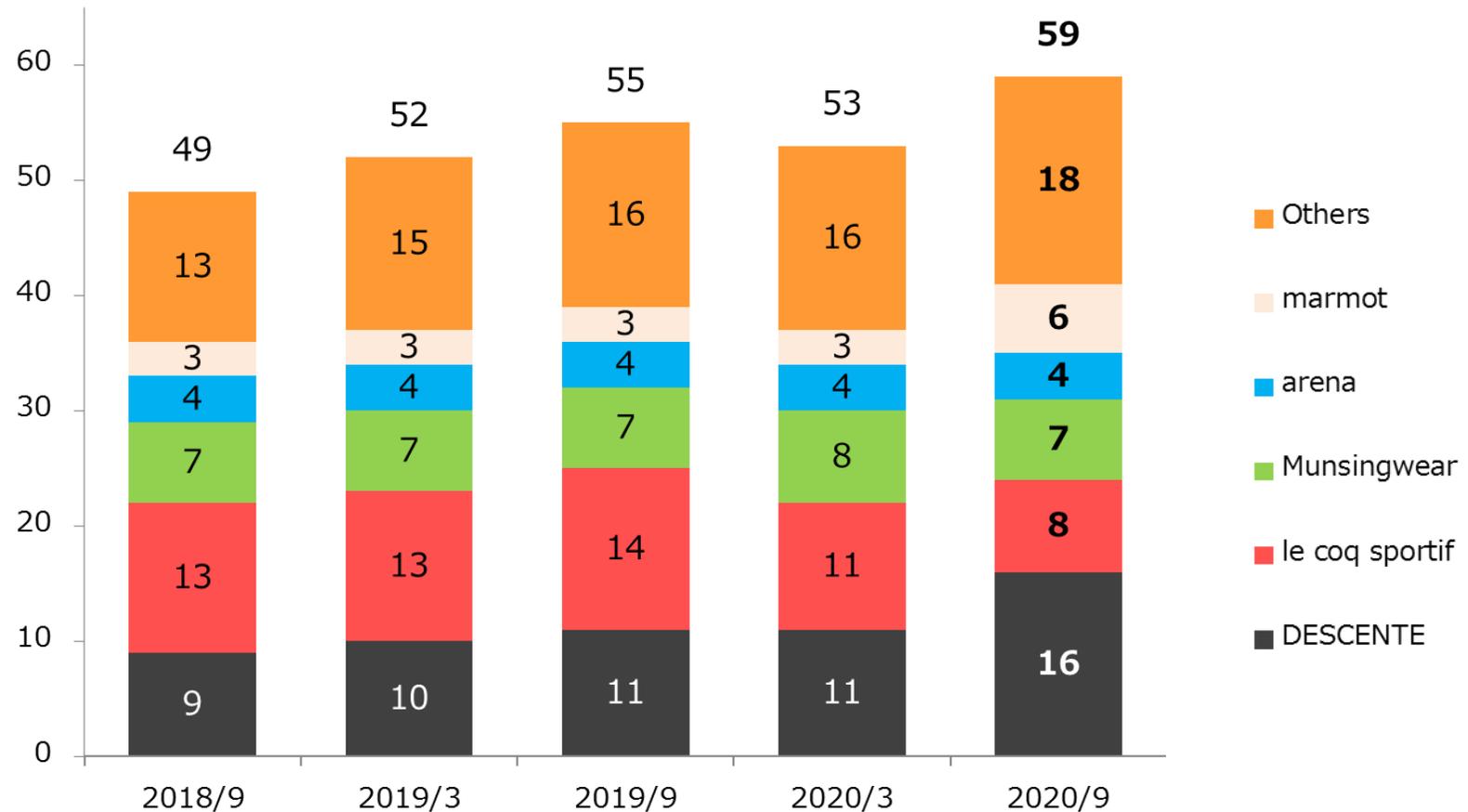
# Number of Stores in Japan (Directly Managed Stores)



1. 2Q FY2020 (4) Number of Stores

Opened both retail and outlet stores, mainly "DESCENTE" brand stores.

※Including outlets

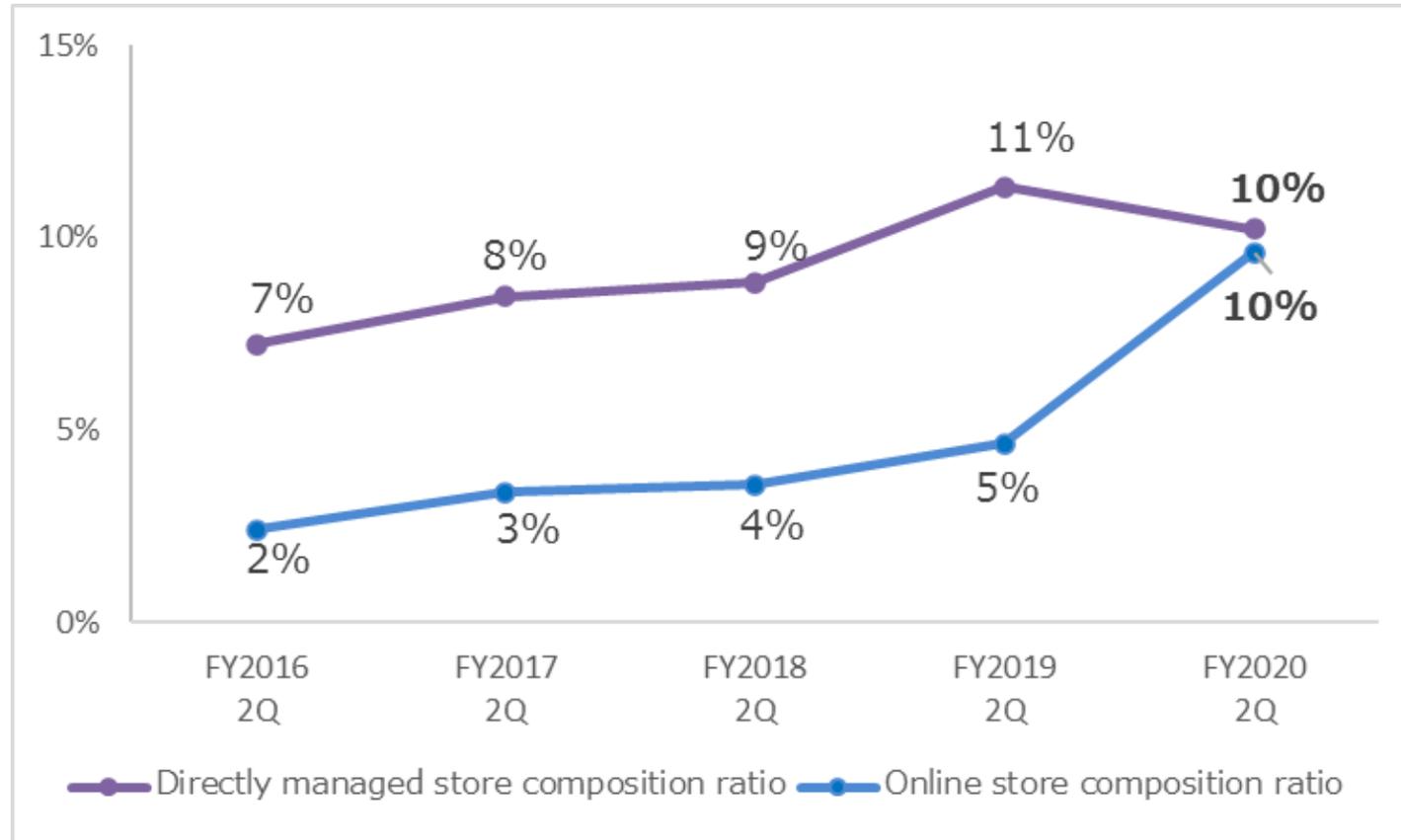


# Directly managed stores/Online stores sales composition ratio in Japan



1. 2Q FY2020 (4)Number of Stores

- Sales of Inhouse online store has doubled YoY, partly due to a decrease in sales at real stores by the impact of COVID-19.
- Continue to aim to expand the sales composition ratio of directly managed stores/online stores.



Note: FY2020=FY ending March 31, 2021

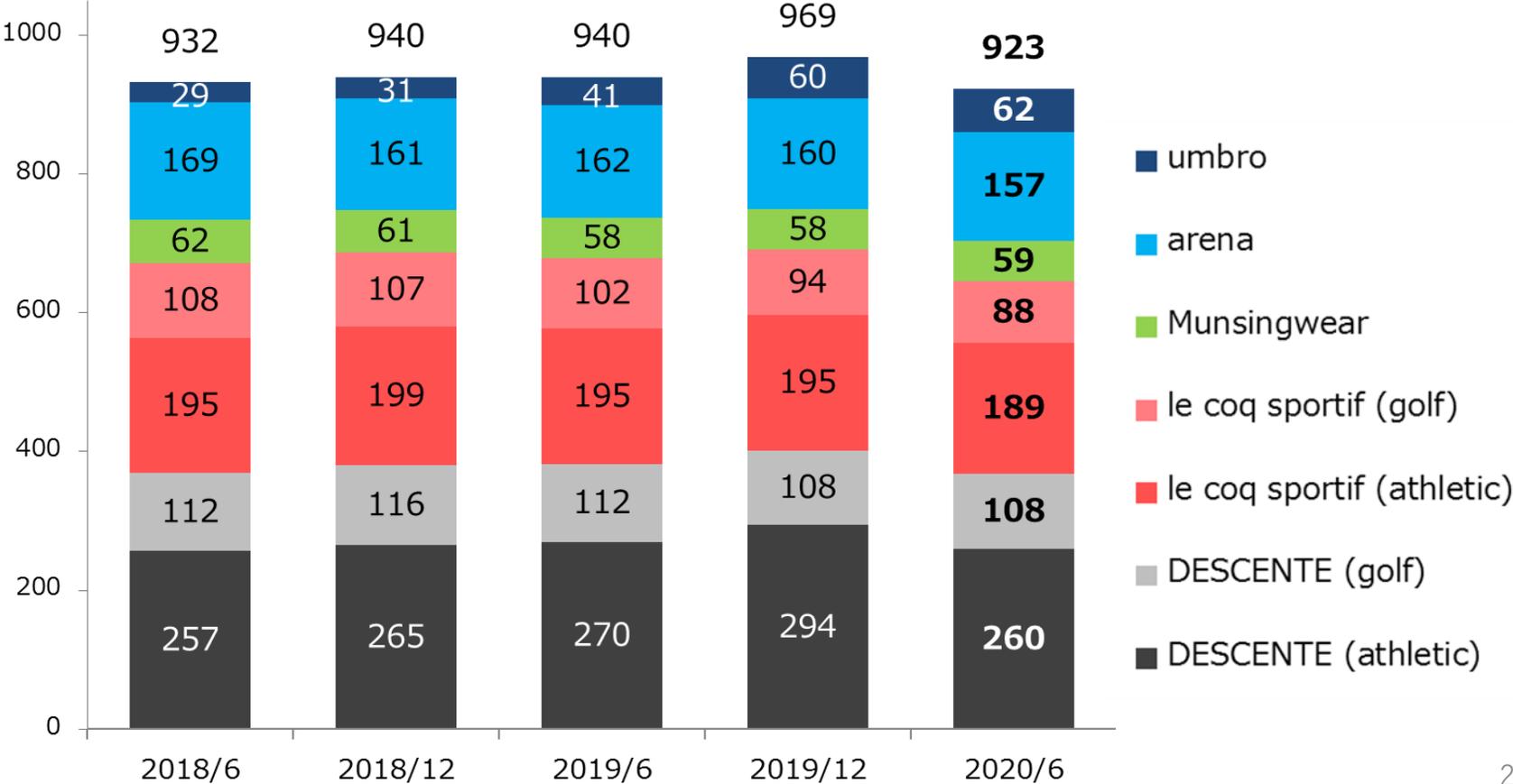
# Number of Stores in South Korea



1. 2Q FY2020 (4) Number of Stores

**Total number of stores decreased due to closing mainly “DESCENTE” Young Athletes stores.**

※Including stores of commercial agents and outlets



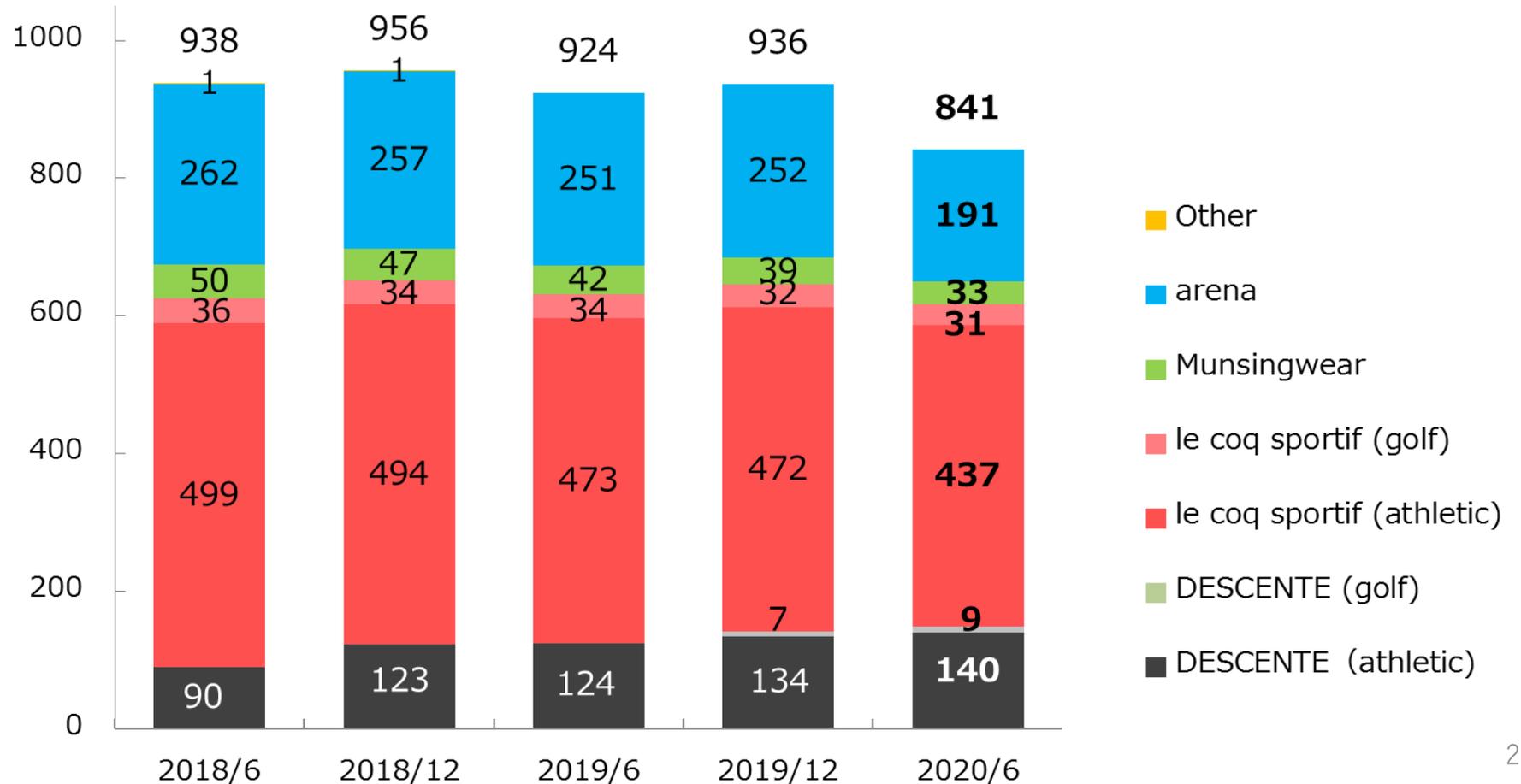
# Number of Stores in China (incl. Hong Kong)



1. 2Q FY2020 (4) Number of Stores

**“DESCENTE” will continue to open stores, with a total of about 190 stores planned by the end of December, 2020.**

※Including stores of commercial agents and outlets.



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## 1. 2Q FY2020

(1) Financial Summary

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## 2. Plan for FY2020

# FY2020 Earnings Forecast



2. Plan for FY2020

Although the results for the first half of the year exceeded the initial forecast, the full-year plan remains unchanged because the outlook for the business impact of the COVID-19 remains uncertain.

(Unit: JPY million)	FY2018	FY2019	FY2020	
			Full Year	YoY
Net sales	142,443	124,561	101,000	▲19%
Operating income	7,935	379	500	+32%
(%)	5.6%	0.3%	0.5%	
Ordinary income	8,458	456	550	+21%
(%)	5.9%	0.4%	0.5%	
Profit attributable to owners of parent	3,944	▲ 2,481	5,000	-
(%)	2.8%	▲ 2.0%	5.0%	

Predicted Exchange Rate : USD107.71、100KRW8.79、CNY15.14、HKD13.91、SGD76.46

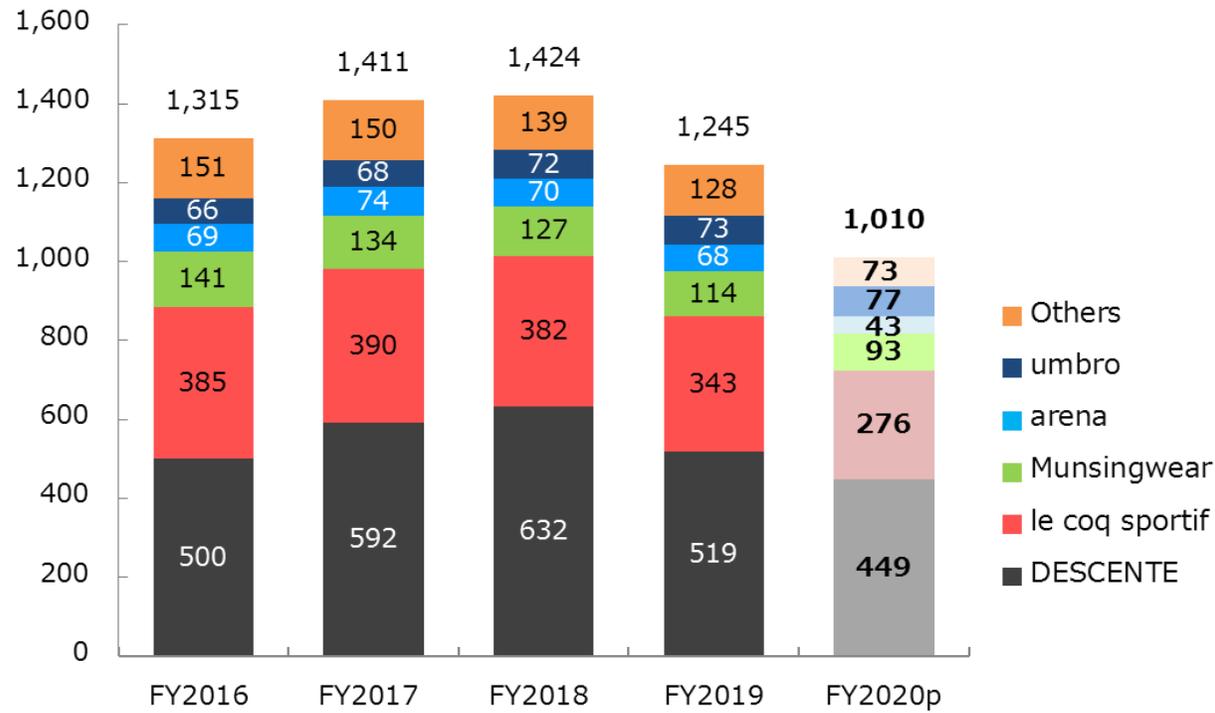
# Sales Plans by Brand and Segment



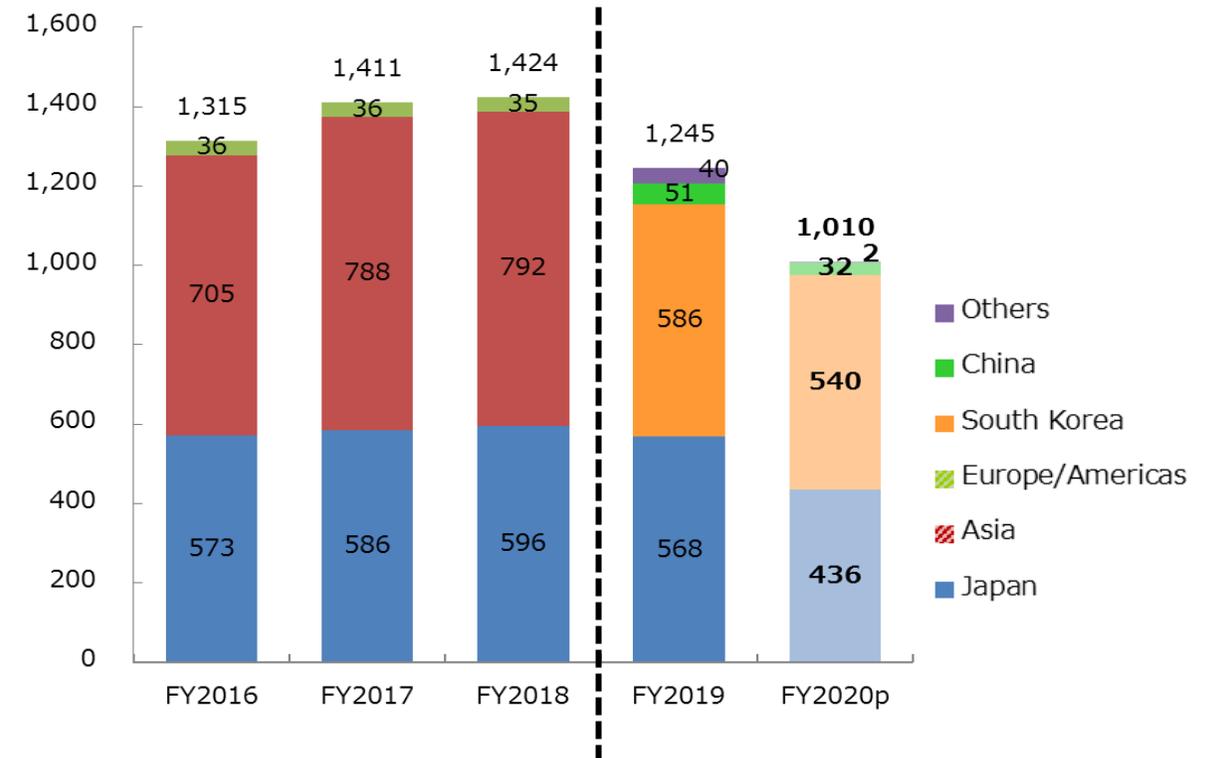
2. Plan for FY2020

Both the sales plans for each brand (other than the "umbro") and for each segment decrease due to COVID-19 infection.

Unit: JPY 0.1 billion



Unit: JPY 0.1 billion



Segment has changed

Note: FY2020=FY ending March 31, 2021

# FY2020 Dividends and Payout Ratio Forecast



2. Plan for FY2020

Considering the situation of borrowing from financial institutions due to COVID-19 infection, dividend amount is undecided at this time and will be announced promptly after making decision.

(Unit: JPY Million)	FY2016	FY2017	FY2018	FY2019	FY2020 Plan
Dividends	1,732	1,733	1,960	—	TBD
Amount/share	JPY23.0	JPY23.0	JPY26.0	—	TBD
Profit attributable to owners of parent (Consolidated)	5,650	5,771	3,944	▲ 2,481	5,000
Payout ratio	30.7%	30.0%	49.7%	—	TBD

## Exchange Rates Used

		USD	100KRW	CNY	HKD	SGD	GBP
FY2020	4Q YTD plan	107.71	8.79	15.14	13.91	76.46	-
	2Q YTD	107.48	8.95	15.32	13.95	77.30	-
	1Q YTD	108.36	9.05	15.53	14.04	78.32	139.10
FY2019	4Q YTD	109.24	9.41	15.82	13.95	80.12	139.49
	3Q YTD	109.19	9.42	15.91	13.93	80.01	138.72
	2Q YTD	109.92	9.62	16.23	14.03	81.01	142.37
	1Q YTD	111.26	9.85	16.44	14.06	81.70	145.20
FY2018	4Q YTD	110.34	10.04	16.64	14.08	81.71	146.73
	3Q YTD	110.07	10.05	16.77	13.98	81.66	147.94
	2Q YTD	108.81	10.05	17.01	13.84	81.54	148.83
	1Q YTD	107.60	10.04	17.03	13.72	81.67	150.68
FY2017	4Q YTD	111.59	10.00	16.63	14.37	81.47	145.34
	3Q YTD	111.70	9.88	16.47	14.35	80.77	143.62
	2Q YTD	111.51	9.89	16.37	14.41	80.22	142.26
	1Q YTD	111.95	9.91	16.43	14.53	80.13	
FY2016	4Q YTD	108.82	9.41	16.38	14.10	79.04	147.28
	3Q YTD	107.02	9.39	16.46	14.01	79.29	150.70
	2Q YTD	109.02	9.46	16.98	14.39	81.14	158.89
	1Q YTD	112.00	9.63	17.57	14.89	82.83	164.26

Disclaimer: The contents of the business plan and the future objectives described in this document are based on information currently available and therefore contain an element of uncertainty and potential risk. Please be advised there is a possibility that actual results may be affected by a number of factors and may differ materially from what is described.

1Q YTD = First 3 months of FY  
 2Q YTD = First 6 months of FY  
 3Q YTD = First 9 months of FY  
 4Q YTD = Full FY

Note: FY2020 = FY ending March 31, 2021

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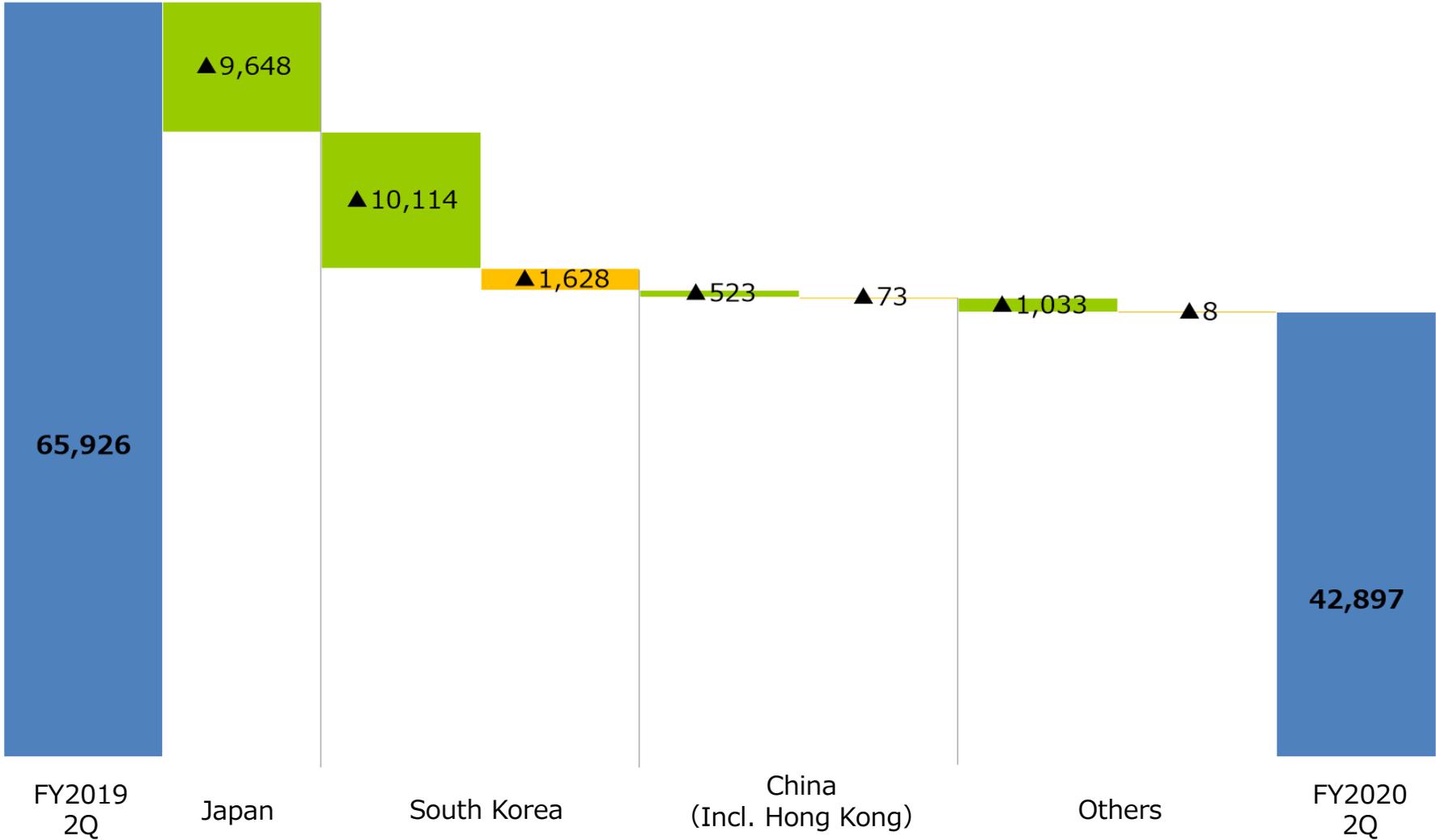
# **2Q FY2020 Reference**

## **(Quarterly Sales and Operating Income by Segment)**

# Net Sales (YoY)



(Unit: JPY million)

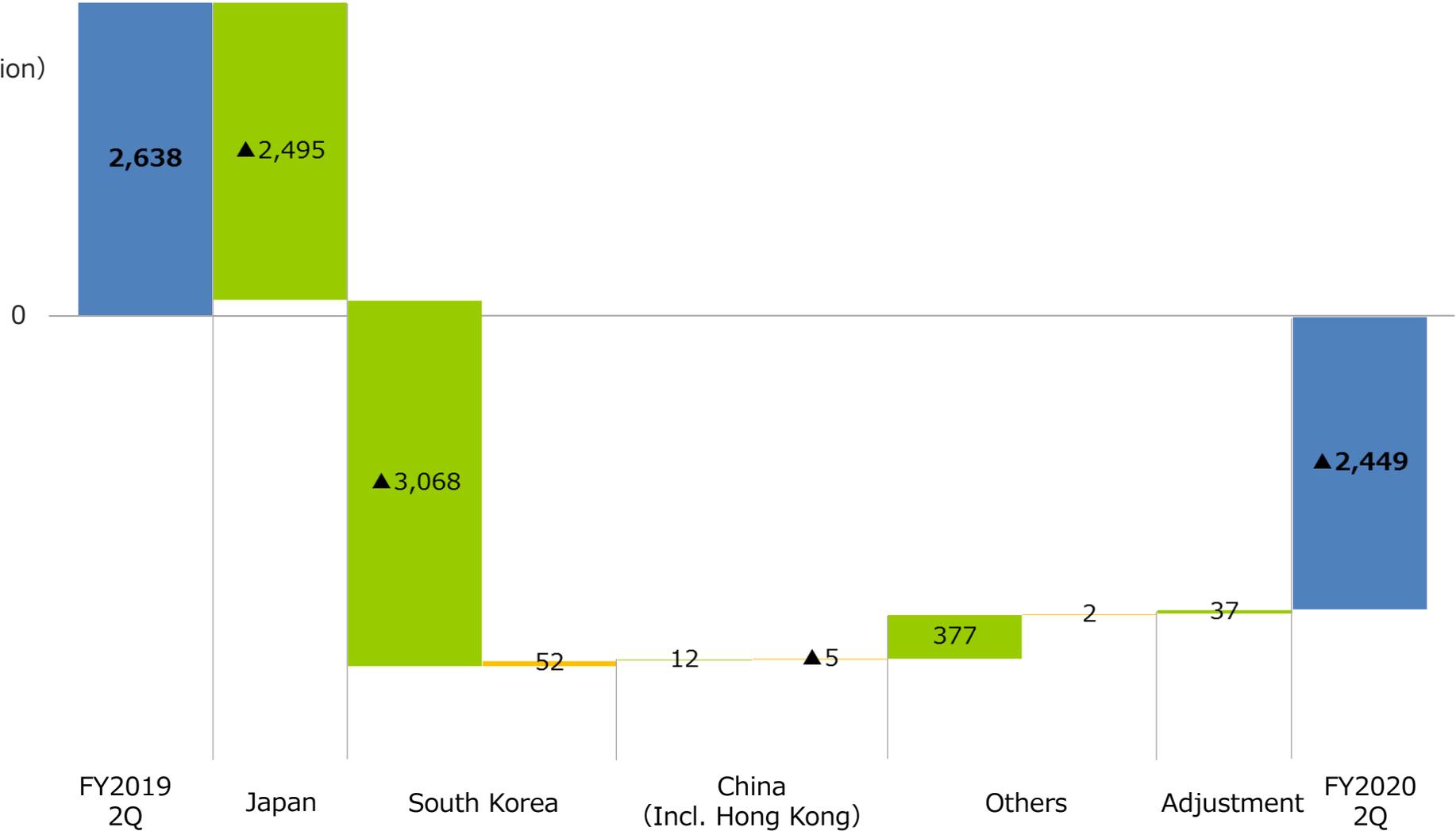


Note: FY2020=FY ending March 31, 2021

# Operating Income (YoY)



(Unit: JPY million)



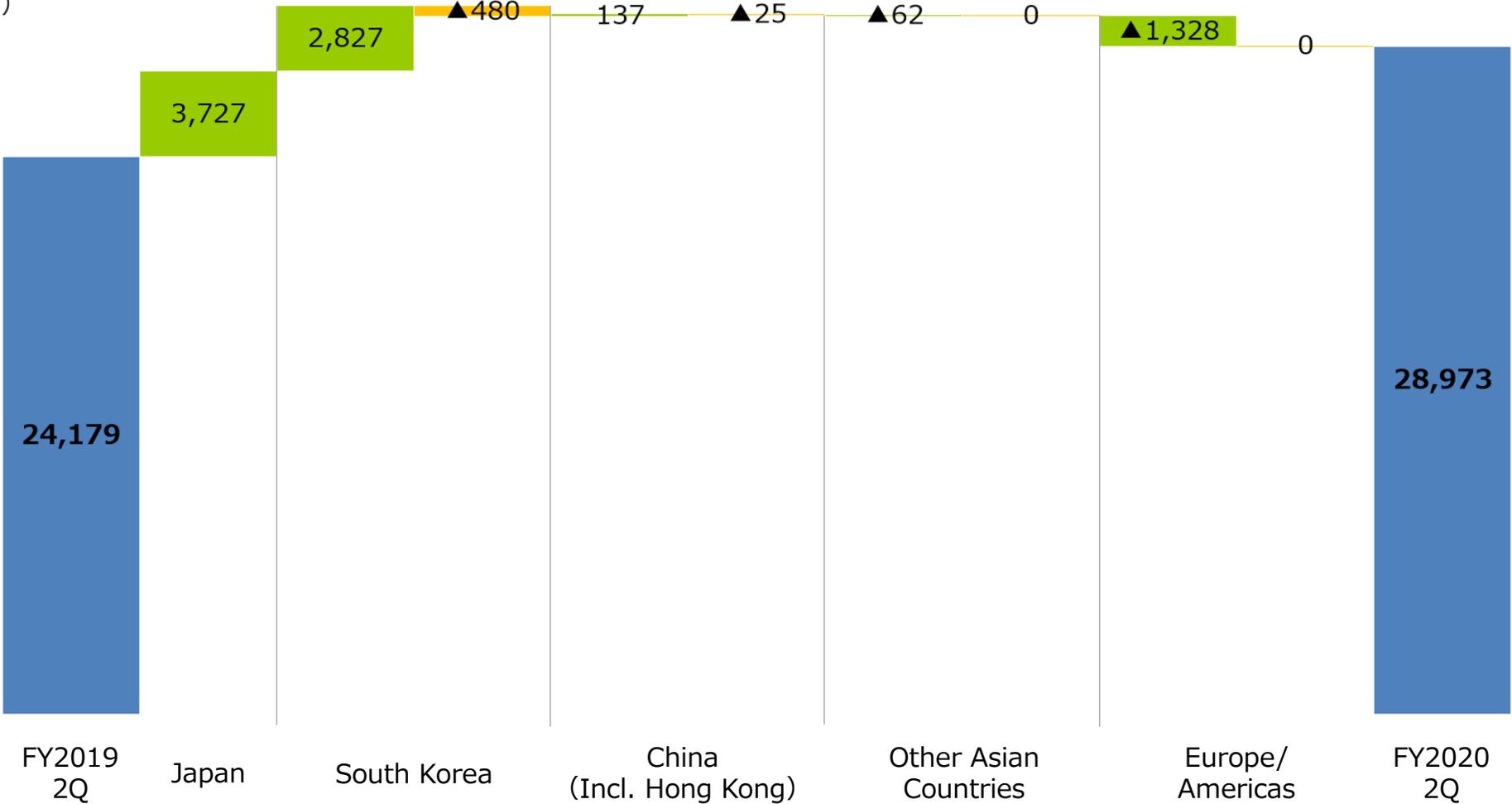
Note: FY2020=FY ending March 31, 2021

Operating income    Actual Gain / Loss    Forex Effect

# Inventory (YoY)



(Unit: JPY million)



Note: FY2020=FY ending March 31, 2021

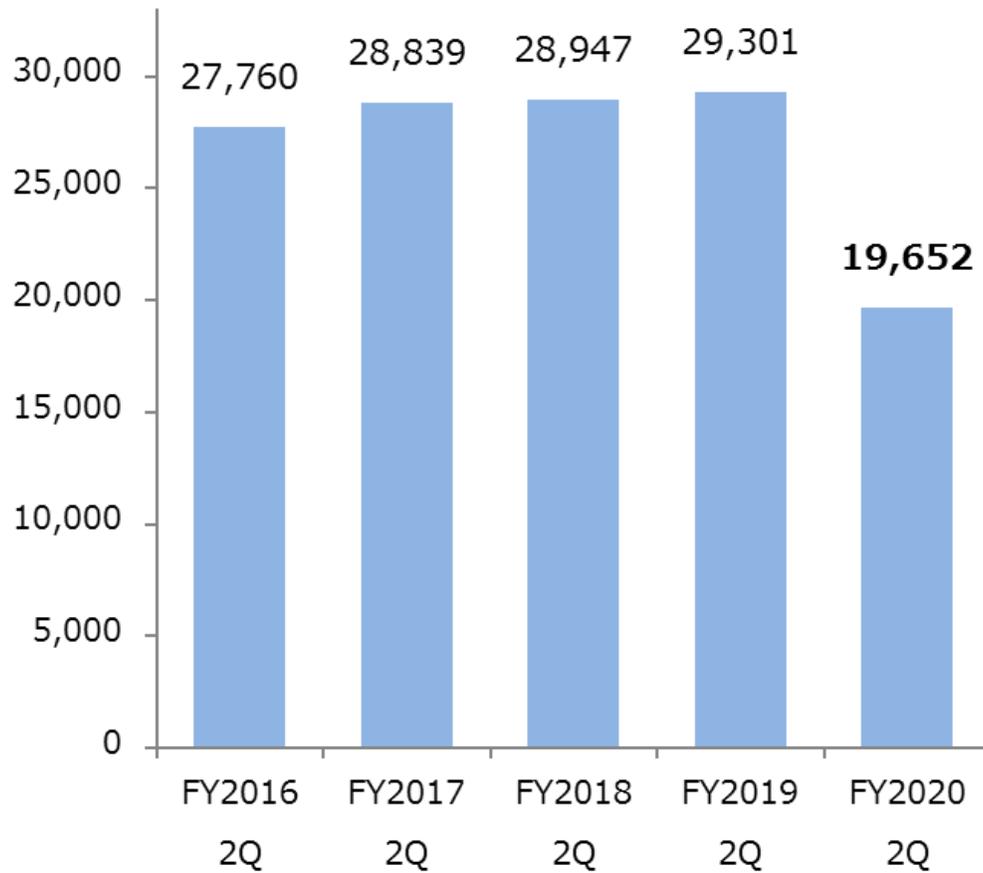
■ Inventories    
 ■ Actual Gain / Loss    
 ■ Forex Effect

# Net Sales and Operating Income (Japan Segment)



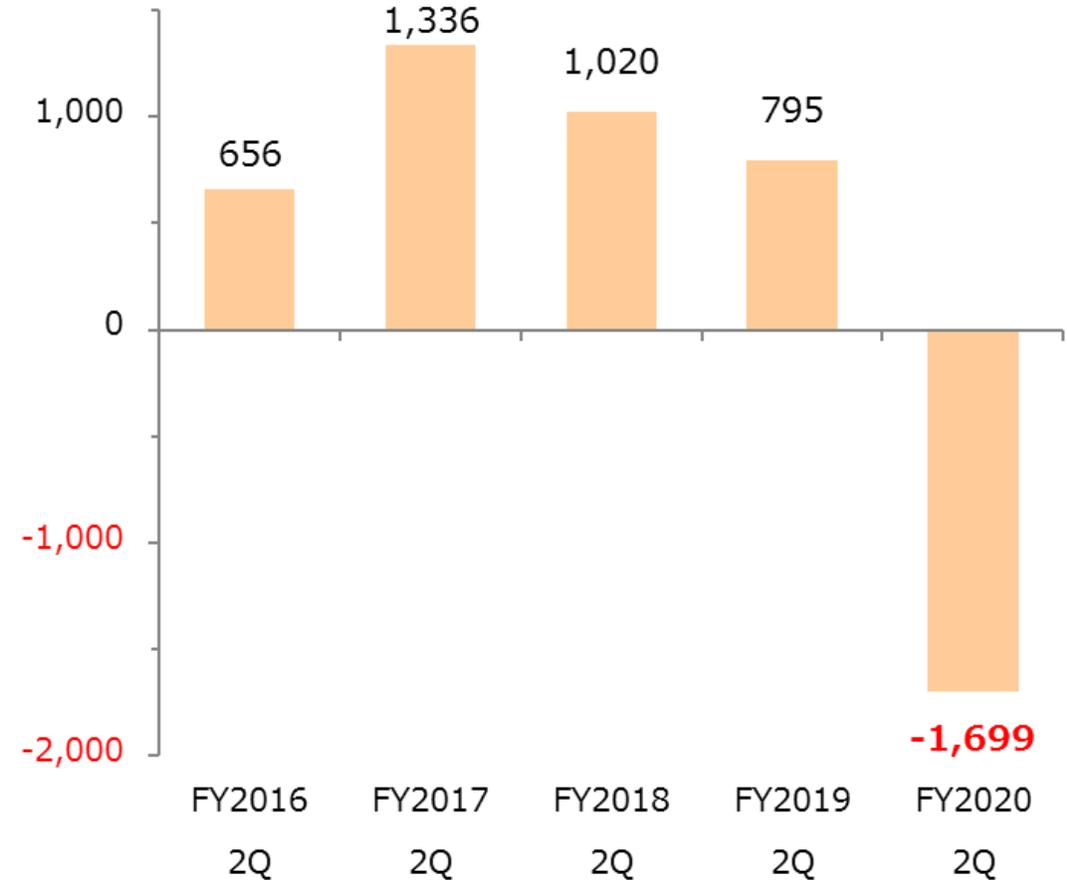
## Net Sales

(Unit: JPY million)



## Operating Income

(Unit: JPY million)



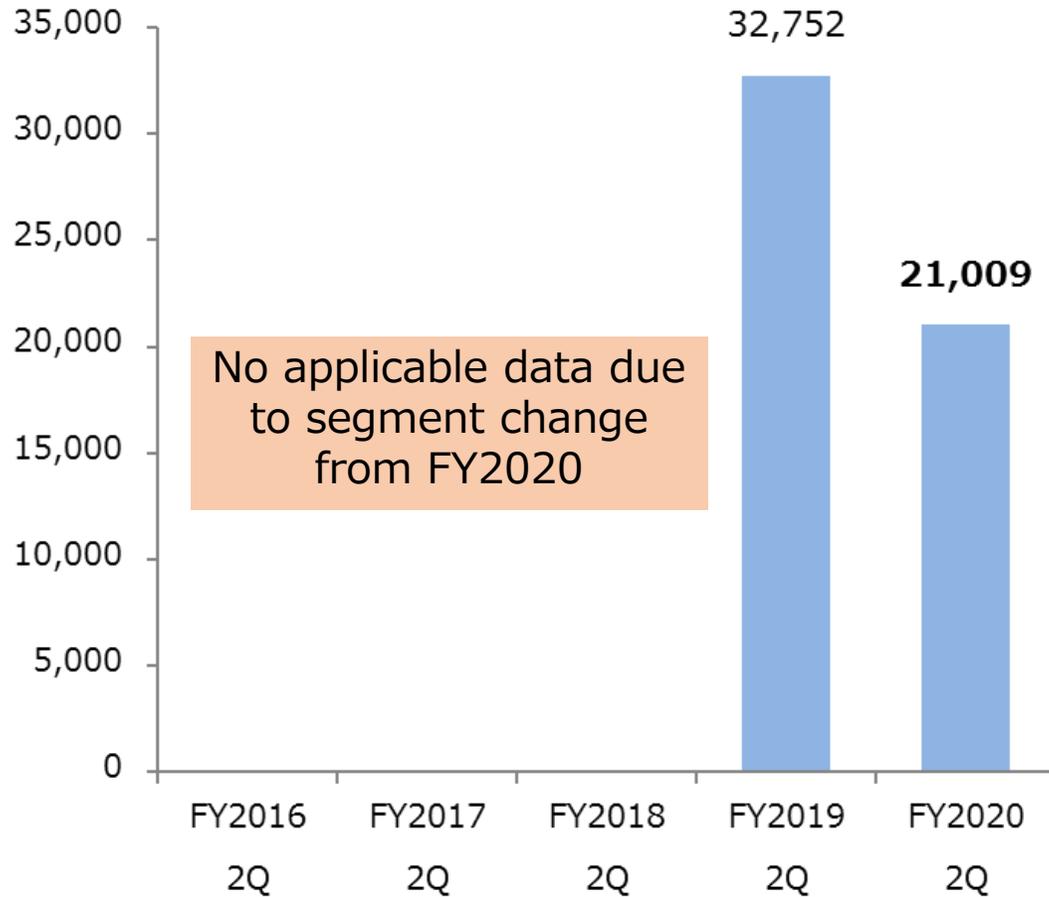
Note: FY2020=FY ending March 31, 2021

# Net Sales and Operating Income (South Korea Segment)



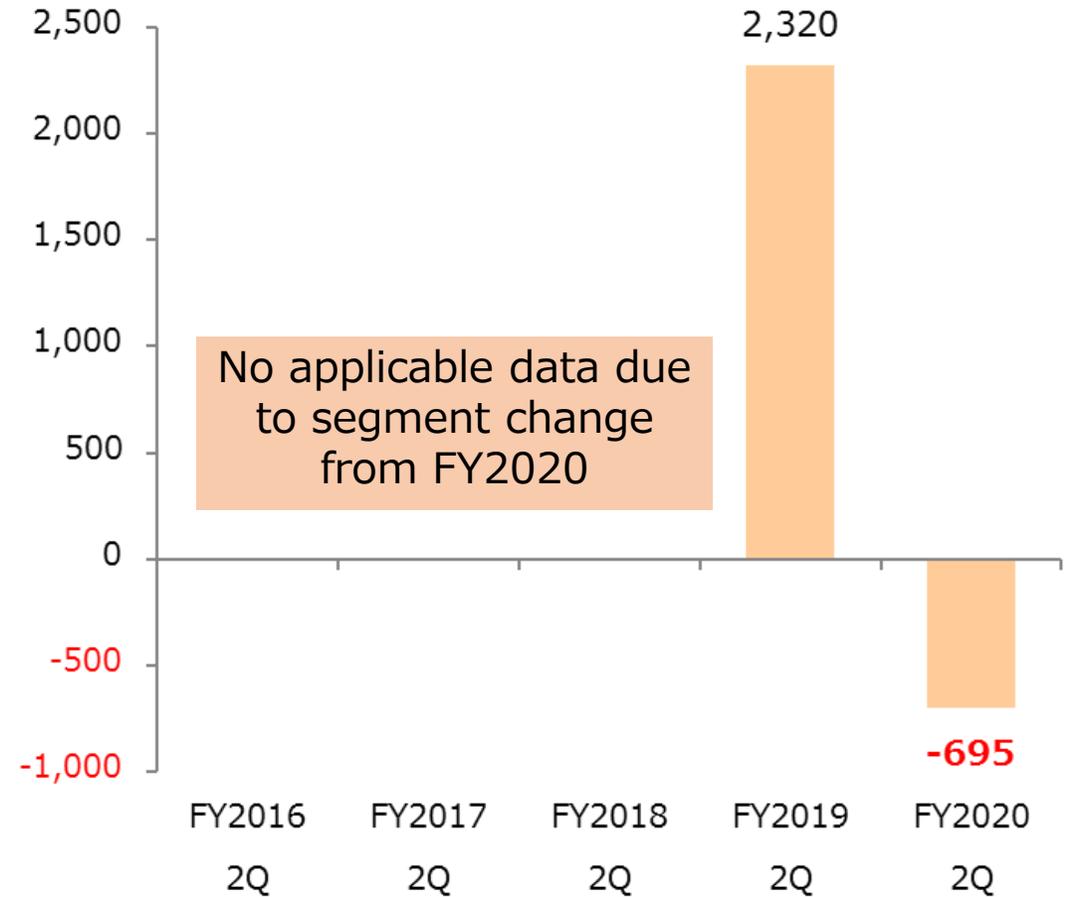
## Net Sales

(Unit: JPY million)



## Operating Income

(Unit: JPY million)



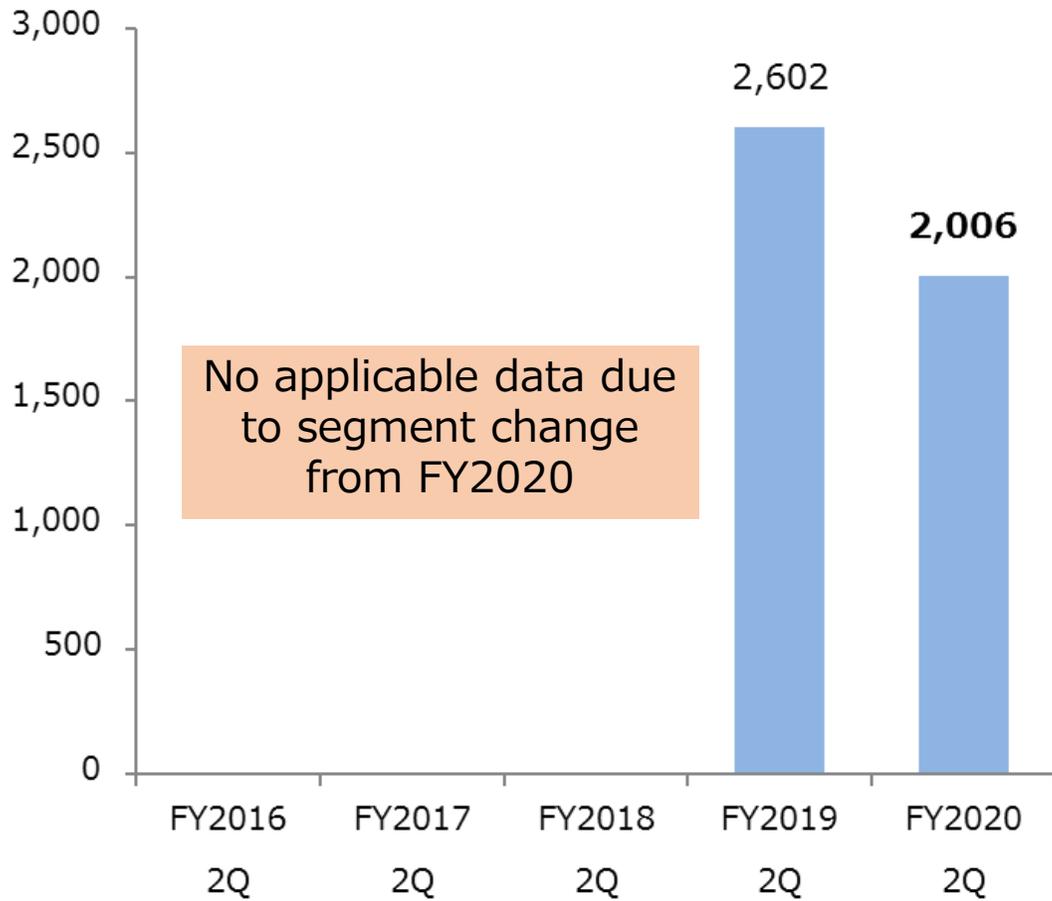
Note: FY2020=FY ending March 31, 2021

# Net Sales and Operating Income (China Segment)



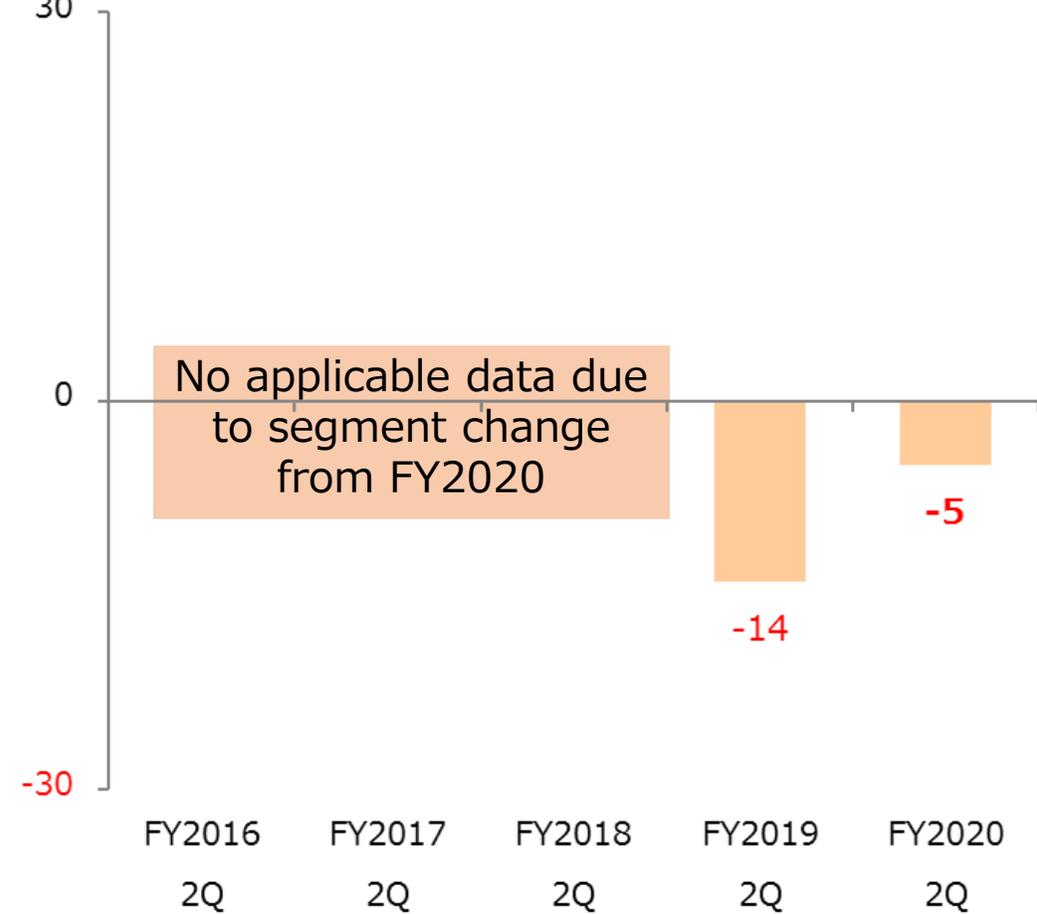
## Net Sales

(Unit: JPY million)



## Operating Income

(Unit: JPY million)

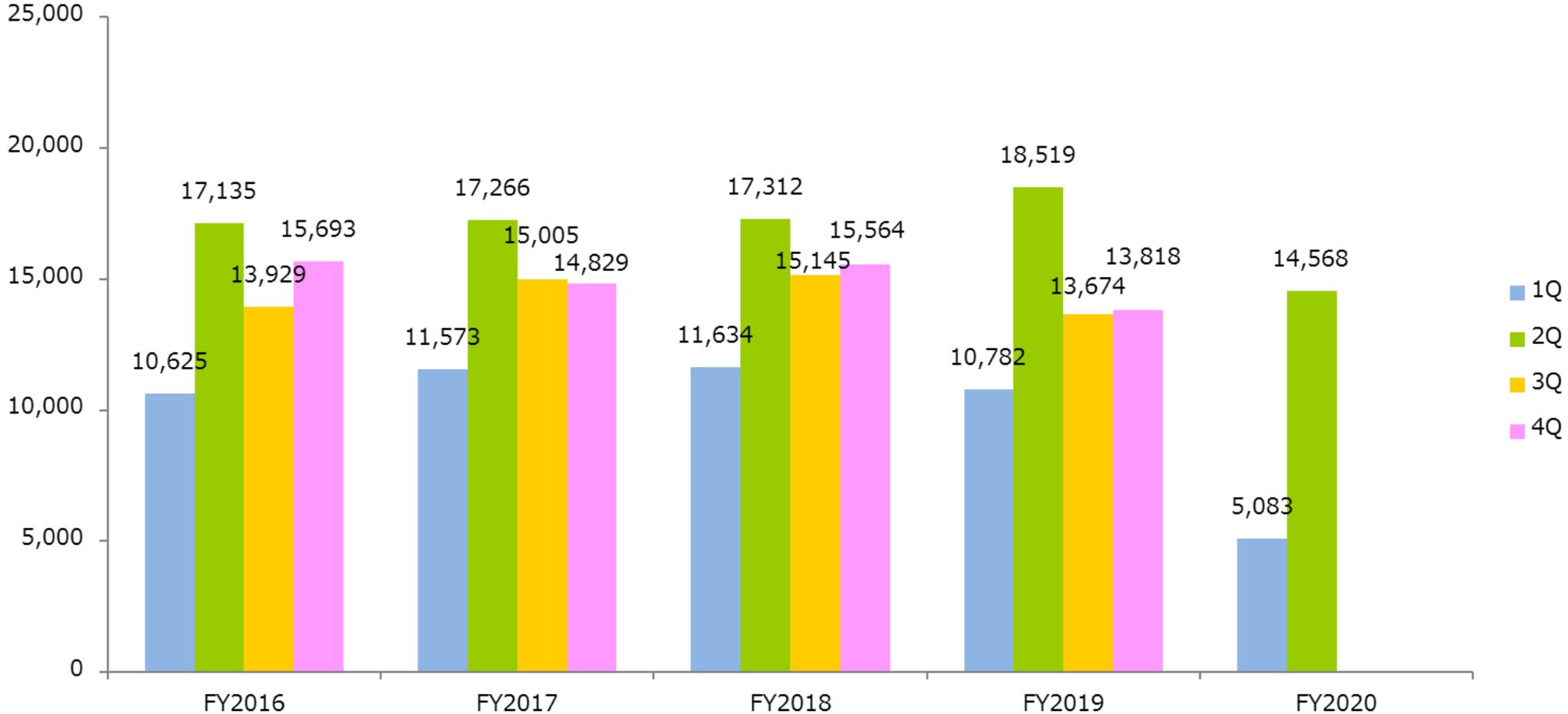


Note: FY2020=FY ending March 31, 2021

# Quarterly Sales (Japan Segment)



(Unit: JPY million)

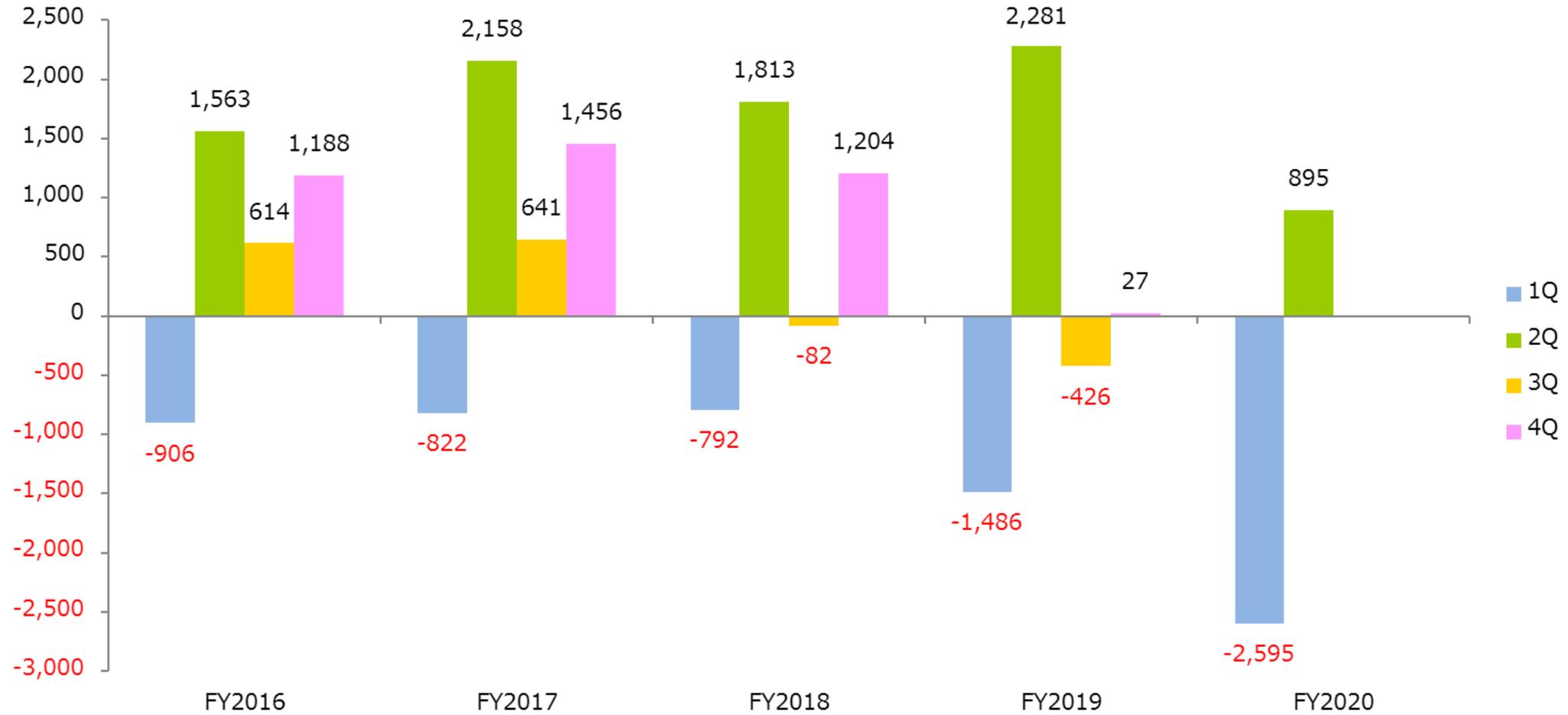


Note: FY2020=FY ending March 31, 2021

# Quarterly Operating Income (Japan Segment)



(Unit: JPY million)

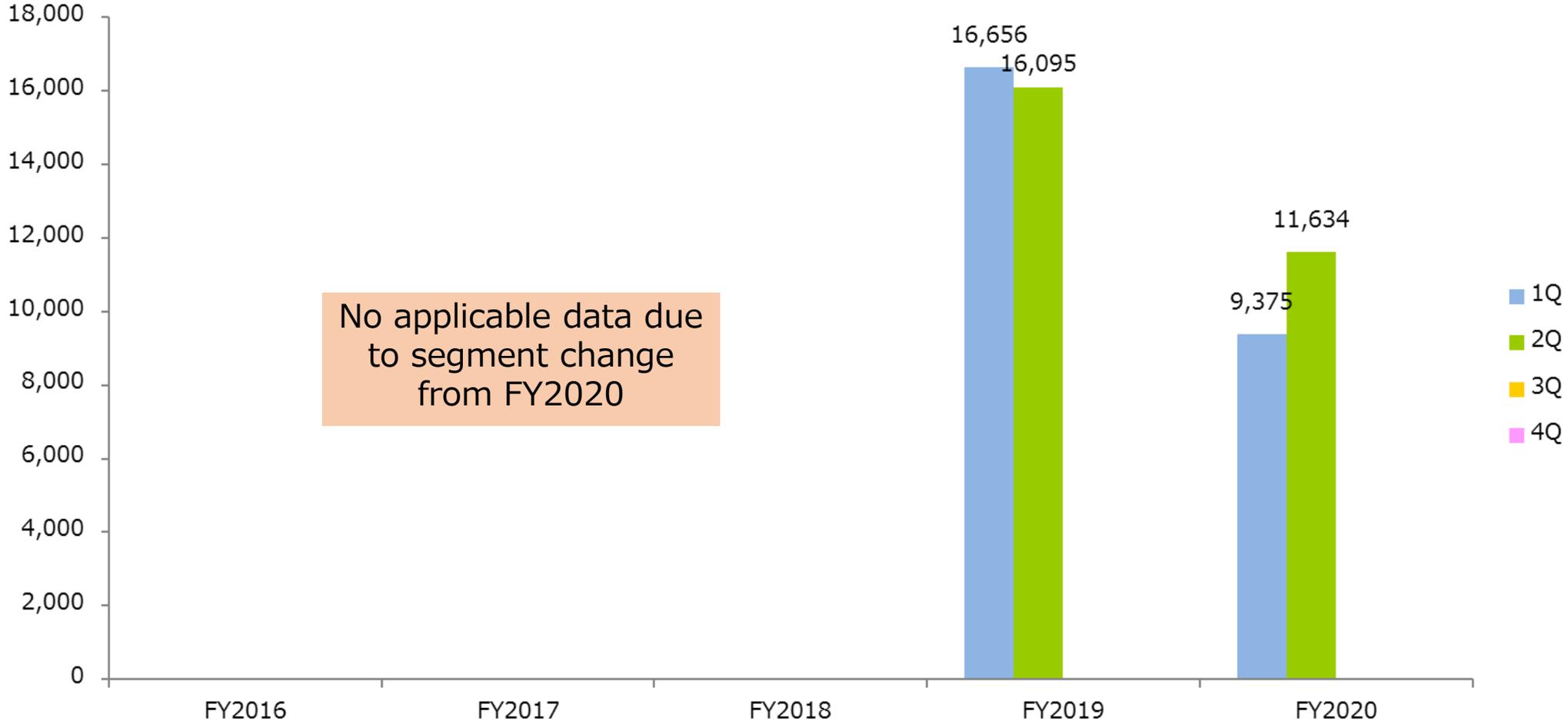


Note: FY2020=FY ending March 31, 2021

# Quarterly Sales Segment (South Korea Segment)



(Unit: JPY million)



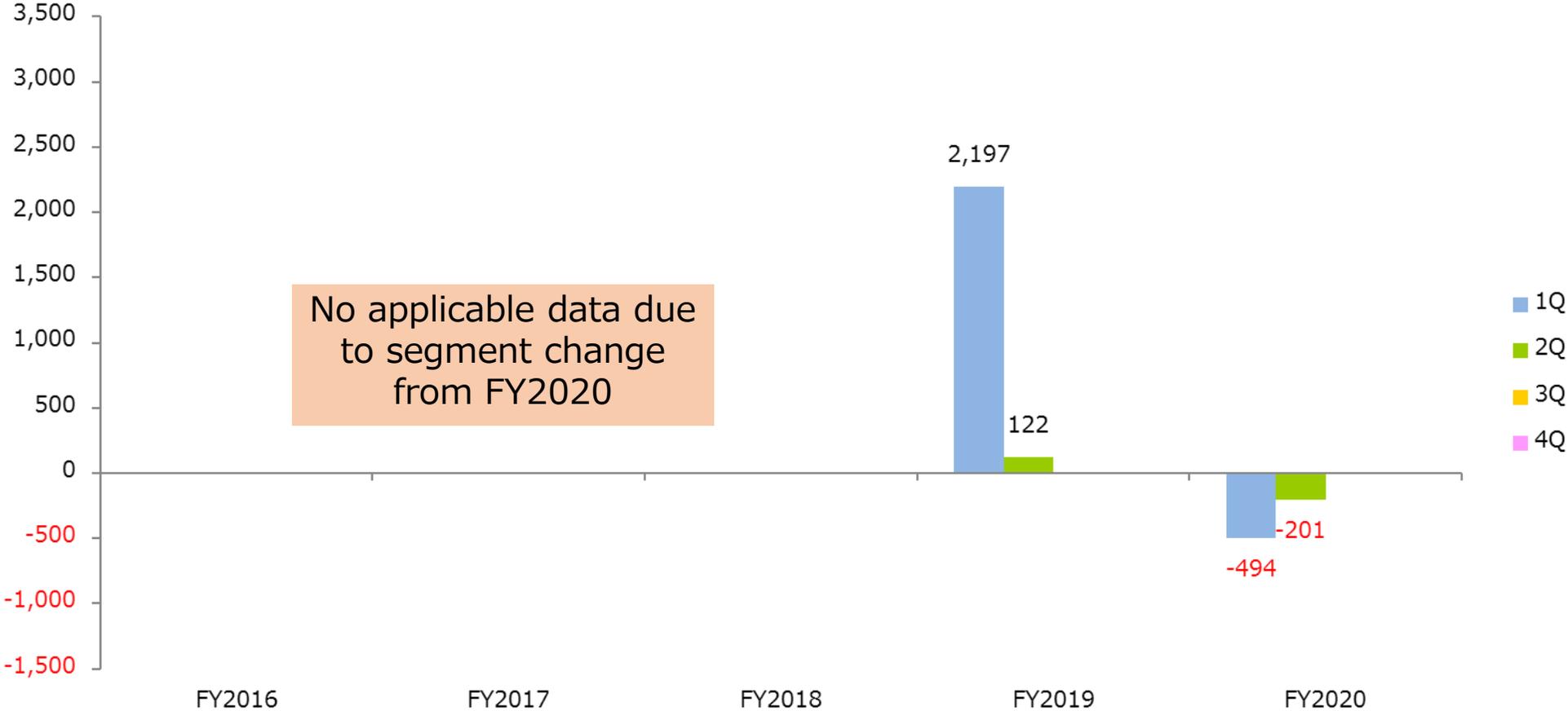
No applicable data due to segment change from FY2020

Note: FY2020=FY ending March 31, 2021

# Quarterly Operating Income (South Korea Segment)



(Unit: JPY million)

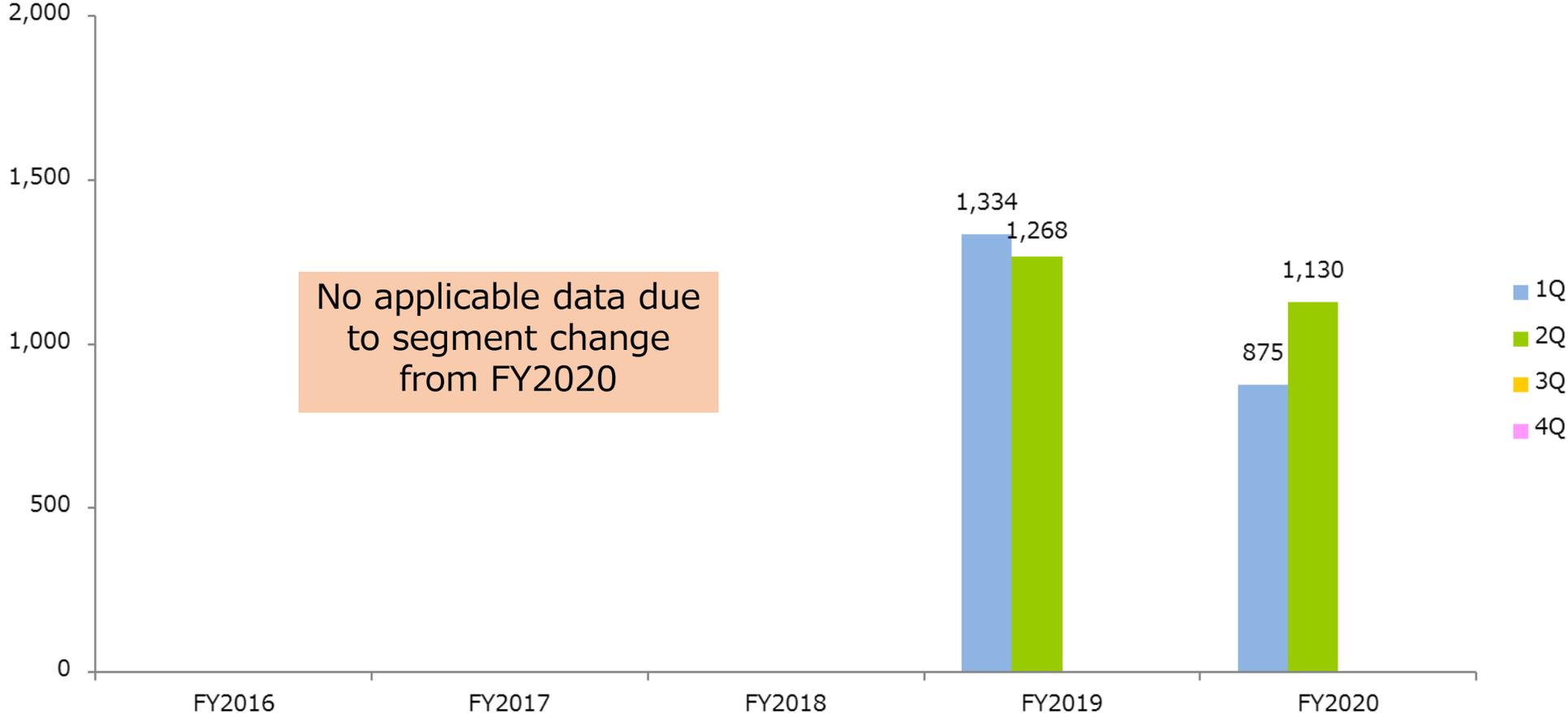


Note: FY2020=FY ending March 31, 2021

# Quarterly Sales (China Segment)



(Unit: JPY million)

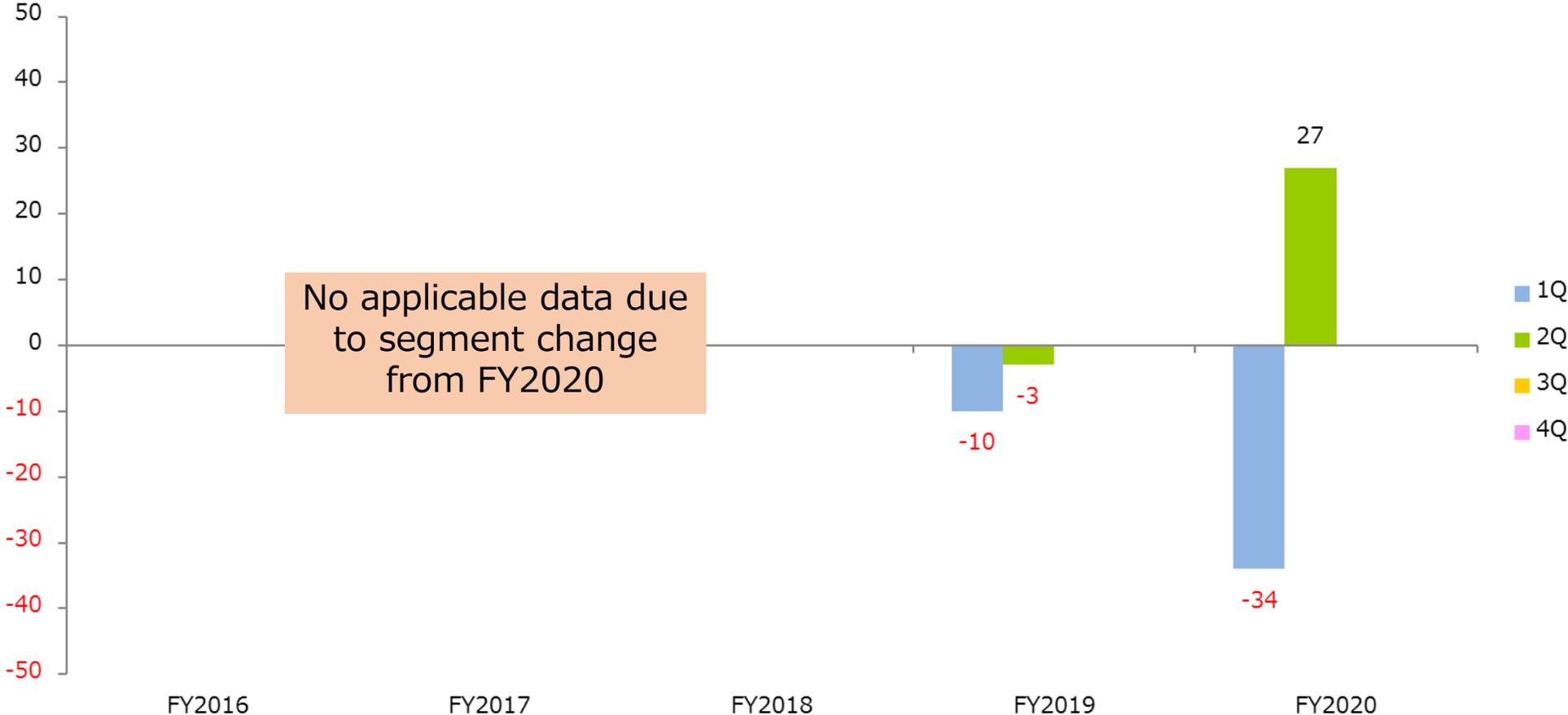


Note: FY2020=FY ending March 31, 2021

# Quarterly Operating Income (China Segment)

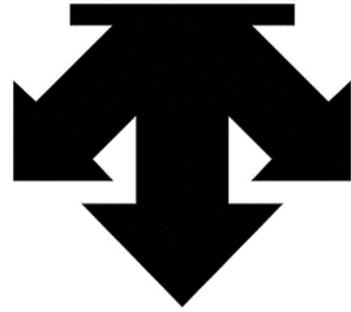


(Unit: JPY million)



Note: FY2020=FY ending March 31, 2021

**DESCENTE**



Design for Sports