

To our stakeholders

DESCENTE LTD.

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INTERIM BUSINESS REPORT 2022

April 1, 2022 - September 30, 2022



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PRESIDENT'S MESSAGE



DESCENTE LTD.
President and Representative Director
Shuichi Koseki

PRESIDENT'S MESSAGE

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The progress of restructuring Japan business, one of DESCENTE's key strategies.

The restructuring of Japan business is a key strategy of our midterm management plan "D-Summit 2023," and we have been working continuously since I became president. In the previous fiscal year, the efforts began to bear fruit, and we were able to make better-than-expected improvements. In the current fiscal year improvements are steadily made, and the results are clearly appearing in the figures. In particular, with regard to the returns and discounts, we were able to reduce returns to approximately one-fifth of the previous figure, and halved discounts. We have also been able to greatly reduce our surplus inventory, so we got to the stage for approaching a real reform finally.

In Direct to Consumer business ("DTC"), we need to reach the further level to improve profitability. One and a half years have passed since we began full-fledged efforts to develop directly managed stores, the most difficult initiative in DTC, but we believe that it will take at least 3 years to contribute to earnings. Half of the time in D-Summit 2023 was spent to identify DTC's issues and room for improvement, and now implementing immediate measures to address these issues. The main thrust of Japan business is how far we can proceed in the second half of the current fiscal year and how highly we can improve directly managed stores and e-commerce business through the next fiscal year.

To develop DTC business, it's necessary to take action for all respects, not only sales strategies. The basic policy is to sell out products with firm will and determination. First of all, regarding product planning, the wholesaler was always centered so far and customer's perspective was lacking. In developing our own stores and e-commerce, we will change our conventional approach to product planning and have a lineup of customer-oriented products. At the same time, we are reforming branding, communicating the value of the brand, pricing ranges purchasing process and place of the production. In particular, purchasing reforms are currently focused and we are changing our production order process into our own initiative. In other words, it is required before ordering deciding production volume and location of the production with the determination to sell out them. As a result, we succeeded in narrowing down the number of production items. And we are at the same time trying to reduce the number of production items further and increase each of lots per item.

PRESIDENT'S MESSAGE

To make a profit in DTC, a certain sales scale is necessary. At present the sales volume with fair-price is not large enough. As we have been reducing discounting and disposing of products, sales and profits are growing at outlets. At the same time the key factor in the future will be how much we can generate sales at fair value. We have also begun to renovate sales floors in our stores. In order to make our stores selling well, we will create model stores to conduct Trial & Error on PDCA cycle.

China business, especially about LE COQ SPORTIF (NINGBO) CO., LTD. and ARENA (SHANGHAI) INDUSTRIAL CO., LTD. announced as a subsidiary.

“DESCENTE” business in China continues to grow. Despite the impact of lock-downs, particularly in the Shanghai region from the end of March 2022, sales grew significantly year on year in the current fiscal year. “Le coq sportif” business, operated by JV, has been struggling since COVID-19 pandemic. We believe that stagnating growth in China marketplace was simply problematic on products and management. We determined management reforms were necessary as soon as possible and increased the investment ratio in LE COQ SPORTIF (NINGBO) CO., LTD. (hereafter Ningbo Le coq) into our subsidiary. As “Le coq sportif” has the origin in France and the official sponsor of French national team for the 2024 Paris Olympic and Paralympic, it has attracted further attention in China. We will make best efforts to support and rebuild Ningbo Le coq management appointing competent Chinese people as executives. The same was true of ARENA (SHANGHAI) INDUSTRIAL CO., LTD. (hereafter, Arena Shanghai). We felt that the business operations in JV were insufficient. China has quite large population and the business is not easy and high level. However, “arena” is the leading swimming brand and we are convinced that there is great room to expand our business. So, we increased the investment ratio in Arena Shanghai and got the control of our own business development. Arena Shanghai has also re-launched a new management team and now is making steady progress.

Overview for “umbro” business, continuously growing in South Korea.

South Korea business has been recovering steadily, as the impact of consumer boycott and COVID-19 gradually disappeared. “umbro” has grown dramatically over the past few years. Since we acquired the trademark of “umbro” in South Korea in 2013 and began the business in 2015, we have expanded sales and made the brand profitable over 7 years. While DESCENTE Korea LTD. expanded its earnings by “DESCENTE” brand business, we began to develop “umbro” as our new brand. Initially it was launched as a soccer brand in the same way as Japan, but subsequently changed its strategy into a street casual brand with soccer as its origin. This strategy has worked and “umbro” became a brand for customers in their teens and twenties. This is an example of success of the localization in brand marketing.



STARFIELD GOYANG

The keys to further growth

The key is our "brand power" for each of our brands. As we own the trademarks of "DESCENTE," "le coq sportif," "arena," "Munsingwear," "umbro," and "Inov-8", if we can maximize the value of these brands, we will be able to generate more revenue and profit. In launching a new brand, it's required to build up recognition from scratch. But our brands already have the values and recognitions built up over decades. "Le coq sportif" has a history of 150 years originated in France, and "Munsingwear" has a history of 70 years originated in U.S. "arena" is the best swimming brand in the world. With many of such excellent brands, we aim to raise our business level further and become an excellent company by firmly communicating the value of our brand to our customers.

"arena" recovery

"arena", the symbol of strong brands, had struggled for several years by the closure of pools and the cancellation of competitions in the COVID-19. This year, however, it is recovering steadily in South Korea and Japan. Originally "arena" is for the top swimmers in Japan, but this year the number of junior high and high school students wearing "arena" at the national swimming tournament has increased significantly, and we feel that the brand image has also been enhanced further.

In China, as the impact of COVID-19 remained and the swimming pools still closed, it has not fully recovered yet. However, we will value the brand image of "arena", selected from the world's top swimmers, and focus on and develop the category of sports swimsuits. Especially for the top swimmers, who compete for the one hundredth of a second, DISC OSAKA is thoroughly researching and developing functionality for the swimsuits. We have created a virtuous cycle of developing and manufacturing global-brand products in Japan and exposing and selling them to Asian markets.



ARENA SHOP TOKYO

DESCENTE's point-of-differentiation from other companies, in addition to "brand power".

Since we are originated and always related in "sports", we would like to emphasize this point further. We believe "DESCENTE" brand has been successful in South Korea and China as a "sporting brand". Products with craftsmanship as sports apparel are well accepted by customers, and it is essential to maintain this concept. Products not based on this concept become just fashion, and differentiation becomes ambiguous.

For expanding Japan's DTC business, we are stepping up efforts to develop "MoveWear", which doesn't limit the wearing scene to only sporting one. In addition, we'd like to create a store where customers can view and experience our whole worldview of sporting apparel. "MoveWear" must be deployed with our high functionality and quality of sporting apparel supported by the world's top athletes, so we will continue to enforce this differentiation point.

Message for the shareholders

The first half of the fiscal year was extremely favorable. On the other hand, as raw material and energy prices continue to rise and foreign exchange rates fluctuate significantly, uncertainty is still increasing. Although external factors have a significant impact, we are confident in accomplishing our announcement plan. In Japan, we are steadily laying the groundwork for the next fiscal year to expand our DTC business. As for the two new subsidiaries in China, we will be increasingly involved in the management to increase both sales and earnings for our consolidated performance.

At the announcement of financial results for the third quarter, as the full-year forecast will become more certain, we will also announce about the dividend.

Finally, our Integrated Report was issued for the first time to show our value-creating processes and ESG initiatives to our stakeholders in an easier-to-understand manner. We hope that you will read this report and feel the essence of how we are trying to grow further in the future.

Click here for details of Integrated Report 2022

<https://www.descente.co.jp/en/ir/library/descente-group-integrated-report-2022/>

Click here for details of financial results-related information

<https://www.descente.co.jp/en/ir/library>

ABOUT US

Company Profile

DESCENTE LTD.

Founded	February, 1935
Incorporated	February, 1958
President	Shuichi Koseki
Capital	¥3.8 billion
Turnover	¥108.9billion (FY ended March 2022, Consolidated)
Employees	Consolidated 2,662 /Non-consolidated 24(As of September 30, 2022)
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)
Osaka Office	Maruito Namba Building 13F , 1-2-3 Minatomachi Naniwa-ku, Osaka 556-0017 Japan TEL. +81-6-6633-4201(HR)

Executives

President and Representative Director
Shuichi Koseki

Director and Senior Managing Executive Officer
Motonari Shimizu

Director and Managing Executive Officer
Norio Ogawa

Director (outside)
Tomonori Azuma*

Director (outside)
Seiji Sato *

Director (outside)
Yasuyo Kasahara *

Auditor (full-time)
Mikio Nakajima

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.

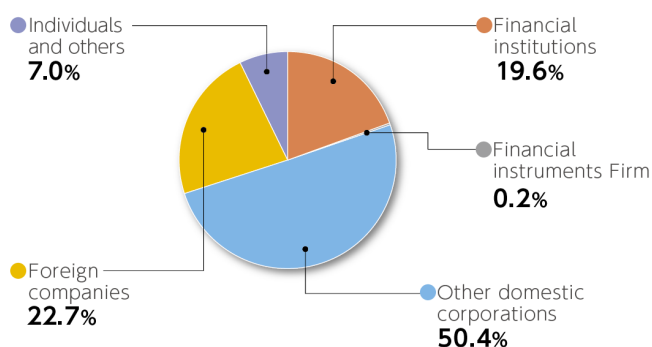
Brand Lineup



Number of shares and shareholders

(As of September 30, 2022)

Number of shares authorized for issuance	160,000,000
Number of shares issued	76,924,176
	(including 1,419,986 own shares)
Number of shareholders	4,975



Principal shareholder

(As of September 30, 2022)

Name	Shareholdings (Thousands)
BS Investment Corporation	30,164
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,417
SSBTC CLIENT OMNIBUS ACCOUNT	3,417
Nippon Life Insurance Company	3,228
UBS AG HONG KONG	3,165
TEIJIN FRONTIER Co., Ltd	2,465
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	1,914
Sumitomo Mitsui Banking Corporation	1,910
THE DESCENTE AND ISHIMOTO MEMORIAL FOUNDATION FOR THE PROMOTION OF SPORTS SCIENCE	1,652
Custody Bank of Japan, Ltd. (Trust Account)	1,350