

To our shareholders

BUSINESS REPORT 2023

April 1, 2022 - March 31, 2023

DESCENTE LTD.

Security code : 8114



■ PRESIDENT'S MESSAGE _____ 02

■ ABOUT US _____ 07

PRESIDENT'S MESSAGE



DESCENTE LTD.
President and Representative Director
Shuichi Koseki

PRESIDENT'S MESSAGE

This document is an AI translation of the Japanese original by translation software and its purpose is for reference only. Readers are advised that the Company does not guarantee the accuracy of the content contained in this document. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.

Review of FY2022, the second year of D-Summit 2023

In FY2022, we achieved record high ordinary income and net income with net sales of 120 billion yen, operating income of 7.7 billion yen, ordinary income of 11.6 billion yen, and net income of 10.5 billion yen. In this fiscal year, we focused most on restructuring of our Japan business to improve the profitability. Thanks to the hard work of our employees, we were able to improve faster than expected, and this has been shown in the results. Based on our mission of "selling out what we make", we have built an internal system to curb production volumes and strictly control the level of returns and discounts, thereby maintaining an appropriate inventory level. In FY2022, despite the global rise in raw material prices and the depreciation of the yen, we were able to control costs because we were working to minimize our purchase costs in addition to controlling production volumes. There is still a lot of room for improvement in the profitability of Japan businesses, but we have accumulated what we must have done and have finally solidified foundation of our business. Since we are thorough in "selling out", our product itself is also improving. It will be a real competition of what kind of branding we must implement and how to sell those products from now on.

In South Korea, there were difficult times due to the boycott movement of Japanese products and the impact of the new coronavirus (hereinafter referred to as "COVID-19"), but in FY2022, these effects have almost disappeared, and business performance has recovered steadily. Before the boycott, our Korean business was fraught with the risk that sales and profits skyrocket which makes the brand obsolete, however, the boycott movement and COVID-19 caused a significant decline, and since then, the growth of "umbro" and the success of shoes developed at DISC BUSAN (our shoes research and development center) have put us on a stable growth track, and I think that it is a good trend.

PRESIDENT'S MESSAGE

In China, "DESCENTE" brand is growing steadily. In FY2022, due to the COVID-19, many stores were closed for a total of three months, but even under these circumstances, "DESCENTE" has continued to grow strongly with increased sales and profits compared to the previous year. The source of this performance is that we first develop original high-value-added products in our Japanese HQ, and based on them, JV expand product merchandise, and with ANTA's retail development know-how, we were able to develop "DESCENTE" as a representative brand for premium-sports. Other brands developed in China, such as "Munsingwear," "le coq sportif," and "arena," were not satisfactory, and so we have consolidated the two JVs that developed "le coq sportif" and "arena" as subsidiaries to directly grasp and leverage our management, and our business performance has been steadily improving since then.



"DKL", a large store of "DESCENTE" in Sanlitun, Beijing. The store area exceeds 1,000 square meters.

Initiatives in Japan, South Korea, and China in FY2023

We handle eight brands under our multi-brand strategy, and in FY2023, we will once again clarify the position and value of each brand and strengthen our "branding" to appeal to customers. Although each brand is making good products, there are still many areas to improve, such as how brand logos are presented and the way of marketing. I feel that the value of our products and brands are not sufficiently conveyed. We are working to practice branding and product provision so that customers can enjoy purchasing our products and feel excited to wear them. As for our corporate brand "DESCENTE", we divided the product mix into "DESCENTE" and "MOVESPORT" from the 2023 spring/summer. "DESCENTE" is developed mainly through in-house distribution, and as a premium-sports brand with high added value and high functionality. Also, we are changing the spirit mark logo on the products, so it stands out to increase opportunities for everyone to see it when worn. On the other hand, "MOVESPORT" will be developed mainly in wholesale distribution. In addition to functionality that supports performance, it has enhanced design that is easy to wear in everyday life.

In China, we are rebranding "le coq sportif". When we entrusted management to a local partner as a JV, they created products according to the trends of the time from the viewpoint of "ease of sale", and the price range and sales method differed depending on the distribution, making it difficult to see the core value of the brand. "le coq sportif" is a real sports brand originating in France with a history of 140 years. I believe that by renewing the value of this brand centered on sports, we can differentiate it as sophisticated clothing rather than just a street wear, and I have high expectations for its future recovery.



CREAS, ALLTERRAIN series of "DESCENTE" "DESCENTE" expand its premium collection, ALLTERRAIN.

Korea is a market where what sells changes greatly due to changing trends. In recent years, some brands have become too focused on manufacturing based on a market-in mindset, so we will review our strength in manufacturing once again and return to the starting point of product planning that focuses on materials, patterns, specifications, etc. We are now especially focusing on shoes and will work to enhance the developed products to increase the composition ratio of sales.

Mizusawa Factory Renewal and Factory Branding

In addition to branding products and brands, we also work on branding our own factories in Japan. The apparel and garment factories in Japan are losing their cost advantage over other countries, and it seems that it is a right decision to close domestic factories and move production bases overseas, based on general management decisions. But for us, which has accumulated technical know-how by continuously employing local people for more than 50 years with "manufacturing" as its core value, our domestic factories are valuable assets. For this reason, the three factories of Mizusawa, Yoshino, and Saito will be the dedicated factories specializing in high-value-added products and will be branded by launching products bearing the factory name itself. First, we will spend approximately 3 billion yen to renovate the Mizusawa Factory, which is a dedicated factory for Mizusawa Down, to make it the mother factory of the three domestic factories from the perspective of development, manufacturing, and sustainability. The Yoshino Factory has begun producing "10 YEARS POLO SHIRTS" for "Munsingwear", that meets its own quality standards assuming to be worn for 10 years, as a dedicated factory for polo shirts. The Saito Factory will produce high-value-added products centered on swimwear and golf pants as it has strengths in adhesive sewing technology represented by the top racing swimwear of "arena".

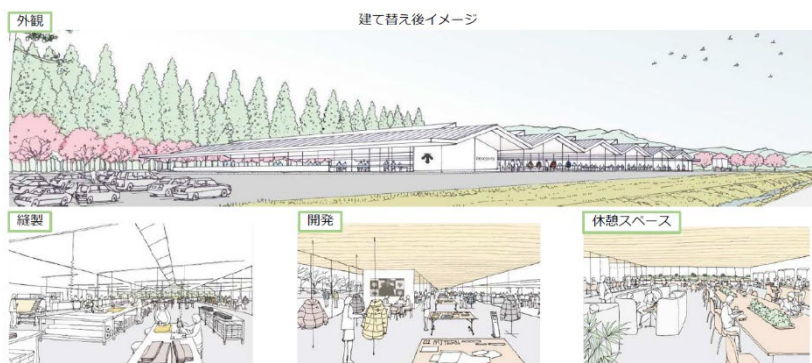


Image of Mizusawa Factory after renovation.
From top left, Façade, Sewing, Development, Lounge.

Outlook after the conclusion of D-Summit 2023

The previous medium-term management plan D-Summit 2021 went very smoothly thanks to the hard work of our employees and was completed a year ahead of schedule. In May 2021, we formulated D-Summit 2023, which inherited the main strategy from D-Summit 2021. We have been able to shift from a single-legged situation, in which profits were concentrated in the Korean business, to a stable management structure that generates profits in a well-balanced manner in the three markets of Japan, Korea, and China. In FY2023, we will focus on branding as the final year of D-Summit 2023. If we succeed in branding, the DTC ratio in Japan will increase, and profits will increase in Korea and China. If this happens, the scenery we see will change completely from what we have seen before, and we will be able to see what we need to do anew. I'm looking forward to thinking about future management.

Message to shareholders

We deeply appreciate the support of our shareholders. Our business performance has steadily improved, and our earnings structure has become more stable. In FY2022, we were able to pay a record dividend of 3 billion yen, or 40 yen per share. In FY2023, we plan to provide returns with a dividend payout ratio of 30% in the same way, but to reward our shareholders who have expected and supported us during the difficult times when we were not paying dividends, we will not be satisfied with the current situation and will achieve even higher targets. Thank you for your continued support.

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	¥120.6billion (FY ended March 2023, Consolidated)
Employees	Consolidated 2,924 /Non-consolidated 23(As of March 31, 2023)
Business	Manufacture and sales of sportswear and related articles
Office	
Tokyo Office	1-4-8 Mejiro, Toshima-ku, Tokyo 171-8580 Japan 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 (outside) Tomonori Azuma※
Director and Senior Managing Executive Officer Motonari Shimizu	Director (outside) Seiji Sato ※
Director and Managing Executive Officer Norio Ogawa	Director (outside) Yasuyo Kasahara ※
	Auditor (full-time) Mikio Nakajima
	Auditor (outside) Koichi Yoshioka ※
	Auditor (outside) Akira Matsumoto ※
	(As of March 31, 2023)

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

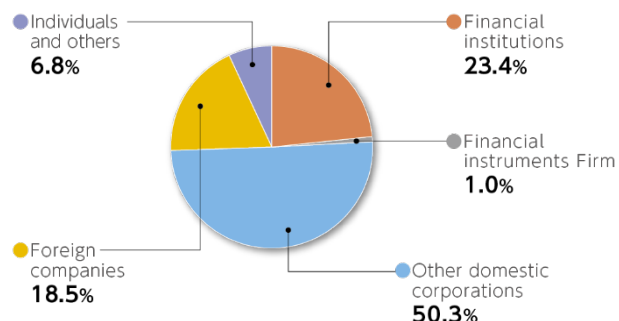
Brand Lineup



Number of shares and shareholders

(As of March 31, 2023)

Number of shares authorized for issuance	160,000,000
Number of shares issued	76,924,176
	(including 1,420,092 own shares)
Number of shareholders	4,863



Principal shareholder

(As of March 31, 2023)

Name	Shareholdings (Thousands)
BS Investment Corporation	30,164
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,387
Nippon Life Insurance Company	3,238
UBS AG HONG KONG	3,038
TEIJIN FRONTIER Co., Ltd	2,465
Sumitomo Mitsui Banking Corporation	1,910
Custody Bank of Japan, Ltd. (Trust Account)	1,889
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	1,883
THE DESCENTE AND ISHIMOTO MEMORIAL FOUNDATION FOR THE PROMOTION OF SPORTS SCIENCE	1,652
THE Hokkoku Bank, Ltd.	1,039