



DESCENTE

Consolidated Financial Results for the First Quarter of the Fiscal Year ending March 31, 2024 (FY2023) [Japan GAAP]

August 10, 2023

Name of the Company: DESCENTE LTD. Listed Exchange: TSE
 Code No.: 8114 URL: <http://www.descente.co.jp>
 Representative: Shuichi Koseki, President and Representative Director
 Person responsible for inquiry: Akira Tsuchihashi, Senior Managing Executive Officer, CFO (TEL) +81-3-5979-6110
 Date of Submission of Securities Report: August 10, 2023 Date of Dividend Payments: —
 Preparation of Supplementary Financial Statements: Yes
 Holding of Financial Results Briefing: Yes (For institutional investors and securities analysts)

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

1. Consolidated results for the Q1 of the FY ending March 31, 2024 (April 1, 2023 to June 30, 2023)

(1) Consolidated operating results

(%, YoY)

	Net sales		Operating income		Ordinary income		Quarterly net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q1 of FY 2023	27,162	2.8	1,951	(22.9)	4,490	34.3	3,191	35.6
Q1 of FY 2022	26,425	17.5	2,531	145.3	3,342	114.0	2,353	107.6

(NOTE): Comprehensive income Q1 of FY2023 ¥3,140 million (-36.1%) FY2022 ¥4,910 million (65.0%)

	Quarterly net income per share	Quarterly diluted net income per share
	Yen	Yen
Q1 of FY 2023	42.28	-
Q1 of FY 2022	31.18	-

(2) Consolidated financial position

	Total assets	Net assets	Equity Ratio
	Million yen	Million yen	%
Q1 of FY2023	129,126	100,419	77.2
FY 2022	133,562	100,300	74.6

(Reference) Equity: Q1 of FY2023 ¥99,740 million, FY2022 ¥99,637 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 2022	-	0.00	-	40.00	40.00
FY 2023	-	-	-	-	-
FY 2023 (Forecast)	-	0.00	-	44.00	44.00

(NOTE): Revisions to the dividend forecasts most recently announced: None

(%, YoY)

3. Consolidated Forecasts for the Fiscal Year ending March 31, 2024 (April 1, 2023 to March 31, 2024)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	127,000	5.3	8,500	9.1	13,000	11.4	11,000	4.3	145.70

(NOTE): Revisions to the forecasts most recently announced: None

※ Notes

(1) Changes in significant subsidiaries during the period: None

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

New: -

Exclude: -

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements: Yes

(NOTE) For details, please refer to "(3) Notes on Quarterly Consolidated Financial Statements" on page 8 of the Appendix.

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

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

② Changes in accounting policy other than ① : None

③ Changing in accounting estimates : None

④ Restatement : None

(4) Number of shares issued and outstanding common stock

① Number of shares issued and outstanding at the fiscal period (including treasury stock)

② Number of treasury stock at fiscal end

③ Average number of shares during the term (quarterly consolidated cumulative period)

Q1 of FY 2023	76,924,176	FY 2022	76,924,176
Q1 of FY 2023	1,420,114	FY 2022	1,420,092
Q1 of FY 2023	75,504,073	Q1 of FY 2022	75,479,543

※Quarterly Summary of Financial Statements is not subject to quarterly review by a certified public accountant or auditing firm.

※Explanation of appropriate use of business performance forecasts and other special items

(Notes on future descriptions)

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and on certain assumptions deemed to be reasonable, and do not constitute guarantees by the Company of future performance. Actual results may differ materially from the forecast depending on a range of factors. Please refer to "(3) Explanation of Performance Forecasts" on page 3 of the Appendix for the assumptions upon which the forecasts are based and the cautionary statements regarding the use of the forecasts.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the first quarter of the FY2023, the sports apparel industry has been recovering due to the relaxation of action limits and normalization of socioeconomic activities in each country. Inbound demand is recovering in Japan, and China saw brisk consumer activity following the end of Zero-COVID policy in January 2023. ARENA (SHANGHAI) INDUSTRIAL CO., LTD (ASH) and LE COQ SPORTIF(NINGBO) CO., LTD. (NLCS) became consolidated subsidiary in the previous fiscal year and has been incorporated into consolidated results.

Net sales posted 27,162 million yen, an increase of 2.8% from the same quarter of the previous fiscal year due to the consolidation of subsidiaries in China and the rise in the sales of athletic categories in Japan and South Korea, despite a slowdown in the golf boom due to the diversification of leisure demand, and the impact of sales decrease by “Marmot”, which we terminated its licensing agreement on at the end of December 2022.

Gross profit increased 5.9% year on year to 16,512 million yen due to the consolidation of subsidiaries mentioned above and the impact of improved gross profit margins in South Korea segment due to the improved sales of regular price items.

SG&A expenses increased 11.5% to 14,561 million yen due to higher expenses associated with branding and consolidation of subsidiaries.

Operating income decreased by 22.9% to 1,951 million yen due to the absence of a one-time gain of approximately 470 million yen in the same quarter of the previous fiscal year which occurred due to a gain on reversal of allowances associated with improved product returns, etc.

Due to the growth in the performance of equity-method affiliates DESCENTE CHINA HOLDING LTD. (DCH) and ARENA KOREA LTD. (AK), equity in earnings of affiliates increased significantly by 301.8% year on year to 2,271 million yen, and ordinary income increased by 34.3% year on year to 4,490 million yen.

Quarterly net income attributable to owners of parent increased 35.6% to 3,191 million yen, despite the restructuring charges of 181 million yen as extraordinary loss in NLCS, due to higher ordinary income.

The business results of the reportable segment are as follows. The fiscal year-end of overseas subsidiaries is December, and the business results for each segment do not include figures of equity-method affiliates.

(Net Sales by Segments)

Segment	Net sales (million yen) (YoY)	Segment income or loss (million yen) (YoY)
Japan	11,079 (91.6%)	714 (51.9%)
South Korea	12,274 (96.6%)	1,115 (91.1%)
China	3,209 (301.1%)	101 (81.6%)
Adjustments	599 (108.3%)	19 (Previous year: loss of 194 million yen)
Total	27,162 (102.8%)	1,951 (77.1%)

※ Segment income (loss) is operating income or loss of the Company.

(Japan)

In addition to strong sales by inbound tourism mainly by the Asian tourists at directly managed stores, sales of “umbro” which focuses on products for children, grew. However, due to the impact of the termination of “Marmot” licensing agreement in December 2022 and the expected slowdown in the golf boom, segment net sales decreased 8.4% year on year to 11,079 million yen. Segment income decreased 48.1% year on year to 714 million yen, due to higher expenses for future branding and the absence of one-time income that boosted earnings in the same quarter of the previous fiscal year.

(South Korea)

Sales of “umbro”, a product for the younger generation continued to grow, but sales in the golf wear category declined as a result of the rebound from the golf boom in the same quarter of the previous fiscal year. Segment net sales decreased 3.4% from the same quarter of the previous fiscal year to 12,274 million yen. Segment income decreased 8.9% to 1,115 million yen due to a decrease in sales, despite an improvement in the gross profit margin resulting from the improvement of sales rate of regular price items in the athletic wear category including “DESCENTE”. AK, an equity-method affiliate that is not included in segment income, grew due to demand for leisure swimsuits resulting from an increase in overseas travelers.

(China)

There was a strong consumer spending following a reopening in January 2023 in China, compared to the same quarter of the previous fiscal year when they experienced a tight code of conduct associated with COVID-19 infectious diseases. In particular, the liberalization of movements from the mainland to Hong Kong supported the strong performance of HONG KONG DESCENTE TRADING, LTD.. Segment net sales increased 201.1% year on year to 3,209 million yen due to the above and the consolidation of ASH and NLCS. Meanwhile, segment income decreased 18.4% from the same quarter of the previous fiscal year to 101 million yen due to the recording of amortization of goodwill related to NLCS and other items. DCH, an equity-method affiliate that is not included in segment income, remains strong.

Net sales by Item are as follows:
(Net sales by Item)

Item	Amount (million yen)	Composition Ratio (%)	YoY (%)
Athletic wear and related products	19,194	70.7	117.3
Golf wear and related products	6,779	25.0	82.8
Others	588	2.2	44.4
Adjustment	599	2.2	108.3
Total	27,162	100.0	102.8

(Athletic wear and related products)

“umbro” has grown through local marketing strategies in Japan and South Korea, while Japan has focused products for children, and collaboration targeting the younger generation continues to be strong in South Korea. Sales of “DESCENTE” were also firm, and sales of “le coq sportif” is on stable growth, especially in Japan with material-focused high-value-added T-shirts. Net sales in the athletic category increased 17.3% year on year to 19,194 million yen.

(Golf wear and related products)

The golf boom seen in Japan and South Korea has stabilized due to the diversification of leisure demand. 10 YEARS POLO SHIRTS by “Munsingwear” developed and manufactured at our own domestic plants, is performing well in Japan and China. In South Korea, “DESCENTE” golf shoes worn by the top players in South Korea continue to perform well. However, net sales in the golf category declined 17.2% year on year to 6,779 million yen, partly due to a decline following the golf boom in the previous fiscal year.

(Initiatives for Sustainability)

As part of our sustainability efforts, we launched Protective Headband by “umbro”, a patent-pending product in Japan to mitigate the impact of children's heads when heading and reduce the risk of concussion. We provide this product to JACPA Tokyo FC, which offers children-oriented soccer classes mainly in the Kanto region, and its initiatives are also covered by TV and other media. We will continue sports promotional activities by developing products that enable sports to be played safely.

(2) Explanation of Financial Position

At the end of the first quarter of the fiscal year, total assets was 129,126 million yen, decreased by 4,436 million yen from the end of the previous fiscal year.

Current assets decreased 6,831 million yen from the end of previous fiscal year to 75,673 million yen. This was mainly due to a decrease in cash and deposits of 9,877 million yen and an increase in merchandise and finished goods of 2,000 million yen.

Non-current assets increased 2,395 million yen from the end of previous fiscal year to 53,452 million yen. This was mainly due to an increase of 3,300 million yen in investment securities included in investments and other assets.

Total liabilities decreased 4,556 million yen from the end of previous fiscal year to 28,706 million yen. This was mainly due to a decrease in notes and accounts payable - trade of 2,301 million yen and a decrease in provision of bonus of 861 million yen.

Net assets increased 119 million yen from the end of previous fiscal year to 100,419 million yen. This was mainly due to a decrease in foreign currency translation adjustment of 443 million yen, an increase in valuation difference on available-for-sale securities of 499 million yen, and an increase in retained earnings of 171 million yen.

As a result, the equity ratio increased 2.6% from the end of the previous fiscal year to 77.2%.

(3) Explanation of Performance Forecasts

Full-year consolidated earnings forecasts remain unchanged from the forecasts announced in Summary of Financial Statements on May 15, 2023.

2. Quarterly Consolidated Financial Statements and Notes
(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Previous fiscal year (As of March 31, 2023)	Q1 of FY2023 (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	41,412	31,535
Notes and accounts receivable – trade	15,698	16,207
Merchandise and finished goods	20,657	22,658
Work in process	387	700
Raw materials and supplies	536	419
Others	3,875	4,212
Allowance for doubtful accounts	(62)	(60)
Total current assets	82,505	75,673
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,178	9,149
Others	14,929	14,429
Total property, plant and equipment	24,107	23,579
Intangible assets		
Goodwill	3,516	3,500
Others	1,491	1,495
Total intangible assets	5,008	4,995
Investments and other assets		
Investments in securities	18,218	21,518
Retirement benefit assets	487	383
Others	3,280	3,020
Allowance for doubtful accounts	(44)	(44)
Total investments and other assets	21,941	24,878
Total non-current assets	51,057	53,452
Total assets	133,562	129,126
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,592	9,291
Short-term loans payable	551	252
Income taxes payable	1,428	598
Provision for bonuses	1,283	422
Others	11,088	10,464
Total current liabilities	25,944	21,028
Non-current liabilities		
Others	7,318	7,678
Total non-current liabilities	7,318	7,678
Total liabilities	33,262	28,706

(Million Yen)

	Previous fiscal year (As of March 31, 2023)	Q1 of FY2023 (As of June 30, 2023)
Net assets		
Shareholders' equity		
Capital stock	3,846	3,846
Capital surplus	25,436	25,436
Retained earnings	62,257	62,429
Treasury stock	(606)	(606)
Total shareholders' equity	90,933	91,105
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	609	1,109
Deferred gains or losses on hedges	(3)	(90)
Foreign currency translation adjustment	7,397	6,954
Remeasurements of defined benefit plans	699	662
Total accumulated other comprehensive income	8,703	8,635
Non-controlling shareholders' equity	662	679
Total net assets	100,300	100,419
Total liabilities and net assets	133,562	129,126

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
Consolidated YTD of the First Quarter

(Million Yen)

	Previous Q1 (April 1, 2022 to June 30, 2022)	Current Q1 (April 1, 2023 to June 30, 2023)
Net sales	26,425	27,162
Cost of sales	10,837	10,649
Gross profit	15,588	16,512
Selling, general and administrative expenses	13,056	14,561
Operating income	2,531	1,951
Non-operating income		
Interest income	96	172
Dividends income	3	4
Equity in earnings of affiliates	565	2,271
Foreign exchange gains	140	88
Others	26	90
Total non-operating income	831	2,627
Non-operating expenses		
Interest expenses	10	33
Loss on retirement of noncurrent assets	9	46
Others	0	8
Total non-operating expenses	20	88
Ordinary income	3,342	4,490
Extraordinary gains		
Gain on subsequent acquisitions	92	-
The gain from negative goodwill	35	-
Total extraordinary income	127	-
Extraordinary losses		
Restructuring charges	-	181
Total extraordinary loss	-	181
Quarterly net income before income taxes	3,469	4,308
Income taxes - current	140	256
Income taxes - deferred	975	858
Total income taxes	1,116	1,114
Quarterly net income	2,353	3,193
Quarterly net income attributable to non-controlling shareholders	-	2
Quarterly net income attributable to owners of parent	2,353	3,191

Quarterly Consolidated Statements of Comprehensive Income
Consolidated YTD of the First Quarter

(Million Yen)

	Previous Q1 (April 1, 2022 to June 30, 2022)	Current Q1 (April 1, 2023 to June 30, 2023)
Quarterly net income	2,353	3,193
Other comprehensive income		
Valuation difference on available-for-sale securities	(43)	499
Deferred gains or losses on hedges	(129)	(86)
Foreign currency translation adjustment	1,864	(798)
Remeasurements of defined benefit plans	(21)	(37)
Share of other comprehensive income (loss) of entities accounted for using equity method	885	369
Total other comprehensive income	2,557	(53)
Comprehensive income	4,910	3,140
(breakdown)		
Comprehensive income attributable to owners of parent	4,910	3,123
Comprehensive income related to non-controlling shareholders	-	16

(3) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumptions)

None

(Notes on Significant Changes in the Amount of Shareholders' equity)

None

(Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)

Calculation of tax expenses

For certain consolidated subsidiaries, tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to income before income taxes for consolidated fiscal year, including the first quarter under review, and multiplying quarterly net income before income taxes by this estimated effective tax rate.

Income taxes of consolidated subsidiaries are included in income taxes - current.

(Changes in accounting policies)

None

(Segment information, etc.)

I Previous Q1 (From April 1, 2022 to June 30, 2022)

1.Net sales and income by Reportable segments

(Million Yen)

	Reportable segments				Adjustment (NOTE) 1,2	Amount shown on quarterly consolidated income statements (NOTE)3
	Japan	South Korea	China	Total		
Net sales						
Sales to External Customers	12,096	12,710	1,065	25,872	553	26,425
Intersegment Sales or Transfers	689	169	12	871	(871)	-
Total	12,785	12,879	1,078	26,743	(318)	26,425
Segment income (loss)	1,376	1,225	124	2,726	(194)	2,531
Other Items						
Equity in earnings of affiliates	-	(9)	683	674	(108)	565
Investments on entities accounted for equity method affiliates	-	4	15,407	15,412	-	15,412

(NOTE) 1 Adjustment of Sales to External Customers was recorded by the Company as a pure holding company.

2 Adjustment of segment income is the elimination of intersegment transactions, adjustment of unrealized gains on inventories, and our income not allocated to the respective Reportable segments.

3 Segment income is adjusted with operating income of quarterly consolidated statements of income.

II Current Q1 (From April 1, 2023 to June 30, 2023)

1.Net sales and income by Reportable segments

(Million Yen)

	Reportable segments				Adjustment (NOTE) 1,2	Amount shown on quarterly consolidated income statements (NOTE)3
	Japan	South Korea	China	Total		
Net sales						
Sales to External Customers	11,079	12,274	3,209	26,562	599	27,162
Intersegment Sales or Transfers	599	228	76	905	(905)	-
Total	11,678	12,503	3,286	27,468	(305)	27,162
Segment income	714	1,115	101	1,932	19	1,951
Other Items						
Equity in earnings of affiliates	-	143	2,128	2,271	-	2,271
Investments on entities accounted for equity method affiliates	-	425	18,553	18,978	-	18,978

(NOTE) 1 Adjustment of Sales to External Customers was recorded by the Company as a pure holding company.

2 Adjustment of segment income is the elimination of intersegment transactions, adjustment of unrealized gains on inventories, and our income not allocated to the respective Reportable segments.

3 Segment income is adjusted with operating income of quarterly consolidated statements of income.

3. Supplementary Information

Overseas sales

Previous Q1 (From April 1, 2022 to June 30, 2022)

(Million Yen, %)

	South Korea	China	Others	Total
I Overseas sales	12,154	2,101	224	14,480
II Consolidated net sales				26,425
III Percentage of overseas net sales in consolidated net sales	46.0	8.0	0.9	54.8

Current Q1 (From April 1, 2023 to June 30, 2023)

(Million Yen, %)

	South Korea	China	Others	Total
I Overseas sales	11,784	4,522	359	16,666
II Consolidated net sales				27,162
III Percentage of overseas net sales in consolidated net sales	43.4	16.7	1.3	61.4

(NOTE) Net sales is classified by country/region based on the location of customers.

-End-