



DESCENTE

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

November 7, 2023

Name of the Company: DESCENTE LTD. Listed Exchange: TSE
 Code No.: 8114 URL: <http://www.descente.co.jp>
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 Date of Submission of Securities Report: November 7, 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 First half of the Fiscal Year Ending March 31, 2024 (April 1, 2023 to September 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	%
Q2 of FY 2023	59,985	4.9	4,151	-15.2	8,007	18.8	5,672	10.5
Q2 of FY 2022	57,210	14.6	4,895	80.4	6,740	68.3	5,132	106.3

(NOTE): Comprehensive income Q2 of FY 2023 9,378 million yen (-15.2%) Q2 of FY 2022 11,065 million yen(134.4%)

	Quarterly net income per share	Quarterly diluted net income per share
	Yen	Yen
Q2 of FY 2023	75.11	-
Q2 of FY 2022	68.00	-

(2) Consolidated financial position

	Total assets	Net assets	Equity Ratio
	Million yen	Million yen	%
Q2 of FY2023	137,172	106,788	77.3
FY 2022	133,562	100,300	74.6

(Reference) Equity: Q2 of FY 2023 106,093 million yen Q2 of FY 2022 99,637 million yen

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 2023	-	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

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

(%, YoY)

	Net sales		Operating income		Ordinary income		Profit 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 end of fiscal period (including treasury stock)

Q2 of FY 2023	76,924,176	FY 2022	76,924,176
Q2 of FY 2023	1,388,446	FY 2022	1,420,092
Q2 of FY 2023	75,517,643	Q2 of FY 2022	75,490,118

② Number of treasury stock at fiscal end

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

※ 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 4 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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I. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

In the second quarter of the fiscal year under review, ordinary income and profit attributable to owners of parent reached record highs, continuing from the first quarter.

In Japan, we are focusing on strengthening DTC business, which is one of our priority strategies. In particular, sales at directly managed stores were strong. In China, the incorporation of LE COQ SPORTIF(NINGBO)CO., LTD ("NLCS") into consolidated results from the fourth quarter of the previous year greatly contributed to the increase in sales compared to the same quarter of the previous year. In addition, the athletic wear category of each segment grew, and although sales of the golf wear category decreased compared with the same quarter of the previous fiscal year, net sales in the cumulative second quarter increased 4.9% compared with the same quarter of the previous fiscal year to 59,985 million yen.

Gross profit increased 7.9% year on year to 35,897 million yen due to the aforementioned increase in sales and the improvement in gross margin of DTC business in Japan.

SG&A expenses increased 11.9% year on year to 31,745 million yen due to increased advertising and promotional expenses associated with branding and the incorporation of Chinese affiliates.

Operating income decreased 15.2% from the same quarter of the previous year to 4,151 million yen due to the above.

Equity in earnings of affiliates increased due to growth in the performance of DESCENTE CHINA HOLDING LTD ("DCH") and ARENA KOREA LTD ("AK"), resulting in a 18.8% increase in operating income from the same quarter of the previous fiscal year to 8,007 million yen.

Quarterly net income attributable to owners of parent increased 10.5% year-on-year to 5,672 million yen, despite 303 million yen of restructuring charges for NLCS as an extraordinary loss resulting from higher ordinary income.

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

(Net Sales by Segments)

Segment	Net sales (million yen) (YoY)	Segment income (million yen) (YoY)
Japan	23,957 (93.3%)	2,054 (64.1%)
South Korea	27,751 (98.3%)	1,740 (87.1%)
China	7,099 (321.9%)	241 (185.3%)
Adjustments	1,176 (108.1%)	114 -
Total	59,985 (104.9%)	4,151 (84.8%)

※ Segment income is operating income of the Company.

(Japan)

Gross margin is steadily rising, as the items were sold well in the proper price, especially in the renovated "DESCENTE" directly managed stores. In addition, inbound demand remained strong from the first quarter, resulting in a 3 points increase in DTC ratio compared to the same quarter of the previous year. On the other hand, due to the impact of the termination of the "Marmot" licensing contract in December 2022 and a decline in sales of golf wear categories from the same quarter of the previous fiscal year, segment net sales decreased 6.7% from the same quarter of the previous fiscal year to 23,957 million yen. Segment income decreased 35.9% from the same quarter of the previous fiscal year to 2,054 million yen due to a absence of the one-time gain of approximately 470 million yen that occurred during the first quarter of the previous fiscal year, as well as increased expenses associated with the branding, such as refurbishment of directly managed stores and the new brand ambassador contracts, etc.

(South Korea)

Capturing demand for summer products, sales of athletic wear categories such as "DESCENTE" and "umbro" were strong, but performance in the golf wear category was weak because of the decline in the golf boom. As a result, segment net sales decreased 1.7% from the same quarter of the previous year to 27,751 million yen. Segment income decreased 12.9% to 1,740 million yen due to a decrease in sales and an increase in SG&A expenses such as advertising expenses. AK, which is not included in segment income but is an equity-method affiliate, posted strong sales of leisure swimsuits in line with an increase in overseas travelers, and its results grew.

(China)

Net sales increased 221.9% year-on-year to 7,099 million yen, primarily due to higher revenues from the incorporation of NLCS and an increase in travelers from China in Hong Kong. Segment income increased 85.3% compared with the same quarter of the previous fiscal year to 241 million yen despite the recording of amortization of goodwill, due to the above-mentioned sales increase. DCH, an equity-method affiliate developing "DESCENTE" 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	41,914	69.9	117.3
Golf wear and related products	15,281	25.5	85.8
Others	1,611	2.7	62.8
Adjustment	1,176	2.0	108.1
Total	59,985	100.0	104.9

(Athletic wear and related products)

In Japan, sales of *Mizusawa Down* at "DESCENTE" directly managed stores and our own e-commerce were robust, and sales of "arena," which benefited from the ripple effects of the World Aquatics Championships Fukuoka 2023, grew. In South Korea, sales of "umbro" remained strong for the younger generation. Sales in China increased significantly due to the incorporation of NLCS. Net sales in the athletic wear category increased 17.3% year on year to 41,914 million yen.

(Golf wear and related products)

Net sales of the golf wear category declined 14.2% from the same quarter of the previous year to 15,281 million yen, affected by the stabilization of the golf boom in Japan and South Korea, despite the launch of hit products such as the *Stretch Forcer*, a sportswear that combines original cutting and stretch fabric from "le coq sportif", and *CONDOR*, a golf shoes in South Korea for "DESCENTE".

(Initiatives for Sustainability)

As part of our sustainability efforts, we are engaged in product development, recycling, and sports promotion activities that will lead to the resolution of issues.

In July 2023, Japan began sales of *LCS CHARLES* and *LCS ARLES*, new baby shoes, in "le coq sportif". These baby shoes are equipped with a function to support the inside of the foot, mainly the undeveloped arch of the foot of children around the age of one who have begun walking. In recognition of our design for children, we received the 17th KIDS DESIGN AWARD in the design section, which contributes to the safety and security of children.

Since 2018, we have been conducting activities to collect and recycle swimming goggles that are no longer needed in "arena". At the World Aquatics Championships Fukuoka 2023 held in July, we set up a box to collect goggles at our booth outside the venue. This recycling activity has also been certified as a convention-related project. It was introduced at the official website of the championships.

In July, we held *PLAY MOVESPORT*, a hands-on workshop at "MOVERSPO". Including the performance by *MOVESPORT UNIT* members, the event provided an opportunity for approximately 250 people, from children to adults, to experience urban sports such as BMX, skateboards, sports climbing, and double-dutch. *PLAY MOVESPORT* will continue to be held around Japan. We will continue to work to resolve social issues through activities through sports.

(2) Explanation of Financial Position

(Analysis of the status of assets, liabilities, and net assets)

At the end of the second quarter of the fiscal year under review, Total assets was 137,172 million yen, increased by 3,609 million yen from the end of the previous fiscal year.

Current assets decreased 1,284 million yen from the end of the previous fiscal year to 81,221 million yen. This was mainly due to an increase in cash and deposits of 1,290 million yen and an increase in merchandise and finished goods of 1,059 million yen.

Non-current assets increased 4,893 million yen from the end of previous fiscal year to 55,951 million yen. This was mainly due to an increase of 4,518 million yen in investment securities included in investments and other assets.

Total liabilities decreased 2,878 million yen from the end of previous fiscal year to 30,384 million yen. This was mainly due to a decrease in notes and accounts payable - trade of 1,937 million yen and a decrease in accounts payable - other of 551 million yen.

Net assets increased 6,488 million yen from the end of previous fiscal year to 106,788 million yen. This was mainly due to an increase in retained earnings of 2,652 million yen and an increase in foreign currency translation adjustment of 3,327 million yen.

As a result, the equity ratio increased 2.7 points from the end of the previous fiscal year to 77.3%.

(Analysis of Cash Flow Status)

Cash and cash equivalents at the end of period for the second quarter under review decreased by 9,780 million yen from the end of the previous fiscal year to 24,964 million yen.

Cash flows from operating activities recorded a net-cash-inflow of 237 million yen (a net-cash-inflow of 4,710 million yen for the previous first half). This was mainly due to the increase by income before income taxes of 7,704 million yen, an increase in notes and accounts receivable-trade of 976 million yen and a decrease in notes and accounts payable-trade of 2,176 million yen.

Cash flows from investing activities recorded a net-cash-outflow of 6,078 million yen (a net-cash-outflow of 7,338 million yen for the previous first half). This was mainly due to an increase in time deposits of 4,704 million yen and purchase of PP&E and/or intangible assets of 1,026 million yen.

Cash flows from financing activities recorded a net-cash-outflow of 4,204 million yen (a net-cash-outflow of 3,026 million yen for the previous first half). This was mainly due to cash dividends paid 3,020 million yen and repayment of lease obligation payable of 617 million yen.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

Full-year Consolidated Earnings Forecasts remain unchanged from the forecasts announced 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)	Q2 of FY2023 (As of September 30, 2023)
Assets		
Current assets		
Cash and deposits	41,412	36,873
Notes and accounts receivable – trade	15,698	16,988
Merchandise and finished goods	20,657	21,717
Work in process	387	549
Raw materials and supplies	536	698
Others	3,875	4,455
Allowance for doubtful accounts	-62	-61
Total current assets	82,505	81,221
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,178	9,494
Others	14,929	14,778
Total property, plant and equipment	24,107	24,273
Intangible assets		
Goodwill	3,516	3,499
Others	1,491	1,790
Total intangible assets	5,008	5,290
Investments and other assets		
Investments in securities	18,218	22,736
Retirement benefit assets	487	323
Others	3,280	3,371
Allowance for doubtful accounts	-44	-44
Total investments and other assets	21,941	26,387
Total non-current assets	51,057	55,951
Total assets	133,562	137,172
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,592	9,655
Short-term loans payable	551	-
Income taxes payable	1,428	1,244
Provision for bonuses	1,283	806
Others	11,088	10,811
Total current liabilities	25,944	22,518
Non-current liabilities		
Others	7,318	7,866
Total non-current liabilities	7,318	7,866
Total liabilities	33,262	30,384

(Million Yen)

	Previous fiscal year (As of March 31, 2023)	Q2 of FY2023 (As of September 30, 2023)
Net assets		
Shareholders' equity		
Capital stock	3,846	3,846
Capital surplus	25,436	25,552
Retained earnings	62,257	64,909
Treasury stock	-606	-593
Total shareholders' equity	90,933	93,715
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	609	1,006
Deferred gains or losses on hedges	-3	-12
Foreign currency translation adjustment	7,397	10,725
Remeasurements of defined benefit plans	699	658
Total accumulated other comprehensive income	8,703	12,377
Non-controlling shareholders' equity	662	695
Total net assets	100,300	106,788
Total liabilities and net assets	133,562	137,172

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

(Million Yen)

	Previous Q2 (April 1, 2022 to September 30, 2022)	Current Q2 (April 1, 2023 to September 30, 2023)
Net sales	57,210	59,985
Cost of sales	23,934	24,087
Gross profit	33,275	35,897
Selling, general and administrative expenses	28,380	31,745
Operating income	4,895	4,151
Non-operating income		
Interest income	139	352
Dividends income	76	100
Equity in earnings of affiliates	1,560	3,404
Foreign exchange gains	49	-
Others	77	172
Total non-operating income	1,902	4,030
Non-operating expenses		
Interest expenses	29	63
Loss on retirement of noncurrent assets	13	51
Foreign exchange losses	-	40
Others	14	18
Total non-operating expenses	58	174
Ordinary income	6,740	8,007
Extraordinary gains		
Gain on subsequent acquisitions	92	-
The gain from negative goodwill	35	-
Total extraordinary income	127	-
Extraordinary losses		
Restructuring charges	-	303
Total extraordinary loss	-	303
Quarterly net income before income taxes	6,867	7,704
Income taxes - current	1,274	1,230
Income taxes - deferred	460	801
Total income taxes	1,734	2,031
Quarterly net income	5,132	5,672
Quarterly net income attributable to non-controlling shareholders	-	0
Quarterly net income attributable to owners of parent	5,132	5,672

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

(Million Yen)

	Previous Q2 (April 1, 2022 to September 30, 2022)	Current Q2 (April 1, 2023 to September 30, 2023)
Quarterly net income	5,132	5,672
Other comprehensive income		
Valuation difference on available-for-sale securities	5	396
Deferred gains or losses on hedges	63	-8
Foreign currency translation adjustment	4,136	2,168
Remeasurements of defined benefit plans	-43	-41
Share of other comprehensive income (loss) of entities accounted for using equity method	1,771	1,192
Total other comprehensive income	5,932	3,706
Comprehensive income	11,065	9,378
(breakdown)		
Comprehensive income attributable to owners of parent	11,065	9,378
Comprehensive income related to non-controlling shareholders	-	32

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	Previous Q2 (April 1, 2022 to September 30, 2022)	Current Q2 (April 1, 2023 to September 30, 2023)
Cash flow from operating activities		
Quarterly net income before income taxes	6,867	7,704
Depreciation	2,176	1,934
Amortization of goodwill	-	185
Gain (loss) on step acquisitions	-92	-
The gain from negative goodwill	-35	-
Increase (decrease) in allowance for doubtful accounts	-0	-3
Increase (decrease) in provision for bonuses	-445	-477
Increase (decrease) in net defined benefit liability	190	107
Interest and dividends income	-215	-453
Share of profit (loss) of entities accounted for using equity method	-1,560	-3,404
Interest expenses	29	63
Decrease in notes and accounts receivable-trade	-1,629	-976
(Increase) decrease in inventory	1,592	-734
Increase (decrease) in notes and accounts payable-trade	-1,329	-2,176
Others	-821	-1,166
Subtotal	4,726	602
Interest and dividends income received	660	1,064
Interest expenses paid	-29	-63
Income taxes refunded (paid)	-646	-1,366
Cash flow from operating activities	4,710	237
Cash flow from investing activities		
Decrease (increase) in time deposits-trade	-6,730	-4,704
Purchase of property, plant and equipment	-324	-1,026
Purchase of intangible assets	-201	-479
Payment on guaranty money deposited	-108	-78
Collection of fixed leasehold deposits	245	258
Payments for purchase of investments in subsidiaries resulting in change in scope of Consolidated	-325	-
Others	107	-49
Cash flow from investing activities	-7,338	-6,078
Cash flow from financing activities		
Net increase (decrease) in short-term borrowings	-	-566
Cash dividends paid	-1,886	-3,020
Purchase of treasury stock	-0	-0
Repayments of lease obligations	-1,139	-617
Cash flow from financing activities	-3,026	-4,204
Effect of exchange rate change on cash and cash equivalents	800	265
Net increase (decrease) in cash and cash equivalents	-4,855	-9,780
Cash and cash equivalents at beginning of period	32,757	34,744
Cash and cash equivalents at end of period	27,902	24,964

(4) 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 second 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 Q2 Consolidated (From April 1, 2022 to September 30, 2022)

1. Net Sales and Income Amounts 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	25,686	28,229	2,205	56,121	1,088	57,210
Intersegment Sales or Transfers	2,666	523	22	3,212	-3,212	-
Total	28,353	28,752	2,227	59,334	-2,124	57,210
Segment profit	3,205	1,999	130	5,335	-439	4,895
Other Items						
Equity in earnings of affiliates	-	134	1,465	1,599	-39	1,560
Investments on entities accounted for equity method affiliates	-	172	17,086	17,259		17,259

(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 2Q Consolidated (From April 1, 2023 to September 30, 2023)

1. Net Sales and Income Amounts 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	23,957	27,751	7,099	58,808	1,176	59,985
Intersegment Sales or Transfers	2,674	441	259	3,376	-3,376	-
Total	26,632	28,192	7,358	62,184	-2,199	59,985
Segment profit	2,054	1,740	241	4,037	114	4,151
Other Items						
Equity in earnings of affiliates	-	233	3,171	3,404	-	3,404
Investments on entities accounted for equity method affiliates	-	554	19,772	20,326	-	20,326

(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 Q2 (From April 1, 2022 to September 30, 2022)

(Million Yen, %)

	South Korea	China	Others	Total
I Overseas sales	26,969	5,044	1,264	33,278
II Consolidated net sales				57,210
III Consolidated net sales Percentages of overseas net sales	47.1	8.8	2.2	58.2

Current Q2 (From April 1, 2023 to September 30, 2023)

(Million Yen, %)

	South Korea	China	Others	Total
I Overseas sales	27,087	9,822	1,795	38,704
II Consolidated net sales				59,985
III Consolidated net sales Percentages of overseas net sales	45.2	16.4	3.0	64.5

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

-end-