

DESCENTE



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

February 5, 2024

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: February 5, 2024 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 Third Quarter of the Fiscal Year Ending March 31, 2024 (April 1, 2023 to December 31, 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	%
Q3 of FY 2023	90,100	4.6	6,434	-11.9	11,662	11.7	8,344	-18.0
Q3 of FY 2022	86,099	12.3	7,300	66.7	10,445	79.1	10,172	105.4

(NOTE): Comprehensive income Q3 of FY 2023 13,458 million yen (-7.1%) Q3 of FY 2022 14,486 million yen (140.1%)

	Quarterly net income per share	Quarterly diluted net income per share
	Yen	Yen
Q3 of FY 2023	110.49	-
Q3 of FY 2022	134.74	-

(2) Consolidated financial position

	Total assets	Net assets	Equity Ratio
	Million yen	Million yen	%
Q3 of FY 2023	141,860	110,867	77.7
FY 2022	133,562	100,300	74.6

(Reference) Equity: Q3 of FY 2023 110,228 million yen, 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 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

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)

② Number of treasury stock at fiscal end

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

Q3 of FY 2023	76,924,176	FY 2022	76,924,176
Q3 of FY 2023	1,388,802	FY 2022	1,420,092
Q3 of FY 2023	75,523,029	Q3 of FY 2022	75,494,339

※ 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 Forecasts and Other Forward-Looking Statements " 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.

○Table of Contents of Appendix

1. Qualitative Information on Quarterly Financial Results.....	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Forecasts and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes.....	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	6
(3) Notes on Quarterly Consolidated Financial Statements.....	8
(Going Concern Assumptions)	8
(Notes on Significant Changes in the Amount of Shareholders' equity)	8
(Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)	8
(Changes in accounting policies)	8
(Segment information, etc.)	9
3. Supplementary information.....	10
Overseas sales.....	10

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

In Japan, we are focusing on strengthening DTC business, one of our key strategies. Sales were strong at directly managed stores in “DESCENTE” and at pop-up stores opened for a limited time. In South Korea, sales of T-shirts and thinner jackets of “DESCENTE” were strong, and sales at full priced stores were strong. In China, the inclusion of LE COQ SPORTIF(NINGBO) CO., LTD (“NLCS”) in consolidated results from the fourth quarter of the previous fiscal year contributed to the increase in net sales.

Although sales in the golf wear category declined year on year due to the continued impact of the rebound of the golf boom, net sales in the cumulative third quarter of the fiscal year under review increased by 4.6% year on year to 90,100 million yen due to the sales growth in the athletic wear category in each segment.

Gross profit increased by 9.0% year on year to 54,059 million yen due to the above-mentioned increase in sales and an improvement in gross margin of DTC business in Japan.

SG&A expenses increased by 12.6% year on year to 47,625 million yen, mainly due to the consolidation of NLCS and aggressive advertising and sales promotions to promote branding.

Operating income decreased by 11.9% year on year to 6,434 million yen as a result of the above.

Ordinary income increased by 11.7% year on year to 11,662 million yen due to an increase in equity in earnings of affiliates in line with growth in the performance of DESCENTE CHINA HOLDING LTD. (“DCH”). This marked a record high for the cumulative third quarter.

Profit attributable to owners of parent decreased by 18.0% year on year to 8,344 million yen. This is mainly due to the rebound of an extraordinary income of 2,132 million yen, including a purchase on step acquisitions associated with the consolidation of NLCS in the same quarter of the previous fiscal year, in contrast of extraordinary loss of 358 million yen due to the restructuring charges of NLCS in the third quarter of the fiscal year under review, despite an increase in ordinary income.

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

(Net Sales by Segments)

Segment	Net sales (million yen) (YoY)	Segment income (million yen) (YoY)
Japan	37,915 (94.9%)	3,342 (75.3%)
South Korea	40,100 (97.9%)	2,964 (91.2%)
China	10,403 (286.0%)	42 (16.3%)
Adjustments	1,681 (106.5%)	84 -
Total	90,100 (104.6%)	6,434 (88.1%)

※ Segment income is operating income of the Company.

(Japan)

Sales of high-value-added products such as *Mizusawa Down* and the hard-shell jacket *CREAS* by “DESCENTE” were strong, and sales in the athletic wear category increased year on year. In addition, DTC net sales composition ratio rose by 2.9 points year on year, and gross margin also improved. These and other initiatives to strengthen DTC business are showing steady results. On the other hand, due to the impact of the termination of the license agreement for “Marmot” in December 2022 and a decrease in sales in the golf wear category, net sales decreased by 5.1% year on year to 37,915 million yen. Segment income decreased by 24.7% year on year to 3,342 million yen due to a rebound of one-time gain of approximately 470 million yen that occurred during the previous fiscal year, as well as the impact of the rebound of the golf boom and increased advertising expenses associated with branding.

(South Korea)

In the athletic wear category, sales increased mainly due to growth in sales at full priced stores of “DESCENTE” and strong sales of “umbro”, but net sales decreased by 2.1% year on year to 40,100 million yen and segment income decreased by 8.8% year on year to 2,964 million yen due to a rebound of the golf boom. Although not included in segment income, ARENA KOREA LTD., an equity-method affiliate that operates “arena”, showed steady sales of leisure swimsuits in line with the rise in overseas travelers.

(China)

Net sales increased by 186.0% year on year to 10,403 million yen due to the impact of increased sales from the consolidation of ARENA(SHANGHAI)INDUSTRIAL CO., LTD. (“ASH”) and NLCS as consolidated subsidiaries, as well as the impact of a recovery in personal flows. Segment income decreased by 83.7% year-on-year to 42 million yen due to an increase in SG&A expenses associated with the strategic implementation of store renovations and the renewal of exhibitions for rebranding in NLCS, as well as the recording of depreciation of goodwill related to NLCS. Although not included in segment income, DCH, an equity-method affiliate that operates “DESCENTE” remains strong.

(Net sales by Items are as follows;)

Item	Amount (Million Yen)	Composition Ratio (%)	YoY (%)
Athletic wear and related products	62,186	69.0	116.3
Golf wear and related products	22,783	25.3	87.8
Others	3,450	3.8	67.7
Adjustment	1,681	1.9	106.5
Total	90,100	100.0	104.6

(Athletic wear and related products)

In “DESCENTE”, sales were strong in Japan and South Korea, for “umbro”, local marketing strategies are proceeding steadily as sales of products for children, which we are focusing on in Japan, grew and sales of street fashion products for the Generation-Z continue to be strong in South Korea. In “arena”, sales were robust due to brand exposure at World Aquatics Championships Fukuoka 2023 held in July 2023 and from marketing activities commemorating the 50th anniversary of the brand in Japan, South Korea and China. In addition, due to the consolidation of ASH and NLCS, net sales in this category increased 16.3% year on year to 62,186 million yen.

(Golf wear and related products)

In Japan, DESCENTE GOLF COMPLEX GINZA, our golf-complex store in Tokyo (Ginza) increased sales due to the launch of *DSG*, a new collection that combines advanced functionality and design, as well as the capture of demand from foreign tourists. On the other hand, net sales in this category decreased 12.2% year on year to 22,783 million yen, which was around the level before the COVID-19, due to the rebound of the golf-boom in Japan and South Korea.

(Initiatives for Sustainability)

As part of our sustainability efforts, we are promoting sports together with our contract athletes from Team DESCENTE, in order to contribute to the development of young people through sports and regional revitalization. We have held an event “Best Attacker Academy” in October 2023, inviting volleyball player Yuki Ishikawa (Allianz Milano). The high school and university students who participated in the event received direct technical guidance from Ishikawa and received a passionate message through the session. In November 2023, “Challespo Oshu” was held in Oshu City, Iwate Prefecture, where we have concluded a comprehensive collaboration agreement on regional revitalization. We held “DESCENTE” booth and a talk show between soft ball player Yukiko Ueno (Bic Camera Takasaki) and an athlete consultant Hisao Kounoe to deepen exchanges with local residents.

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 consolidated, total assets was 141,860 million yen, increased by 8,297 million yen from the end of the previous fiscal year.

Current assets increased 2,018 million yen from the end of previous fiscal year to 84,524 million yen. This was mainly due to an decrease in cash and deposits of 6,048 million yen, an increase in notes and accounts receivable - trade of 1,886 million yen, and an increase in merchandise and finished goods of 4,924 million yen.

Non-current assets increased 6,278 million yen from the end of previous fiscal year to 57,336 million yen. This was mainly due to an increase of 6,554 million yen in investment securities included in investments and other assets.

Total liabilities decreased 2,269 million yen from the end of previous fiscal year to 30,993 million yen. This was mainly due to a decrease of 2,025 million yen in accounts payable-other included in other of current liabilities.

Net assets increased 10,567 million yen from the end of previous fiscal year to 110,867 million yen. This was mainly due to an increase in retained earnings of 5,324 million yen and an increase in foreign currency translation adjustment of 4,728 million yen.

As a result, the equity ratio increased 3.1% from the end of the previous fiscal year to 77.7%.

(3) Explanation of 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)	Q3 of FY2023 (As of December 31, 2023)
Assets		
Current assets		
Cash and deposits	41,412	35,363
Notes and accounts receivable – trade	15,698	17,585
Merchandise and finished goods	20,657	25,582
Work in process	387	666
Raw materials and supplies	536	647
Others	3,875	4,744
Allowance for doubtful accounts	-62	-64
Total current assets	82,505	84,524
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,178	9,443
Others	14,929	14,616
Total property, plant and equipment	24,107	24,059
Intangible assets		
Goodwill	3,516	3,493
Others	1,491	1,951
Total intangible assets	5,008	5,445
Investments and other assets		
Investments in securities	18,218	24,772
Retirement benefit assets	487	269
Others	3,280	2,833
Allowance for doubtful accounts	-44	-44
Total investments and other assets	21,941	27,831
Total non-current assets	51,057	57,336
Total assets	133,562	141,860
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,592	11,791
Short-term loans payable	551	-
Income taxes payable	1,428	399
Provision for bonuses	1,283	532
Others	11,088	10,129
Total current liabilities	25,944	22,852
Non-current liabilities		
Others	7,318	8,141
Total non-current liabilities	7,318	8,141
Total liabilities	33,262	30,993

(Million Yen)

	Previous fiscal year (As of March 31, 2023)	Q3 of FY2023 (As of December 31, 2023)
Net assets		
Shareholders' equity		
Capital stock	3,846	3,846
Capital surplus	25,436	25,552
Retained earnings	62,257	67,582
Treasury stock	-606	-594
Total shareholders' equity	90,933	96,386
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	609	1,098
Deferred gains or losses on hedges	-3	-9
Foreign currency translation adjustment	7,397	12,126
Remeasurements of defined benefit plans	699	625
Total accumulated other comprehensive income	8,703	13,841
Non-controlling shareholders' equity	662	638
Total net assets	100,300	110,867
Total liabilities and net assets	133,562	141,860

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

(Million Yen)

	Previous Q3 (April 1, 2022 to December 31, 2022)	Current Q3 (April 1, 2023 to December 31, 2023)
Net sales	86,099	90,100
Cost of sales	36,500	36,040
Gross profit	49,599	54,059
Selling, general and administrative expenses	42,298	47,625
Operating income	7,300	6,434
Non-operating income		
Interest income	261	581
Dividends income	78	103
Equity in earnings of affiliates	2,381	4,571
Foreign exchange gains	414	-
Others	128	220
Total non-operating income	3,263	5,475
Non-operating expenses		
Interest expenses	58	90
Loss on retirement of noncurrent assets	41	79
Foreign exchange losses	-	16
Others	19	60
Total non-operating expenses	118	247
Ordinary income	10,445	11,662
Extraordinary gains		
Gain on subsequent acquisitions	2,097	-
The gain from negative goodwill	35	-
Total extraordinary income	2,132	-
Extraordinary losses		
Restructuring charges	-	358
Total extraordinary loss	-	358
Profit before income taxes	12,577	11,304
Income taxes - current	1,433	1,479
Income taxes - deferred	971	1,552
Total income taxes	2,405	3,031
Quarterly net income	10,172	8,272
Quarterly net income attributable to non-controlling shareholders	-	-71
Quarterly net income attributable to owners of parent	10,172	8,344

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

(Million Yen)

	Previous Q3 (April 1, 2022 to December 31, 2022)	Current Q3 (April 1, 2023 to December 31, 2023)
Quarterly net income	10,172	8,272
Other comprehensive income		
Valuation difference on available-for-sale securities	45	489
Deferred gains or losses on hedges	-11	-6
Foreign currency translation adjustment	3,019	2,865
Remeasurements of defined benefit plans	-69	-73
Share of other comprehensive income (loss) of entities accounted for using equity method	1,330	1,911
Total other comprehensive income	4,314	5,185
Comprehensive income	14,486	13,458
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	14,486	13,482
Comprehensive income related to non-controlling shareholders	-	-24

(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 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 Q3 Consolidated (From April 1, 2022 to December 31, 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	39,934	40,948	3,637	84,520	1,579	86,099
Intersegment Sales or Transfers	3,319	747	93	4,160	-4,160	-
Total	43,254	41,695	3,730	88,680	-2,581	86,099
Segment income	4,437	3,251	261	7,950	-650	7,300
Other Items						
Equity in earnings or losses of affiliates	-	321	2,059	2,381	-	2,381
Investments on entities accounted for equity method affiliate	-	335	16,455	16,790	-	16,790

(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 Q3 Consolidated (From April 1, 2023 to December 31, 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	37,915	40,100	10,403	88,419	1,681	90,100
Intersegment Sales or Transfers	3,436	638	425	4,500	-4,500	-
Total	41,352	40,738	10,829	92,920	-2,819	90,100
Segment income	3,342	2,964	42	6,349	84	6,434
Other Items						
Equity in earnings of affiliates	-	345	4,226	4,571	-	4,571
Investments on entities accounted for using equity method affiliate	-	666	21,563	22,230	-	22,230

(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 Q3 (From April 1, 2022 to December 31, 2022)

(Million Yen, %)

	South Korea	China	Others	Total
I Overseas sales	38,758	8,043	2,092	48,895
II Consolidated net sales				86,099
III Consolidated net sales Percentages of overseas net sales	45.0	9.3	2.4	56.8

Current Q3 (From April 1, 2023 to December 31, 2023)

(Million Yen, %)

	South Korea	China	Others	Total
I Overseas sales	38,948	14,512	2,424	55,885
II Consolidated net sales				90,100
III Consolidated net sales Percentages of overseas net sales	43.2	16.1	2.7	62.0

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

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