

KOMEHYO

Earnings Results Briefing for the Third Quarter of the Fiscal Year Ending March 31, 2017

February 17, 2017

KOMEHYO Co., Ltd.

Securities code: 2780 (Second Section, Tokyo and Nagoya Stock Exchanges)

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Note:

This document is an English translation of a document prepared in Japanese.

Statements in this document that are not historical facts, including statements concerning the current plans, forecasts, strategies, and beliefs of KOMEHYO Co., Ltd., are forward-looking statements and subject to various risks and uncertainties.

These statements were prepared based on the assumptions of the management of KOMEHYO Co., Ltd. based on information currently available.

The actual results may differ significantly from the forecasts due to a variety of factors, and therefore investors should not place undue reliance on them.

In addition, this document is not intended to solicit investment. Investors must make investment decisions at their own discretion.

Overview of Income Statement

(Consolidated)

Consolidated (Millions of yen)	FY2017 1Q (16.4-6)	YoY	FY2017 2Q (16.7-9)	YoY	FY2017 3Q (16.10-12)	YoY	FY2017 9 months (16.4-12)	YoY
Net sales	9,153	88.2%	9,815	92.9%	11,054	85.1%	30,023	88.5%
Gross profit	2,539	79.8%	2,565	86.4%	3,155	85.0%	8,260	83.8%
Gross profit margin	27.7%	△3.0pt	26.1%	△2.0pt	28.5%	△0.1pt	27.5%	△1.6pt
SG&A expenses	2,595	104.3%	2,576	102.6%	2,573	94.3%	7,745	100.2%
Operating income	△55	—	△11	—	581	59.2%	514	24.1%
Ordinary income	△68	—	△19	—	587	60.3%	499	23.6%
Net income attributable to owners of parent	△58	—	30	9.6%	108	16.5%	80	5.9%

※In accordance with the “Accounting Standards for Impairment of Fixed Assets,” extraordinary loss of 322 million yen, including impairment loss of 231 million yen, was reported for the third quarter under review on stores, etc. for which the Company recognized the sign of impairment loss.

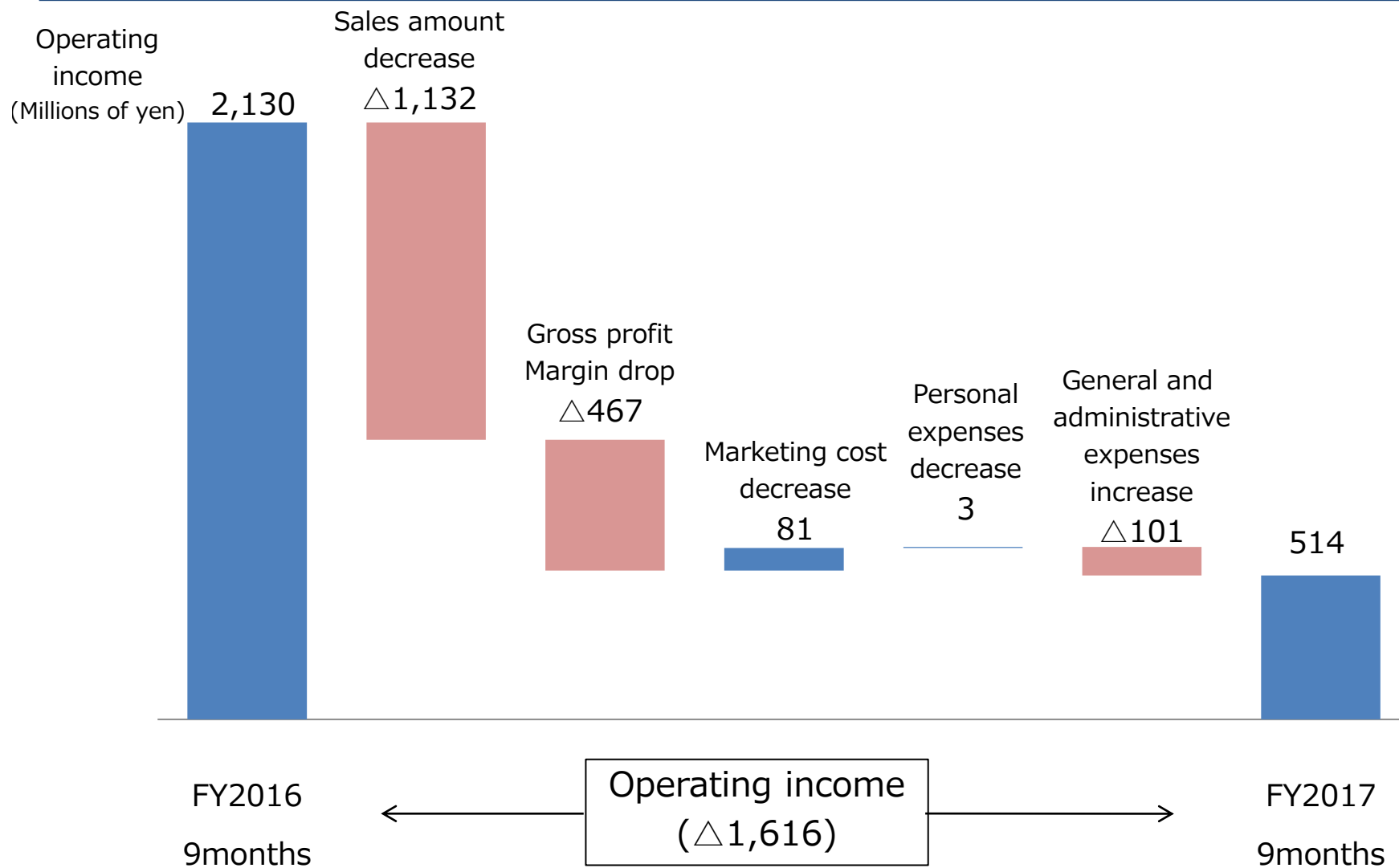
Overview of Income Statement

(Non-consolidated)

Non-consolidated (Millions of yen)	FY2017 1Q (16.4-6)	YoY	FY2017 2Q (16.7-9)	YoY	FY2017 3Q (16.10-12)	YoY	FY2017 9 months (16.4-12)	YoY
Net sales	8,052	86.9%	8,835	92.5%	9,079	83.2%	25,967	87.3%
Gross profit	2,154	78.2%	2,230	86.8%	2,500	83.5%	6,886	82.8%
Gross profit margin	26.8%	△2.9pt	25.2%	△1.7pt	27.5%	+0.1pt	26.5%	△1.5pt
SG&A expenses	2,225	105.9%	2,251	105.5%	2,155	95.1%	6,632	102.0%
Operating income	△70	—	△21	—	345	47.5%	253	13.9%
Ordinary income	△77	—	△31	—	357	49.6%	248	13.7%
Net income	△57	—	24	8.4%	△41	—	△75	—

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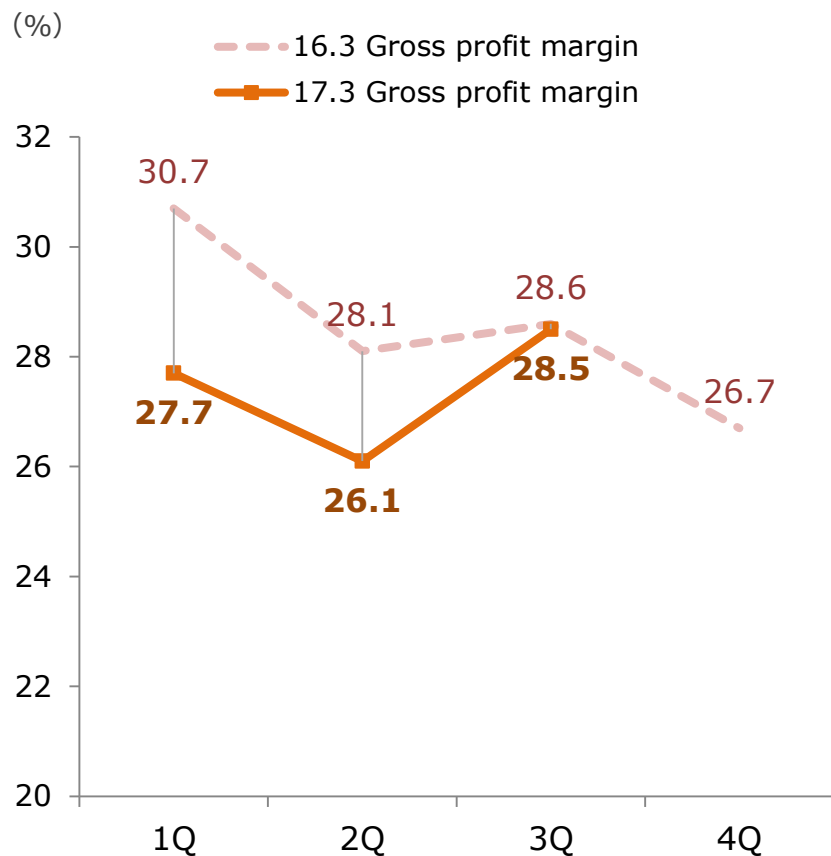
Operating income decrease factor (Consolidated)



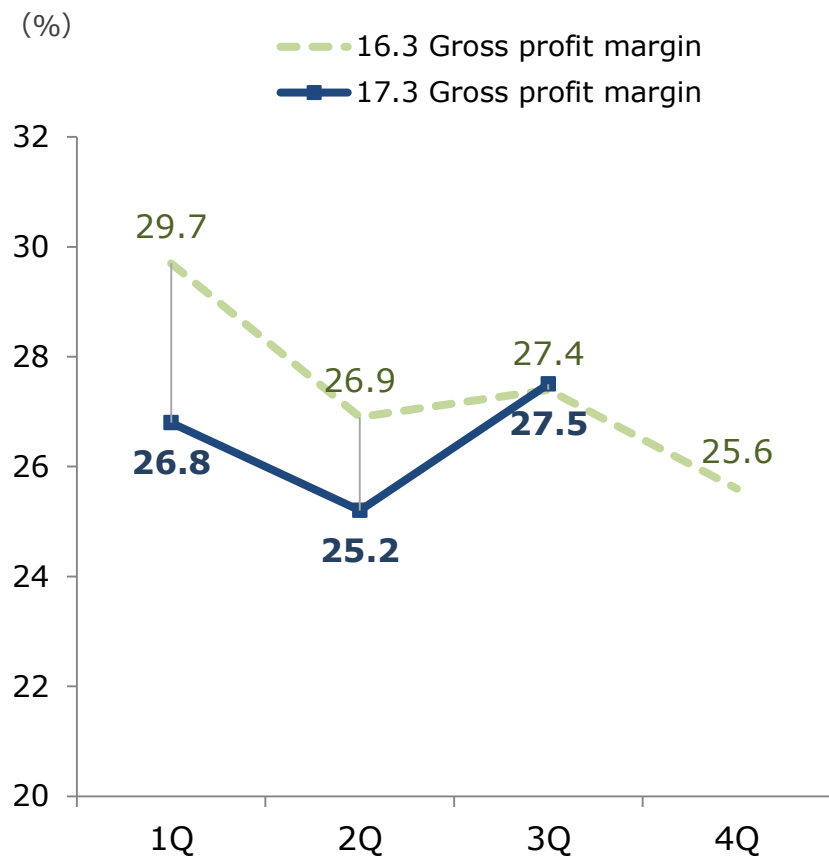
Increasing profitability ①

3Q gross profit margin: improved approximately to the same level as the previous corresponding period

Consolidated



Non-consolidated

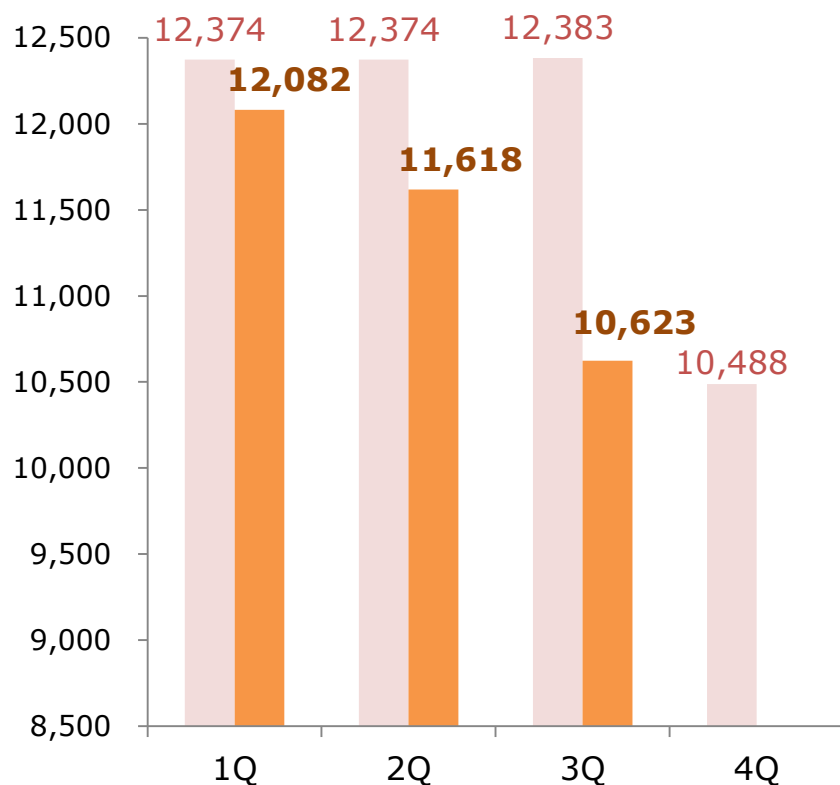


Increasing profitability ②

Products: reduced drastically, mainly potentially problematic inventory such as slow-moving inventory

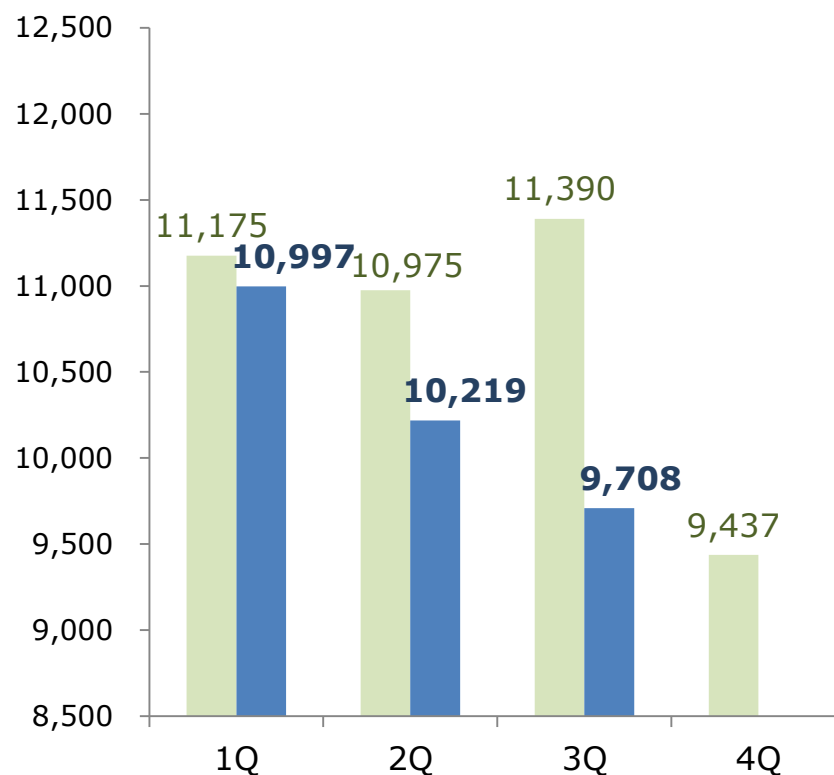
Consolidated

(Millions of yen) 16.3 products 17.3 products



Non-consolidated

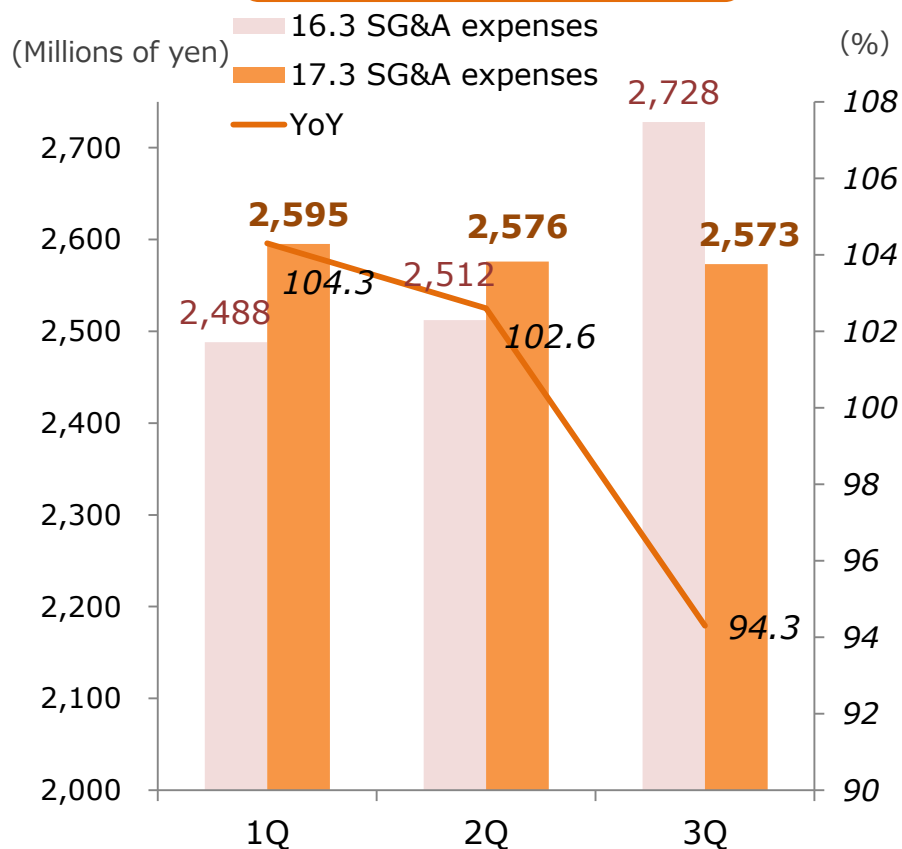
(Millions of yen) 16.3 products 17.3 products



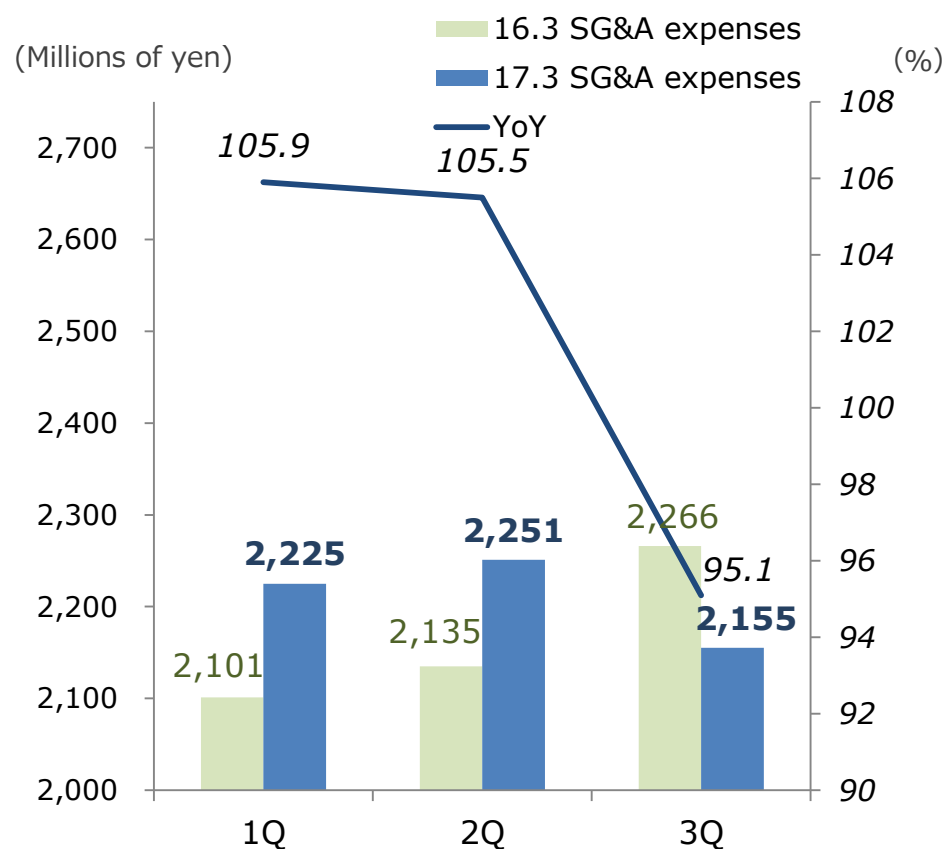
Increasing profitability ③

Reduced the overall SG&A expenses including advertising expenses and personnel expenses

Consolidated



Non-consolidated



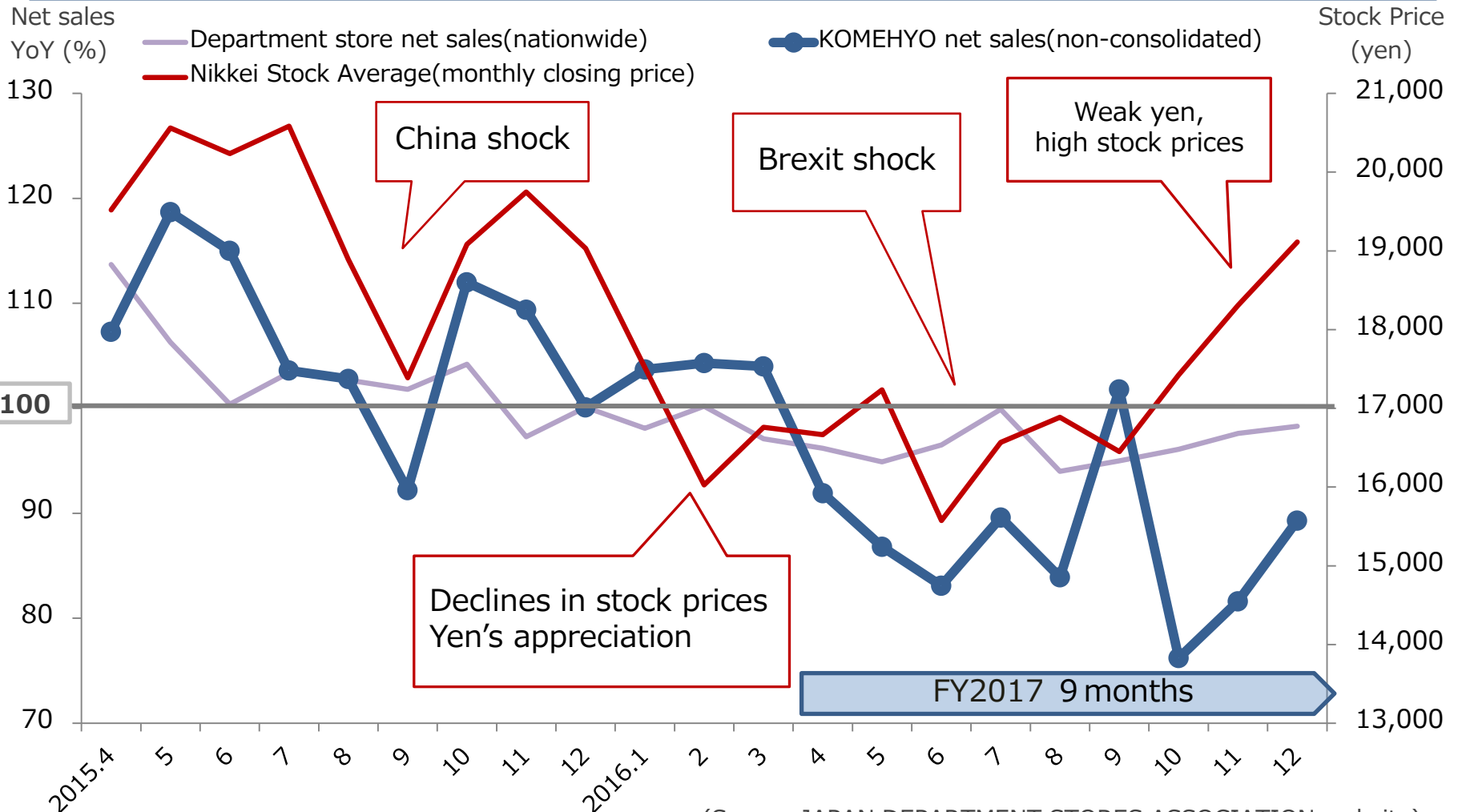
By Segment

3Q operating income increased YoY in all segments

	(Millions of yen)	FY2017 1Q (16.4-6)	YoY	FY2017 2Q (16.7-9)	YoY	FY2017 3Q (16.10-12)	YoY	FY2017 9 months (16.4-12)	YoY
Brand Fashion	Net sales	8,181	86.8%	8,947	92.1%	9,209	83.3%	26,338	87.2%
	Operating income	△39	—	19	4.0%	402	51.9%	381	19.7%
	Operating margin	△0.5%	△7.8pt	0.2%	△4.7pt	4.4%	△2.6pt	1.4%	△5.0pt
Tire and Wheel	Net sales	948	102.0%	843	102.4%	1,822	95.8%	3,614	98.9%
	Operating income	△21	—	△38	—	173	85.9%	113	66.8%
	Operating margin	△2.3%	△2.2pt	△4.5%	△0.8pt	9.5%	△1.1pt	3.1%	△1.5pt
Others	Net sales	34	103.8%	35	106.5%	33	105.4%	103	105.3%
	Operating income	5	73.7%	7	128.1%	6	108.8%	19	101.6%
	Operating margin	15.2%	△6.2pt	22.0%	+3.7pt	18.3%	+0.6pt	18.5%	△0.7pt

External Environment : Economic Trend

Consumption trend was weak due to significant changes in the economic environment



Purchase from Individual Customers

Rolled out "Purchase Promotion Campaign" at all purchasing centers

Amount of purchase from individual customers	FY2017 1Q (16.4-6)	YoY	FY2017 2Q (16.7-9)	YoY	FY2017 3Q (16.10-12)	YoY	FY2017 9 months (16.4-12)	YoY
Purchasing Center	4,067	86.7%	3,903	92.8%	3,967	83.0%	11,938	87.3%
Home delivery Purchasing	222	97.9%	189	89.1%	188	72.7%	600	85.9%
Total (Millions of yen)	4,290	87.2%	4,093	92.6%	4,156	82.4%	12,539	87.2%

【Purchase Promotion Campaign】

Rolled out a campaign of increasing purchase prices for brands and items of the month



Sales at other companies' websites, such as cross-border EC sites, were strong

Net sales (Millions of yen)	FY2017 9 months (16.4-12)	YoY
KOMEHYO website	1,168	82.5%
Back orders	2,737	96.3%
Other	638	115.9%
Total	4,544	94.5%

KOMEHYO website

Order/settlement via komehyo.jp

Back orders

- Customers specify a store to do back orders online
- Store staff suggest/back order products to suit customer needs

Other

Order/payment via other companies' websites, such as Rakuten Ichiba, Yahoo!, Amazon, and eBay stores

【XMAS SALE】

Held special sales at online stores simultaneously at physical stores



【blog on the KOMEHYO website】

Updated blog posts frequently to attract customers to physical stores and online stores



Subsidiary① Brand Fashion Segment

Sales to secondhand dealers in Japan and abroad

KOMEHYO Auction

	Frequency	Trade volume (FY2017 9 months)	YoY	No. of member companies
Jewelry, watches, bags	Monthly 3 days	JPY11,600 million	87.4%	719
Clothing	Monthly 1 day	JPY230 million	89.1%	



KOMEHYO auctions

KOMEHYO HONG KONG LIMITED

- Onsite staff for overseas contacts
- Participation in NJKP auctions
- Jewelry show
- Expansion of B2B business



NJKP auctions

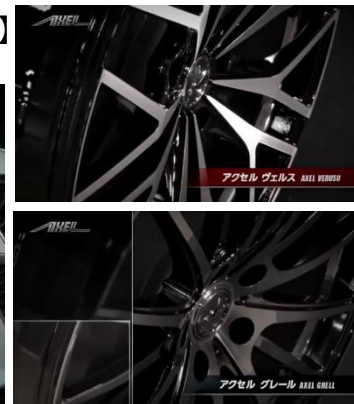


Subsidiary② Tire and Wheel Segment

Sale of tires, wheels, and vehicle parts

Net sales (Millions of yen)	FY2017 9 months (16.4-12)	YoY
Tires/wheels	3,017	98.7%
Parts	521	98.1%
Others	75	114.8%
Segment total	3,614	98.9%

【Produce a wheel “AXEL Series” movie】



【Dress-up work example】



Revised FY2017 plan

Consolidated (Millions of yen)	Revised FY2017 Plan	FY2016	YoY change
Net sales	39,900	45,903	86.9%
Operating income	600	2,789	21.5%
Ordinary income	590	2,742	21.5%
Net income attributable to owners of parent	150	1,696	8.8%

Non-consolidated (Millions of yen)	Revised FY2017 Plan	FY2016	YoY change
Net sales	34,600	40,554	85.3%
Operating income	310	2,426	12.8%
Operating income	300	2,400	12.5%
Net income	△20	1,480	—

Opening,closing,and relocation of stores

<The point>

☆ Aim to improve medium- and long-term profitability by closing unprofitable stores and relocating and extending functions to existing stores and new stores scheduled to open in February 2017 and thereafter

☆ Plan to reorganize Nagoya Head Office Main Building (downsizing of part of the apparel section and relocation of the purchasing function to Nagoya Honten Honkan) and downsize part of the apparel section of Shinjuku store to prepare for the opening of a large store in front of Nagoya Station in May and opening of medium-size store near the east exit of Shinjuku Station

Opening,closing,and relocation of stores

Target store	'17.1~7 Planned store closings	main stores to which functions are transferred	'17.2~5 relocation schedule, new store opening schedule
	Mid-scale : Shibuya koendori store Small-scale : Sakae central park store Namba walk store Kobe motomachi store Canal City Hakata Store LINK SMILE : Wing town okazaki store Raguna gamagori store USED MARKET : Osu store urca jewel : Musashikoyama store	Shinjyuku store Bekkan (Tentative name) Nagoya-eki store Shinsaibashi store Kobe sannomiya store Tenjin store Nagoya honten	Large-scale comprehensive reuse store : '17.2 Umeda store '17.5 Nagoya-eki store Mid-scale : '17.5 Shinjyuku store Bekkan (Tentative name)
	'17.2~5 Planned relocation	Relocation destination	
	Purchasing Center Osu Yen=g(Nagoya honten7F) The apparel section of Shinjuku store	Nagoya honten7F UM osu store Shinjyuku store Bekkan (Tentative name)	
Sales floor space	approx.1,930m ² decrease		approx.2,150m ² increase

Opening of New Stores

KOMEHYO Umeda Store

image



February 2017 (planned)
(approx. 1,318m²)

KOMEHYO Nagoya-eki Store

image



May 2017 (planned)
(approx. 1,320m²)

KOMEHYO Shinjyuku Store Bekkan

May 2017(planned)
(approx. 1,073m²)

New initiatives

Medium- and long-term initiatives to drive growth

Introduction of the Rakuten Super Point program

- Special service allowing customers to earn Rakuten Super Points by both selling and purchasing items (scheduled to start from April 2017)
→ Attract new customers from Rakuten Super Point users
- Promoting registration of customers to the Komehyo CRM system by allowing customers to earn and use Rakuten Super Points

Promoting overseas business strategies

- Integrate Overseas Business Department to Business Development Department to enhance overseas business
→ Draw up and promote new overseas business strategies

Strengthening Corporate Business and Auction Business

- Establish Corporate Business Promotion Department → Aim to expand sales channels and improve profitability in the corporate business
- Enhance services and aim to gain a share in the BtoB auction market, where competition is intensifying with too many players on the market

Expanding into new business and services, etc.

- examine the feasibility of proposing new businesses and services to general consumers, in addition to existing businesses, such as brand reuse business and tire wheel business
→ Make proactive use of business partnerships, etc.

※ The details of various initiatives will be announced in the new medium-term management plan to be released in May and other press releases.