

To our stakeholders

DESCENTE LTD.

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INTERIM BUSINESS REPORT 2021

April 1, 2021 - September 30, 2021



About the Photo on the Cover : Shohei Ohtani

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PRESIDENT'S MESSAGE



DESCENTE LTD.
President and Representative Director
Shuichi Koseki

Tell us what was behind your decision to end the D-Summit 2021 medium-term management plan a year early.

The Company had originally planned to steadily increase sales over the three-year period between FY2016 and FY2018 but in reality, sales remained flat. This resulted in a distorted business situation that gave rise to a significant gap between planned and actual performance. I assumed the post of president of DESCENTE LTD. in June, 2019, and I started by working to remedy the fact that our revenue was heavily concentrated in South Korea, and that a gap had grown between our true strengths as a company and the scale of our growth plans. That effort was represented by the former medium-term management plan, D-Summit 2021. In the two years since 2019, we completed the dissolution and transfer of shares in our subsidiaries in Europe and North America, which for many years had not been profitable, and decided to withdraw from brand businesses whose contributions to revenue were low. We also undertook a capital restructuring of our joint venture in China, Descente China Holding Limited—which operates the DESCENTE brand there—with the goal of expanding revenue. In the end, we succeeded in completing these and a variety of other management reforms, which we had initially expected to take three years, a year early.

Remaining are reforming the Japan business and getting the South Korean business back on track, but I decided these tasks could not be completed in the remaining year of the plan. Instead, I create and begin working on D-Summit 2023, a new three-year plan that would incorporate reforms in our domestic business and the establishment of our three pillars in Japan, South Korea and China.

How do you feel about your progress so far in the first year of D-Summit 2023, the current medium-term management plan?

Our greatest focus under D-Summit 2023 is on reforming our domestic business, and the goal is to increase revenue rather than chase sales. The biggest lesson we learned from past sales expansion efforts was that they created a vicious cycle in which we made more product than we could sell in an attempt to avoid opportunity loss, which created sales losses through discounting and returns, and in the end caused us to carry inventory. We will now fundamentally re-think this approach, making only what will sell and handling sales more carefully. Both returns and discounts will decline as a result. We are attempting to turn this into a positive cycle that ultimately will result in a significant reduction in inventory. Many things remain to be done as we work toward reaching a higher “summit,” but in the first quarter of the fiscal year ending March 31, 2022, we succeeded in posting an operating profit in our Japan segment for the first time in 13 years, and I feel the reforms we are currently promoting have brought us closer to a structure that will raise profits.

Specifically, we are pushing ahead with a major reform aimed at converting our wholesale business, which accounts for 80% of our sales, to a direct-to-consumer (DTC) business, but we expect it will take at least three years before the DTC business actually begins to generate profits. It has only been about six months since we first began rolling out directly managed stores under a new DESCENTE brand image, and it is a repeated process of trial and error, but we will work to create some success stories.

Looking outside of Japan, sales in South Korea have declined significantly compared to before due to the impact of boycotts and the coronavirus disease (COVID-19). From FY2021, however, we are on a gradual recovery track, though we do not expect the business to contribute as much to revenue as it did at one time. In the Chinese market, where sales and profits are expected to grow, we successfully completed a capital restructuring of the joint venture that handles business for our core DESCENTE brand, and I feel we are now able to promote business development there more strongly than ever.

Our domestic business represents a growing share of consolidated sales, so going forward we will work to increase its profit contribution. While we have set an extremely ambitious target of having DTC comprise 50 percent of sales in three years, if we achieve that goal I think things will look very different for us. Add in our business in South Korea and China, and I am confident that with revenue well-balanced between those three markets we can reach the point of being able to call ourselves a winner as a Japanese sports apparel company.

In D-Summit 2023, you address goals for solving material issues through manufacturing. How is that effort progressing?

DESCENTE has had a reputation for manufacturing since its founding, and the products we create are designed to be long-wearing. While “fast fashion” and short-term consumption seem to be global trends, our products are distinct from those trends. DESCENTE brand products—as typified by our Mizusawa Down—are of a quality that can be worn for 10 years or more, and many people are fond enough of their DESCENTE products to send them out for repair and continue wearing them. I think the fact that consumers care for and continue to wear these products for long time is the best form of sustainability. While this aspect is certainly not flamboyant, our greatest focus is on this point, and I intend for us to continue with this manufacturing philosophy unchanged into the future.

That said, I think many people will have doubts about a company that holds back on product purchasing and does not grow sales. But for a market like Japan’s today, with both population and consumption decreasing, it’s not suitable to plan growing sales. Customers will find value in the fact that our products are made with care—even if they are priced higher than products from other companies—and will wear them for a long time. I think the sustainability we should provide is to make only as much as customers need. That is why we must be prepared to expand the DTC business, giving us direct access to the customer, allowing us to incorporate their needs into our manufacturing and selling everything we make.

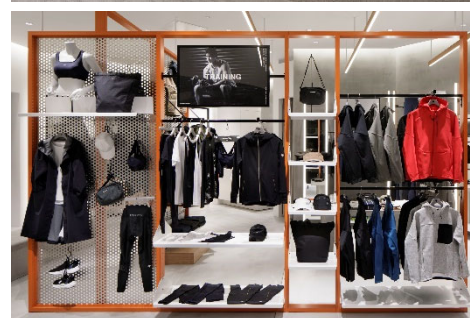
At this stage of trying to give shape to our customers’ needs, we will undertake a rigorous review of our supplier selection by brand and product and by cost. We will pursue every detail, including what we purchase and from whom; whether the costs are truly correct; whether the supplier is truly a good match; and whether the factory can ensure it has the technical capabilities to manufacture our products. We will take the process of selecting partners to work with us in manufacturing seriously.

Tell us about your outlook going forward.

While the world continues to be significantly impacted by COVID-19, going into this year the pace at which the disease has spread has begun to vary from country to country. While the pandemic has eased in Japan since September, Vietnam, one of our manufacturing bases, has been severely affected since August, and production has stalled (as of September). When this kind of stagnation occurs in the apparel industry, the impact tends to be greater and more prolonged than in other industries, due to the rapid cycle of changing market needs and issues of profitability. We are prepared to see the impact of COVID-19 on the market and our production system continue for some time to come.

At the same time, major sporting events have resumed this year in regions where the effects of COVID-19 have been alleviated. In terms of consumption trends, we expect to see a boom in winter sports in the Chinese market, particularly skiing. Heavy clothing such as ski wear is what we specialize in, and I think excitement over winter sports will be an opportunity for our products to once again be recognized for their quality.

Even in the struggling apparel industry, we have our strength in sports, and I believe there is still room for growth. With our MoveWear concept, sportswear to “move the body, move the spirit,” we will strengthen our development of products that leverage the sportswear technology we have cultivated, apparel that is exciting to wear and that is not limited to specific situations. A new way of life is beginning to take root in the wake of COVID-19, a situation that I feel has a strong affinity with MoveWear. More customers are incorporating sportswear into business and daily life situations, apparel that is easy to move in yet clean and neat looking. Expanding the DTC business, where we can increase our touch points with the customer, is essential if we are to avoid missing out on this opportunity. By relying solely on sales from the sporting goods sales floor, we risk limiting the use of our products to sports. In a directly managed store environment, however, customers can see our products in a broader context, allowing us to suggest a broader range of situations in which they can be worn. I think MoveWear will be instrumental in achieving that.



DESCENTE Store
in LaLaport SHONAN HIRATSUKA

In what areas do you plan to increase investment going forward?

Under D-Summit 2023, we intend to create a profit-making structure over the planned period between 2021 and 2023. In those three years, we plan to stabilize management through balanced contributions to profits from Japan, South Korea and China. At the same time, we will consider from a variety of angles what DESCENTE should do over the next ten years. Seen from a management perspective aimed at continuous growth, we will not remain indefinitely focused on the three pillars of Japan, South Korea and China, but may also consider re-entering markets in Europe and North America, which we judged to be premature and where we subsequently downsized, as well as Asian markets outside of Japan, South Korea and China.

I also think that once we have generated a certain level of profits and the business has stabilized, we need to invest in taking on new challenges. While our investment focus will remain in sports, we are also looking at related fields. As a business owner, I intend to firmly supervise and manage any business in which we have invested. We invest, manage and generate profits to support our strength as a company. To do that, it is crucial that, even as we consider possible investment targets, we also develop the personnel with which we can entrust the management of those targets. Given the enormous changes in the business environment, we need to approach this effort with the understanding that conventional ways of doing things no longer apply. Whether investments or management, going forward our thinking needs to be based on global standards. Japan is unique compared to other countries in terms of its geography, and has long had its own unique ways of doing business, but this will no longer be acceptable. We will focus on developing the next generation, people who have broad perspective.

What message do you have for your shareholders?

First, I apologize for the fact that two years without a dividend has caused such concern. That said, this year we launched our new medium-term management plan and have succeeded in delivering steady results in the first half, and thus will resume offering a dividend beginning this fiscal year. We are working toward further expansion of profits, and our employees are determined to bring an even greater sense of urgency to their work. We look forward to your continued understanding and support.

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	¥96.8billion (FY ended March 2021, Consolidated)
Employees	Consolidated 2,785 / Non-consolidated 21 (As of September 30, 2021)
Business	Manufacture and sales of sportswear and related articles
Office	
Tokyo Office	1-4-8 Mejiro, Toshima-ku, Tokyo 171-8580 TEL. +81-3-5979-6006 (Administration/Secretariat, Tokyo)
Osaka Office	1-11-3 Dogashiba, Tennoji-ku, Osaka 543-8921 TEL. +81-6-6774-0365 (HR, Osaka)

Executives

President and Representative Director Shuichi Koseki	Outside Director Tomonori Azuma*
Director and Senior Managing Executive Officer Hoon-Do Kim	Outside Director Seiji Sato*
Director and Managing Executive Officer Akira Tsuchihashi	Auditor (full-time) Mikio Nakajima
Director and Managing Executive Officer Norio Ogawa	Auditor (outside) Koichi Yoshioka*
	Auditor (outside) Akira Matsumoto*

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

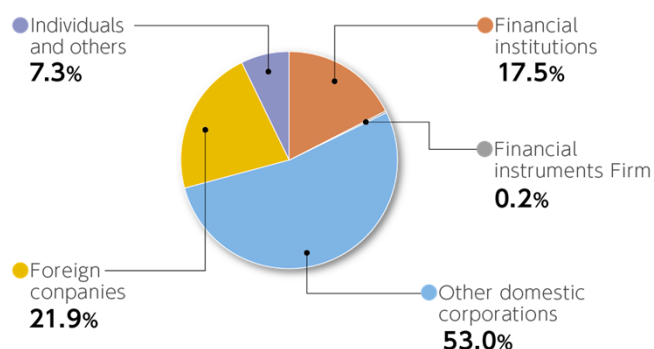
Brand Lineup



Number of shares and shareholders

(As of September 30, 2021)

Number of shares authorized for issuance	160,000,000
Number of shares issued	76,924,176
	(including 1,444,433 own shares)
Number of shareholders	4,405



Principal shareholder

(As of September 30, 2021)

Name	Shareholdings (Thousands)
BS Investment Corporation	30,164
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,754
Nippon Life Insurance Company	3,238
UBS AG HONG KONG	3,165
SSBTC CLIENT OMNIBUS ACCOUNT	2,588
TEIJIN FRONTIER Co., Ltd.	2,465
Sumitomo Mitsui Banking Corporation	2,110
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	1,957
MSIP CLIENT SECURITIES	1,863
THE DESCENTE AND ISHIMOTO MEMORIAL FOUNDATION FOR THE PROMOTION OF SPORTS SCIENCE	1,652