
A Message from the President

Provide a diverse sense of value and broaden our customer base, confronting challenges and exploiting opportunities in Japan and overseas

In April 2016, the Onward Group unveiled its new medium-term management plan, which covers the period leading up to fiscal year 2019. In this section, President Michinobu Yasumoto gives an overview of this plan before discussing several of its specific strategies.



Michinobu Yasumoto
Representative Director, President

Overview of Business Opportunities and the Medium-Term Management Plan

In fiscal year 2019, we will target net sales of ¥280.0 billion, operating income of ¥10.0 billion, and return on equity of 5%.

In fiscal year 2016, ended February 29, 2016, net sales and operating income both declined, amounting to ¥263.5 billion and ¥3.8 billion, respectively. The primary reason behind the decreases was the significant structural changes that occurred in the operating environment surrounding the apparel market. Looking ahead, we can expect the operating environment to continue to feel the adverse impacts of a myriad of factors. These factors will include the dwindling of our target customer group in conjunction with the continued decline of Japan's population as well as sluggish consumption trends attributable to consumption tax hikes and the rising price of durable goods. At the same time, customer values and lifestyles are diversifying, and we have witnessed the amounts consumers spend on physical goods decline as they allocate more of their free income to Internet and other services. Structural issues are compounding this difficult operating environment. For example, faced with highly competitive markets, we are unable to easily adjust product selling prices to reflect hikes in business expenses, such as increases in production costs accompanying economic growth in Asia.

Turning to a more positive topic, there are currently two major opportunities that have been placed before the Onward Group—namely, to accelerate its Omni-channel retailing strategy and to expand in global markets. The new medium-term management plan was designed with the aim of ensuring the Group can take hold of these opportunities. Accordingly, we have defined the basic policies of this plan as to provide a diverse sense of value and to broaden our customer base.

The policy of provide a diverse sense of value signifies our intent to increase the value of our fashion and apparel products,

which are our core competence, in addition to developing new products and services in a wider range of fields centered around fashion. To broaden our customer base, meanwhile, we will expand contact points with domestic customers in our various sales channels, specifically increasing the amount of time and number of opportunities for contact with these customers. We will pursue growth through such efforts as well as by broadening our customer base overseas.

In short, the medium-term management plan will position the acceleration of our Omni-channel retailing strategy and our expansion in global markets as business opportunities and guide us to growth through the basic policies of provide a diverse sense of value and broaden our customer base. Through these efforts, we will target net sales of ¥280.0 billion and operating income of ¥10.0 billion along with an operating margin of 3.6% in fiscal year 2019, three years from now. We will then work toward our targets for fiscal year 2021, which are net sales of ¥300.0 billion, operating income of ¥15.0 billion, and an operating margin of 5.0%.

Business Opportunities and Performance Targets

By fiscal year 2019, we aim to grow sales from e-commerce and overseas operations to represent 12% and 24% of total net sales, respectively.

To take advantage of the business opportunity created by the acceleration of our Omni-channel retailing strategy, we aim to expand sales in our e-commerce operations, which have high profitability and significant growth potential. Advances in information and communication technologies, or ICT, have presented us with a greater range of opportunities to develop new customer contact points that have never been seen before. The Group is currently in the process of constructing diverse e-commerce platforms, of which between 60% and 70% have been completed. With these

platforms, we will work to grow our e-commerce operations into a business capable of generating net sales of about ¥36.0 billion three years from now, with ¥31.0 billion in Japan and ¥5.0 billion in overseas markets, such as China and other parts of Asia. By achieving this growth, we anticipate that the portion of total net sales attributable to e-commerce operations will increase from the current 4% to 12% by fiscal year 2019. At present, there is a bit of a disparity in e-commerce initiatives between specific brands and subsidiaries. Nevertheless, we will endeavor to realize rapid expansion in our e-commerce operations through a two-pronged approach. This approach will entail, first, increasing the portion of the Group that is engaged in e-commerce and, second, utilizing the Group's e-commerce platforms to advance the evolution of collaborations with various companies and industries to create fresh, new e-businesses. With regard to brick-and-mortar stores, we will move forward with selection and concentration measures in Japan while increasing the number of stores overseas.

With regard to the business opportunity of expansion in global markets, we will work to grow overseas sales from fiscal year 2016's ¥55.1 billion to ¥71.0 billion in fiscal year 2019. This figure should result in overseas sales accounting for 24% of total net sales.

Key Strategies Driven by Basic Policies

Provide a diverse sense of value: We will advance measures emphasizing activities and services as well as products.

In seeking to provide a diverse sense of value, we will expand the range of offerings through which we supply value to customers. For example, while continuing to increase the value of our apparel products, we will develop operations in a wide variety of fields in which we can expect synergies with the Group's operations, such as accessories and items that provide enrichment to people's lives.

In increasing the value of apparel products, we will leverage the Onward Group's strengths in planning, development, and manufacturing technologies. Specifically, steps will be taken to expand high-value-added production in Europe; to bolster Made in Japan production of J∞QUALITY certified products; to collaborate with creators outside the Group; and to balance production costs and quality. We will also work to expand operations in the lifestyle field, which includes accessories. To this end, we will deploy a new jewelry brand through Onward Kashiyama and otherwise augment our lineups of bags, jewelry, and other items.

In addition to enhancing our product lineups, we will also need to refine strengths that lie outside our traditional domain, such as our ability to offer services and events that inspire emotions within our customers. We recognize that today's consumer market is such that quality products are not enough to catch the eye of our customers, let alone get them to purchase these products. Based on this realization, we aim to evolve our stores to make time

spent shopping more fulfilling, a commodity in itself. Through our Aurora Strategy, we will strive to make our stores more than just places where arrays of products are lined up on shelves, transforming them into places that can be enjoyed in and of themselves and encouraging customers to spend time in them as a result.

Another issue needing to be addressed is the sluggish growth of sales at department stores outside major cities. Our answer to this situation is the development of a new type of "omni-store." Faced with a decline in customer numbers in such areas, we have found it becoming less feasible to allocate large quantities of products to department stores in these areas. However, not providing stores with an ample supply of stock decreases the number of opportunities customers have to encounter our products and therefore could be seen as actively discouraging the purchase of our products, which will no doubt lead to lost sales opportunities. The omni-store concept we are using to address this issue entails utilizing the information transmission capacities of e-commerce and the convenience of our logistics functions. By combining these strengths with the customer service we provide at our stores, we are focusing on this approach with the hopes of expanding contact points with customers away from major cities.

Another type of store aimed at making time spent itself a commodity can be seen in the Shirotan Friends Museum and Pet Paradise DX stores developed by Creative Yoko. These multipurpose stores are oriented toward children and provide spaces in which families can enjoy not only shopping but also engaging in fun activities together. We aim to develop more such stores in the future. Another area in which we are pursuing innovation is through customizable products and services. In this area, we aim to utilize ICT to foster innovation the likes of which has never been seen before in order to provide customized products matched to individual customer needs at reasonable prices as much as possible.

Broaden our customer base: We will advance measures targeting both new and existing customers.

A primary measure among initiatives to expand our existing customer base is increasing the number of users of the Onward Members' loyalty point card system. In April 2016, we completed the integration of the user base of our directly managed e-commerce website Onward Crosset and the Onward Members users saved at physical stores to create a database of 1.2 million customers. Going forward, we will proceed with the consolidation of the customer bases of domestic Group companies while also encouraging overseas customers to enroll in the Onward Members' system. We thereby aim to build a user base of 3.0 million customers over the next three years. In addition, we began linking e-commerce inventory data in April 2016, which will be an important measure in promoting our Omni-channel retailing strategy. As a result, we are now able to provide customers using various e-commerce sites with

the same inventory information, an achievement that has stimulated a rapid increase in sales of Onward products through various websites, including those not associated with the Group. In the future, our focus will remain on our own e-commerce sites, but we will still engage in various collaborative ventures to accelerate growth of our e-commerce operations. Another forward-looking initiative is the development of a system for providing personal concierge services. Rather than simply waiting for customers to visit our stores, we will actively pursue "storeless" sales by catering to the various needs of individual customers and corporate customers through such services. In this way, we aim to increase business opportunities by sharing time with customers.

Meanwhile, measures to capture new customers will include creating more contact points with potential customers by actively using social networking sites and collaborating with affiliates and members of other industries. In attracting new customers overseas, we will step up global advertising for core brands Nijyusanku and JOSEPH and we will also be devoted to bolstering our range of global flagship stores for these brands. However, as we realize that there is a limit to the extent we can increase store numbers, we will also advance our Omni-channel retailing strategy worldwide through the deployment of global e-commerce sites. These measures will also be employed to tap into consumption demand from inbound tourists. In addition, mergers and acquisitions will be used as an option for acquiring customers as was done through the April 2016 acquisition of Tiaclasse Inc., an apparel supplier that develops brands exclusively through e-commerce. Despite operating entirely online, Tiaclasse boasts a solid base of extremely satisfied customers. By working with this company, we hope to develop new businesses that leverage the Onward Group's strengths. As we move forward, our operations will remain centered on the fashion and apparel field; however, we will also turn our eyes toward products in other fields.

Investment to Support Key Strategies

We will actively invest in implementing our personnel strategy and ICT strategy.

Our personnel strategy will be an essential part of advancing the various measures described in the medium-term management plan. We realize that, without globally competent human resources in areas ranging from product creation to sales and customer service, the Onward Group will be unable to grow on a global scale. Based on that recognition, we proactively invest in human resources.

At the same time, our ICT strategy will be crucial to ensuring that we are able to operate our business in an efficient manner that ensures profitability. Specific areas of focus will include utilizing cutting-edge ICT to establish more efficient and faster moving supply chains and to create new business models.

Financial Strategy

We will institute various measures to improve return on equity.

We recognize that the distribution of profits to shareholders is one of our top priorities. Our basic policy is to stably distribute appropriate dividends to shareholders based on the Company's business performance, and we target a dividend payout ratio of 35% or more. We also strive to mitigate financial risks through increased total shareholders' equity and flexible fund procurement and thereby maintain a consistent shareholders' equity ratio.

Based on these policies, we have set a target of 5% for return on equity in fiscal year 2019, which we will pursue while implementing such measures as the sale of shareholdings, effective use of existing assets, and the continued issuance of stable dividends linked to business performance.

Strengthening of CSR Activities

We will strengthen CSR activities from the perspectives of ecology, ethics, and diversity.

The Onward Group conducts environmental management in accordance with its environmental concept of "Thinking of the Earth. Clothing Its People." We thus strive to coexist with the Earth and people worldwide while growing our apparel and other businesses. From the perspective of ecology, we are continually advancing initiatives, including the Onward Green Campaign, forest preservation activities at the Tosayama Onward Rainbow Forest, and clothing reuse activities through Onward Reuse Park. In relation to ethics, we have instituted a factory certification system*, the goal of which is to improve worker benefits and work environments at partner factories by thoroughly entrenching CSR and QC guidelines that stipulate measures, including stringent legal compliance. Through this system, we hope to reinforce socially responsible production activities. In promoting CSR activities from the perspective of diversity, we actively provide opportunities for female, differently abled, and non-Japanese employees while seeking to create motivating work environments.

* For details, please refer to "Special Feature: Onward-Approved Factory System" on pages 30 to 32.

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