COMPANY RESEARCH AND ANALYSIS REPORT

Sanyei Corporation

8119

TSE JASDAQ

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Summary

In 1H FY3/18, ordinary profit decreased on lower net sales, as orders in the domestic OEM business struggled to grow. Took over the tableware sales business of Villeroy & Boch, a German houseware brand

Sanyei Corporation <8119> is a trading company specializing in high-value-added products with a history of over 70 years. It carries a full range of consumer lifestyle products and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. It has 20 overseas locations and 82 domestic directly managed retail stores. The Company stands out in terms of its coverage of products with high added value, including the introduction of differentiated European brands to Japan and OEM supply of unique products to customers, such as Ryohin Keikaku Co., Ltd. <7453>. It has three main business segments – Furniture and Houseware Business (52.5% of overall sales), Fashion Accessories Business (29.2%), and Home Appliance Business (12.5%).

1. Business description

The Furniture and Houseware Business has been driving the Company's growth in recent years, with the OEM business for major customers, notably Ryohin Keikaku, representing a large share of this business. The Company grew net sales from ¥17,007mn in FY3/13 to ¥27,431mn in FY3/17. One of its fast-growing brands is the proprietary e-commerce brand MINT, under which products are sold via the Company's shopping sites on, Rakuten and Yahoo!. For the MINT brand, the Company recorded strong sales of ¥450mn in FY3/17, marking a roughly three-fold increase YoY. In October 2017, the Company began carrying Villeroy & Boch, a new houseware brand.

The brand business has a substantial presence in the Fashion Accessories Business, a segment that exhibits high profitability. The largest brand is Birkenstock, which makes sandals and comfort shoes with excellent functional beauty and has a tradition of more than 240 years in Germany. It is supported by an enthusiastic fan base even with a price range of about ¥10,000. The products are sold via 62 directly managed stores and e-commerce. The Company offers robust after-sales services because many customer use the products for lengthy periods. In September 2017, the Company opened the Perie Chiba store and the MITSUI OUTLET PARK JAZZ DREAM NAGASHIMA store. Although the past boom in Birkenstock footwear has settled down, business performance has been trending firmly.

2. Result trends

Looking at the consolidated results for 1H FY3/18, the Company reported net sales of ¥21,771mn, down 10.2% YoY, operating profit of ¥780mn, down 31.8%, ordinary profit of ¥854mn, down 8.5%, and profit attributable to owners of parent of ¥487mn, up 22.0%. The top line decreased, along with declines in operating profit and ordinary profit. With regard to net sales, there was a large drop in sales in the Furniture and Houseware Business, with a particularly large impact from sluggish growth in the domestic OEM business. In addition to the effects of lower net sales at domestic subsidiaries and affiliates, SG&A expenses rose in step with the launch of new brands, and the opening of new stores, leading to the decrease in ordinary profit.

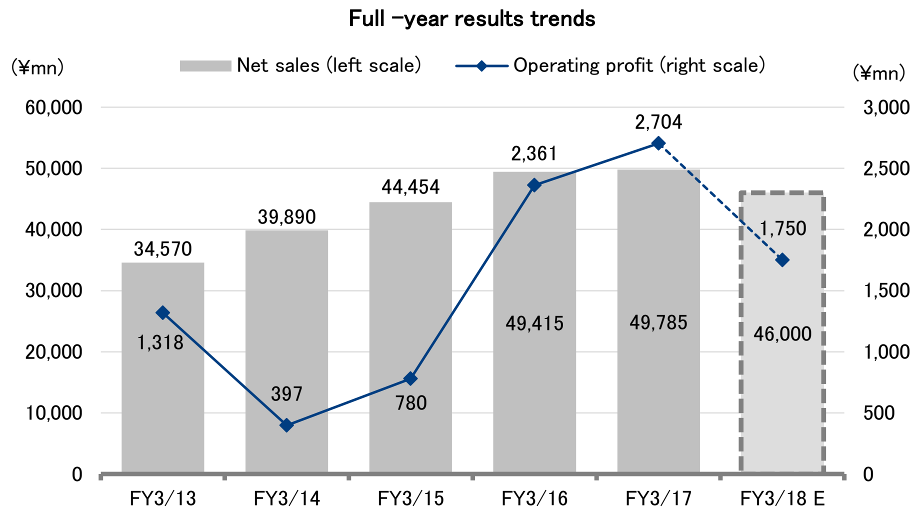
The Company has downwardly revised its FY3/18 consolidated guidance from its initial forecasts. It is now forecasting net sales of ¥46,000mn, down 7.6% YoY, operating profit of ¥1,750mn, down 35.3%, ordinary profit of ¥1,800mn, down 26.1%, and profit attributable to owners of parent of ¥1,100mn, down 23.0%. The domestic OEM business is expected to follow a recovery path in the second half, but the sluggish growth in the first half will have a lingering impact. Since the beginning of the fiscal year, the Company has been anticipating the impact of a decrease in net sales of overseas subsidiaries (due to the absence of a large spot transaction in the previous fiscal year). Based on this, the Company expects to record a decrease in ordinary profit. The projected ¥1,800mn in ordinary profit represents the fourth-highest ordinary profit in the past 20 years, marking a relatively high level of profit against the long-term trend.

3. Growth strategy

The Company took over the tableware sales business of Villeroy & Boch, a leading houseware brand in Germany, from Villeroy & Boch Tableware Japan K.K., the brand's sales arm in Japan, and commenced business operations from October. Villeroy & Boch is a long-established ceramics brand founded in 1748. The brand is known as a purveyor of ceramics to the royal family of Luxembourg. The Company plans to thoroughly nurture Villeroy & Boch into a core brand in the houseware business by taking full advantage of the expertise it has amassed to date. The Villeroy & Boch brand first entered Japan in 1997 and has sales channels encompassing department stores, hotels and restaurants.

Key Points

- A multi-functional trading company specializing in high-value-added products based on the concept of "Delivering high-quality merchandise from one part of the world to another"
- In 1H FY3/18, ordinary profit decreased on lower net sales, as orders in the domestic OEM business struggled to grow
- Took over the tableware sales business of Villeroy & Boch, a leading houseware brand in Germany



Source: Prepared by FISCO from the Company's financial results

Company profile

A multi-functional trading company specializing in high-value-added products based on the concept of "Delivering high-quality merchandise from one part of the world to another"

1. Company profile and history

Established in Osaka in 1946 as an exporter of accessories, the Company has a history of more than 70 years. Today, it carries a full range of consumer lifestyle products and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. It has grown to be a multi-functional trading company with 20 overseas locations and 82 domestic directly managed retail stores. The Company stands out in terms of its coverage of products with high added value, including the introduction of differentiated European brands to Japan and OEM supply of unique products to customers, such as Ryohin Keikaku. The Company is a global enterprise that manufactures products at overseas sites and sells them in overseas markets, based on the concept of "Delivering high-quality merchandise from one part of the world to another."

2. Business composition

The Company operates under the following business segments – Furniture and Houseware Business, Fashion Accessories Business, Home Appliance Business, and Others. The Furniture and Houseware Business mainly procures OEM products for major Japanese and foreign companies, with the proprietary e-commerce brand MINT also gaining momentum. This segment provided 52.5% of overall sales and 74.9% of operating profit in 1H FY3/18. The Fashion Accessories Business covers import sales of brand products with sales rights, such as Birkenstock (sandals) and Kipling (bags), and domestic and overseas OEM business. It contributed 29.2% of sales and 18.2% of operating profit. The Home Appliance Business handles OEM product procurement and brand business. Major brands are Vitantonio (cooking appliances) and mod's hair (beauty appliances). This segment generated 12.5% of sales and 4.2% of operating profit. The Others segment handles pet goods and other items and was at 5.9% of sales and 2.7% of operating profit.

Business description and percentages (1H FY3/18)

Business segment	Descriptions of the main businesses	Percentages of net sales	Percentages of operating profit
Furniture and Houseware Business	OEM for Ryohin Keikaku and WMF (kitchen goods manufacturer)	52.5%	74.9%
Fashion Accessories Business	Birkenstock (sandals) and Kipling (bags) and OEM for domestic and overseas retail stores, etc.	29.2%	18.2%
Home Appliance Business	Vitantonio (cooking appliances) and mod's hair (beauty appliances), and OEM for domestic and overseas manufacturers and retail stores	12.5%	4.2%
Other	Pet merchandise, pets, etc.	5.9%	2.7%

*Adjusted amount
Source: Prepared by FISCO from the Company's financial results

The Company has two business models: brand business and OEM business. The brand business mainly promotes wholesale and retail activity in Japan for overseas brands and the Company's own brands. It has a generally higher profitability than the OEM business because it carries excellent brands with strong histories that have not yet been introduced in Japan. The Company aims to expand the brand business from 25.5% of total sales in FY3/17 to about 40% in future years. The OEM business provides various procurement services, such as review of product specifications for products that meet the needs of client companies, plant selection, price negotiations, production management, and export/import and logistics. The Company has strengths in the manufacturing network in Asia built through overseas initiatives over many years and production management by its own staff.

Business model content and composition

	Descriptions of the main businesses	Percentages of net sales
Brand business	Wholesale and retail activity for overseas brands and proprietary brands	25.5%
OEM business	Provide procurement services such as review of product specifications for products that meet the needs of client companies, plant selection, price negotiation, production management, and export/import and logistics	74.5%

Source: Prepared by FISCO from the Company's results briefing materials

Business overview

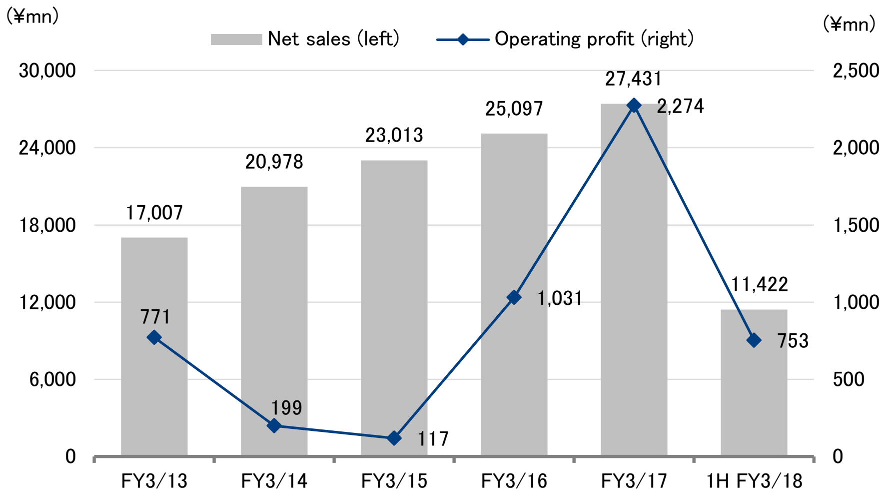
OEM serves as the core driver of the Furniture and Houseware Business, with growth also seen in e-commerce. Strong presence of brands such as Birkenstock in the Fashion Accessories Business

1. Trends in the Furniture and Houseware Business

The Furniture and Houseware Business has been driving growth in recent years with the OEM business representing a large share of this segment. This growth has been driven by expansion of business with major customers, such as Ryohin Keikaku. The Company grew net sales from ¥17,007mn in FY3/13 to ¥27,431mn in FY3/17. One of the main drivers of the strong performance in FY3/17 was a large spot order from a European customer.

The Company's proprietary e-commerce brand MINT has been growing rapidly. MINT brand products are sold at the Company's shopping sites on Rakuten and Yahoo!. Strong sales of ¥450mn were recorded in FY3/17, marking a roughly three-fold increase from the previous fiscal year. Other brands in the Furniture and Houseware Business include WMF (kitchen items) and Silit (kitchen items). The exclusive agent agreements for both of these brands expired in September 2017, but this change should have only a minor impact on FY3/18 results. In October 2017, the Company began carrying Villeroy & Boch, a new houseware brand.

Trends in the Furniture and Houseware Business



Source: Prepared by FISCO from the Company's results briefing materials

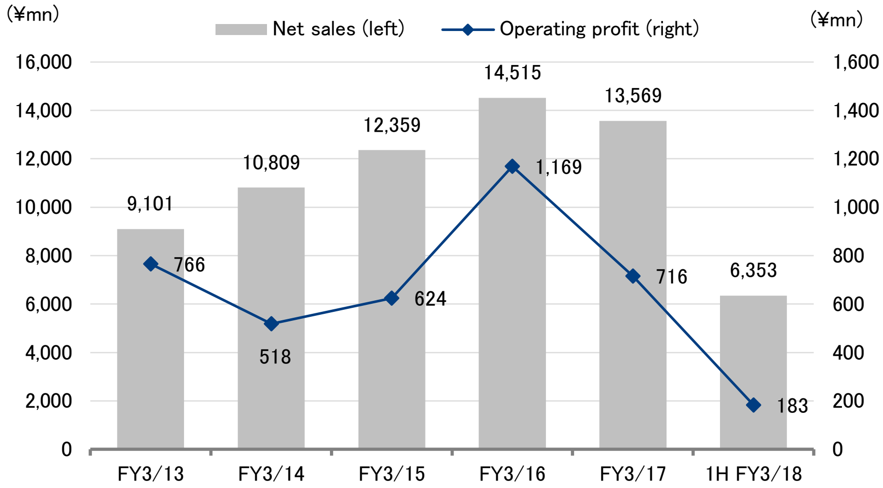
2. Trends in the Fashion Accessories Business

The brand business has a substantial presence in the Fashion Accessories Business and exhibits high profitability.

The largest brand is Birkenstock, which is managed by the subsidiary BENEXY CORPORATION. Birkenstock makes sandals and comfort shoes with excellent functional beauty and has a tradition of more than 240 years in Germany. It is supported by an enthusiastic fan base even with a price range of about ¥10,000. The products are sold via the 62 directly managed stores and e-commerce. The Company offers robust after-sales services because many customer use the products for lengthy periods. In September 2017, the Company opened the Perie Chiba store and the MITSUI OUTLET PARK JAZZ DREAM NAGASHIMA store. Although the past boom in Birkenstock footwear has settled down, business performance has been trending firmly.

Kipling is a brand of nylon bags that was created in Belgium in 1987, and together with the Kipling monkey (its mascot), it is famous throughout the world as a playful, casual brand. The brand operates this business via 9 directly managed stores (including the Ginza store and outlet stores) and at about 60 major department stores across Japan.

Trends in the Fashion Accessories Business



Source: Prepared by FISCO from the Company's financial results

Results trends

In 1H FY3/18, ordinary profit decreased on lower net sales, as orders in the domestic OEM business struggled to grow

1. 1H FY3/18 results

Looking at the consolidated results for 1H FY3/18, the Company reported net sales of ¥21,771mn, down 10.2% YoY, operating profit of ¥780mn, down 31.8%, ordinary profit was ¥854mn, down 8.5%, and profit attributable to owners of parent of ¥487mn, up 22.0%. The top line decreased, along with declines in operating profit and ordinary profit. In comparison with initial forecasts, the lower net sales were unchanged, but earnings were above forecast at every level.

With regard to net sales, there was a large drop in sales in the Furniture and Houseware Business. Sales decreased in the domestic OEM business, and the brand business was impacted by the expiry of agreements for the WMF and Silit brands. Sales in the Fashion Accessories Business and Home Appliance Business segments both decreased. The factors were that 1H FY3/18 coincided with a replacement period in the product lifecycle, and that purchases by foreign tourists visiting Japan subsided. In ordinary profit, the effects of lower sales at domestic subsidiaries and affiliates and the increase in SG&A expenses were negative factors. The main components of SG&A expenses were expenses incurred in connection with investments in new brands (such as Multi Chef), the opening of new stores (such as Birkenstock), and expansion in e-commerce (MINT). The increase in profit attributable to owners of parent reflected the absence of an extraordinary loss of ¥145mn recorded in FY3/17 due to one-time factors. The bottom line thus returned to a normal level in the current fiscal year.

1H FY3/18 results (consolidated)

(¥mn)

	1H FY3/17		1H FY3/18				
	Result	% of sales	Initial forecast	Result	% of sales	YoY (%)	vs. forecast (%)
Net sales	24,231	100.0	24,000	21,771	100.0	-10.2	-9.3
Cost of sales	17,593	72.6	-	15,411	70.8	-12.4	-
Gross profit	6,638	27.4	-	6,360	29.2	-4.2	-
SG&A expenses	5,492	22.7	-	5,579	25.6	1.6	-
Operating profit	1,145	4.7	750	780	3.6	-31.8	4.1
Ordinary profit	933	3.9	750	854	3.9	-8.5	13.9
Profit attributable to owners of parent	399	1.6	400	487	2.2	22.0	21.8

Source: Prepared by FISCO from the Company's financial results

A sound financial position with an equity ratio of 57.6%

2. Financial position and management indicators

The Company has maintained a sound financial position. Total assets declined by ¥306mn from the end of FY3/17 to ¥22,750mn. The main decrease was a decline of ¥1,364mn in current assets, mostly reflecting lower cash and deposits.

Liabilities decreased by ¥716mn from the end of the previous fiscal year to ¥9,532mn. The main decline was a decrease of ¥978mn in current liabilities, mostly reflecting lower notes and accounts payable - trade.

In terms of management indicators, the current ratio stood at 213.3% (compared with 204.5% at the end of FY3/17) and an equity ratio of 57.6% (compared with 55.1% at the end of FY3/17), indicating a highly secure and sound financial position.

Consolidated balance sheet and management indicators

(¥mn)

	March 31, 2017	September 30, 2017	Change
Current assets	16,835	15,471	-1,364
Cash and deposits	2,859	2,159	-699
Notes and accounts receivable	6,024	5,924	-99
Merchandise and finished products	6,381	6,282	-99
Fixed assets	6,221	7,279	1,057
Total assets	23,057	22,750	-306
Current liabilities	8,233	7,254	-978
Notes and accounts payable - trade	2,430	1,857	-573
Short-term debt	2,500	2,400	-100
Fixed liabilities	2,015	2,278	262
Total liabilities	10,249	9,532	-716
Net assets	12,807	13,218	410
Total liabilities and net assets	23,057	22,750	-306
<Stability>			
Current ratio (current assets ÷ current liabilities)	204.5%	213.3%	-
Equity ratio (shareholders' equity ÷ total assets)	55.1%	57.6%	-

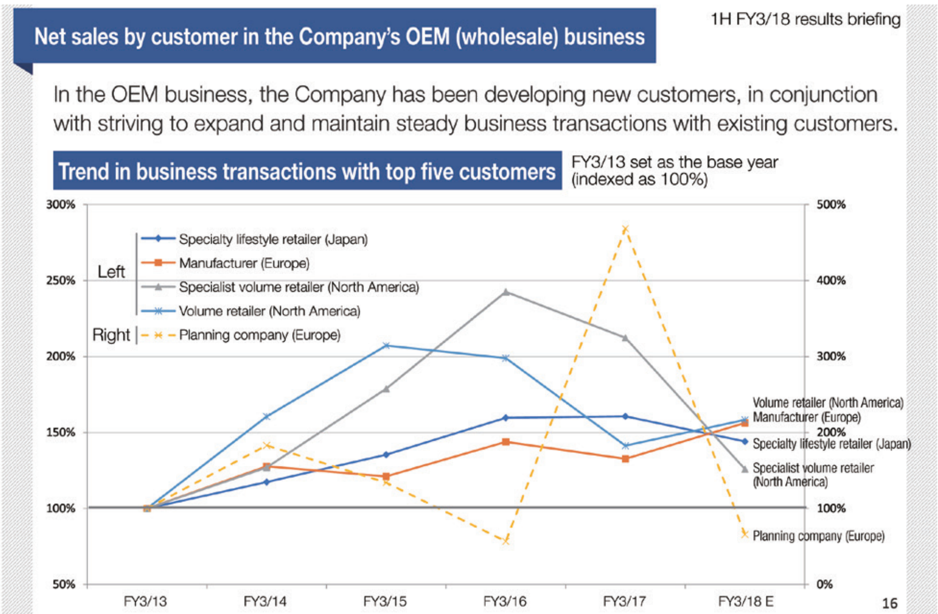
Source: Prepared by FISCO from the Company's financial results

Forecasts

Business performance to follow a recovery trajectory in 2H FY3/18. Ordinary profit is projected to decrease due to the absence of an overseas spot transaction recorded in FY3/17.

The Company has downwardly revised its FY3/18 consolidated guidance from its initial forecasts. It is now forecasting net sales of ¥46,000mn, down 7.6% YoY, operating profit of ¥1,750mn, down 35.3%, ordinary profit of ¥1,800mn, down 26.1%, and profit attributable to owners of parent of ¥1,100mn, down 23.0%. The domestic OEM business is expected to follow a recovery path in the second half, but the sluggish growth in the first half will have a lingering impact. Since the beginning of the fiscal year, the Company has been anticipating the impact of a decrease in net sales of overseas subsidiaries (due to the absence of a large spot transaction in the previous fiscal year). Based on this, the Company expects to record a decrease in ordinary profit.

The projected ¥1,800mn in ordinary profit represents the fourth-highest ordinary profit in the past 20 years, marking a relatively high level of profit against the long-term trend. In terms of the customer mix, sales to the Company's top five customers (a Japanese specialty lifestyle retailer, a European manufacturer, a North American specialist volume retailer, a North American volume retailer, and a European merchandise planning company) have followed a continuous growth trend since FY3/13, despite some fluctuations year by year. Diversification of the customer mix has put sales on an increasingly stable footing.



Source: The Company's results briefing materials

Medium- to long-term growth strategy

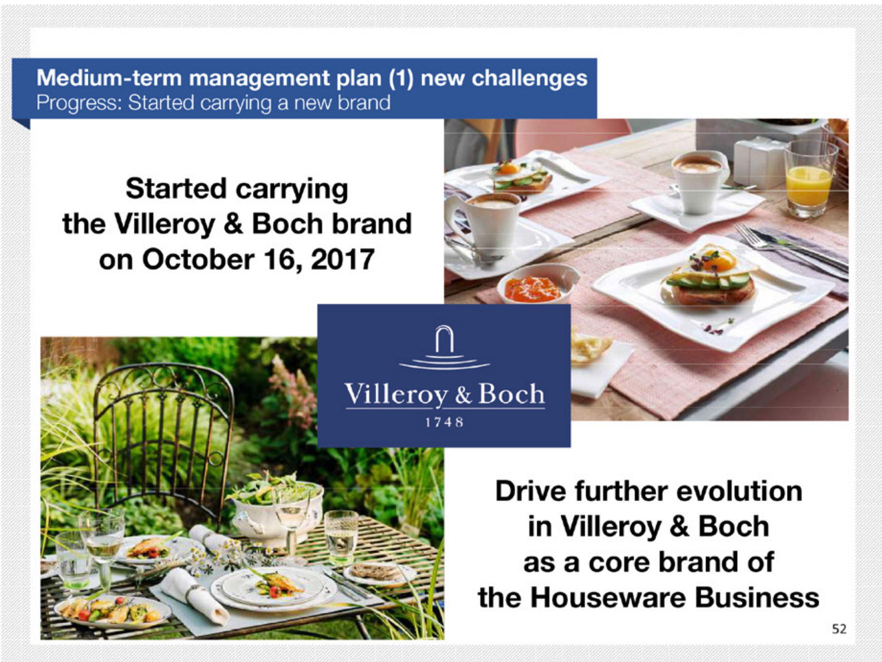
Took over the tableware sales business of Villeroy & Boch, a leading houseware brand in Germany

● **Commenced sales of products under the new Villeroy & Boch houseware brand**

The Company took over the tableware sales business of Villeroy & Boch, a leading houseware brand in Germany, from Villeroy & Boch Tableware Japan K.K., the brand's sales arm in Japan, and commenced business operations from October.

Villeroy & Boch is a long-established ceramics brand founded in 1748. The brand became a purveyor of ceramics to the royal family of Austria during the time of Maria Theresa in the 18th century. Today, the brand remains well known as a purveyor of ceramics to the royal family of Luxembourg. At present, Villeroy & Boch tableware, fusing German technique and French sensibility, has been adopted for use by luxury hotels and restaurants, and it has won a large following of customers in Japan as well. In the field of sanitary ware, Villeroy & Boch has earned a strong reputation for its quality and functionality through such means as collaborative initiatives with major companies in the industry.

Following the expiry of the Company's exclusive agent agreements for the WMF and Silit brands in September 2017, the Company had been searching for a brand to replace them. Then it found Villeroy & Boch. The Company plans to thoroughly nurture Villeroy & Boch into a core brand in the houseware business by taking full advantage of the expertise it has amassed to date. The Villeroy & Boch brand first entered Japan in 1997 and has sales channels encompassing department stores, hotels and restaurants.



Source: The Company's results briefing materials

Overview of company subject to business takeover for the Villeroy & Boch houseware brand

Name	Villeroy & Boch Tableware Japan K.K.
Address	8-3 Nibancho, Chiyoda-ku, Tokyo
Representative	Yasunori Shinomiya
Capital	¥98mn
Establishment date	March 4, 1997
Shareholder	100% investment by Villeroy & Boch S.a.r.l. (Headquartered in Luxembourg; a wholly owned company of Villeroy & Boch AG of Germany)
Target of business takeover	Tableware sales business of Villeroy & Boch products at Villeroy & Boch Tableware Japan K.K.

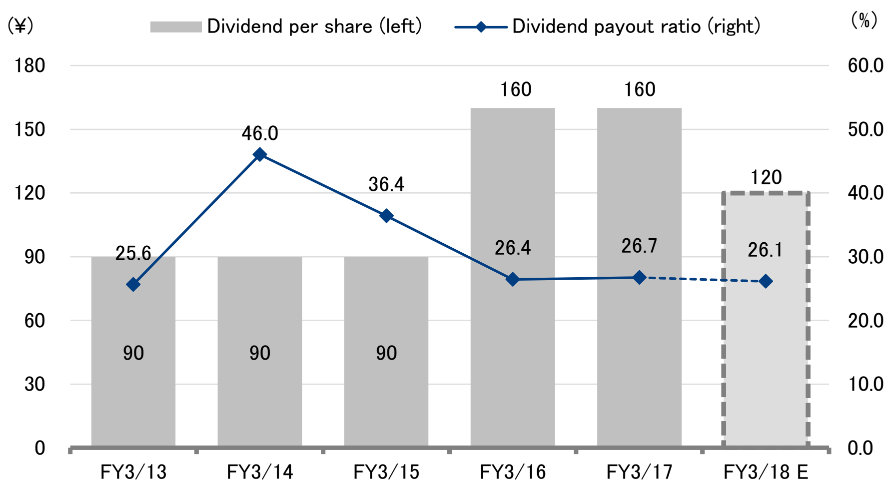
Source: Prepared by FISCO from Company information

Shareholder return policy

Forecasting an annual dividend of ¥120 per share for FY3/18 (interim dividend of ¥60, year-end dividend of ¥60), raised or sustained the dividend for 20 straight years

The Company has adopted a policy that targets a roughly 30% dividend payout ratio, taking into consideration the need to implement stable, continuous dividends along with securing internal reserves to lay a stronger business foundation. The FY3/17 dividend totaled ¥160 per share (¥120 ordinary dividend) with ¥60 in 1H and ¥100 in 2H (¥60 ordinary dividend plus a ¥40 commemorative dividend). It expects to pay an annual dividend of ¥120 per share for FY3/18 with ¥60 in 1H and ¥60 in 2H. The Company has raised or sustained the dividend for 20 straight years (excluding the commemorative dividend), making the stable dividend one of its attractive features.

Dividend per share and dividend payout ratio



Note: The FY3/16 dividend included a ¥60 special dividend. The FY3/17 dividend contained a ¥40 dividend commemorating the 70th anniversary of the Company's founding.
Source: Prepared by FISCO from the Company's financial results

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