Sanyei Corporation

8119

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Summary

FY2022 operating and ordinary profit turned profitable for first time in three years. New medium-term business strategy calls for sales of ¥50.0bn, ordinary profit of ¥2.0bn.

Sanyei Corporation <8119> is a multifunctional trading company specializing in high-value-added products with a history of 76 years. The Company handles a full range of lifestyle consumer goods and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. The group has 17 overseas locations and 52 directly managed stores in Japan. The Company stands out in terms of its coverage of high-value added products, including the introduction of differentiated European brands to Japan and OEM supply of unique products to customers, such as Ryohin Keikaku Co., Ltd. <7453>, which operates MUJI. In terms of Sanyei business model, OEM Business represents about 70% of net sales, and the Brand Business about 30% of net sales. It has three main business segments—Furniture and Houseware Business (57.1% of sales in FY2022), Fashion Accessories Business (28.5%), and Home Appliance Business (10.0%).

1. FY2022 consolidated results

In the FY2022 consolidated results, net sales were ¥38,654mn (up 13.8% year-on-year (YoY)), with an operating profit of ¥238mn (¥912mn loss in FY2021), an ordinary profit of ¥258mn (¥657mn loss in FY2021), and a loss attributable to owners of parent of ¥158mn (¥945mn loss in FY2021). For sales, the Fashion Accessories Business and the Furniture and Houseware Business drove overall company sales. Although there was some dropout of stay-at-home demand, products related to outings, such as travel, beauty, recovered with the easing of the COVID-19 pandemic (hereinafter, "post-COVID-19"), leading to sales increases in all three core businesses. Operating profit and ordinary profit returned to the black for the first time in three years. Operating profit turned positive at ¥238mn mainly due to improved gross profit. Ordinary profit increased mainly due to higher operating profit, despite a foreign exchange loss resulting from a sharp depreciation of the yen.

2. FY2023 results forecast

For the FY2023 consolidated results, the Company forecasts profit to remain in the black, with net sales to decrease 6.9% YoY to ¥36,000mn, operating profit to fall 49.6% YoY to ¥120mn, ordinary profit to decrease 22.7% YoY to ¥200mn, and profit attributable to owners of parent of ¥30mn (¥158mn loss in FY2022). The Company expects sales to benefit from a demand recovery, but its forecast is slightly conservative given various risks. In the Furniture and Houseware Business, the Company forecasts lower sales due to factors such as a reactionary fall from stay-at-home demand and the adverse effect of the Ukraine conflict on the European market. The Fashion Accessories Business is expected to perform steadily as going-out demand recovers. The Company expects improved sales at the Home Appliance Business through the introduction of new own-brand products. It expects profit to remain in the black from continued structural reform and internal structure improvement, despite lower profit from a decline in sales in the core Furniture and Houseware Business. In terms of external factors, going-out and travel demand are recovering domestically (as of June 2023), which is expected to help sustain the strong performance of the travel goods and beauty appliances the Company excels in.

3. Growth strategy

The Company commenced its new medium-term management strategy SANYEI 2025 that ends in FY2025. Quantitative targets include sales of ¥50.0bn and ordinary profit of ¥2.0bn. The Company will begin a new branding of SANYEI CORPORATION to enhance corporate value. For its key strategy to "review the Group's business structure and business portfolio," attention is focused on its rebuilding of the Home Appliance Business. The Company has already arranged dedicated sales and brand positioning reforms for its own brand Vitantonio, leading to expectations of a fast outcome. For "development of new initiatives promptly," the market is focusing on the expansion and strengthening of the internet business, expansion of environmental products, and market development centering on China and Southeast Asia.

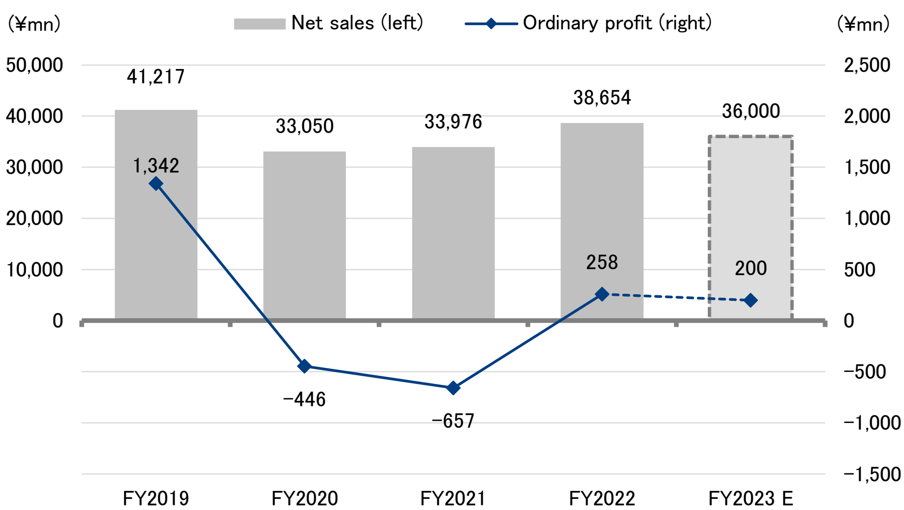
4. Shareholder return policy

The Company considers the appropriate return of profits to shareholders as one of the most important management issues. It determines the dividend comprehensively, taking into account factors such as its financial position, future earnings trends, and demand for funds. Dividends are paid as continuously as possible. The Company has maintained a consistent dividend of ¥20 since the spread of the COVID-19 pandemic ("COVID-19") adversely impacted earnings in FY2020. For FY2022, the Company paid an annual dividend of ¥20 per share (interim dividend of ¥10 paid, and a year-end dividend of ¥10). For FY2023, the Company expects an annual dividend of ¥20 per share (interim dividend of ¥10 paid, and an expected year-end dividend of ¥10).

Key Points

- FY2022 sales were significantly boosted by demand recovery for products related to outings. Brand Business structural reforms were a success, with operating profit and ordinary profit returning to the black for the first time in three years
- Company forecasts FY2023 sales of ¥36,000mn, ordinary profit of ¥200mn. Pursues growth strategy while continuing structural reform
- Commenced new medium-term management strategy, which calls for sales of ¥50.0bn and ordinary profit of ¥2.0bn in the final year of FY2025. Accelerates initiatives for internet business, development of Asia market, and environment business, among others

Results trends



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

Company profile

The Company is a multifunctional trading company that globally manufactures and sells "lifestyle goods that enhance health and enrich life" based on the theme of "health and environment"

1. Company profile and history

Established as an exporter of accessories in Osaka in 1946 shortly after World War II, the Company has a history of 76 years. Today, it carries a full range of consumer lifestyle goods and covers an expansive supply chain spanning manufacturing, imports and exports, wholesale, and retail. It has grown to be a multifunctional trading company with 17 overseas locations and 52 directly managed domestic retail stores. The Company stands out in terms of its coverage of products with high added value based on the concept of "focused on health and environment," including the introduction of differentiated European brands to Japan and OEM supply of unique products to clients, such as Ryohin Keikaku (MUJI). The Company is a global enterprise that deal with products at domestic and overseas sites and sells them in the Japanese and overseas markets, based on the concept of offering "enhancing health and enriching life through lifestyle goods."

In personnel matters, the Company announced the promotion of Mr. Masaki Mizukoshi to the position of President and COO from January 2022 (current CEO), and it renewed the management system. Mr. Mizukoshi, who was formerly an employee of Sumitomo Corporation<8053>, will make use of his abundant experience and knowledge, including wholesale, retail, e-commerce and online shopping, targeting business development over the next 10 years. Former President Noriyuki Kobayashi, who has led the Company for over 10 years, will continue to participate in management as Chairman. The Company is listed on the Standard Market following the Tokyo Stock Exchange market segment restructuring in April 2022.

2. Business composition

The Company's business segments are categorized as the Furniture and Houseware Business, the Fashion Accessories Business, the Home Appliance Business, and Others. The Furniture and Houseware Business includes MINT, the furniture and interior goods e-commerce brand, mainly procedures OEM products for major Japanese and foreign companies. The Fashion Accessories Business conducts import sales of brand products to which it has the sales rights, such as BIRKENSTOCK sandals and shoes and Kipling bags, and also domestic and overseas OEM Business. The Home Appliance Business consists of OEM product procurement and Brand Business, and the brands it focuses on are Vitantonio, which are cooking appliances, and mod's hair, which are beauty appliances. The Others segment consists of pet stores, veterinary hospitals, and other businesses. In FY2022, the Furniture and Houseware Business accounted for 57.1% of sales, the Fashion Accessories Business 28.5%, the Home Appliance Business 10.0%, and other businesses 4.4%.

The Company has two business models: Brand Business and OEM Business. The Brand Business mainly promotes wholesale and retail business in Japan for overseas brands and the Company's own brands. It mainly carries brands with strong histories that have not yet been introduced in Japan, while in recent years the Company has proactively introduced new sustainable brands. The Brand Business accounted for about 30% of overall sales in FY2022, and the Company aims to increase the ratio of the Brand Business to broaden business in the consumer lifestyle product category. The OEM Business makes up around 70% of all sales. It provides various procurement services, such as review of product specifications for goods that meet the needs of client companies, manufacturer selection, price negotiation, 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 overview

There are three main business segments: Furniture and Housewares, Fashion Accessories, and Home Appliances. For each of these business segments, there are two business models: OEM Business from major clients such as Ryohin Keikaku, and Brand Business consisting retail and wholesale with a focus on imported brands

1. Trends in the Furniture and Houseware Business

The Furniture and Houseware Business is the Company's largest business segment. In this segment, OEM Business accounts for around 90% of net sales and has grown alongside the growth of the major clients, such as Ryohin Keikaku (MUJI). For the Brand Business, the subsidiary Essen Corporation mainly imports and sells German tableware brand Villeroy & Boch, and French enameled cast-iron pot brand CHASSEUR, etc. The Company's own e-commerce interior shops, such as MINT, have been growing remarkably in recent years. They sell more than 1,000 items on Rakuten and Yahoo! Shopping, and meet the needs of consumers for items at reasonable prices, including good quality beds and mattresses, antique- style furniture, interior goods, garden exterior and outdoor goods. Recently, the dropout of stay-at-home demand suggests that growth may have peaked. The Company owns a furniture and interior goods manufacturing factory in Malaysia (approximately 4,000m^2) which serves as a development base for ODM proposals in addition to the Company's own brand products and manufacturing of OEM products.

2. Trends in the Fashion Accessories Business

The Fashion Accessories Business is a potentially profitable segment, with the Brand Business having a large presence, accounting for about 50% of net sales. The largest brand the Company handles is BIRKENSTOCK, a comfortable shoe and sandal brand with more than 240 years of tradition in Germany, and its subsidiary BENEXY CORPORATION is engaged in the retail sales business, and it is supported by deep-rooted fans even in the price range of around ¥10,000 and is sold in shopping centers and at direct sales locations within major department stores, and e-commerce. As many customers use the products for a long period of time, the Company provides its own full range of after-sales services. The business has seen earnings deteriorate over the past few years due to the subsidence of the BIRKENSTOCK boom and the difficulty in attracting customers due to COVID-19. However, the business returned to profitability in FY2022 for the first time in three years by closing unprofitable stores and improving the sales capabilities of staff and sales personnel. The number of stores has been reduced from 65 (as of March 31, 2019) to 38 (as of March 31, 2023). The company's strategy for the development of BIRKENSTOCK is to urgently transition to directly managed multi-brand BENEXY and Quorinest stores (select shops).

3. Trends in the Home Appliance Business

In the OEM Business, the Chinese subsidiary SUNFAT ELECTRIC MANUFACTURING (DONGGUAN) CO., LTD., and the Hong Kong subsidiary SUNFAT ELECTRIC MANUFACTURING COMPANY LIMITED manufacture and export home appliances. In the Brand Business, the segment plans and sells its own Vitantonio brand of cooking appliances, beauty appliances brand "mod's hair," and cooking appliances brand "MULTI CHEF." For the Vitantonio brand, hot sandwich makers and cordless portable blenders have been selling well. It has gained popularity as a unique brand offering products that allow users to make hot sandwiches and original drinks at home. The Vitantonio brand was owned by subsidiary ZELIC Corporation until recently, but was merged with Sanyei Corporation in April 2023. Post-COVID-19 has also resulted in increased domestic demand for beauty appliances. The mod's hair products include hairdryers and hair irons as well as a popular compact ion heat brush. Segment earnings are currently being squeezed by a decline in plant utilization rate, and the Company is urgently seeking to make a recovery.

Business performance trends

FY2022 sales were significantly boosted by demand recovery for products related to outings. Brand Business structural reforms were a success, with operating profit and ordinary profit returning to the black for the first time in three fiscal years

1. Overview of FY2022 results

In the FY2022 consolidated results, net sales were ¥38,654mn (up 13.8% YoY), with operating profit of ¥238mn (¥912mn loss in F2021), ordinary profit of ¥258mn (¥657mn loss), and loss attributable to owners of parent of ¥158mn (¥945mn loss). Net sales and profit both improved in the Fashion Accessories Business on the back of factors such as a recovery in demand and structural reform progress, with full-year operating profit and ordinary profit both returning to the black for the first time in three fiscal years.

Overall net sales increased by ¥3,277mn in the Fashion Accessories Business, and by ¥1,072mn in Furniture and Houseware Business, driving improved net sales for the entire Company. In the Fashion Accessories Business, inbound tourism demand has started to return with the easing of COVID-19 restrictions, prompting a strong recovery for products related to outings and travel in both the OEM Business and the Brand Business. Sales increased at subsidiaries that distribute core brands BIRKENSTOCK and Kipling. OEM orders at the Furniture and Houseware Business improved significantly with the recovery in consumption in both the Japanese market and overseas, and sales increased at a tableware subsidiary. OEM orders at the Home Appliance Business were sluggish, but beauty appliance sales grew in the Japanese market and overseas. Overall, although there was some dropout of stay-at-home demand, demand for products related to outings, such as travel, beauty, recovered post-COVID-19, leading to all three core businesses posting sales increases.

Gross profit increased 14.4% YoY to ¥9,425mn mainly due to higher sales. SG&A expenses were restricted to a 0.4% increase YoY as a result of progress made in reducing costs, including a strategic review of stores in the Brand Business. Operating profit turned positive, mainly as a result of the improved gross profit margin. Ordinary profit also turned positive, mainly due to higher operating profit, despite a foreign exchange loss resulting from a sharp depreciation of the yen. Loss attributable to owners of parent narrowed to ¥158mn, due partially to the recording of an impairment loss on fixed assets. Segment profit increased YoY thanks particularly to successful structural reforms at the Fashion Accessories Business.

FY2022 results (consolidated)

(¥mn)

	FY2021		FY2022		YoY	
	Results	% of sales	Results	% of sales	Change	Change (%)
Net sales	33,976	-	38,654	-	4,678	13.8%
Cost of sales	25,734	75.7%	29,228	75.6%	3,493	13.6%
Gross profit	8,241	24.3%	9,425	24.4%	1,184	14.4%
SG&A expenses	9,153	26.9%	9,187	23.8%	33	0.4%
Operating profit	-912	-2.7%	238	0.6%	1,150	-
Ordinary profit	-657	-1.9%	258	0.7%	916	-
Profit attributable to owners of parent	-945	-2.8%	-158	-0.4%	787	-

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

The Company's equity ratio was over 50% and net assets were over ¥10.0bn. The Company maintained its financial soundness based on the capital accumulation to date

2. Financial condition and management indicators

As of March 31, 2023, total assets amounted to ¥19,652mn, a decrease of ¥1,130mn from March 31, 2022. Current assets decreased by ¥705mn to ¥15,001mn. The main factors were a ¥750mn decrease in merchandise and finished goods, despite a ¥472mn increase in notes and accounts receivable – trade, and contract assets due to recovery of earnings. Non-current assets decreased by ¥424mn to ¥4,651mn. The main factor was a ¥264mn decrease in property, plant and equipment mainly due to store consolidations.

Total liabilities decreased by ¥1,223mn to ¥9,454mn. Current liabilities decreased by ¥1,145mn, with the main factors being a ¥1,131mn decrease in short-term borrowings. Non-current liabilities decreased by ¥78mn. Interest-bearing debt was ¥4,892mn (¥6,073mn as of March 31, 2022), a decrease due mainly to the repayment of short-term borrowings. Net assets increased by ¥93mn to ¥10,197mn, and a retained earnings balance of ¥7,541mn shows that it has abundant capital.

The Company's management indicators as of March 31, 2023 show high safety and soundness with the current ratio of 270.7%, while the equity ratio remains high at 51.3%. The impact of COVID-19 has depressed earnings for the past three years, but the Company's financial soundness was maintained due to capital accumulation from the past. Looking ahead, a recovery in earnings should further bolster the Company's financial position.

Consolidated balance sheet and financial indicators

(¥mn)

	FY2021	FY2022	Change
Current assets	15,707	15,001	-705
(Cash and deposits)	4,599	4,481	-118
(Notes and accounts receivable – trade, and contract assets)	3,886	4,358	472
(Merchandise and finished goods)	6,319	5,568	-750
Non-current assets	5,075	4,651	-424
Total assets	20,782	19,652	-1,130
Current liabilities	6,686	5,540	-1,145
(Short-term borrowings)	2,873	1,742	-1,131
Non-current liabilities	3,992	3,914	-78
Total liabilities	10,678	9,454	-1,223
Net assets	10,104	10,197	93
Total liabilities and net assets	20,782	19,652	-1,130
<Soundness>			
Current ratio (Current assets / Current liabilities)	234.9%	270.7%	35.8pt
Equity ratio (Equity / Total assets)	48.1%	51.3%	3.2pt

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

Outlook

The Company forecasts FY2022 sales of ¥36,000mn, ordinary profit of ¥200mn. It will pursue a growth strategy while continuing structural reform

For the FY2023 consolidated results, the Company forecasts profit to remain in the black, with net sales to decrease 6.9% YoY to ¥36,000mn, operating profit to fall 49.6% YoY to ¥120mn, ordinary profit to decrease 22.7% YoY to ¥200mn, and profit attributable to owners of parent to improve to ¥30mn (a ¥188mn improvement versus FY2022). FY2023 is the first year of the Company's new medium-term management strategy SANYEI 2025, and has been identified as a year for laying a solid foundation.

The Company expects net sales to benefit from a demand recovery as COVID-19 pandemic restrictions ease, but its forecast is slightly conservative given various risks. In the Furniture and Houseware Business, the Company forecasts lower sales on factors such as a reactionary fall in stay-at-home demand and the adverse effect of the Ukraine conflict on the European market. The Fashion Accessories Business is expected to perform steadily as going out demand recovers. The Home Appliances Business is forecast to increase sales as new own-brand products are released.

The Company expects both operating profit and ordinary profit to return to the black from continued structural reform and internal structure improvement, despite lower sales in the core Furniture and Houseware Business. In the Fashion Accessories Business, structural reforms are in progress at L&S Corporation, which handles Kipling as a brand business, which is expected to improve segment profit. The Company expects losses in the Home Appliances Business to narrow due to it raising prices overseas and strengthening low-cost operations. Although there are still uncertainties about external factors such as the impact of the Russia/Ukraine conflict, travel and going out demand are recovering domestically (as of June 2023), which is expected to help sustain the strong performance of the travel goods and beauty appliances the Company excels in. Having returned to profitability through successful structural reforms initiated in the past, FISCO focuses on the outcomes of the growth strategy contained in the medium-term management strategy (such as transition to multi-brand stores, internet sales growth, development in China and Asia, and environmental products).

Forecast for FY2023 consolidated results

(¥mn)

	FY2022		FY2023		YoY	
	Results	% of sales	Forecast	% of sales	Change	Change (%)
Net sales	38,654	100.0%	36,000	100.0%	-2,654	-6.9%
Operating profit	238	0.6%	120	0.3%	-118	-49.6%
Ordinary profit	258	0.7%	200	0.6%	-58	-22.7%
Profit attributable to owners of parent	-158	-0.4%	30	0.1%	188	

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

Growth strategy

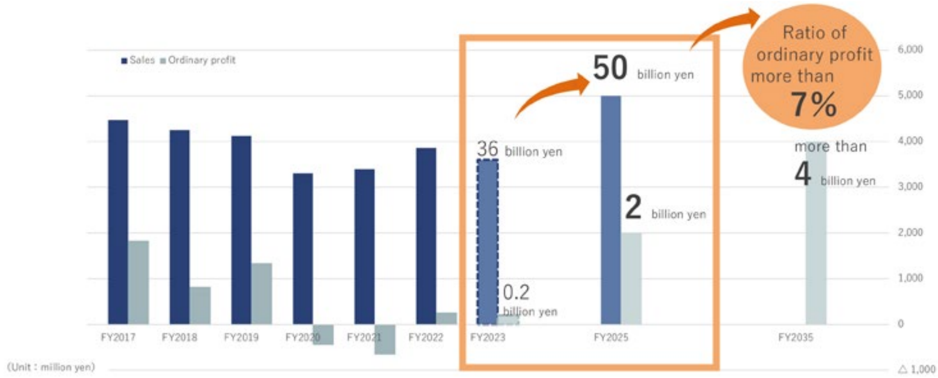
New medium-term business strategy calls for sales of ¥50.0bn, ordinary profit of ¥2.0bn in FY2025

1. Growth strategy

The Company commenced its new medium-term management strategy SANYEI 2025 (FY2023-25). Quantitative targets include sales of ¥50.0bn, ordinary profit of ¥2.0bn, and ordinary profit margin of 4%. Looking back, the Company's FY2016 net sales were ¥49,785mn and ordinary profit was ¥2,436mn, showing that these qualitative targets may be attainable. The Company believes the provision of lifestyle goods based on the theme of "health and the environment," will contribute to the realization of a sustainable society and enhance corporate value, and will initiate the new branding of Sanyei Corporation. The Company's core market has been the OEM Business (BtoB), but it plans to gain momentum in its own Brand Business (mainly BtoC) by creating the Company brand going forward.

The strategy gives four key strategies to "review the Group's business structure and business portfolio," "promote new initiatives promptly," "work-life balance," and "strengthen governance." Of these, FISCO's focus is on the following. For "review the Group's business structure and business portfolio," on its rebuilding of the Home Appliance Business. Segment earnings have recently decreased due to a decline in plant utilization rate. The Company has already arranged dedicated sales and brand positioning reforms for its own brand Vitantonio, leading to expectations of a fast outcome. For "promote new initiatives promptly," the market is focusing on the expansion and strengthening of the internet business, expansion of environmental products, and market development centering on China and Southeast Asia. One environmental product of note is e.dye, a fabric material that is gentle on the environment due to the use of anhydrous dyeing technology, that was launched in December 2022. Five types of fabric are available, with flexible lots being created at two locations in China and Japan. Sales are expected to increase to sustainability manufacturing-orientated companies.

Quantitative targets in the new medium-term management strategy



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

2. Topics

The Company started out by bolstering online sales at MINT which sells furniture and interiors such as beds. The Group's e-commerce site comprising 15 brands and 31 stores now achieves annual sales of ¥5,291mn. E-commerce sales now account for 13.7% of all Group companies, and the Company wants to increase sales by 20-25% by FY2025 through measures in the medium-term management strategy to expand and increase the internet business. Approaches being considered include sharing successful examples of sales method with all group companies and advancing the PDCA cycle, and achieving efficiencies by sharing physical infrastructure (storage, systems, etc.). Tsukuri, an online store specializing in garden exteriors, was newly established in FY2022. It stocks products that customers can use to create their unique garden. For example, it offers small to large items, ranging from deck chairs to tables to parasols to use in the garden, and will start offering house plants in the future. The store's warehouse is located in Kurume City, one of the top three tree-growing areas in Japan. This has the advantage of the entire process from purchase to sale being conducted through the Company's own sales channels, and also allowing the store to cheaply deliver and offer large garden exterior products by leveraging the Company's expertise in handling large furniture and interior products.

Shareholder return policy

The Company paid an annual dividend of ¥20 per share in FY2022. It forecasts a dividend of ¥20 per share in FY2023

The Company considers the appropriate return of profits to shareholders as one of the most important management issues. It determines the dividend comprehensively, taking into account factors such as its financial position, future earnings trends, and demand for funds. Under its corporate philosophy of "Zuien" (connection-i.e., the bonds), dividends are paid as continuously as possible so that its shareholders can hold shares with confidence over the long term. The Company has maintained a certain level of dividends since COVID-19 adversely impacted earnings in FY2020, paying an annual dividend of ¥20 per share. For FY2022, the Company paid an annual dividend of ¥20 per share (interim dividend of ¥10 paid, and a year-end dividend of ¥10). For FY2023, the Company expects an annual dividend of ¥20 per share (interim dividend of ¥10 paid, and an expected year-end dividend of ¥10).

The Company operates a shareholder benefit program. Shareholders as of the share- holder benefit reference date (March 31, 2023) will enjoy benefit points according to the number of shares held and length of time held, which can be exchanged for discounted products. In FY2022, benefit points could be exchanged for 1) Company group products, 2) discount vouchers that can be used at the groups directly managed stores, 3) discount coupons that can be used at designated online stores, 4) original QUO cards, and 5) donated to designated social contribution activities.

FISCO

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