

GLOBERIDE, Inc.

7990

Tokyo Stock Exchange First Section

24-Dec.-2020

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FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

Full-year forecast for operating profit revised upward amid swift recovery of 2Q FY3/21 results; strengths underpinned by business portfolio's alignment with the new normal of the coexistence with COVID-19 era

1. Company summary

GLOBERIDE, Inc. <7990> (hereafter, also “the Company”) is the world’s largest comprehensive supplier of fishing products. It has manufacturing sites in Japan and overseas (Asia, United Kingdom) and operates in four major regions, including the Americas, Europe, and Asia-Oceania. The Company focuses on sports and leisure business as its scope and is currently promoting business in four areas—fishing, golf, racquet sports, and cycle sports. In the fishing business, where it is the global leader as a comprehensive supplier of fishing products, “DAIWA” brand is widely known in the market. The Company also stands out in having refined and uniquely positioned brands in the other three areas.

2. Performance trends

In the 1H FY3/21 consolidated results, sales increased and profits gained substantially. Net sales were ¥48,558mn (up 4.0% YoY), operating profit was ¥4,070mn (up 38.9% YoY), ordinary profit was ¥3,943mn (up 47.3% YoY), and profit attributable to owners of parent was ¥2,499mn (up 27.2% YoY). In the sports and leisure products industry to which the Company’s Group belongs, the Company achieved favorable results accompanying a situation where the industry encountered a brief downturn due to the COVID-19 pandemic, but mounted a swift recovery after the government lifted its state of emergency declaration amid an assessment the four business areas the Company is promoting are sports and leisure enabling people to steer away from the so-called “three Cs” of confined spaces, crowded places, and close contact. Among the overseas markets, the Asia-Oceania region generated increases in sales and profits as China’s economy embarked on recovery at a comparatively early stage.

In the outlook for FY3/21 consolidated results, the Company revised upward its forecast on November 6 in light of favorable performance trends in 2Q. Accordingly, its targets are ¥92,000mn in net sales (up 4.2% YoY), ¥4,800mn in operating profit (up 32.8% YoY), ¥4,200mn in ordinary profit (up 36.1% YoY), and ¥2,600mn in profit attributable to owners of parent (up 131.5% YoY). FISCO anticipates that the Company will achieve favorable results given the notion that a new normal is highly likely to take hold to a certain extent, despite the unpredictable nature of potential developments involving COVID-19 in 2H. That said, the Company deems that despite all profit figures as of 1H approaching the full year projections, the extent of growth remains limited in part given that 1H accounts for a preponderance of earnings in ordinary years, and also given that the Company is likely to make upfront investment in 2H.

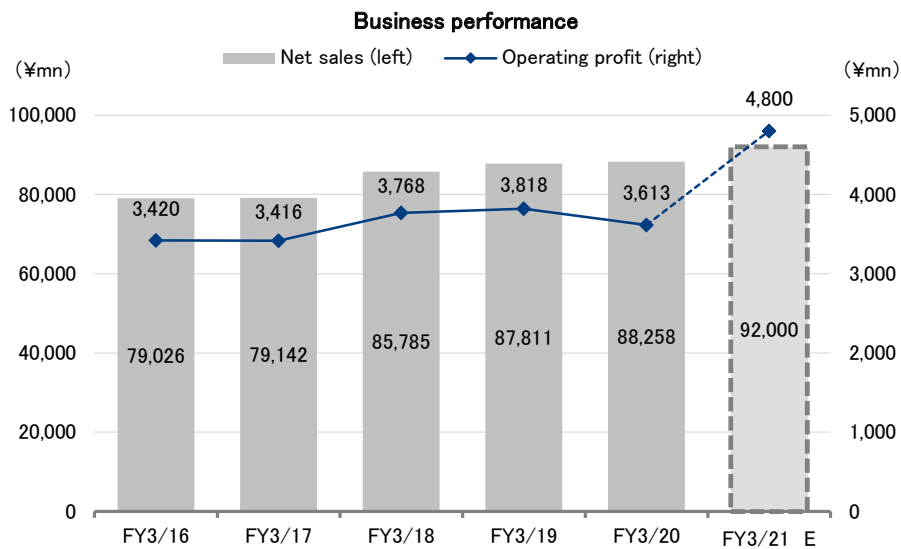
Summary

3. Growth strategy and key issues

Specific guidelines relating to the new normal amid the coexistence with COVID-19 era set forth by the national government and municipalities have been taking hold. Whereas the guidelines all encompass the aim of keeping risk of infection to a minimum by encouraging people to steer clear of the “three Cs,” the notion of small numbers of people engaging in outdoor sports and leisure is becoming mainstream. With camping, excursions and other such activities having gained in popularity, a leading option in terms of activities people turn to at travel destinations has been that of fishing, which constitutes one of the Company’s areas of business. As such, the Company’s business portfolio has emerged as one of its strengths given that the mainstay fishing business aligns with the new normal of the coexistence with COVID-19 era.

Key Points

- With its mainstay “DAIWA” fishing brand, the Company also operates other businesses with its original outlook on the world
- Results have been swiftly recovering in 1H FY3/21 amid an assessment that sports and leisure enable people to steer away from the “three Cs.” The Company has also revised upward its full-year operating profit forecast to ¥4,800mn (up 32.8% YoY)
- The Company derives strengths from its business portfolio’s alignment with the new normal of the coexistence with COVID-19 era



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

■ Company summary

Founded as a manufacturer of fishing reels for export, broadened scope from fishing to golf, racquet sports, and cycle sports too

1. Renamed from Daiwa Seiko Corporation to GLOBERIDE in 2009

The Company is the world's largest comprehensive supplier of fishing products. It has manufacturing sites in Japan and overseas (Asia, United Kingdom) and operates in four major regions, including the Americas, Europe, and Asia-Oceania. It also manufactures and sells (including exports) golf clubs and conducts import sales of products for racquet sports, such as tennis, and cycle sports in the domestic market.

The Company was established in 1955 as Matsui Manufacturing and mainly manufactured fishing reels for export. It established Daiwa Seiko Corporation in Yamato-cho, Nakano Ward, Tokyo in July 1958, taking its first step toward today's format. It built a plant for reel production at the site of the current headquarters in 1960, and also moved the headquarters to this location in 1962. It launched a rod manufacturing plant at the same location in 1964. This consolidation of the headquarters function and manufacturing plant for important items at one site established a foundation as a comprehensive supplier of fishing products.

The Company actively pursued overseas operations from early on, particularly since it targeted the export market from the founding stage. It established Daiwa Corporation in Los Angeles, US, in 1966 and then proceeded to steadily add overseas subsidiaries, including Taiwan, Australia, the United Kingdom, France, and Asian countries. As of the end of November 2020, it has 19 overseas local entities, including a local entity in Russia established in January 2019.

While the Company's core business is the fishing business, its founding area, it also expanded into the golf business in 1972, the tennis business in 1980 (which is now referred to as the racquet sports business) and the cycle sports business in 1991. Today it possesses strong brands and a clear presence in each of these four businesses.

The Company revised its name to Daiwa Seiko Corporation in 1969. While this took hold broadly along with "DAIWA" fishing brand, the Company renamed itself as GLOBERIDE in October 2009, its 50th year in business, as an expression of powerful resolve to evolve into a global company and a desire to contribute to people around the world who love sports and nature as "A Lifetime Sports Company" that supports enjoyment of our planet with the five human senses and valuable experiences.

The Company listed its shares on the Second Section of the Tokyo Stock Exchange in October 1970 and switched to the First Section, where it is currently listed, in January 1976.

With its mainstay “DAIWA” fishing brand, the Company also operates other businesses with its original outlook on the world

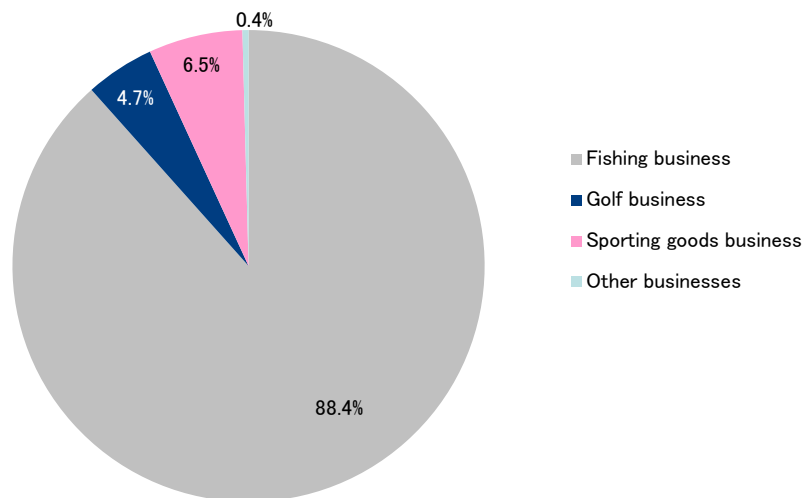
2. Business summary

(1) Four main businesses

The Company focuses on sports and leisure business as its scope and is currently promoting business in four areas - fishing, golf, racquet sports, and cycle sports. In the fishing business, where it is the global leader as a comprehensive supplier of fishing products, “DAIWA” brand is widely known in the market. The Company also stands out in having refined and uniquely positioned brands in the other three areas with “ONOFF” and “FOURTEEN” in the golf business, “Prince” in the racquet sports business, and “corratedc” in the cycle sports business.

Looking at the sales breakdown by business in FY3/20, the fishing business accounted for 88.4%, the sporting goods business (including sales of products for racquet sports and cycle sports) for 6.5%, and the golf business for 4.7%.

Sales breakdown by business areas (based on FY3/20 results)



Source: Prepared by FISCO from the Company's website

Below is a review of the Company's business by the main business areas.

Company summary

a) Fishing business

The Company's core business holds a top global position as a comprehensive supplier of fishing products. With "DAIWA" brand and a "Feel Alive" vision, the Company aims to expand its products for the fast-growing lure fishing and broadly cover target fish species from around the world. The Company's product line-up has a broad scope that extends from reels and rods to apparel (gear), cooler boxes, and specialty smaller items.

In technology, an important differentiating factor, the Company promotes "DAIWA Technology" that offers unique water resistance and dustproof features in reels, rods, and other fishing products and constantly pursues innovative technologies for various parts. By deploying these technologies in products, the Company strives to lead the fishing gear industry worldwide.

DAIWA



Source: Materials supplied by the Company

The market for fishing products is very narrowly segmented by types of fishing and target fish species and has many small-scale businesses catering to this broad range of market segments. This means that it is highly separated in terms of market segmentation and related participants. Furthermore, there are some cases in which large companies participate in certain markets (such as Toray Industries, Inc. <3402> and KUREHA CORPORATION <4023> in fishing lines), along with fishing product companies. Within this context, the Company holds the top global position as a comprehensive supplier of fishing products with a line-up of wide-ranging and diverse products.

In manufacturing, the Company makes reels and rods at the Tokyo plant (headquarters plant) and subsidiary Nasu Daiwa Corporation in Japan. Overseas, the Company has established a global product supply framework encompassing the United Kingdom, Thailand, Vietnam and China, and is furthermore strengthening the production framework primarily in Vietnam to diversify the risk of being concentrated in specific geographic areas.

Company summary

“DAIWA” brand is also popular in Europe and the US



Source: Materials supplied by the Company

Company summary

b) Golf business

In the golf business, the Company established Daiwa Golf K.K. in 1971, initiating production and sales of golf products (it conducted an absorption merger of Daiwa Golf in 1995). Thereafter, it acquired Fourteen Inc., which manufactures and sells golf clubs, as a subsidiary in 2008. The Company currently has four brands – “ONOFF,” “DAIWA GIII,” “RODDIO” (manufacturing and sales by subsidiary Sports Life Planets Inc.) and “FOURTEEN” (manufacturing and sales by subsidiary Fourteen).

“ONOFF,” the core brand in the golf business, promotes a concept of “refined adult golf.” The Company operates “CLUB ONOFF,” a membership club, to offer a premium atmosphere that is suited to the concept of “refined adult golf” and strives to further enhance service content.

ONOFF



Source: Materials supplied by the Company

“FOURTEEN” is a brand that focuses on golf club performance with a concept of delivering the “best 14 clubs to every golfer,” selecting its name from the number of golf clubs in a set.

FOURTEEN



Source: Materials supplied by the Company

We encourage readers to review our complete legal statement on “Disclaimer” page.

Company summary

c) Racquet sports business

The Company started the racquet sports business in 1980. It supplies “Prince” brand products to the domestic market for the various racquet sports (tennis, badminton, squash, etc.) as the exclusive import agent in Japan.

“Prince” is a brand founded in Princeton, New Jersey (US) in 1970. It has attracted support from many fans around the world as a preferred choice of numerous top players with a robust track record over the years. It leverages innovative technology and refined brand strength to go beyond just racquets and broaden the line-up to tennis wear and other sports apparel products.

Prince

Source: Materials supplied by the Company

Company summary

d) Cycle sports business

The Company entered the cycle sports business in 1991. It conducts import sales of sports bicycles and related products and currently operates three brands of sports bicycles with Germany-based “corrateg” and “FOCUS” and Italy-based “BOTTECCHIA” and handles, seats, tires, and other items under “WTB,” “iTM,” and other brands.

“corrateg” bicycle brand has a track record in both road and MTB racing and is also an eBike pioneer. It has been manufacturing and selling products since the emergence of the eBike business in Europe and enjoys support from many users. This brand has been sustaining growth as a leading German bicycle thanks to rigorous testing in an area with many trails that differ considerably.

“FOCUS” brand, which was established in 1992, comes under Derby Cycle Holding GmbH, Germany’s largest bicycle company. Having attained an abundance of accomplishments in bicycle racing, the brand has served professional athletes and teams ever since it was first established. As such, the brand has gained the support of many road racers given that “FOCUS” supplies cutting-edge machines equipped with the most advanced technologies and equipment, underpinned by the notion that “FOCUS” develops bicycles capable of winning in the racing world.

“BOTTECCHIA,” which was founded in 1926, obtained its brand name from legendary racer Ottavio Bottecchia. It is a famous popular brand in European road racing with a long history in the fiercely competitive bicycle industry and past victories in the Tour de France, the global pinnacle of bicycle races.

Europe's eBike market is growing



Source: Materials supplied by the Company

Company summary

(2) Overseas activities

The Company established a presence in the US market in 1966 and actively developed overseas operations thereafter, particularly since it had roots as a manufacturer of fishing reels for export. Its Group currently consists of the parent company and 31 subsidiaries located in Japan and other countries.

In overseas operations, the Company engages in fishing and golf businesses with original brands. The golf business, however, only appears to have a small amount of sales. FISCO hence thinks it is reasonable to analyze the Company's overseas business as almost entirely fishing products.

History of overseas initiatives

| | |
|-----------------------|--|
| October 1966 | Established Daiwa Corporation in Los Angeles, USA (currently a consolidated subsidiary) |
| February 1971 | Established Taiwan Daiwa Co., Ltd. in Kaohsiung, Taiwan (liquidated in December 2007) |
| February 1973 | Established Daiwa Whitehall Pty. Limited in Sydney, Australia (renamed Daiwa (Australia) Pty. Ltd. in July 1981) (currently a consolidated subsidiary) |
| July 1977 | Established Daiwa Sports Limited in Wishaw, Scotland, UK (currently a consolidated subsidiary) |
| October 1984 | Established Daiwa France S.A. (renamed Daiwa France S.A.S. in June 2004) in Rouen, France (currently a consolidated subsidiary) |
| April 1990 | Established Daiwa-Cormoran Sportartikel-Vertrieb GmbH in Grobenzell, Germany as a joint venture with Cormoran (purchased additional shares to acquire the company as a wholly owned subsidiary in November 2009) (currently a consolidated subsidiary) |
| June 1995 | Established Daiwa Seiko (Thailand) Co., Ltd. in Bangkok, Thailand (currently a consolidated subsidiary) |
| February 2002 | Established Daiwa FT Enterprise Co., Limited in Taichung, Taiwan (currently a consolidated subsidiary) |
| January 2004 | Established Daiwa (Hong Kong) Co., Ltd. in Hong Kong (currently a consolidated subsidiary) |
| April 2005 | Established Daiwa Seiko (South Korea) Co., Ltd. in Korea (renamed Daiwa Korea Co., Ltd. in April 2011) (currently a consolidated subsidiary) |
| September 2005 | Established Daiwa Vietnam Limited in Da Nang, Vietnam (currently a consolidated subsidiary) and established Zhongshan Daiwa Sporting Goods Limited in Guangdong, China (currently a consolidated subsidiary) |
| November 2010 | Established Asia Daiwa (Hong Kong) Co., Ltd. in Hong Kong (currently a consolidated subsidiary) |
| September 2012 | Established Singapore Daiwa Pte. Ltd. in Singapore (currently a consolidated subsidiary) |
| February 2013 | Established Dongguan Daiwa Sporting Goods Limited in Guangdong, China (currently a consolidated subsidiary) |
| April 2014 | Established Daiwa Italy S.r.l. in Milan, Italy as a joint venture with Fassa (acquired all shares in March 2016) (currently a consolidated subsidiary) |
| March 2016 | Established Daiwa Sports (M) SDN.BHD. in Malaysia (currently a consolidated subsidiary) |
| November 2018 | Established Daiwa Casting (Guangzhou) Trading Co., Ltd. in Guangdong, China (currently a consolidated subsidiary) |
| January 2019 | Established <<000>> Daiwa Rus in Russia (currently a consolidated subsidiary) |

Source: Prepared by FISCO from the Company's securities report

The Company's fishing business has local entities that handle sales in the Americas (Los Angeles, US), Europe (United Kingdom, France, Germany, Italy, and Russia), and Asia-Oceania (Taiwan, Australia, Hong Kong, Korea, China, Singapore, Malaysia, and Thailand) and implements sales strategies that address wide-ranging and diverse market trends in regions covering more than 100 countries worldwide and strives to expand sales of handled products.

The Company also manufactures products for the fishing business in other countries. It currently makes products in Thailand, Vietnam, China (two companies), and United Kingdom and ships them to Japan and markets around the world.

Performance trends

Results have been swiftly recovering in 1H FY3/21 amid an assessment that sports and leisure enable people to steer away from the “three Cs.” The Company has also revised upward its full-year operating profit forecast to ¥4,800mn (up 32.8% YoY)

1. Overview of 1H FY3/21 results

In the 1H FY3/21 consolidated results, sales increased and profits gained substantially. Net sales were ¥48,558mn (up 4.0% YoY), operating profit was ¥4,070mn (up 38.9% YoY), ordinary profit was ¥3,943mn (up 47.3% YoY), and profit attributable to owners of parent was ¥2,499mn (up 27.2% YoY). In the sports and leisure products industry to which the Company’s Group belongs, the Company achieved favorable results accompanying a situation where the industry encountered a brief downturn due to the COVID-19 pandemic, but mounted a swift recovery after the government lifted its state of emergency declaration amid an assessment that sports and leisure enable people to steer away from the so-called “three Cs” of confined spaces, crowded places, and close contact.

Overview of 1H FY3/21 results

| | 1H FY3/20 | | | 1H FY3/21 | | |
|---|-----------|------------|--------|-----------|------------|-------|
| | Results | % of total | YoY | Results | % of total | YoY |
| Net sales | 46,677 | - | 2.4% | 48,558 | - | 4.0% |
| Gross profit | 17,238 | 36.9% | 3.5% | 17,430 | 35.9% | 1.1% |
| SG&A | 14,309 | 30.7% | 2.6% | 13,359 | 27.5% | -6.6% |
| Operating profit | 2,929 | 6.3% | 8.4% | 4,070 | 8.4% | 38.9% |
| Ordinary profit | 2,676 | 5.7% | 3.9% | 3,943 | 8.1% | 47.3% |
| Profit attributable to owners of parent | 1,964 | 4.2% | -24.0% | 2,499 | 5.1% | 27.2% |

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

(1) Trends by region

a) Japan

In Japan, the Company reported ¥35,643mn in net sales (up 5.3% YoY) and ¥3,220mn in segment profit (up 31.3% YoY). The COVID-19 pandemic initially caused the market to weaken significantly for a time subsequent to the government declaring a state of emergency, but demand has since mounted a swift recovery amid a situation where people have gained a renewed awareness of camping and other typical forms of outdoor leisure activities that enable them to avoid the “three Cs.” This boosted demand thereby propelling sales of the Company’s fishing merchandise.

b) Americas

In the Americas, the Company posted ¥3,901mn in net sales (up 5.8% YoY) and ¥139mn in segment profit (down 12.0% YoY). The COVID-19 pandemic caused the business environment to deteriorate rapidly beginning in March 2020, which culminated in temporarily stagnating business activity amid “stay home” restrictions, retail establishment closures, and other such developments. Nevertheless, the Company’s sales increased amid a scenario unfolding since May such that the economy has been mounting a gradual recovery as a result of authorities having eased restrictions. On the other hand, there was a decrease in profits associated with higher logistics costs and import costs.

Performance trends

c) Europe

In Europe, the Company reported ¥5,057mn in net sales (down 8.9% YoY) and ¥300mn in segment profit (down 26.8% YoY). The European economy has been deteriorating rapidly since April 2020 as respective nations impose urban lockdowns and other stringent measures to combat the spread of COVID-19. As of the end of 1H, the economy continues to lack momentum even though the situation is gradually returning to normal as authorities ease restrictions.

d) Asia and Oceania

In the Asia and Oceania region, the Company posted ¥14,395mn in net sales (up 4.9% YoY) and ¥1,385mn in segment profit (up 25.8% YoY). Both sales and profits increased as China's economy embarked on recovery at a comparatively early stage, and despite persisting economic deterioration due to the COVID-19 pandemic.

1H FY3/21 financial results by regional segment

| | (¥mn) | | | |
|---|-----------|--------|-----------|--------|
| | 1H FY3/20 | | 1H FY3/21 | |
| | Results | YoY | Results | YoY |
| Net sales | 46,677 | 2.4% | 48,558 | 4.0% |
| Japan | 33,855 | -1.5% | 35,643 | 5.3% |
| Americas | 3,688 | 21.7% | 3,901 | 5.8% |
| Europe | 5,551 | 0.5% | 5,057 | -8.9% |
| Asia and Oceania | 13,716 | 4.7% | 14,395 | 4.9% |
| Adjustments | -10,134 | - | -10,439 | - |
| Operating profit | 2,929 | 8.4% | 4,070 | 38.9% |
| Japan | 2,453 | -4.2% | 3,220 | 31.3% |
| Americas | 158 | 185.8% | 139 | -12.0% |
| Europe | 409 | 21.2% | 300 | -26.8% |
| Asia and Oceania | 1,101 | 18.0% | 1,385 | 25.8% |
| Adjustments | -1,193 | - | -974 | - |
| Operating income margin (Companywide base) | 6.3% | 0.4pt | 8.4% | 2.1pt |
| Japan | 7.2% | -0.3pt | 9.0% | 1.8pt |
| Americas | 4.3% | 2.5pt | 3.6% | -0.7pt |
| Europe | 7.4% | 1.3pt | 5.9% | -1.5pt |
| Asia and Oceania | 8.0% | 0.9pt | 9.6% | 1.6pt |

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

(2) Financial standing

As of September 30, 2020, total assets have decreased by ¥1,704mn to ¥76,266mn compared to the end of the previous fiscal year, largely as a result of a decrease in inventories. Net assets have increased by ¥2,399mn to ¥25,422mn compared to the end of previous fiscal year, largely due to the recording of profit attributable to owners of parent.

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Performance trends

Consolidated balance sheets

| | March 31, 2018 | March 31, 2019 | March 31, 2020 | September 30, 2021 | Change |
|---|----------------|----------------|----------------|--------------------|--------|
| | (¥mn) | | | | |
| Current assets | 46,277 | 47,261 | 51,447 | 48,915 | -2,532 |
| Cash and deposits | 5,318 | 5,317 | 5,006 | 5,845 | 839 |
| Notes and accounts receivable - trade | 13,604 | 12,969 | 13,658 | 13,284 | -374 |
| Inventories | 25,995 | 27,010 | 29,645 | 27,815 | -1,830 |
| Non-current assets | 28,401 | 27,083 | 26,522 | 27,350 | 828 |
| Property, plant and equipment | 14,646 | 15,489 | 16,129 | 16,176 | 47 |
| Intangible assets | 2,150 | 1,702 | 1,401 | 1,336 | -65 |
| Investments and other assets | 11,605 | 9,891 | 8,991 | 9,836 | 845 |
| Total assets | 74,678 | 74,344 | 77,970 | 76,266 | -1,704 |
| Current liabilities | 33,756 | 34,141 | 37,161 | 32,524 | -4,637 |
| Notes and accounts payable - trade | 10,259 | 10,365 | 12,138 | 11,587 | -551 |
| Short-term borrowings | 17,210 | 16,817 | 18,784 | 14,070 | -4,714 |
| Non-current liabilities | 17,803 | 16,937 | 17,785 | 18,318 | 533 |
| Long-term borrowings | 10,324 | 9,461 | 10,509 | 11,136 | 627 |
| Total net assets | 23,119 | 23,265 | 23,023 | 25,422 | 2,399 |
| Total liabilities and net assets | 74,678 | 74,344 | 77,970 | 76,266 | -1,704 |

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

2. Outlook for FY3/21

In the outlook for FY3/21 consolidated results, the Company revised upward its forecast on November 6 in light of favorable performance trends in 2Q. Accordingly, its targets are ¥92,000mn in net sales (up 4.2% YoY), ¥4,800mn in operating profit (up 32.8% YoY), ¥4,200mn in ordinary profit (up 36.1% YoY), and ¥2,600mn in profit attributable to owners of parent (up 131.5% YoY).

In the mainstay fishing business, the Company has increased momentum after the previous quarter subsequent to the lifting of restrictions on movement imposed due to the proliferation of COVID-19 in Japan and elsewhere worldwide. Results in the fishing business have been swiftly recovering since then with the assessment that outdoor sports and leisure activities enable steering away from the “three Cs.” The Company deems that the COVID-19 pandemic has renewed interest in fishing among customers who became fond of the hobby during the fishing boom of the 1990s, and there has been an increase in people new to fishing, including women.

The progress rates in 1H FY3/21 results toward achieving the full-year forecast were 52.8% for net sales (52.9% in the same period in the previous fiscal year), 84.8% for operating profit (81.1%), 93.9% for ordinary profit (86.7%), and 96.1% for profit attributable to owners of parent (174.9%). FISCO anticipates that the Company will achieve favorable results as a new normal is highly likely to take hold to a certain extent (with the new normal encompassing greater preference for outdoor sports and leisure as well as more people cycling to work and other such trends), despite the unpredictable nature of potential developments involving COVID-19 in 2H. That said, the Company deems that despite all profit figures as of 1H approaching the full year projections, the extent of growth remains limited in part given that 1H accounts for a preponderance of earnings in ordinary years, and also given that the Company is likely to make upfront investment in 2H.

Performance trends

Outlook for FY3/21

| | FY3/20 | | | FY3/21 E | | | | (%mn) |
|---|---------|------------|--------|----------|------------------|------------|--------|-------|
| | Results | % of total | YoY | Forecast | Revised forecast | % of total | YoY | |
| Net sales | 88,258 | - | 0.5% | 89,000 | 92,000 | - | 4.2% | 52.8% |
| Operating profit | 3,613 | 4.1% | -5.4% | 3,500 | 4,800 | 5.2% | 32.8% | 84.8% |
| Ordinary profit | 3,085 | 3.5% | -5.7% | 2,800 | 4,200 | 4.6% | 36.1% | 93.9% |
| Profit attributable to owners of parent | 1,123 | 1.3% | -62.0% | 1,700 | 2,600 | 2.8% | 131.5% | 96.1% |

Note: Revised forecast for FY3/21 are based on November 6, 2020 disclosure
 Source: Prepared by FISCO from the Company's financial results

Growth strategy and key issues

Strengths underpinned by business portfolio's alignment with the new normal of the coexistence with COVID-19 era

1. The new normal of the coexistence with COVID-19 era and the business portfolio

Specific guidelines relating to the new normal amid the coexistence with COVID-19 era set forth by the national government and municipalities have been taking hold. The guidelines all encompass the aim of keeping risk of infection to a minimum by encouraging people to steer clear of the "three Cs" (confined spaces, crowded places, close contact). Various changes in people's behavior associated with the new normal are particularly relevant when it comes to the Company's business. Such behavioral changes include seeking entertainment outdoors rather than indoors, forgoing visits to urban centers, engaging in sports and leisure individually or with small numbers of people, and shunning crowded public transportation. Among these, engaging in sports and leisure individually or with small numbers of people is becoming a trend. With camping, excursions and other such activities having gained popularity, a leading option for activities at travel destinations is fishing, which constitutes one of the Company's areas of business. The tendency of people to shun crowded public transportation has sparked a boom in popularity of bicycles as people are encouraged to cycle to work, school and elsewhere, and because cycling is environmentally sound and contributes to better health. The Company's business portfolio has emerged as one of its strengths as components of the portfolio, including golf and tennis, that align with the new normal of the coexistence with COVID-19 era.

Alignment of the Company's businesses with the new normal of the coexistence with COVID-19 era

| New tendencies | Seeking entertainment outdoors rather than indoors | Forgoing visits to urban centers | Engaging in sports and leisure individually or with small numbers of people | Shunning crowded public transport |
|---------------------------------------|--|---|---|--|
| Popular trends | <ul style="list-style-type: none"> • Going to the park • Hiking and camping • Surfing | <ul style="list-style-type: none"> • Taking trips within the prefecture of residence • Visiting nature-rich beaches and hot springs | <ul style="list-style-type: none"> • Jogging • Video-based weight training and yoga | <ul style="list-style-type: none"> • Staggered work hours • Bicycle commuting • Driving |
| Alignment with the Company's business | | | | |
| Fishing | ○ | ○ | ○ | - |
| Cycling | ○ | - | ○ | ○ |
| Golf | ○ | ○ | ○ | - |
| Tennis | ○ | - | ○ | - |

Source: Prepared by FISCO based on interviews

Growth strategy and key issues

As such trends unfold, hit products have emerged as a result of people using such items in unexpected ways. Such products include the coolers, “Mini Cool” (8.5 and 10.5 liters) and “Soft Cool” (four sizes ranging from 8 to 45 liters). These items are listed under the fishing-related products category, yet are now used for a wide range of purposes including camping and other outdoor leisure pursuits, school events, and shopping. These products are also selling well under the cooler categories of major e-commerce platforms, according to the Company.

2. Change of promotional mix to the COVID-19 pandemic

The Company has been changing its advertising and sales promotion mix due to the COVID-19 pandemic. Certain fishing trade shows and other such exhibitions held thus far in major cities such as Tokyo, Osaka, and Nagoya had served as key events for the Company, but have since been canceled, held online or otherwise altered as a result of the pandemic. Meanwhile, the Internet and video media are playing a more prominent role. The Company had long made use of video content particularly by relying on YouTube content creators to feature its products, but going forward the Company is taking steps to enhance its owned media. For instance, the Company launched its “DAIWA CHANNEL” in-house video streaming website in October 2020. The Company has re-edited its pool of content into different fishing categories, ensuring the footage better conveys the true thrill of fishing and profiles fishing gear, targeting people across all levels of experience from beginner to expert. For instance, the Company is generating popularity among fishing beginners through content profiling the use of lures, tailored to that demographic. Incidentally, for more than a decade the Company has been conveying the appeal of fishing using lures. Such efforts have apparently helped culminate in an outcome where fishing with lures has become more prevalent than fishing with live bait. In addition, “The Fishing” television program on air since 1983 will serve as an important means of featuring products going forward. The Company is likely to maintain and improve its brand strengths by maintaining outstanding content amid a scenario where the boundary between the Internet and TV is becoming increasingly blurred as the 5G era of wireless network technology approaches.

On the cost front, the Company’s ratio of SG&A to sales will decrease due to factors culminating in substantial reductions in costs associated with holding physical events and transportation costs, amid the aforementioned changes to the Company’s sales promotion and advertising mix. The SG&A ratio for 1H FY3/21 was 27.5% (30.7% in the same period of the previous fiscal year).

Change of sales promotion and advertising mix due to the COVID-19 pandemic

| Forum | Examples | Changes due to the COVID-19 pandemic | Effect on sales promotion expenses |
|------------------|--|---|--|
| Exhibitions | Fishing exhibitions held in different cities | Events canceled, some held online | Lower proportion of promotion mix (lower personnel costs and transportation costs) |
| Internet & video | Launch of “DAIWA CHANNEL” in October 2020 | Enhancement of owned media, along with having YouTube content creators feature products | Higher expenditure incurred in enhancing efforts |
| TV programs | “The Fishing” television program on air since 1983 | To continue | Unchanged |

Source: Prepared by FISCO based on interviews

3. Initiative in the apparel sector utilizing functionality cultivated in fishing

The Company is activity pursuing its initiative in the apparel sector with the aim of creating a next-generation growth engine. Although upfront investments in this area have squeezed recent profitability, FISCO believes that the Company has enormous medium- to long-term potential in the sector and its initiative in this area is very meaningful.

Growth strategy and key issues

Having started with the launch of the “D-VEC” brand in 2017, the Company’s apparel initiative since added the new “DAIWA PIER 39” brand upon its launch during the 2020 spring apparel sales season. Enlisting the involvement of the well-known “BEAMS” boutique for branding and direction, this brand of casual apparel features silhouette designs that blend with urban landscapes, based on the functionality of fishing wear. The brand targets a customer demographic of adults in their 20s and early 30s. The brand’s line of 2020 spring and summer apparel sold out during the early stages as a result of buzz generated by core fans of apparel brands. The Company plans to continue selling the brand exclusively through select boutiques nationwide.

DAIWA PIER39



Source: Materials supplied by the Company

Addressing social contributions and environmental issues with pride as a company leading the world

4. Social contribution activities and ESG initiatives

The Company aims to be “A Lifetime Sports Company” and actively promotes social contributions, environmental conservation, and stimulation of the fishing market. Costs associated with these activities are a factor putting pressure on profitability (profit margin). Nevertheless, the efforts are very meaningful from an ESG perspective, and FISCO expects a resulting boost in the Company’s value over the longer term.

D.Y.F.C. Daiwa Young Fishing Club, which the Company has continued since 1976, is an initiative that contributes to society and stimulates the fishing market. It addresses elementary and middle school students and aims to increase fishing fans and support a healthy upbringing for children, as the next generation, through a unique experience in which children interact with nature via fishing. Through its history of more than 40 years, members from the Club’s initial years have already finished raising their own children and members from the 1990s, when the domestic fishing population expanded, have families now and the experience has shifted to their children’s generation. The Company also arranges collaboration with local government entities, various organizations, and other parties throughout Japan. In these efforts, it promotes broader inroads by fishing and greater awareness and also actively engages in cleaning and other tasks at fishing sites and other locations.

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Growth strategy and key issues

D.Y.F.C. Daiwa Young Fishing Club



Source: Materials supplied by the Company

Environmental conservation activities (fishing site clean-up)



Source: Materials supplied by the Company

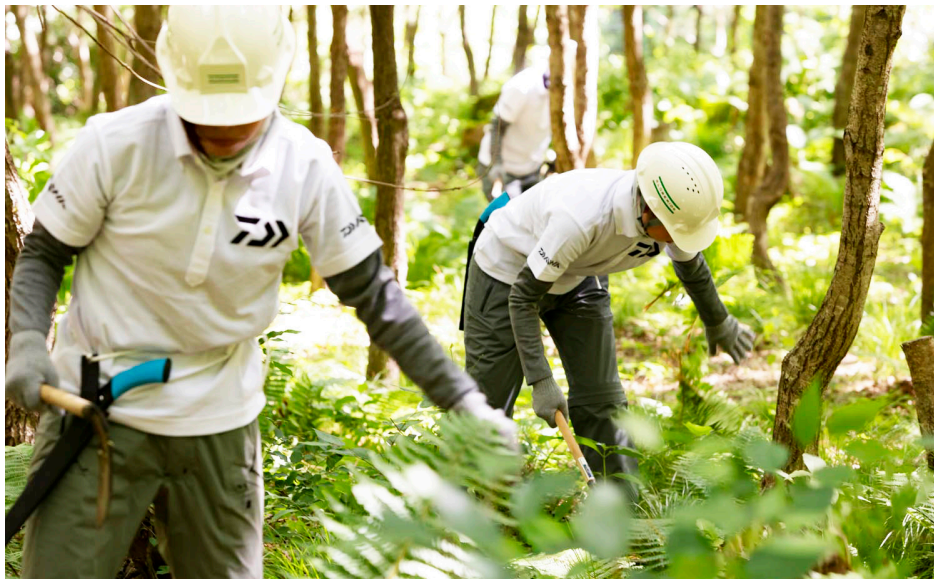
Growth strategy and key issues

In environmental conservation activities, the Company supports the “Forest Foster Parent Promotion Program”^{*1} promoted by Nagano Prefecture since 2005 and concluded a forest foster parent contract with “Nireikai” handling forest management and operation. The contract designates a portion of forest land owned by “Nireikai” as “GLOBERIDE’s Forest of Water, Greenery, and Sun,” and the Company covers some of the costs for planting, clearing, thinning, and pruning trees. The Company also conducts employee training using the forest, provides manpower assistance to forest conservation through recruitment of volunteers, and supports regional forest cultivation. It received the “Nagano Prefecture Furusato Forest Development Award,” an award from the Nagano Governor, in 2016 due to favorable assessment of these activities and was given related certification of forecast CO₂ absorption volume in the following fiscal year based on Nagano Prefecture’s Forest CO₂ Absorption Assessment and Certification Program^{*2}. Effective promotion of further thinning and other improvements helps reduce CO₂ as well.

*1 Companies involved in environmental activities receive introductions from the Nagano Prefectural Government to become “foster parents” for local government entities for forests in the prefecture. This program is a new approach to forest development that deepens interaction via collaboration between companies and local areas.

*2 This program is part of the Forest Foster Parent Promotion Program that utilizes Nagano Prefecture’s forest development prefectural resident’s tax. By measuring and certifying CO₂ absorption volume over a single year in a forest that conducts “thinning and other improvement tasks” as an initiative of companies cooperating in forest development through interaction with the local region, it aims to promote further thinning and other improvements.

Forest conservation activities



Source: Materials supplied by the Company

The Company has also built a framework for promoting environmental management as an initiative to enhance the environment. It established a companywide horizontal organization, stays abreast of activities conducted by various divisions based on the environmental policy continuously with monthly updates, and checks on compliance with environmental laws and regulations with the aim of ensuring proper operation of the environmental management system. Thanks to these efforts, the Company obtained ISO 14001 certification in 2007. It is strengthening production and sales of lead-free sinkers that use tungsten and eco-friendly products that utilize biodegradable materials, recycling batteries used in electric reels, promoting green factories (realizing resource and energy savings and zero emissions at plants), reducing environmental burden in sales and administrative work, and generating solar power too.

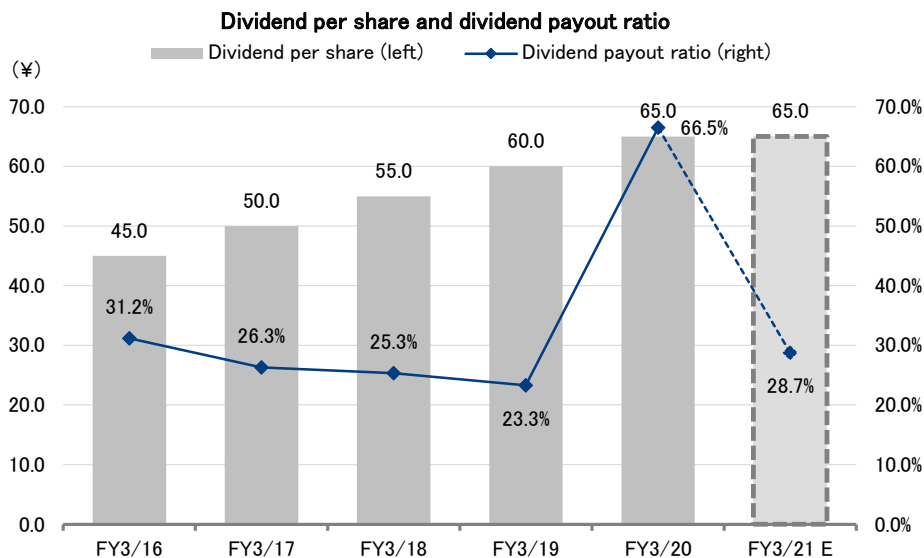
Growth strategy and key issues

While costs for these activities negatively affect short-term earnings, FISCO expects them to improve the Company's brand value over the longer term. The overall share of ESG investment is steadily rising as well, and companies lagging in ESG are being removed from investment choices. This is clearly a very significant issue for shareholder value. Conversely, companies need to curtail short-term earnings volatility and generate a positive effect for shareholders to be highly rated from an ESG perspective. FISCO thinks the Company's strong awareness of social contributions and the environment and pride as the top global companies should serve as an advantage in ESG investment.

Shareholder returns

Targeting an annual dividend of ¥65.0 per share with a dividend payout ratio of 28.7% in FY3/21, shareholder benefits program also well received

The Company provides dividends and a shareholder benefits program under its policy on shareholder returns. Under its basic policy of providing consistent dividends on an ongoing basis, the Company distributes profits in a manner that factors in its consolidated results and future business outlook. Looking at its record of dividends over the past five years, the Company paid a dividend of ¥65.0 per share in FY3/20, which was 1.44 times the ¥45.0 per share it paid out in FY3/16. For FY3/21, the Company forecasts a dividend payout ratio of 28.7% with the payment of an annual dividend of ¥65.0 per share, the same amount as the previous fiscal year.



Note: The Company performed a 10-for-1 stock split on October 1, 2015.
 Source: Prepared by FISCO from the Company's financial results

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Shareholder returns

Under its shareholder benefits program, the Company presents shareholders with a well-regarded gift in the form of QUO cards featuring the Company’s original designs depicting images from the popular Japanese manga “Fisherman Sanpei” illustrated by Takao Yaguchi. Each year shareholders with holdings of at least 1 unit (100 shares) as of March 31 of the respective year are eligible to receive a gift. Depending on the number and length of shares held, the gift value changes accordingly from ¥1,000 for shareholders who have had at least 1 unit and less than 5 units for less than 3 years up to ¥5,000 for shareholders who have had 10 units or more for no less than 3 years.

QUO cards featuring the Company’s original designs



Source: Materials supplied by the Company



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