

# BAROQUE JAPAN LIMITED

## FY2018/01 2<sup>nd</sup> Quarter Result Announcement

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**September 15, 2017**

Tokyo Stock Exchange 1<sup>st</sup> Section: 3548

1 FY2018/01 2Q Result Overview

2 FY2018/01 Revised Outlook and Strategy

3 Revising Midterm Strategy

**TOPIC 1: RODEO CROWNS WIDE BOWL received 「Propose Award」 \***

- ◆ RCWB received 「Propose Award」 at 「19<sup>th</sup> Developer & Tenant Award」 organized by Senken Shinbun (織研新聞社, Japanese Fashion Specialist Newspaper)
- ◆ Developers chose tenants, tenants (brands) chose developers
- ◆ 「Propose Award」 goes to the brand which are most wanted by the developers
- ◆ RWCW's wide range of customers (women, men, kids) at shopping centers was highly appreciated



\* 6 other brands received 「Propose Award」

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4 new topics for FY2018/01 2Q.

1<sup>st</sup>: RCWB received 「Propose Award」 at 「19<sup>th</sup> Developer & Tenant Award」 organized by Senken Shinbun (織研新聞社, Japanese Fashion Specialist Newspaper), which goes to the brand which are most wanted by the developers.

RCWB's wide range of customers at shopping centers was highly appreciated and resulted in the award.

**TOPICS 2: Store Openings in Metropolitan Tokyo/Urban area**

- ◆ One of the midterm strategy to focus on opening stores in Tokyo area is on track
- ◆ Especially new brands such as 「AEVES」 and 「STACCATO」 opened multiple locations at prestigious department stores and select shops in urban cities

**TOPICS 3: rienda suelta launched a golf wear collection**

- ◆ rienda launched a golf wear collection (licensed)
- ◆ Functional, glamorous and feminine. Niche market and positive feedback



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2<sup>nd</sup>: Store openings in metropolitan Tokyo area.

One of our midterm strategy is to focus on opening stores in Tokyo area where the economy is strong. During 2Q, especially new brands such as “AEVES” and “STACCATO” opened multiple locations at prestigious department stores and select shops in urban cities.

3<sup>rd</sup>; rienda suelta (rienda’s sub line which sells non fashion apparel) launched a golf wear collection (licensed). Sports has been integrated more and more in women’s life style thus the opportunity in the sports apparel is growing. rienda’s golf life offers functional, glamorous and fashionable golf wear.

**TOPIC 4: Opened 200<sup>th</sup> store in China**

- ◆ Opened 200<sup>th</sup> store in China on July 8<sup>th</sup> 2017 at 「興業太古滙(HKRI Taikoo Hui)」 (Shanghai)
- ◆ 「興業太古滙(HKRI Taikoo Hui)」 opened in May 2017 in Shanghai
- ◆ The store size is relatively big (285m<sup>2</sup>) compared to others reflecting high expectation for MOUSSY and SLY to attract the customers



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4<sup>th</sup>: 200<sup>th</sup> store opened in China.

On July 8<sup>th</sup>, MOUSSY and SLY store opened at HKRI Taikoo Hui in Shanghai, newly opened prestigious shopping center.

By the end of August, BAROQUE group operates 207 stores in China, on track for the store opening schedule.

**JAPAN Business Overview**

**Strong Performance for MOUSSY & ENFÖLD**  
**SC brands still on the way for recovery**  
**One off system related incident from company-owned EC**

(Detailed 2<sup>nd</sup> half strategy on P17)

Performance for MOUSSY is on track, ENFÖLD exceeds the plan

SC brands (over 50% of total sales) struggle from less customer traffic

- ◆ AZUL BY MOUSSY: Increased the weight on "trendy item" by company's designers to raise the customer spending, yet failed to attract "bargain hunters" thus customer number decreased (approx. ▲20% yoy)
- ◆ Rodeo Crowns: # of stores at Shopping Centers (SC) exceeded # at Fashion/Station Buildings(FB/SB), therefore the merchandise were tailored more for SC customers, which resulted in dragging the performance at FB/SB stores.
- ◆ Below the plan sales, excess inventory → higher discount & inventory write off (inventory write off: +JPY200mil yoy)
- ◆ The positive impact on the customer number from TV ad was less than expected (Advert spending: +JPY200mil yoy)
- ◆ Increased labor cost from new store openings (+JPY100mil yoy)

One off system related incident from company-owned EC

- ◆ Delayed system upgrade and unstable performance after the upgrade resulted in decreased customer number on the company-owned EC site (July customer # approx. ▲40% yoy)
- ◆ Already fixed by increasing the number of system server in August

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For the 1<sup>st</sup> half of this year, JAPAN business has been mixed. Some brands such as MOUSSY and ENFÖLD had shown strong recovery while shopping center brands, especially AZUL by moussy, continued to struggle. Also, there was an one off system related incident while upgrading the EC system which resulted in decreased customer number for several weeks.

**OVERSEA Business Overview****Proceeding as planned**

- ◆ Store opening in China on track (opened 200<sup>th</sup> store on July 8<sup>th</sup>, 207 stores as of end Aug)
- ◆ China JV has 2 companies, retail (49% associate) and wholesale (51% subsidiary)
- ◆ Retail company recorded loss due to inventory write off and accounting schedule difference
- ◆ Wholesale company's performance (sales and profit) exceeded the plan
- ◆ Therefore, the performance of China JV business is on track (Detail on P12)
- ◆ US business still recorded loss. However, surprisingly strong performance from wholesale business after launching oversea-limited high-end merchandise (Made in Japan denim etc)
- ◆ More than 100 accounts for wholesales. Started selling at Barney's NY.

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Oversea business for 1<sup>st</sup> half were on track.

For China JV business,;

- ◆ China JV has 2 companies, retail (49% associate) and wholesale (51% subsidiary)
- ◆ Retail company recorded loss due to inventory write off and accounting schedule difference
- ◆ Wholesale company's performance (sales and profit) exceeded the plan
- ◆ Therefore, the performance of China JV business is on track (Detail on P12)

For US business;

- ◆ US business still recorded loss. However, surprisingly strong performance from wholesale business after launching oversea-limited high-end merchandise (Made in Japan denim etc)
- ◆ More than 100 accounts for wholesales. Started selling at Barney's NY.

## Consolidate Income Statement

Slide 8

- Sales 94.8% yoy
- Struggling Japan business led to decreased sales and profit yoy

(JPY mil)	2018年1月期2Q実績 Actual	対売上 % of Sales	前年比 YoY
売上高/Sales	30,600	100.0%	94.8%
売上総利益/Gross Profit	16,398	53.6%	89.5%
販管費及び一般管理費/SG&A	16,661	54.4%	102.7%
営業利益/Operating Profit	△ 262	-0.9%	-
経常利益/Recurring Profit	△ 377	-1.2%	-
親会社株主に帰属する四半期純利益/Net Profit	△ 520	-1.7%	-

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As discussed in the summary page, due to yet to fully recover Japan business, Sales as well as profit decreased yoy.



# Consolidated Balance Sheet

Slide 9

(JPY mil)	2018年1月期2Q末				2017年1月期末		2017年1月期2Q末	
	金額 Amount	構成比 %	前期末比 % to previous year end	前年比 YoY	金額 Amount	構成比 %	金額 Amount	構成比 %
現預金 Cash	14,111	39.5%	81.5%	153.0%	17,309	45.0%	9,221	31.8%
売掛金 Accounts Receivable	6,062	17.0%	98.2%	117.1%	6,172	16.0%	5,176	17.9%
商品 Inventories	5,285	14.8%	103.4%	95.2%	5,110	13.3%	5,551	19.1%
その他流動資産 Other Current Asset	1,939	5.4%	134.4%	137.9%	1,443	3.8%	1,406	4.8%
固定資産 Non Current Asset	8,361	23.4%	99.3%	109.4%	8,424	21.9%	7,642	26.4%
総資産 Total Asset	35,759	100.0%	93.0%	123.3%	38,459	100.0%	28,997	100.0%
負債 Liabilities	19,567	54.7%	91.2%	85.3%	21,456	55.8%	22,927	79.1%
純資産 Equity	16,191	45.3%	95.2%	266.8%	17,002	44.2%	6,069	20.9%

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On the BS, the inventory is slightly lower than previous year due to improved merchandise cost (lower cost) and timely inventory write off for the excess inventory.

## JAPAN Business Income Statement

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- Performing brands (MOUSSY/ENFÖLD etc) and struggling brands (AZUL by moussy)
- One off Company-owned EC system failure already fixed. Third party EC continues strong performance.

(JPY mil)	2018年1月期2Q実績 Actual	対売上 % of Sales	前年同期比 YoY
売上高/Sales	27,416	100.0%	92.4%
店舗売上/Store Sales	22,101	80.6%	91.2%
通販売上/EC Sales	3,456	12.6%	98.8%
売上総利益/Gross Profit	15,230	55.6%	88.2%
販管費及び一般管理費/SG&A	15,722	57.3%	102.0%
営業利益/Operating Profit	△ 491	-1.8%	-
経常利益/Recurring Profit	△ 510	-1.9%	-

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On Japan business some of FB/SB brands and Dept/Select Shop brands outperformed but SC brands are suffering from less customer traffic.

For EC, the sales from company-owned EC site decreased yoy mainly due to the system upgrade related incident while third party EC continue to show strong growth.

## SSS FY2017/01 and FY2018/01(2Q)



※Same Store : Stores and online stores operated fully through the previous year, excluding stores which closed more than 7 days in a month due to the renovation and other reason.

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From May, brands except SC brands started to show the recovery, yet more than 50% of sales comes from SC brands thus overall performance is still below previous year. SSS for August was announced on Sept 11<sup>th</sup>, and it's 94.1%, narrowing the negative performance.

## CHINA Business Sales and Profit

Slide 12

- Both wholesale and retail sales are on track

### JPY

(JPY mil)	2018年1月期2Q実績 Actual
中国合併事業からの売上 Sales from China JV	
卸売/Wholesale	2,894
ロイヤリティ/Royalty	196
売上合計/Sales Total	3,090
当期純利益に対する 中国合併事業による利益 Profit from China JV	
小売事業からの損失 (持分法投資損失) Equity method investment loss	△ 58
卸事業からの利益 (少数株主持分の51%相当) 51% of JV subsidiary	125
ロイヤリティ税抜換算 Royalty after tax	137
利益合計/Profit Total	204

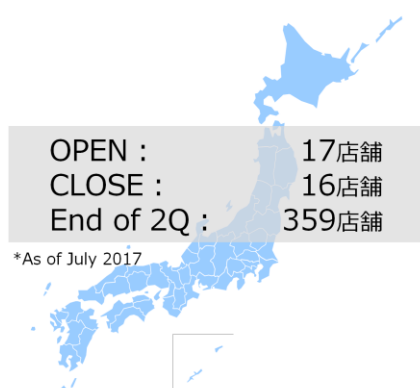
### RMB

(RMB mil)	2018年1月期2Q実績 Actual
中国合併事業からの売上 Sales from China JV	
卸売/Wholesale	177
ロイヤリティ/Royalty	12
売上合計/Sales Total	189
当期純利益に対する 中国合併事業による利益 Profit from China JV	
小売事業からの損失 (持分法投資損失) Equity method investment loss	△ 4
卸事業からの利益 (少数株主持分の51%相当) 51% of JV subsidiary	8
ロイヤリティ税抜換算 Royalty after tax	8
利益合計/Profit Total	12

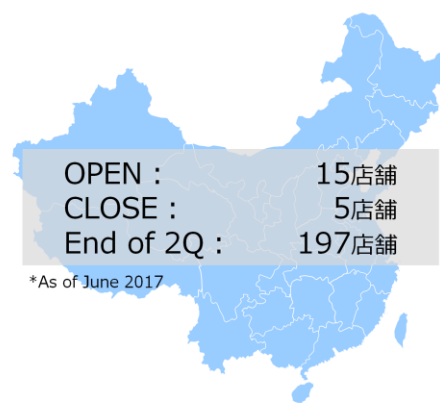
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For China JV business, as discussed in the summary page, both wholesale (which Baroque consolidates) and retail sales (which JV partner, Belle International Limited, consolidates) are on track.

## JAPAN



## CHINA



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For the store expansion,

In Japan, opened 17 stores, closed 16 stores, therefore the store number for the end of 2Q is 359.

In China, opened 15 stores, closed 5 stores, therefore the store number for the end of 2Q is 197.

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## Revised FY2018/01 Outlook

Slide 15

- FY2018/01 outlook revised down reflecting the performance of 1<sup>st</sup> half
- No change for full year dividend outlook of JPY38

(JPY mil)	修正後通期計画 FY2018/01 Plan after Revision				修正前通期計画 FY2018/01 Plan before Revision		
	見通し Forecast	差異額 Difference	対修正前% % to before revision	前年比 YoY	見通し Forecast	対売上 % to Sales	前年比 YoY
売上高/Sales	68,842	▲ 7,366	90.3%	99.1%	76,208	100.0%	109.7%
売上総利益/Gross Profit	38,174	▲ 5,906	86.6%	98.9%	44,080	57.8%	114.1%
販管費/SG&A	34,695	▲ 3,071	91.9%	104.4%	37,767	49.6%	113.6%
営業利益/Operating Profit	3,478	▲ 2,834	55.1%	64.8%	6,312	8.3%	117.6%
経常利益/Recurring Profit	3,674	▲ 2,971	55.3%	68.2%	6,645	8.7%	123.4%
親会社株主に帰属する当期純利益 /Net Profit	2,208	▲ 2,270	49.3%	63.0%	4,479	5.9%	127.7%
1株当たり当期純利益/EPS	61円14銭				126円17銭		

\* revised EPS is calculated using outstanding shares as of the end of 2Q (36,125,000 shares)

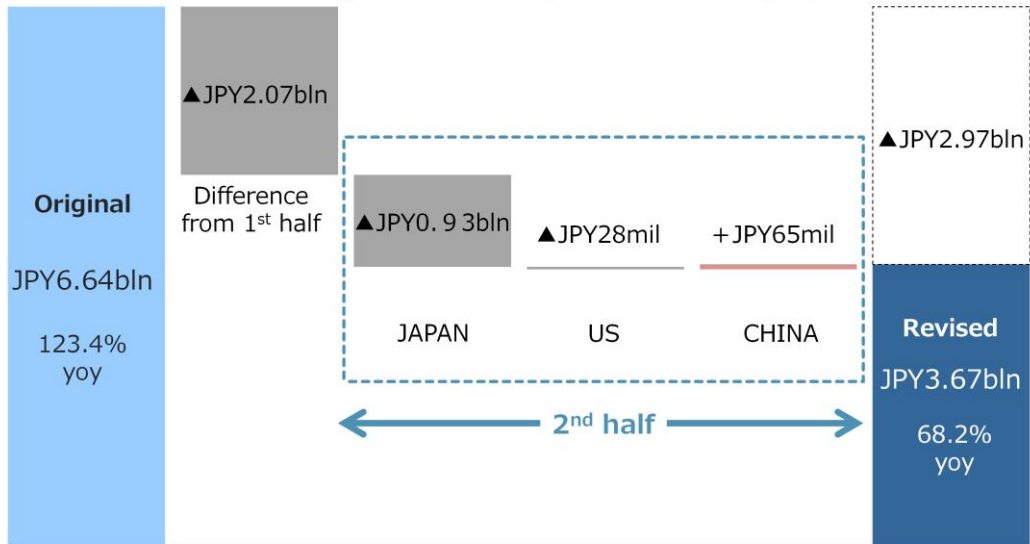
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Reflecting the 1<sup>st</sup> half performance, FY2018/01 outlook is revised, but no change for full year dividend outlook of JPY38.

## Revised Recurrent Profit Break Down

Slide 16

- Reflecting struggling Japan business, small loss from US business, outperformance of CHINA business
- Revised outlook for recurrent profit is JPY3.67bln (▲JPY2.97bln from original, 68.2% yoy)



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**JAPAN business 2<sup>nd</sup> half strategy****1 Launch 「SHEL'TTER Passport」 (members only point rebate system)**

- ◆ 「SHEL'TTER Passport」 consolidates promotions across the brands to maximize the performance
- ◆ Rebate points can be accumulated from spending at stores and EC
- ◆ Utilize the customer database from stores/EC to improve individually tailored marketing approach

**2 New business model for SC brands**

- ◆ Grow out of traditional business model of mass production/big discount and establish ideal SC business model
  - ✓ **Attractive Stores** ...Stores as advertisement. Renovate into the location customers want to stay
  - ✓ **Easy to buy** ...customer service heavy to customer self service. Improve VMD (visual merchandising)
  - ✓ **Merchandise customers really want** ...reflect the real demand from customers, differentiate from others
  - ✓ **Human resource** ...intensive internal training, professional outsourcing
- ※ RODEO CROWNS(FB/SB) and RODEO CROWNS WIDE BOWL(SC) to be operated by different team

**3 Utilize new EC system**

- ◆ Marketing automation, web customer service etc to increase the traffic to company-owned EC (120% yoy while testing) → improve purchasing rate by individually tailored marketing
- ◆ Hire more IT professional human resources

**4 Reinforce 'store to office' information flow**

- ◆ To quickly respond to the change in customer needs, make sure the idea from store staff to be reflected
  - information sharing with management team and store
  - Corporate Identity Projects

**1<sup>st</sup> half SSS 8 8 % → Full Year SSS above 9 4 %**

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There are 4 main strategy for the 2<sup>nd</sup> half.

1<sup>st</sup>: Launch “SHEL'TTER Passport”, members only point rebate system.

With the Passport, aim to consolidate the promotion among brands for the maximum impact, improve the purchasing rate, and individually tailored marketing approach.

2<sup>nd</sup>: New business model for SC brands.

In order to grow out of traditional business model of mass production/big discount, new ideal SC business model needs to be established.

3<sup>rd</sup>: Utilize new EC system.

Now switched from outsourced system to own system, it's easy to customize and utilize the customer database for the marketing automation. With web customer service and other online service, company EC site customer traffic should improve.

4<sup>th</sup>: Reinforce 'store to office' information flow

To quickly respond to the change in customer needs, make sure the idea from store staff to be reflected on time.

**Dividend**

- No change for JPY38 for FY2018/01
- Exceeds original payout policy of 30-40% (62.1% after revision), but keep JPY38 since the main reason for the downward revision is the performance of 1<sup>st</sup> half and expects the recovery.

**Shareholder Incentives****① who is entitled**

- Shareholders on record as of January 31<sup>st</sup> and July 31<sup>st</sup> with 100 shares and more

**② when to receive**

- Schedule to distribute by late April and late October

**③ what are incentives**

who	incentive
Shareholders with more than 100 shares	2,000 yen coupon to be used at stores and company EC site



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With the revised outlook, the payout ratio is 62.1%, which exceeds the original payout ratio policy of 30-40%.

However, JPY38 is not changed considering weak performance is temporary and expecting quick recovery.

Shareholder incentives is also not changed.

1 FY2018/01 2Q Result Overview

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3 Revising Midterm Strategy

- Midterm strategy (FY2018/01~FY2021/01, published on Mar 15<sup>th</sup>) under the review
- Main points being reviewed are below:

### Japan business

- ◆ Amid shrinking Japanese apparel market, grow out of the traditional store expansion growth model and develop the best store/EC combined business model
- ◆ Increase the customer number mainly utilizing SHEL'TTER PASSPORT
- ◆ New business model for SC brands. Less discount, less unnecessary promotion, improved labor efficiency thus higher profitability
- ◆ Launch business in small size, analyze the performance then invest.  
Continue to launch 2 to 5 new business annually
- ◆ Potential M&A

### Oversea business

- ◆ CHINA: Store business on track. Add on the EC business expansion.
- ◆ US: Strong wholesale business and EC business expansion

### SCM(Supply Chain Management)

- ◆ Further improvement to support store/EC combined business model

**Plan to announce New Midterm Strategy  
together with FY2018/01 result in March 2018**

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Midterm strategy (FY2018/01~FY2021/01, published on Mar 15<sup>th</sup>) is currently under the review

Main points being reviewed are as mentioned.

New midterm strategy is expected to be announced together with FY2018/01 result in March 2018.



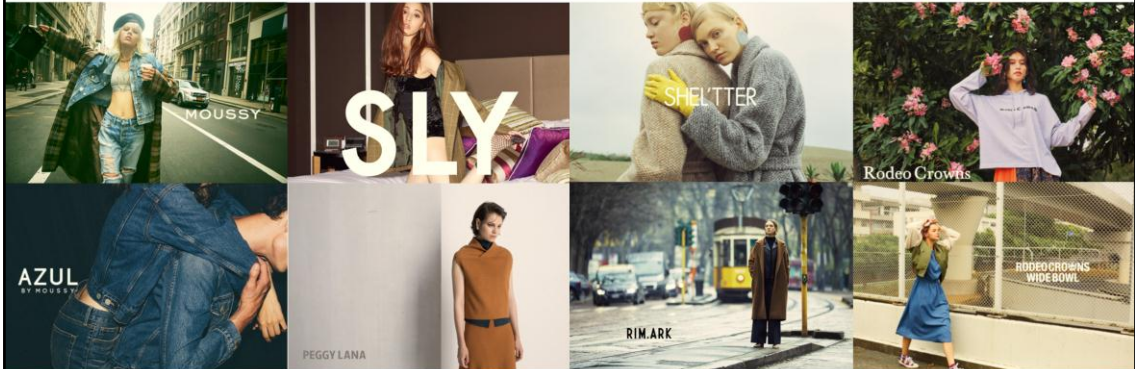
Appendix

## Leading SPA\* for women's apparel & accessories in Japan

- **359** stores in Japan, **197** stores in China, 8 stores in HK/Macau, 2 stores in U.S\*\*. **15 brands** in the portfolio
- Stable Japan Business + **Growing China Business**
- Efficient business model with **High Inventory Turnover and GPM**




\*Specialty store retailer of Private label. A business model by companies with brands to take integrated way from design, production to retail sales.

\*\*As of July 2017 for Japan, June 2017 for Oversea

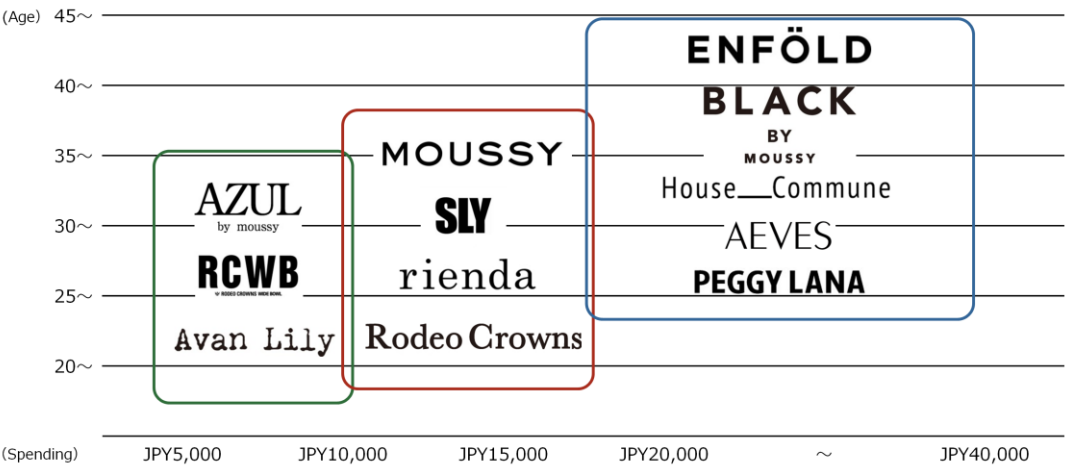


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- Our philosophy “we make what we want” never changes
- Started from a 350 sqf store in Shibuya 109, expanded globally supported by our loyal customers


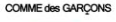








Time	History	
2000年	<ul style="list-style-type: none"> <li>● 6 founders started [MOUSSY] from Shibuya 109. “we make what we want (because they don't exist in the market!)”</li> <li>● As denim brand, MOUSSY's jeans were designed to accentuate the sexiness of women.</li> <li>➢ MOUSSY achieved sales of JPY10bil in just 4 years</li> </ul>	
2006年	<ul style="list-style-type: none"> <li>● China business expert, Mr. Murai (current Chairman and CEO) joined the company</li> </ul>	
2007年	<ul style="list-style-type: none"> <li>● MBO by CLSA and senior management</li> </ul>	
2008年	<ul style="list-style-type: none"> <li>● [AZUL by moussy] launched. Targeting customers at shopping centers (reasonably priced item, offering women men and kids item), yet offering MOUSSY-style shopping experience and store atmosphere.</li> </ul>	
2010年	<ul style="list-style-type: none"> <li>● 1<sup>st</sup> MOUSSY store opened in China</li> </ul>	
2012年	<ul style="list-style-type: none"> <li>● 「ENFÖLD」 launched. Targeting fashion conscious women in 30s and 40s</li> <li>➢ Established “Domestic Contemporary market*”</li> <li>*a market for brands with similar level of design, quality and branding as foreign contemporary brands(especially European and American brands) but pricing similar to domestic brands (more affordable)</li> </ul>	
2013年	<ul style="list-style-type: none"> <li>● CLSA sold all the shares to Belle and CDH Fund. China JV with Belle started</li> </ul>	
2016年	<ul style="list-style-type: none"> <li>● [RIM.ARK] launched by a winner of an internal competition project.</li> <li>● 「MOUSSY」 「ENFÖLD」 stores opened in Manhattan, NY</li> </ul>	

Balanced Brand Portfolio across Wide Range of Customers





### Ranking of Instagram Follower# for Japanese Fashion Brands

Japanese Company Ranking	Name	Logo	Follower#	Post#
4	KENZO		1,534,692	1,729
8	Comme des Garçons		1,198,488	211
9	UNIQLO		1,094,310	871
10	A Bathing Ape		1,030,437	6,403
16	MUJI無印良品		737,535	613
23	GU		587,721	1,614
29	MOUSSY		505,281	5,373
37	Yoji Yamamoto		418,441	477
41	SLY		376,364	6,139
42	EMODA		370,990	4,744

As of August 2017, User Local Instagram Ranking

### Staff Instagrammer

corina\_718

- rienda
- Follower #85,000



wadarisa

- rienda
- Follower #83,600



\_marinakamura\_

- RIM.ARK
- Follower #63,900



marie\_0905

- MOUSSY
- Follower #63,400



As of August 2017, Instagram

- In FY2017/01, Opened 56 stores, Closed 5 stores, Net Addition 51 stores.
- Plan to continue opening around 60 stores per year.

### ■ Store Number : 197

- 1<sup>st</sup> tier : 4cities/83stores
- 2<sup>nd</sup> tier : 20cities/90 stores
- 3<sup>rd</sup> tier : 11cities/24 stores

### ■ # of cities : 35cities

(As of June 2017)

#### 西南エリア/West

成都/Chengdu	15
重慶/Chongqing	9
西安/Xian	5
昆明/Kunming	3
貴陽/Guiyang	2
西寧/Xining	1

#### 華南エリア/South

深圳/Shenzhen	11
広州/Guangzhou	8
武漢/Wuhan	6
長沙/Changsha	4
福州/Fuzhou	2
南昌/Nanchang	2
南寧/Nanning	2
東莞/Dongguan	2
佛山/Foshan	2
廈門/Xiamen	3
珠海/Zhuhai	1

#### 華北エリア/North

北京/Beijing	26
天津/Tianjin	7
沈陽/Shenyang	4
太原/Taiyuan	3
石家荘/Shijiazhuang	2
長春/Changchun	1
大連/Dalian	2
瀋陽/Tangshang	1

#### 華東エリア/East

上海/Shanghai	38
杭州/Hangzhou	10
南京/Nanjing	5
鄭州/Zhengzhou	6
合肥/Hefei	1
寧波/Ningbo	4
蘇州/Suzhou	4
青島/Qingdao	2
無錫/Wuxi	2
温州/Wenzhou	1

#### 当社グループ定義

1級都市（4都市）：上海・北京・広州・深セン

2級都市（27都市）：ハルビン・沈陽・長春・フホト・石家荘・太原・天津・杭州・合肥・南京・福州・海口・南昌・南寧・武漢・長沙・済南・鄭州・蘭州・ウルムチ・西安・西寧・銀川・

成都・重慶・貴陽・昆明

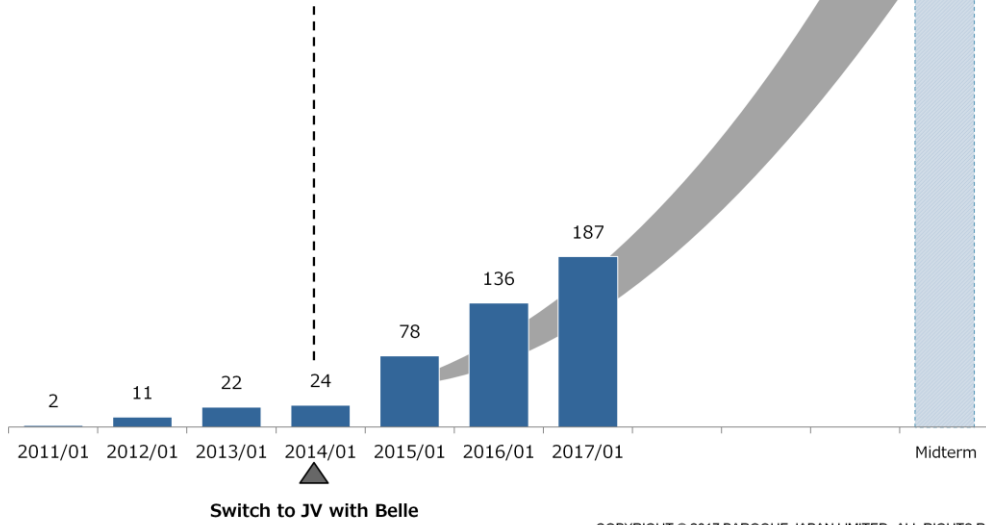
3級都市：その他の都市

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- Store opening accelerated after JV with Belle International Limited started in 2013
  - Store development negotiation ability improved dramatically
  - Utilize the data of Belle's existing stores for new store location search

Ave.# of store opened: 7.3

Ave.# of store opened: 54.3



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- Established in Shenzhen China in 1991.
- Two business segments. Shoes business and Sports/Fashion wear business.
- FY2017/2 Store Number: 20,716 stores (13,062 stores for Shoes business, 7,654 stores for Sports/Fashion wear business)
- FY2017/2 Result  
Sales 41,706mil RMB, Operating Profit 3,555mil RMB, Net Profit 2,416mil RMB

(Brands operated by Belle International in China)



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## High Inventory Turnover

- New merchandise arrives every week
- Ave. 13,000 to 14,000 item/year



- Sold out or move to Outlet stores/warehouse after 2 to 3 weeks
- Highly skilled shop staff



## High Gross Profit Margin

### Development

- Exclusive fabric development and sourcing by R&D team



### Production

- Increase direct purchase from factories
- Develop new factory network with production team in China



### Logistic

- Lower logistic and warehouse cost utilizing Belle's resource
- In-house inspection center

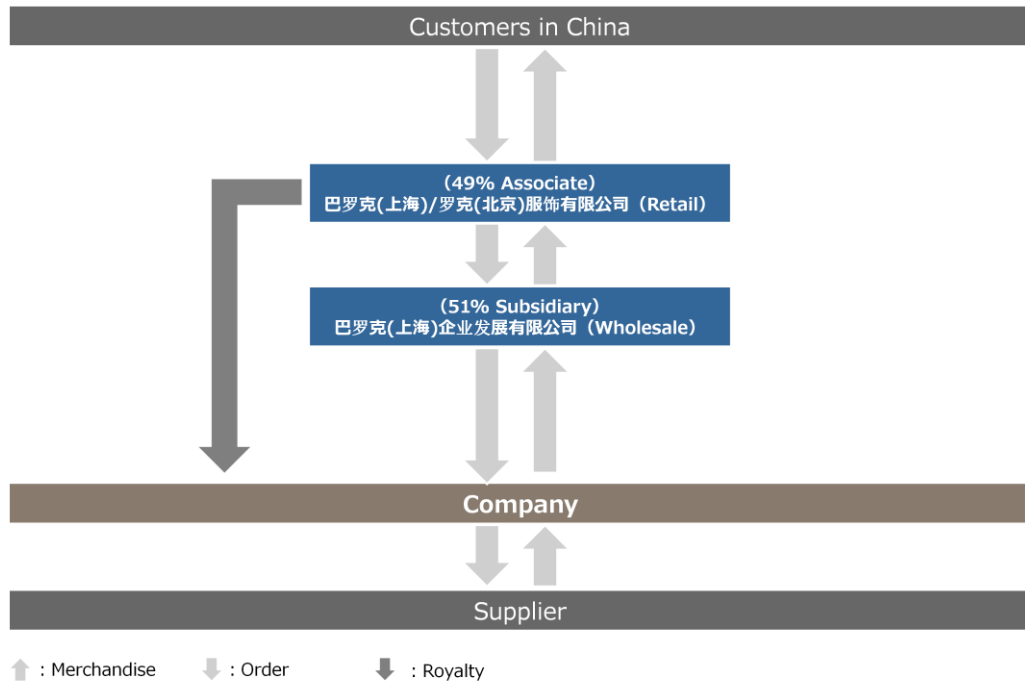


### Sales

- Multiple training for shop staff
- Unique incentive scheme



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- This document contains forward-looking statements. All statements other than statements of historical fact included herein, including without limitation, those regarding our financial position, business strategy, management plans and objectives for future operations are forward-looking statements. Any such forward-looking statements are subject to risk and uncertainty and thus could differ materially from actual results.
- The risk and uncertainties that could affect the forward-looking statements are difficult to predict. The company assumes no obligation to publicly revise or update its forward-looking statements in the case of unexpected changes, events, or circumstances that could affect them. Given the uncertainties of forward-looking statements, we caution readers not to place undue reliance on these statements.