FY2022
Financial Results
Explanatory Materials

SANYO SHOKAI LTD.

April 14, 2022

Contents

Consolidated PL: FY2022 Results

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Net sales were ¥38.64bn. Operating loss was ¥1.05bn, and net income was ¥660m.

(Unit: ¥100m)	FY2019 Results[1]	Previous Year	Current Year	vs. FY2019	vs. PY
Net sales	583.4	379.3	386.4	-197.0	+7.1
Gross profit	274.5	145.1	185.4	-89.1	+40.3
SG&A expenses	304.1	234.2	196.0	-108.1	-38.2
Operating income	-29.6	-89.1	-10.5	+19.1	+78.6
Ordinary income	-29.7	-90.3	-7.3	+22.4	+83.0
Net income	-27.6	-49.8	6.6	+34.2	+56.4

1. Since the results of FY2019 were calculated based on the irregular duration of 14 months, the results from March 2019 to February 2020 are referenced.

Consolidated PL: KPI

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Gross profit margin improved by 9.7pt YoY.
Despite a significant decline in net sales, SG&A expense ratio improved by 1.4pt compared to FY2019.

	FY2019 Results[1]	Previous Year	Current Year	vs. FY2019	vs. PY
Gross profit margin	47.1%	38.3%	48.0%	+0.9pt	+9.7pt
SG&A expense ratio	52.1%	61.8%	50.7%	-1.4pt	-11.1pt
Operating margin	-5.1%	-23.5%	-2.7%	+2.4pt	+20.8pt
Ordinary income margin	-5.1%	-23.8%	-1.9%	+3.2pt	+21.9pt
Net income margin	-4.7%	-13.1%	1.7%	+6.4pt	+14.8pt

1. Reference values (03/2019–02/2020)

Extraordinary Profit/Loss

Extraordinary profits totaled ¥2.06bn from gain on partial termination of retirement benefit plan, gain on sale of investment securities, subsidy proceeds due to temporary closures, etc., while extraordinary losses totaled ¥620m from store impairment loss, etc.

(Unit: ¥1m)

Extraordinary profits	**2,060**
Gain on partial termination of retirement benefit plan	1,248
Gain on sale of investment securities	501
Proceeds from subsidies	304
Other	6

Extraordinary losses	**624**
Loss due to temporary closures, etc.	209
Impairment loss	400
Other	13

Differences From Announced Projections

Net sales fell short of the forecast due to the impact of the COVID-19 pandemic throughout FY2022. Although improvement of gross profit margin, by enhancing full-price sales and restricting discount sales, and further reduction in SG&A expenses progressed almost as planned, this could not completely cover the decrease in gross profit due to the decline in sales, thereby failing to achieve the projected operating income. We secured a net income surplus of ¥660m, exceeding the forecast announced on Oct 7 by ¥660m.

(Unit: ¥100m)	Apr 14 Forecast[1]	Oct 7 Forecast[2]	Mar 25 Forecast[3]	Results	vs. Apr 14	vs. Oct 7
Net sales	440.0	415.0	386.0	386.4	-53.6	-28.6
Gross profit	215.0	203.0	185.0	185.4	-29.6	-17.6
SG&A expenses	214.0	202.0	195.0	196.0	-18.0	-6.0
Operating income	1.0	1.0	-10.0	-10.5	-11.5	-11.5
Ordinary income	0.5	0.5	-7.0	-7.3	-7.8	-7.8
Net income	0	0	6.0 -8.0	6.6	+6.6	+6.6

Overview

The impact of the COVID-19 pandemic has been more far-reaching and prolonged than expected

In particular, due to semi-emergency COVID-19 measures aimed at containing the Omicron strain (sixth wave) since January, net sales and gross profit declined sharply

- The market almost normalized in Oct–Dec after the state of emergency was lifted, but it slowed down rapidly again since January
- Improvement of gross profit by enhancing full-price sales and restricting discount sales, as well as further reduction in SG&A expenses, were almost as projected
- We secured a net income surplus in FY2022

1. Full-year projection at the beginning of the fiscal year announced on April 14, 2021. 2. Revised full-year projection announced on October 7, 2021. 3. Revised full-year projection announced on March 25, 2022.

Consolidated BS

Total assets were ¥51.6bn at the end of FY2022, a decrease of ¥1.2bn YoY. Equity ratio was 65.7%.

(Unit: ¥1m)	2021/2/28	2022/2/28	Change
Cash and deposits	19,652	18,767	-884
Accounts receivable	3,341	2,659	-681
Merchandise and finished goods	9,406	7,819	-1,586
Tangible fixed assets	9,363	8,662	-700
Intangible fixed assets	2,167	3,949	1,782
Other assets	8,997	9,773	776
Total assets	**52,926**	**51,629**	**-1,297**
Accounts payable	3,876	4,176	300
Loans	6,000	6,800	800
Other liabilities	9,588	6,732	-2,856
Total liabilities	19,464	17,708	-1,755
Capital	15,002	15,002	-
Total shareholders' equity	29,755	30,435	680
Other net assets	3,707	3,485	-222
Total net assets	33,462	33,920	458
Total liabilities and net assets	**52,926**	**51,629**	**-1,297**

Cash and deposits
- Decrease in cash reserves due to temporary expenditures such as payments of additional charges for voluntary retirement, payments of deferred welfare pensions from the previous two fiscal years, and trademark acquisitions
- Increase in cash reserves due to sale of investment securities, control on purchasing/reduction in SG&A expenses

Merchandise and finished goods
- Reduced inventory through inventory control

Tangible fixed assets
- Store impairments

Intangible fixed assets
- Increase in trademark rights due to acquisition of Paul Stuart trademark right and Ecoalf Japan consolidation at the end of the fiscal year; decrease in goodwill due to divestiture of RUBY GROUPe

Liabilities
- Borrowing increased due to new loans from Shoko Chukin Bank
- Other liabilities decreased significantly due to the payments of additional charges for voluntary retirement mentioned above

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Summary: Net Sales and Gross Profit Margin (Non-Consolidated)

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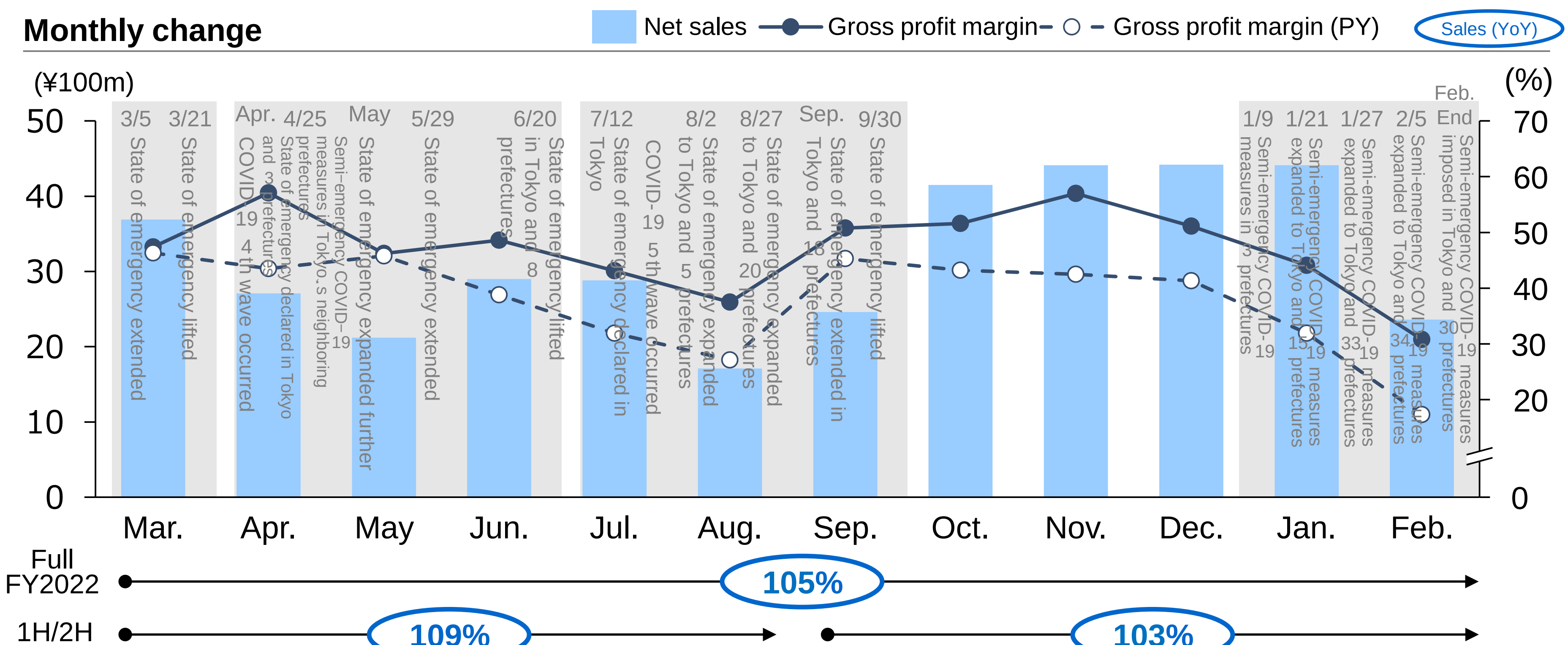
Net sales almost normalized after the state of emergency was lifted, but declined sharply due to the rapid spread of the Omicron strain.
Gross profit margin for the full FY2022 remains above the previous-year level through enhancing full-price sales and restricting discount sales.

Monthly change



- Despite the relatively steady growth in March, net sales remained sluggish after a state of emergency was declared on April 25 due to the fourth wave of COVID-19.
- Although there was a sign of recovery trend after the declaration was lifted on June 20, a state of emergency was issued again with a wider scope of regions on July 12. As a result, sales suffered significantly in July and August.

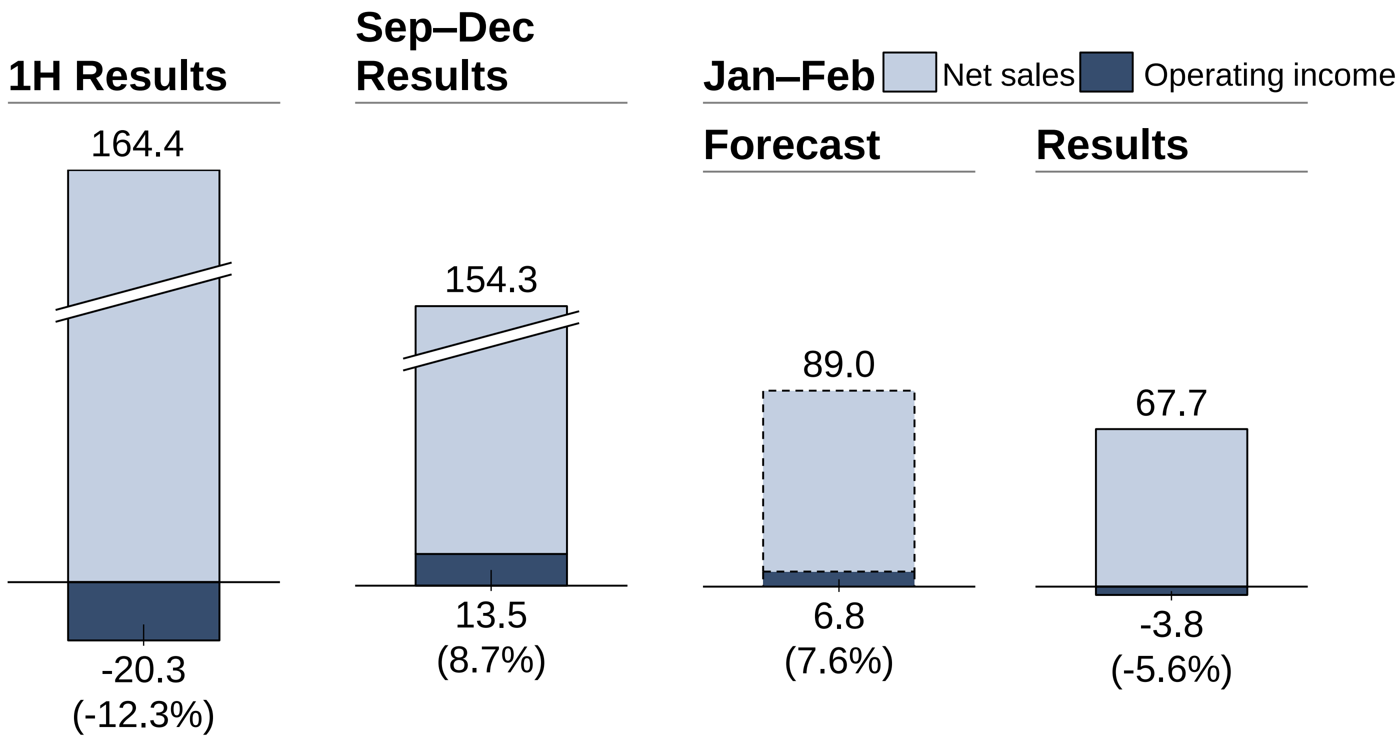
- In Oct–Dec, with the lifting of the state of emergency, business demand recovered in particular. Measures to attract customers were successful, and heavy clothing was sold.
- January saw market conditions deteriorate sharply due to the rapid spread of the Omicron strain, causing net sales and gross profit to fall significantly.

Enhanced full−price sales and restricted discount sales throughout FY2022, thereby maintaining a high gross profit margin

Reference: Details for 1H/Sep–Dec/Jan–Feb (Non-Consolidated)

We were not able to achieve operating surplus for the full FY2022, mainly due to the sharp deterioration of market conditions following the rapid spread of the Omicron strain since January.

(Unit: ¥100m)



	1H Results	Sep–Dec Results	Jan–Feb Forecast	Jan–Feb Results
Gross profit margin	47.0%	52.9%		39.5%
SG&A expense ratio	59.3%	44.1%		45.1%

- Operating income trended towards a surplus in Sep–Dec
- However, market conditions deteriorated sharply in Jan–Feb due to the rapid spread of the Omicron strain. As a result, operating income was a deficit of ¥380m, below the projected ¥680m surplus, missing the forecast by ¥1.06bn. This shortfall translated into the full-year operating deficit almost in its entirety

Summary: Progress of Priority Measures

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Net sales and gross profit margin were below the forecasts due to the spread of COVID-19, but other priority measures were implemented as planned or better than expected.

Priority Measures	Progress	
Securing of net sales	×	**Net sales fell short of the forecast due to the impact of the COVID-19 pandemic that spread wider and continued longer than expected.** • Net sales recovered in Oct–Dec when the state of emergency was lifted, but full-year net sales fell significantly short of the forecast due to the sharp deterioration in market conditions since January, impacted by the rapid spread of the Omicron strain
Improved gross profit margin	△	**Gross profit margin was 48.0% (+9.7pt YoY), compared to the quantitative target of 48.9%.** • It reached 50.0% until December, but remained at 48.0% for the full year due to the drop in Jan–Feb • Despite the improvement of procurement cost margin (reduced by 2.3pt YoY), the enhancement of full-price sales (FY2022 full-price sales margin was 57% in 1H, 64% in 2H, 61% for the full year, and improved by 12pt YoY), the restriction of discount sales, etc., the forecast was not reached due to emergency measures, etc. in response to the rapid spread of the Omicron strain in Jan–Feb

Summary: Progress of Priority Measures

Priority Measures		Progress	
Business restructuring	Reduction in SG&A expenses	○	**Significantly reduced fixed costs according to the Revitalization Plan** • Reduced ¥9.8bn (¥10.8bn on a consolidated basis), compared to the target of reducing SG&A by ¥4bn over two years by FY2022, through staff optimization and closing down of unprofitable stores
	Inventory reduction	○	**Progressed as planned** • Inventory was reduced to ¥7.8bn at the end of FY2022, against ¥13.6bn at the end of FY2020, through controlling purchases and strengthening the inventory management system • Product inventory decreased by ¥1.5bn YoY and carry-over inventory decreased by ¥1.8bn YoY, at the end of February
	Financial reform	○	**Equity ratio: 65.7%; Debt-to-equity ratio (DER): 0.20** • Net assets: ¥33.9bn, from ¥33.4bn at the end of PY • Total assets: ¥51.6bn, from ¥52.9bn at the end of PY • Interest-bearing liabilities: ¥6.8bn, from ¥6bn at the end of PY • Cash position: ¥18.7bn, from ¥19.6bn at the end of PY • Equity ratio improved to 65.7%, from 63.2% at beginning of FY2022

Reference: Sales Results by Channel

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Sales for the full FY2022 increased by 102% YoY — 111% YoY from physical stores[1] and 89% YoY from EC.
Despite a declining EC sales, the full-price sales margin and gross profit margin improved significantly.

Revenue (Unit: ¥1m)

	1Q	2Q	1H	3Q	4Q	2H	FY	Sales composition ratio
Department stores	4,713	4,429	9,141	6,544	6,204	12,748	21,889	57%
Directly managed stores	518	508	1,026	689	727	1,416	2,442	6%
EC & mail order	1,661	1,532	3,193	1,735	2,333	4,068	7,261	19%
Outlets	942	867	1,809	1,225	1,473	2,698	4,507	12%
Other	688	160	848	820	457	1,277	2,125	5%
Subsidiaries	188	230	418	-	-	-	418	1%
Total	8,710	7,726	16,436	11,013	11,193	22,206	38,642	100%

YoY

	1Q	2Q	1H	3Q	4Q	2H	FY
Department stores	177%	77%	109%	104%	108%	106%	107%
Directly managed stores	170%	78%	108%	100%	104%	102%	104%
EC & mail order	91%	87%	89%	83%	94%	89%	89%
Outlets	304%	105%	159%	115%	154%	133%	143%
Other	195%	52%	129%	87%	75%	82%	96%
Subsidiaries	62%	74%	68%	-	-	-	25%
Total	151%	81%	107%	95%	101%	98%	102%

vs. 2019

	1Q	2Q	1H	3Q	4Q	2H	FY
Department stores	52%	55%	53%	70%	63%	67%	60%
Directly managed stores	40%	52%	45%	52%	52%	52%	49%
EC & mail order	104%	107%	105%	96%	107%	102%	103%
Outlets	96%	116%	105%	112%	108%	110%	108%
Other	54%	26%	44%	65%	50%	59%	52%
Subsidiaries	26%	244%	50%	-	-	-	24%
Total	58%	65%	61%	72%	70%	71%	66%

1. Total of department stores, directly managed stores, and outlets

Reference: SG&A Expenses

Compared to the target of reducing SG&A expenses by ¥4bn over two years by FY2022 under the Revitalization Plan, SG&A decreased by ¥10.8bn.

(Unit: ¥1m)	Mar 2019–Feb 2020	FY2022	vs. FY2019
Sales expenses	14,649	9,819	-4,830
Promotional expenses	2,534	1,174	-1,360
Equipment expenses	1,163	552	-611
Employee personnel expenses	5,225	3,677	-1,548
Administrative expenses	5,724	4,213	-1,511
Other	1,120	170	-950
Total SG&A expenses	30,415	19,606	-10,809

Sales expenses decreased by ¥4.83bn
(or a decrease of ¥4.62bn, after excluding recorded extraordinary losses of ¥210m)
- FA expenses decreased by ¥3.57bn due to FA staff optimization and temporary store closings
- Real estate rents decreased
- Sales commissions decreased due to sluggish sales

Promotional expenses decreased by ¥1.36bn
- Improved efficiency of marketing promotions
- Cancellation of exhibitions

Equipment expenses decreased by ¥610m
- Restriction of new store openings

Employee personnel expenses decreased by ¥1.54bn
- Staff optimization by offering voluntary retirement
- Reduced bonus payments

Administrative expenses decreased by ¥1.51bn
- Physical distribution costs decreased due to decline in sales and reduction in purchases
- Travel expenses decreased by temporarily closing stores and promoting remote working

Other expenses decreased by ¥950m
- Decreased due to divestiture and absorption-type merger of subsidiaries

Sales expenses: FA expenses, rent expenses for real estate, sales commissions, outsourcing fees (sales-related), etc. Equipment expenses: Shop construction costs, depreciation expenses (for shops), lease fees, repair costs, etc. Employee personnel expenses: Salaries, statutory welfare benefits, etc. Administrative expenses: Depreciation (management-related), outsourcing fees (management-related), physical distribution costs, utility expenses, travel expenses, communication expenses, miscellaneous expenses, etc.

Topics in FY2022

2021

Divestiture of a consolidated subsidiary (RUBY GROUPe)
- March
- Purpose: Streamlining of business operations

Acquisition of domestic trademark right (Paul Stuart)
- Acquired on March 31
- Purpose: Business expansion based on Sanyo's unique strategy

Offering of voluntary retirement
- Implemented on March 31
- Purpose: Staff optimization

Absorption-type merger of a consolidated subsidiary (Sanyo Apparel)
- Merged on September 1
- Purpose: Streamlining of business operations

Listing on the TSE Prime Market
- Board resolution was made on November 26, along with the submission of Plan to Meet Continued Listing Criteria and application that were subsequently approved
- Purpose: To achieve sustainable growth and enhance medium− to long−term corporate value

Issuance of unsecured convertible bond-type bonds with stock acquisition rights allotted to Mitsui & Co.
- Payment completed on December 15
- Purpose: To strengthen the relationship with Mitsui & Co.

Contents

Application of the New Revenue Recognition Standard

As of FY2023, the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as "New Revenue Recognition Standard") etc. will apply.

Main changes:

Shops handling purchase-as-sold consignment sales in department stores will now record retail sales as "net sales," and sales commissions (amount equivalent to rents) for department stores as "SG&A"

- Under the old revenue recognition standard, the amount of retail sales minus sales commissions was recorded as "net sales"

For our purchase-as-sold consignment products, we will now record income from sales commissions only as "net sales"

- Under the old revenue recognition standard, retail sales were recorded as "net sales"

The entire fee for applying loyalty program points will now be deducted from "net sales"

- Under the old revenue recognition standard, part of it was recorded as "SG&A"

Basic Policy for FY2023

Basic Policy

Establish a stable profit structure based on the results obtained by executing the Revitalization Plan

Start promoting growth strategy aimed at business expansion

Full−Year Forecast: Consolidated PL

New Revenue Recognition Standard

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FY2023 full-year forecasts — net sales: ¥56bn; operating income: ¥1.2bn (operating margin: 2.1%); net income: ¥900m (net income margin: 1.6%)

		FY2022	FY2023		Reference: FY2019
		Results	Forecast	YoY/ Difference	Results[1]
(Unit: ¥100m) Financial Figures	Net sales	496.3	560.0	113%	757.5
	Gross profit	295.3	347.2	118%	448.6
	SG&A expenses	305.9	335.2	110%	478.2
	Operating income	-10.5	12.0	-	-29.6
	Ordinary income	-7.3	11.4	-	-29.8
	Net income	6.6	9.0	136%	-27.7
Major Financial Indicators	Gross profit margin	59.5%	62.0%	+2.5pt	59.2%
	SG&A expense ratio	61.6%	59.9%	-1.7pt	63.1%
	Operating margin	-2.1%	2.1%	+4.2pt	-3.9%
	Ordinary income margin	-1.5%	2.0%	+3.5pt	-3.9%
	Net income margin	1.3%	1.6%	+0.3pt	-3.7%

1. Since the results of FY2019 were calculated based on the irregular duration of 14 months, the results from March 2019 to February 2020 are referenced.

Trend of Operating Income

New Revenue Recognition Standard

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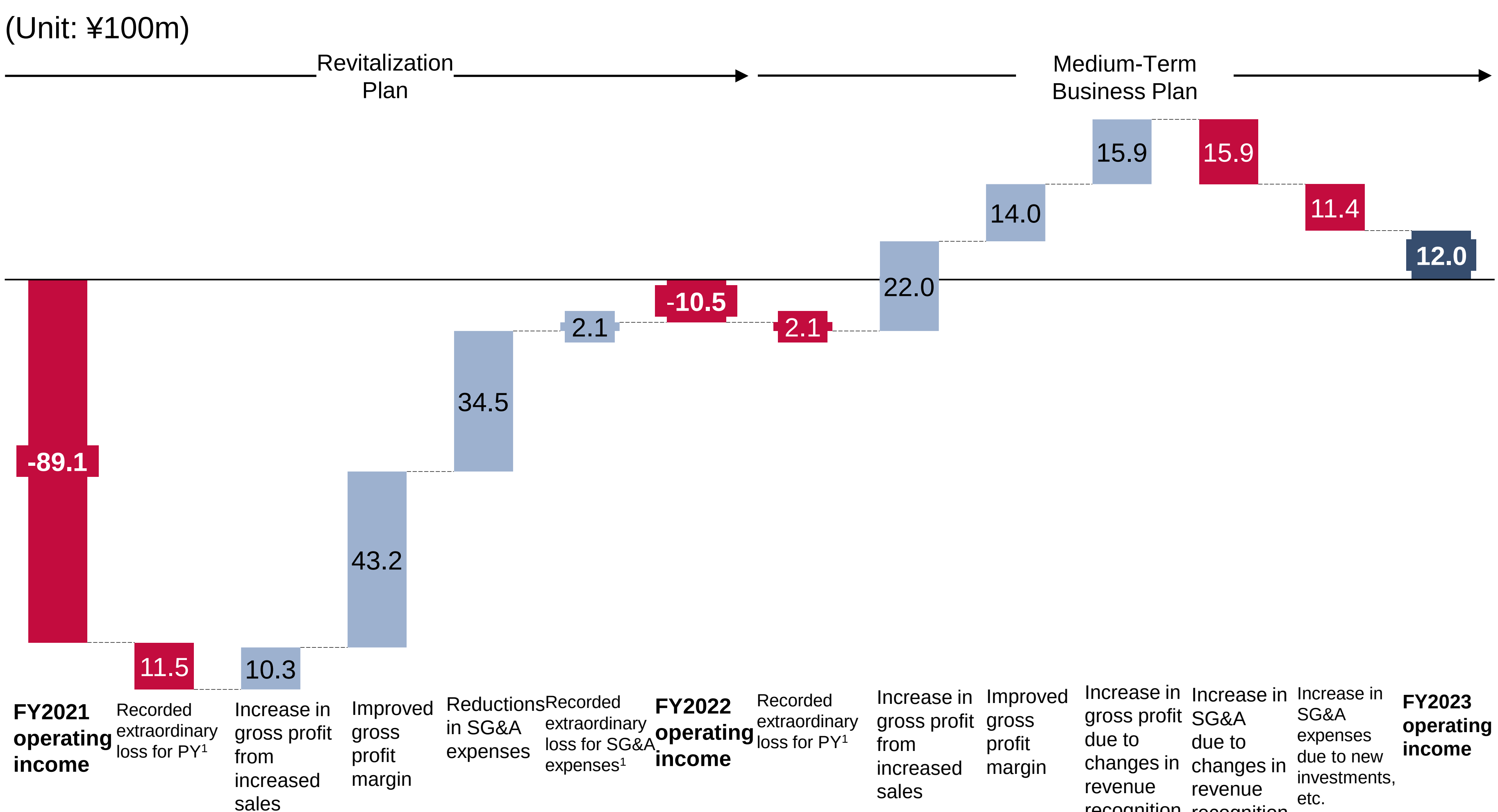
Measures necessary to meet the forecasts, as well as their effect, are shown in the chart.



1. Actual SG&A expenses, out of the extraordinary losses due to temporary closings during the COVID-19 pandemic

Securing of Net Sales

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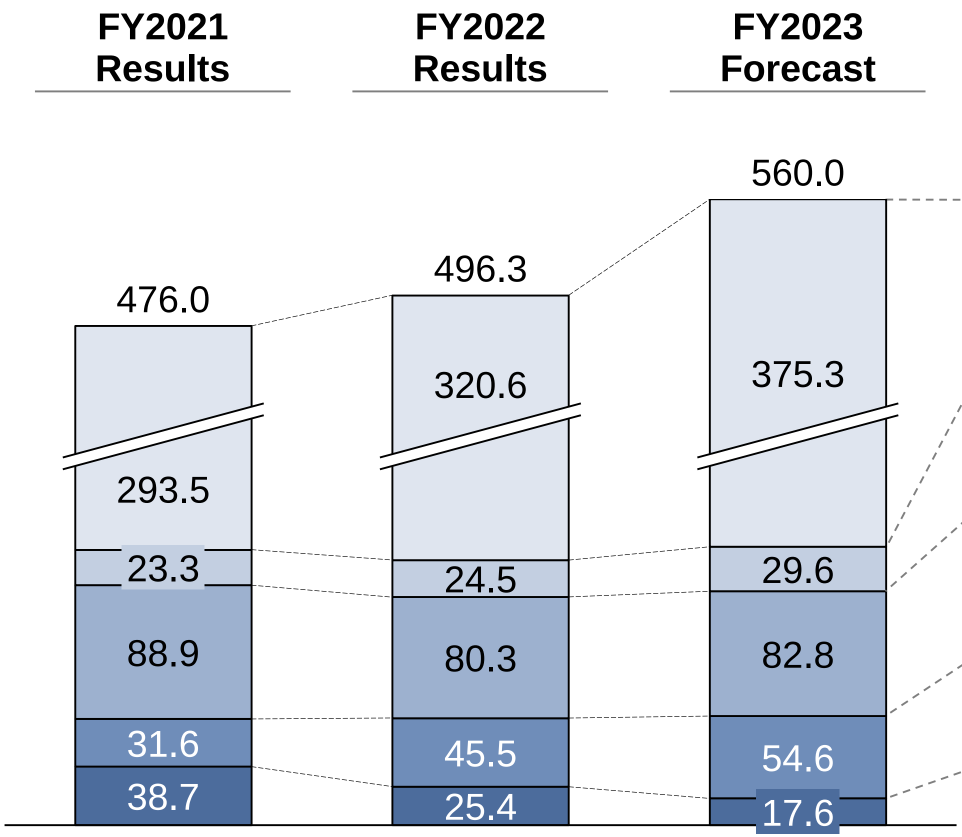
Total net sales of 113% YoY is projected. For directly managed stores, we aim for 121% YoY through opening of stores of core brands and diffusion lines.
For outlets, we aim for 120% YoY through continued aggressive store openings.

Net Sales Projection

(Unit: ¥100m)



	YoY	Measures
Net sales (total)	113%	
Department stores	117%	Recover from the impact of store closures in PY. Improve sales per square foot. Promote OMO by utilizing comprehensive catalogs etc.
Directly managed stores	121%	Open more stores of core brands, and open new stores in urban FB/SC through a diffusion line approach.
EC & mail order	103%	Continue to expand EC-only products and enhance full-price sales. Enhance reciprocal customer transfers with physical stores.
Outlets	120%	Opened 4 new stores in FY2022. Actively open stores in leading facilities.
Other[1]	69%	

1. Subsidiaries, employee sales, wholesales, etc.

Measures to Improve Gross Profit Margin

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Continue to promote measures such as reducing procurement cost margin, improving full-price sales margin, inventory control, etc.
Aim to improve gross profit margin by 2.5pt from FY2021.

Quantitative Target: Improve gross profit margin by 2.5pt (vs. FY2021)

Qualitative policy	Specific measures
Reduced procurement cost margin	• Optimize SCM by strengthening initiatives with major suppliers • Secure high profit margins by expanding outlet- and EC-only products
Fundamental improvements to full-price sales margin and total sell-through rate	• Full-price sales margin: Plan to improve from 61% for the full FY2022 to over 70% – Reduce product numbers/aggregate MD, and add bestselling products during the period – Strengthen the appeal of full-price sales at stores and EC, control discount rates, and shorten bargain sales period • Aim for total sell-through rate of over 80%, from 73% (FY2022 results)
Inventory control	• Control over-purchasing by keeping 20% of purchases, which have been reduced to ¥15bn in FY2022. ¥17bn projected in FY2023, but we will flexibly manage them depending on the situation • Product inventory at end of FY2022 was ¥7.8bn (decreased by ¥1.1bn from beginning of the period); product inventory at end of FY2023 is projected as ¥6.9bn – Improve inventory turnover rate by shortening merchandising cycles and developing a QR system
Low-cost management of unprofitable businesses	• For unprofitable businesses, we have thoroughly reduced costs through restructuring such as aggregating stores, fundamentally reducing SG&A expenses, etc. by the previous fiscal year. Continue operating at low cost, and aim to convert them into profitable businesses – LOVELESS: Close down additional 3 stores, reducing the number of stores from 8 in PY to 5, and focus on improving store profitability (operating loss: forecast ¥220m, against ¥470m in PY) – CAST: Maintain number of stores at 9 and SG&A expenses flat at ¥330m. Plan to break even from ¥100m operating loss (vs. PY), by improving gross profit margin, etc.

Controls on SG&A Expenses

New Revenue Recognition Standard

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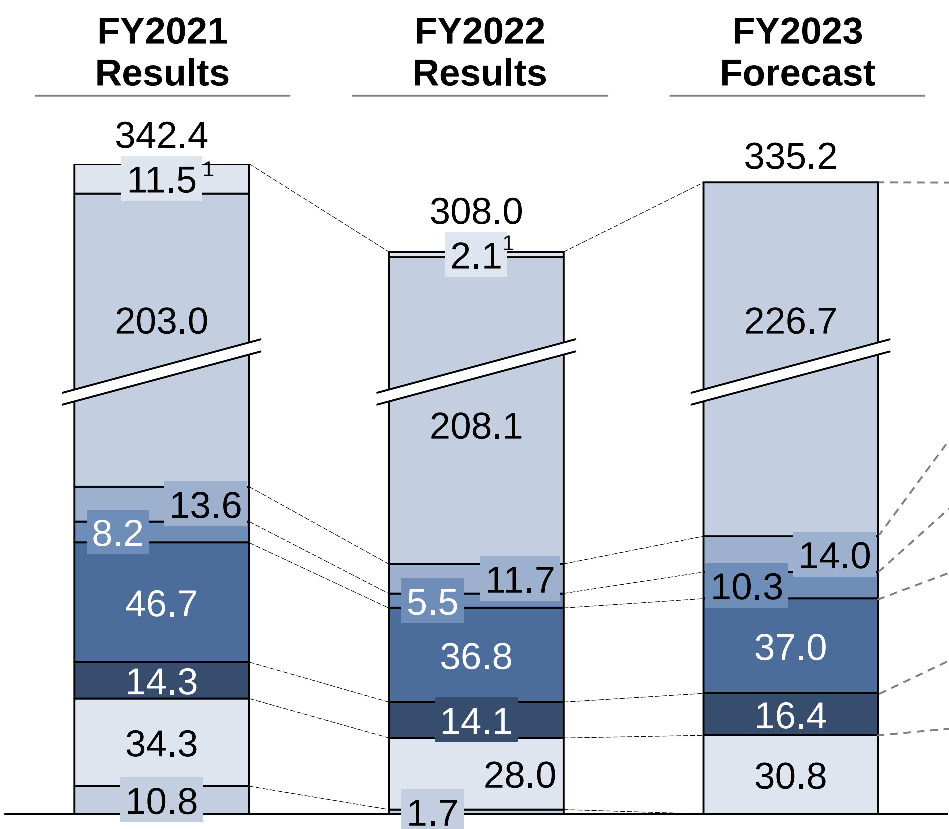
Actively invest in stores, systems, etc. while continuing to control fixed costs that have been reduced under the Revitalization Plan.

Past Results vs. FY2023 Forecast

(Unit: ¥100m)



	vs. PY	Measures
SG&A (total)	+27.2	An increase of ¥1.22bn
Sales expenses	+18.6	Recorded amount equivalent to rent for shops handling sales-linked purchase-as-sold consignment products (an increase of ¥1.59bn YoY). Optimization of FA staff due to closing down of unprofitable stores; reduced store operating costs
Promotional expenses	+2.3	Enhance promotion of new businesses
Equipment expenses	+4.8	Investment in stores associated with opening new stores
Employee personnel expenses	+0.2	Personnel expenses remain unchanged from PY
Logistics expenses	+2.3	Increase in conjunction with sales and purchases
Administrative expenses	+2.8	Increase due to system investments
Other	-1.7	

1. Recorded extraordinary losses

Sales expenses: FA expenses, sales commissions, rent expenses for real estate, etc. Equipment expenses: Shop construction costs, depreciation expenses, lease fees, repair costs, etc.
Employee personnel expenses: Salaries, statutory welfare benefits, etc. Logistics expenses: Packing & transportation costs, logistics outsourcing fees Administrative expenses: Business outsourcing fees, physical distribution costs, utility expenses, travel expenses, communication expenses, miscellaneous expenses, etc.

Channel Strategy

New Revenue Recognition Standard

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For department stores, improve profitability by enhancing store efficiency, while for directly managed stores and outlets, strengthen store openings centered on core brands. Improve EC profit margins by enhancing full-price sales.

Department Stores

Policy of strengthening selection and enhancing efficiency

Improve profitability through closing down of unprofitable shops

- Closed down 160 shops in FY2021, and 40 shops in FY2022
- Advance with the store opening and withdrawal plan focusing on shop efficiency from FY2023 as well

For shops that continue businesses, streamline operations by reviewing the staffing system and promote OMO by utilizing comprehensive catalogs, etc.

Directly Managed Stores

Policy of strengthening and expansion

Actively open directly managed stores and outlets of core brands

Strengthen store openings in urban FB/SC through a diffusion line approach such as MACKINTOSH PHILOSOPHY “GREY LABEL” and CB CRESTBRIDGE

Support for store developments and operations across different brands offered by a dedicated support team (nation-wide store development division/Headquarters sales division)

EC

Policy of enhancing and expanding full-price sales

Continue to enhance full-price sales

- Establish a fully cooperative system with full-price stores at brands’ EC sites
- Restrict discount sales, and enhance full-price sales in SANYO iStore through specially featured content production
- Plan to improve net sales by 103% YoY, gross profit margin by 5.1pt YoY

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