

Senshukai Group

Medium- to Long-term Management Plan 2014-2018

innovate
for Smiles 2018

ウーマン スマイル カンパニー

senshukai

February 6, 2014

1. Medium- to Long-term Management Plan “Innovate for Smiles 2018”

2. Mail-order Business

Core Strategy 1: Customer Strategy

Core Strategy 2: Merchandising Strategy

Core Strategy 3: Sales Channel Strategy

Core Strategy 4: Fulfillment Strategy

3. Bridal Business

4. Corporates Business

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Innovation is in our DNA, and is where it all starts.

Since our founding, we have brought innovations to the *hanpukai* and catalog mail-order businesses.

Going forward, we plan to continue innovating with new businesses that we expect to drive growth for the whole group.

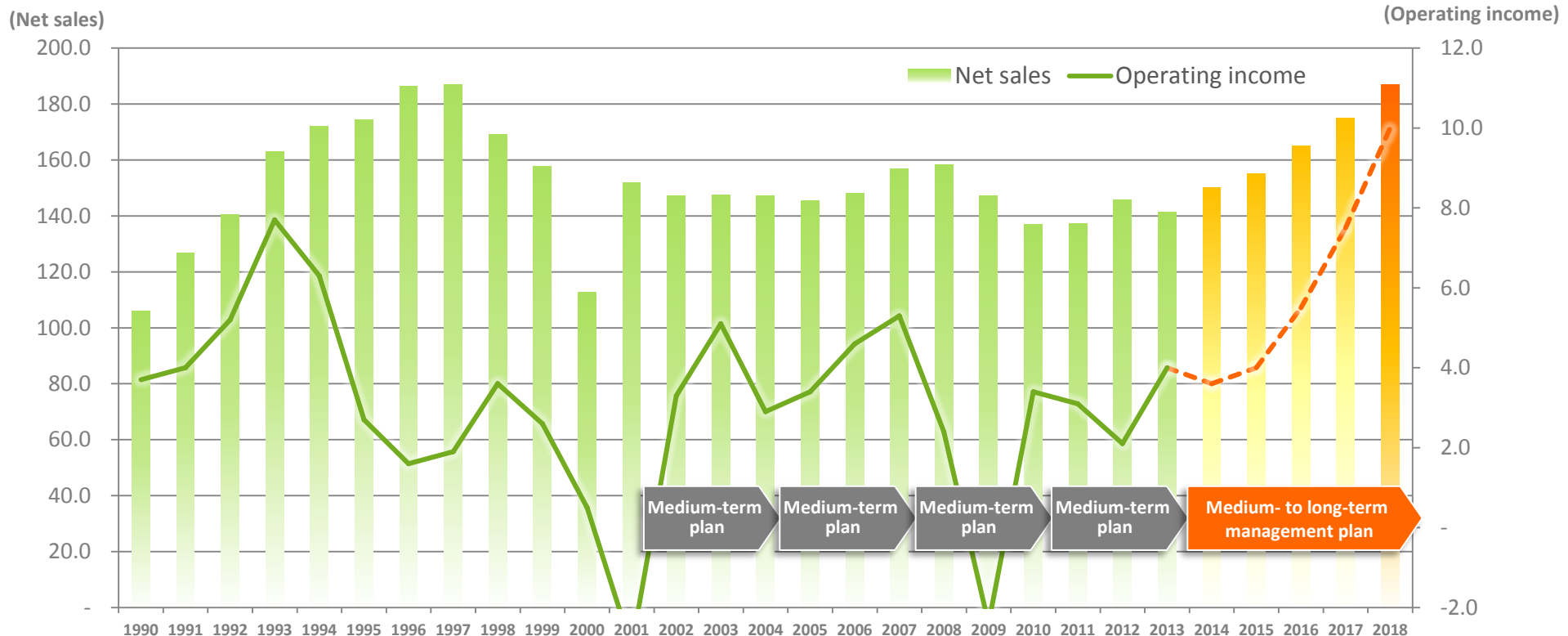
We also “re-innovate” the mail-order business and other existing businesses.

We at Senshukai aspire to become a “Women's Smiles Company,” bringing smiles to women customers all over Japan.

Up until now, management team's medium-term management plans generally lasted three years. However, in order to undertake even more far-reaching structural change, we decided to develop solider plans spread over a longer time frame.

Thus, **a new medium- to long-term management plan** around spans five years (2014-2018), heralding the start of an **even better** future for the company.

* Net sales and operating income trends (billions of yen)



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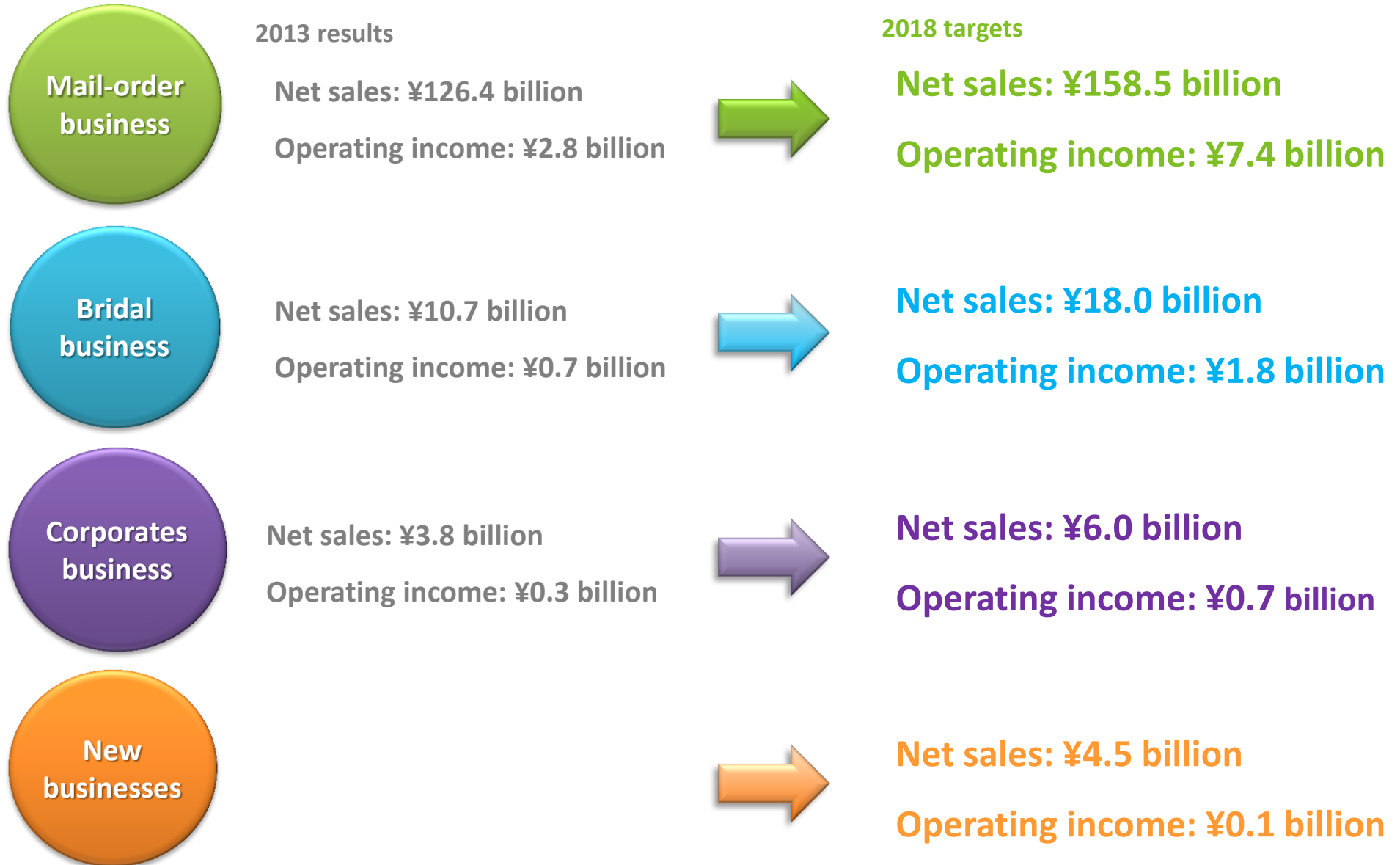
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Senshukai group targets (in final year, Fiscal 2018)

Net sales: ¥187 billion

Operating income: ¥10 billion

ROE: 10%



Mail-order Business

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- * The mail-order market for the retail/distribution sector is still growing and is worth over ¥5 trillion.
- * As the mail-order market has expanded, our competitors have changed from catalog mail-order companies into e-commerce companies.
- * As omni-channel marketing spreads, we expect major retailers to enter the mail-order business, potentially bringing even more large changes to the current competitive environment.
- * Corresponding to these changes, we aim to establish **a competitive edge in the e-commerce market.**

We maintain a competitive edge by pursuing the following **four strategies**.



BELLE MAISON

Whom

Focusing on women in their 30s, 40s, and 50s.
Developing our services and products to be irreplaceable.

**Customer strategy****What**

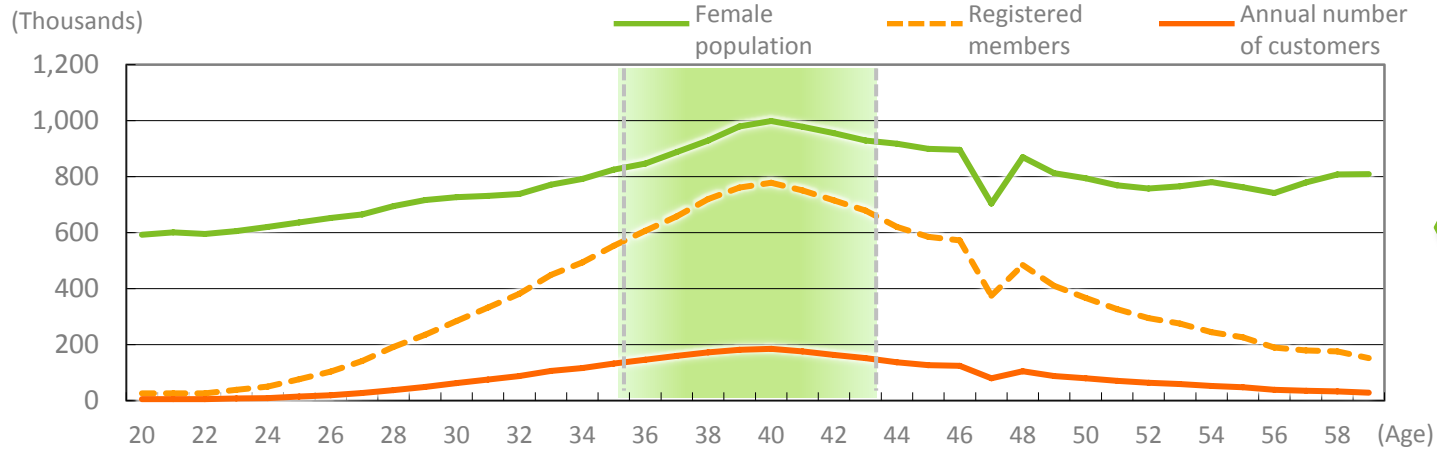
Developing original products that satisfy the needs of women customers.

**Merchandising strategy****How**

Developing an omni-channel marketing: e-commerce, catalog mail-order, brick-and-mortar stores.
Offering attentive service that makes the shopping experience both comfortable and convenient for women customers.

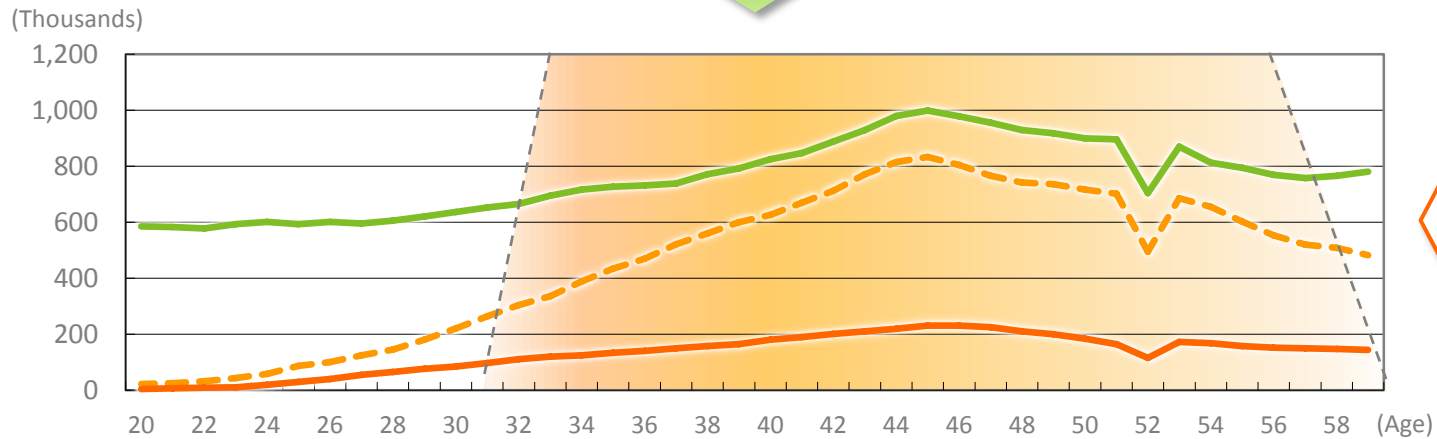
**Sales channel strategy****Fulfillment strategy**
(logistics, IT, customer relations)

Members aged 20-59 and population movement



* Estimates based on data from Ministry of Internal Affairs and Communication Statistics Bureau census

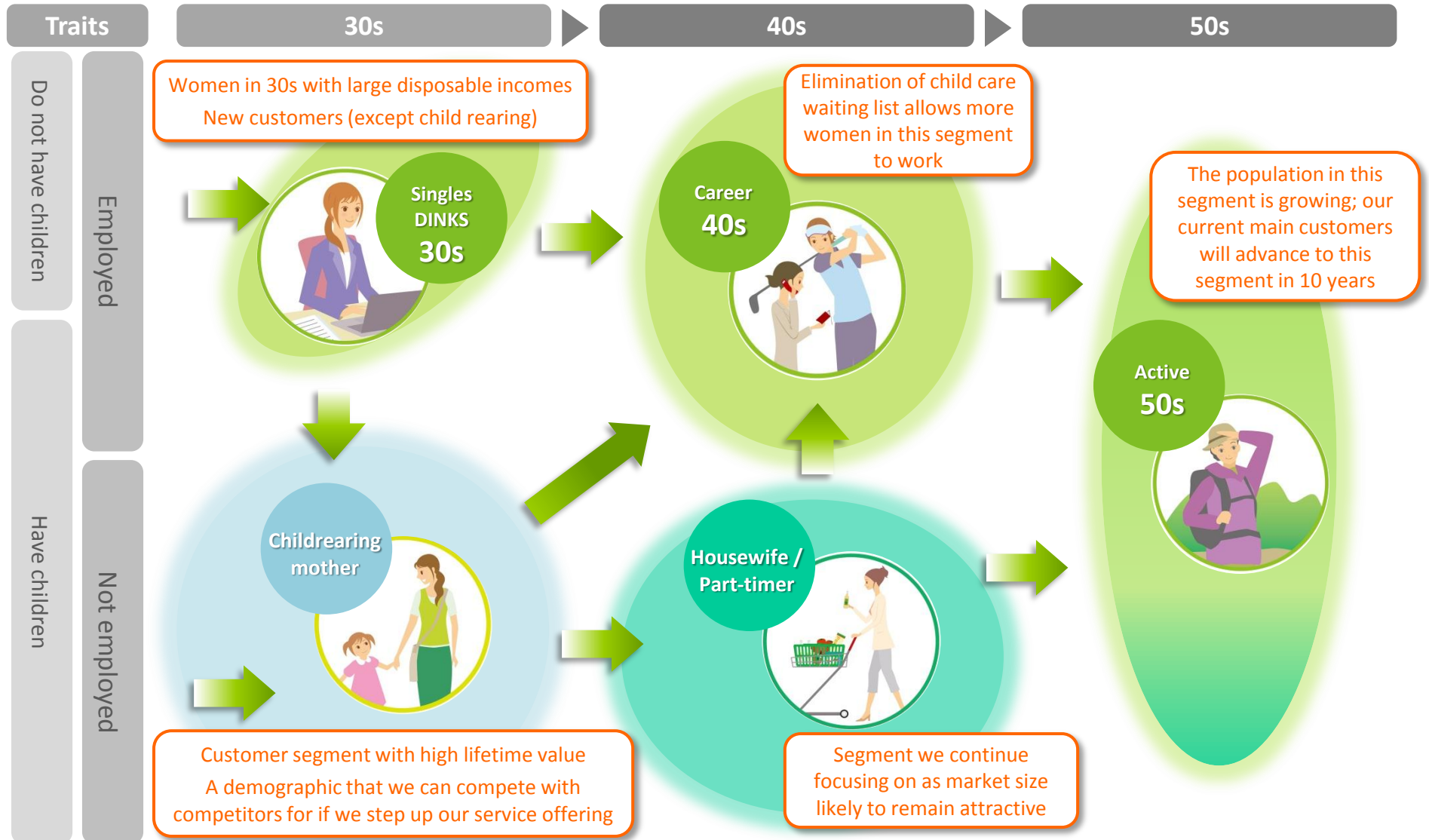
Customers in 2013 were mainly women in their late 30s or early 40s



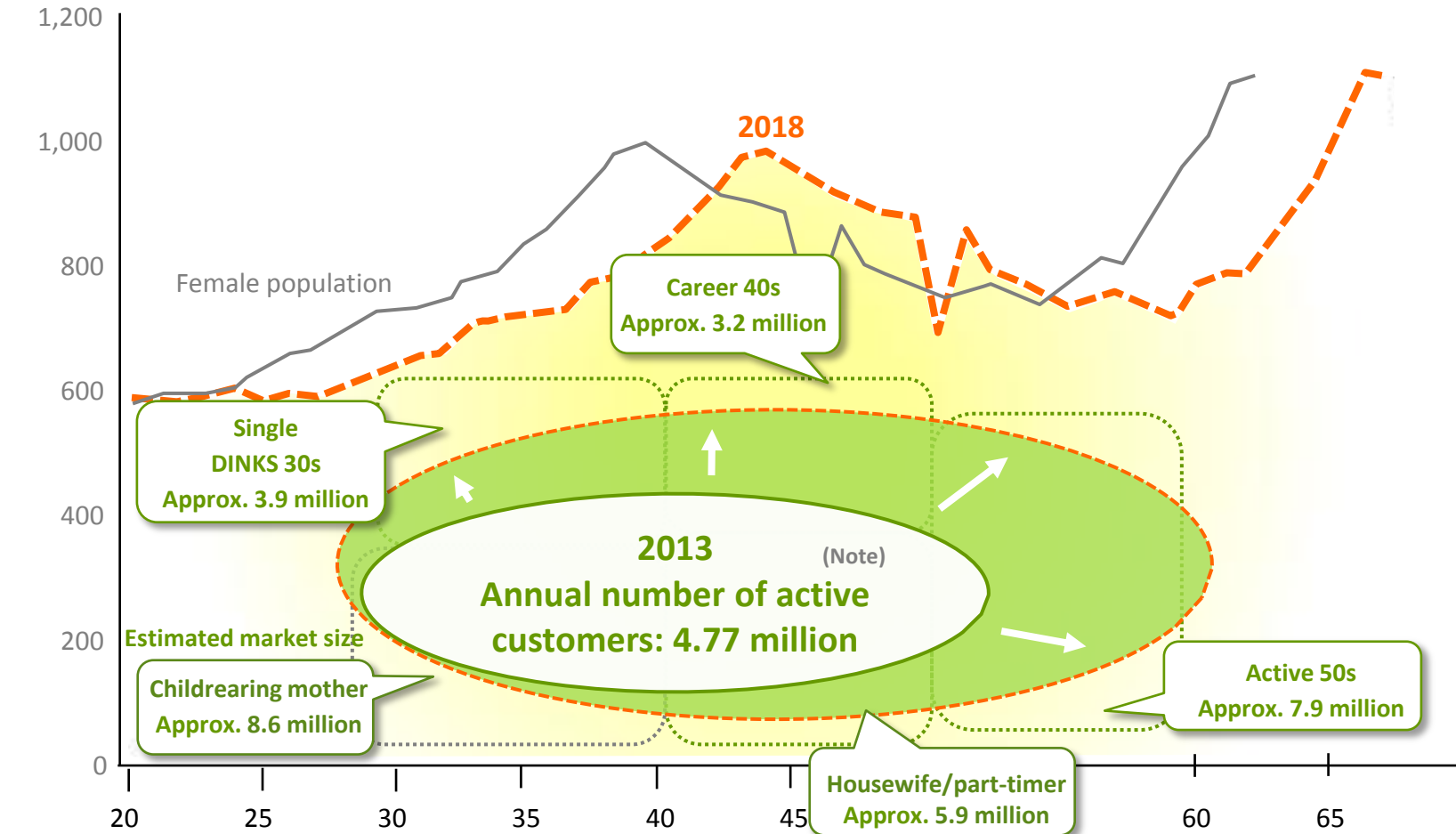
In 2018, we extend our reach beyond those in their 30s, and also attract those in their 40s and 50s

Women in their 30s, 40s, and 50s go through many life changes (marriage; relocation; childbirth; child rearing; working), and we see opportunities to attract new customers.

We identify five key segments for **women in their 30s, 40s, and 50s** that could help us expand our customer base.



Estimated market size and active customer target in the mail-order business

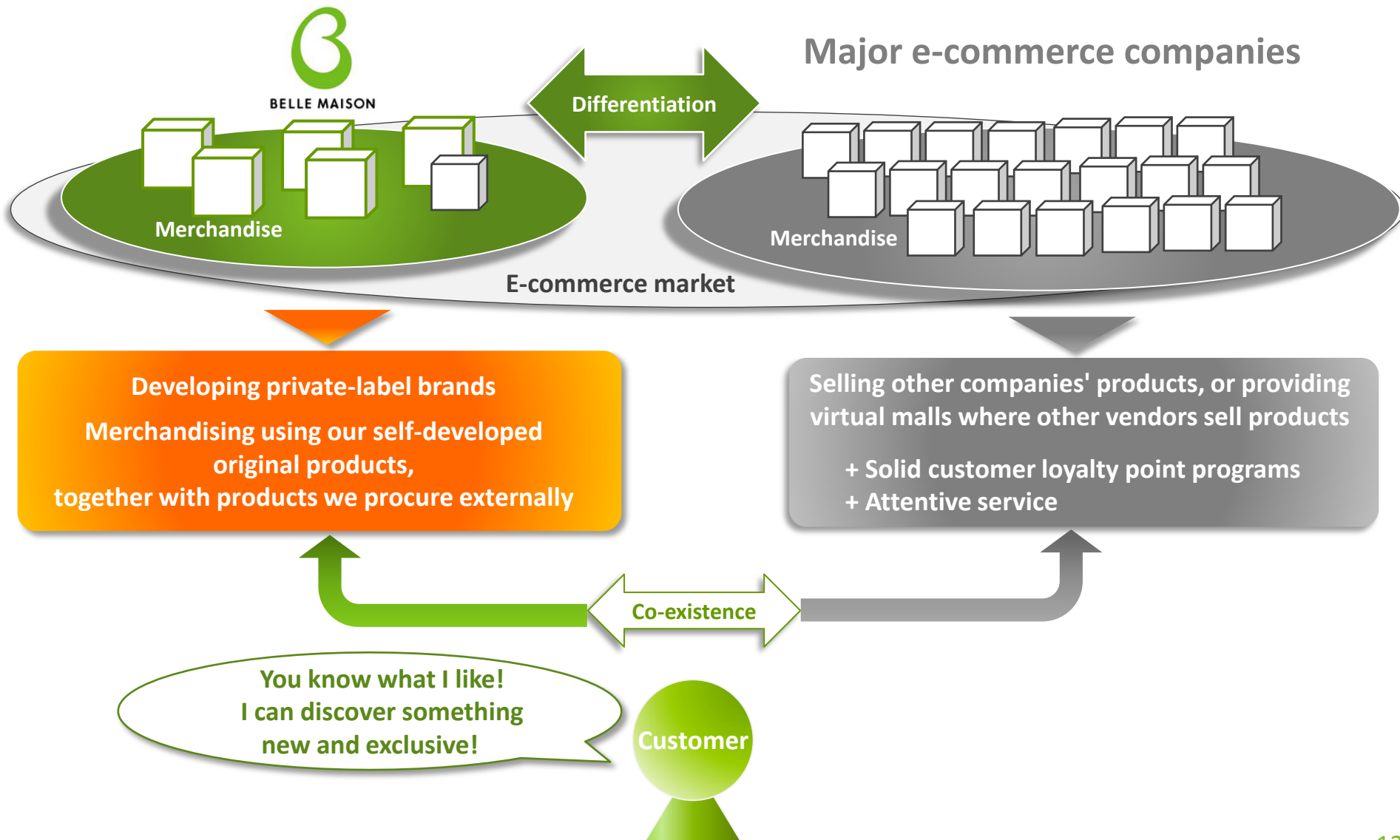


Data: Ministry of Internal Affairs and Communication
Statistics Bureau census

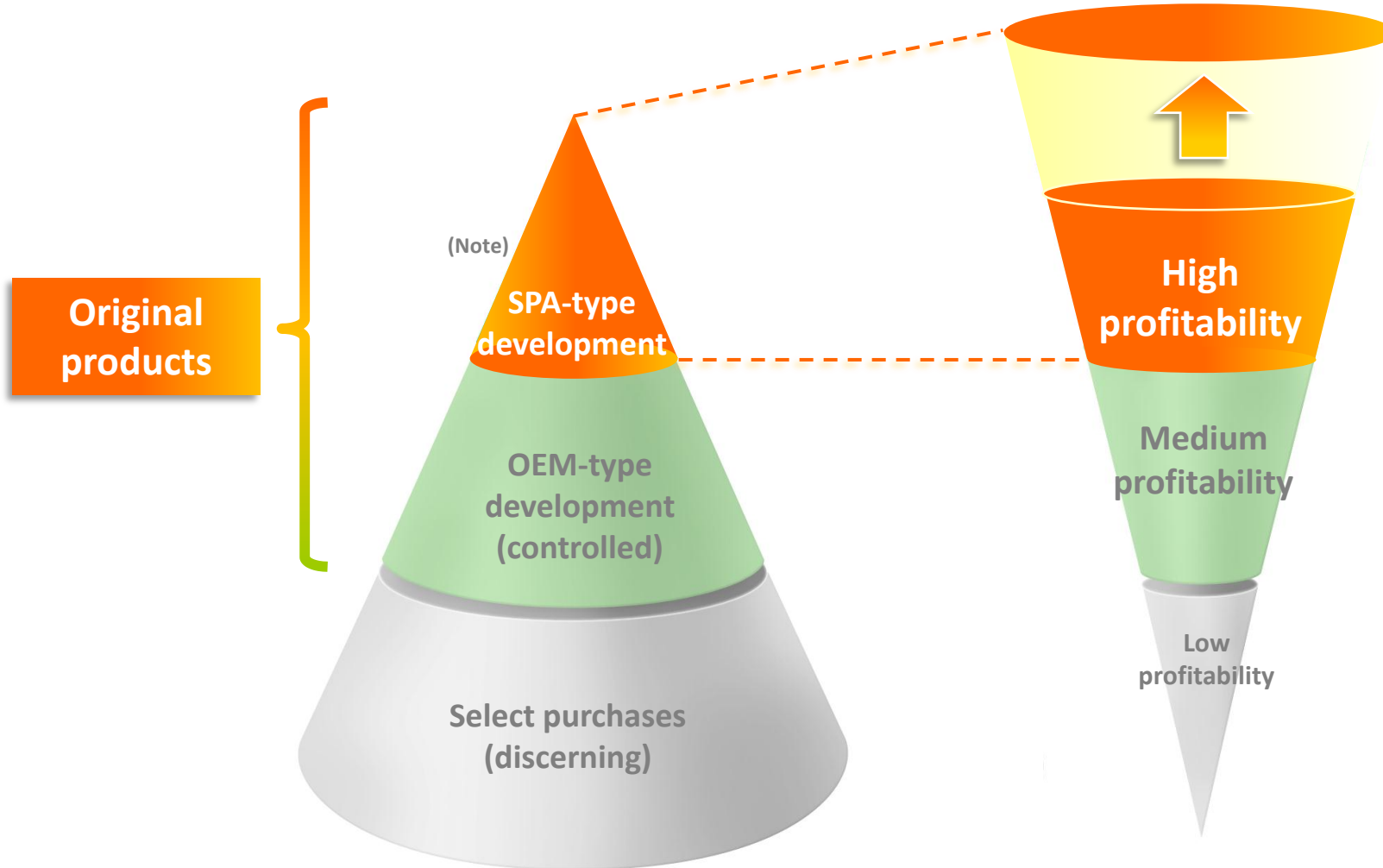
We are targeting 6 million active customers each year.

(Note) Customers for *Belle Maison* and other group mail-order subsidiaries

Differentiate ourselves from competitors by **offering value-added original products** through developing private-label brands.



Aiming to **improve overall profitability by focusing more on product development** using the SPA-type development.



Product development format

(Note) SPA (Specialty store retailer of Private-label Apparel) -type development:

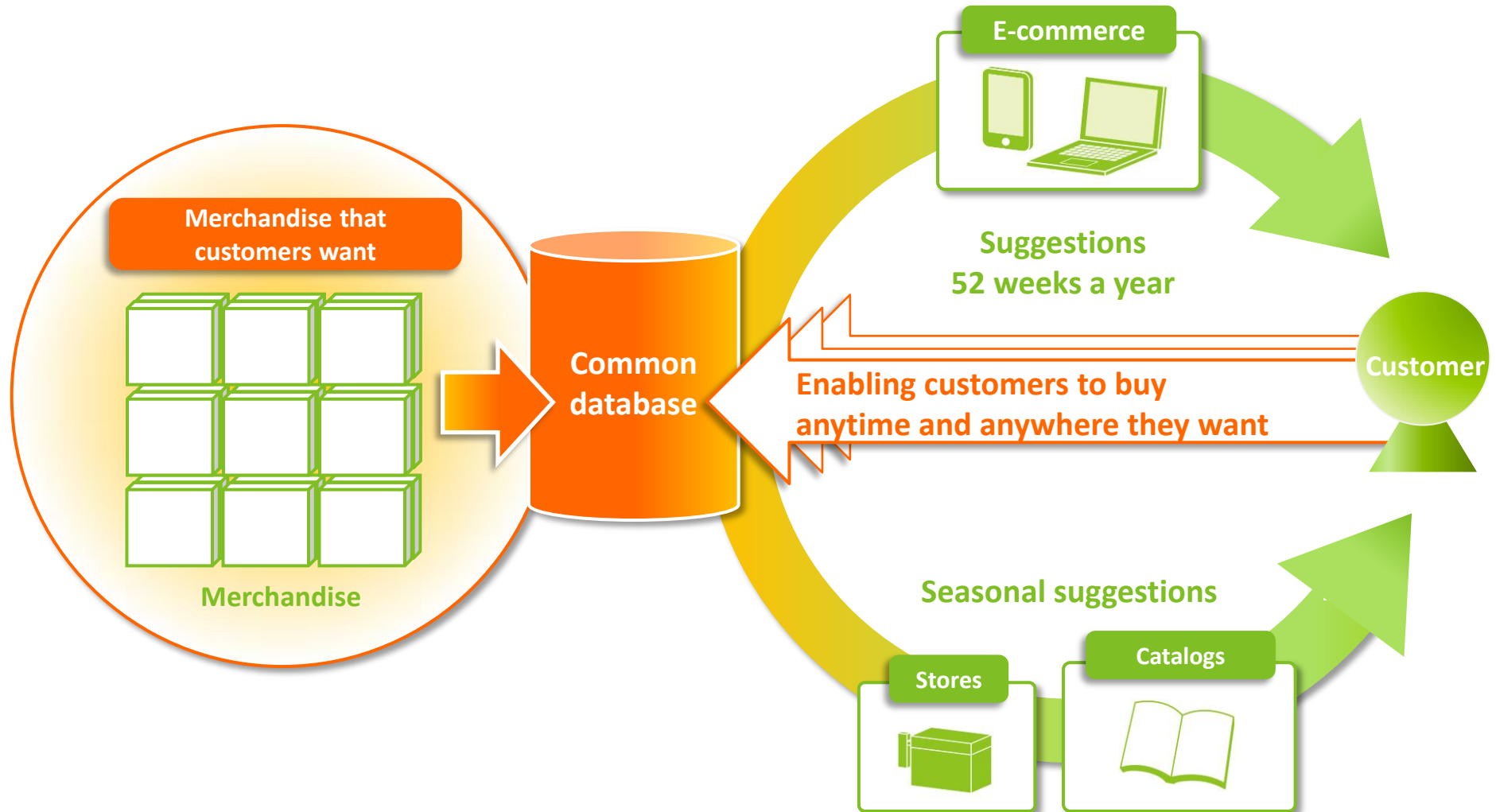
OEM (Original Equipment Manufacturing) -type development:

Product development format

Product planning is done in-house, and manufacturing and sales of these private-label products are also overseen by companies

Manufacture of products designed in-house are outsourced to third-party producers

We create more opportunities to purchase our products **by using an omni-channel approach tailored to products**, rather than a sales channel mix built around mail-order catalogs.



Developing **an unique omni-channel strategy for Belle Maison**, leveraging the best qualities of each sales channel (e-commerce, catalogs, brick-and-mortar stores).

E-commerce



This web portal-based channel allows customers to buy anytime and anywhere they want. Strengthen efforts to attract women customers in their 30s-50s by making our websites compatible with mobile devices as smartphone usage spreads.

Unlike the seasonal suggestions in our catalogs, this sales channel offers timely suggestions to customers 52 weeks a year, as seasonal temperatures change and customer needs evolve.

Catalogs



This key “push marketing” channel differentiates ourselves from competitors in the e-commerce market. We create opportunities for customers to purchase products by offering suggestions that make use of our experience in product planning and catalog presentation.

Optimize sales cost and pursue effective sales promotions targeting existing customers. Goal is to increase the number of fans of our private-label brands.

Stores



We plan **flagship stores that spotlight our private-label brands.** This sales channel gives us direct contact with customers.

We invest roughly ¥5 billion mainly in the Chubu area (Kani and Minokamo Distribution Centers) in order to **reduce costs and provide customers with speedier fulfillment.**



Logistics (current)

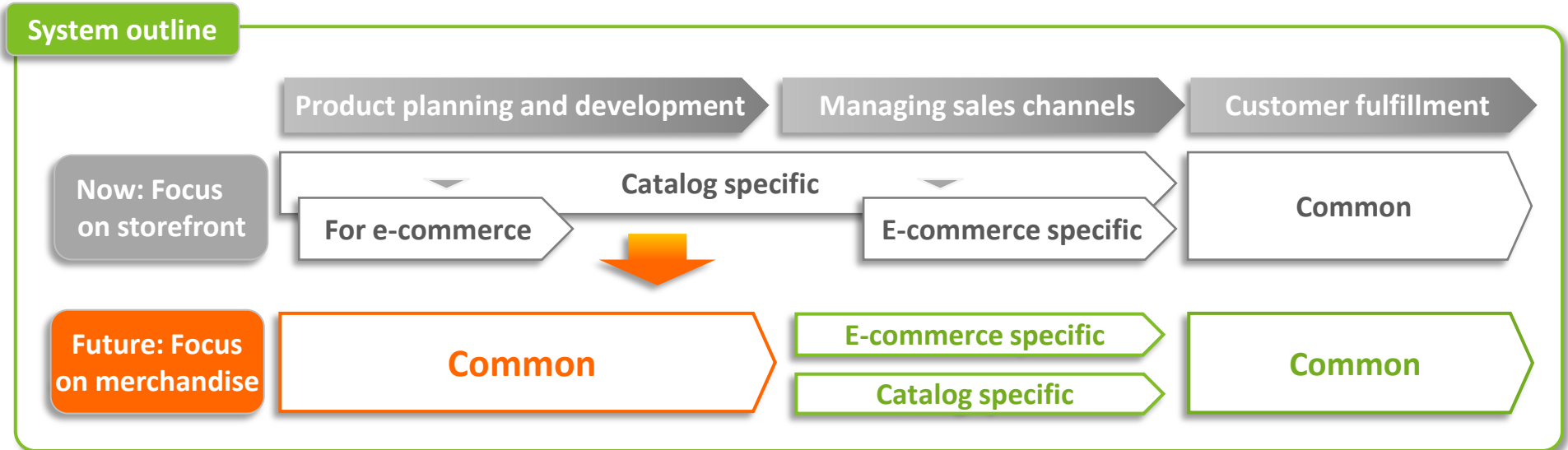
- Monthly transactions involving over 200,000 different items on average, and figure still growing.
- Growing numbers of active customers purchasing items from various wide-ranging categories at once.
- Issue: speed at filling orders, delivery-to-order.
- Conclusion: a need to overhaul operations.

For improving

Make investments focused mainly on the Chubu area (near Nagoya). Goal is to achieve lower-cost operation and speedier fulfillment by **revamping logistics network and improving productivity.**



Proactively rebuild entire system (especially the core system), with the aim of **improving system development speed and enhancing flexibility.**



Current system

- Flexibility and scalability of e-commerce system has reached its limits.
- Core system is old.
- System has grown increasingly complex as functions have been added over the years.
- Manpower needs and maintenance cost rising.

For improving

Streamline operations and systems, and upgrade the core system. Make investments focused on competitive superiority and improve system development productivity.

Bridal Business

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Marriage market (2012)

Number of marriages

670,000 couples

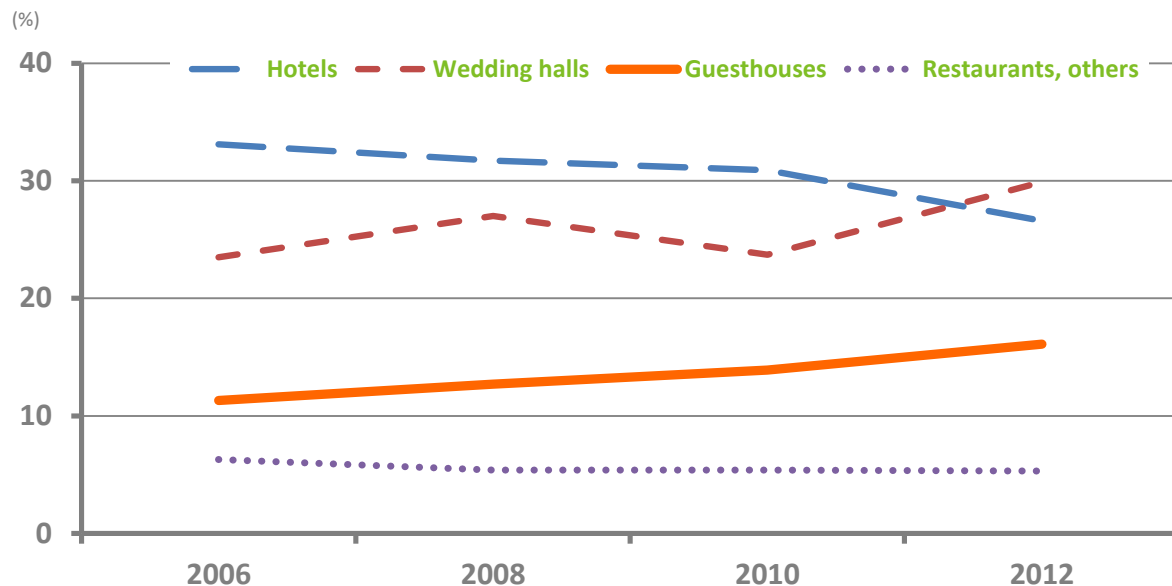
Average sales per wedding
(nationwide)

¥3.44 million

Average start-up costs for
new life (nationwide)

¥970,000

Share of venues used for wedding parties (Greater Tokyo)



* Data from Recruit Bridal Souken survey and Ministry of Internal Affairs & Communication Statistics Bureau population survey

- Number of marriages is declining slowly but the market in large urban areas is expanding due to population inflows.
- We think renovations help differentiate guesthouse-style wedding venues more easily than conventional wedding halls, and we see potential growth for such venues ahead.
- Average sales per wedding for guesthouse-style weddings are high, but competition will become more heated.

To keep sales growing, we continue opening new wedding halls and renovating existing ones in both urban and suburban styles.

Overview

Major urban cities where we can differentiate our service offering from competitors, and where weddings are profitable based on average sales per wedding

Urban style: Major cities

(Tokyo 23 wards, government-decreed cities)

Suburban style:

Major cities with populations of over 300,000, except listed above

(Prefectural capitals or equivalents)



Planning to increase from 16 wedding facilities in 2013 to 26 in 2018

Establish a more solid business foundation by overhauling operations and focusing on human resource development

Review of sales promotions

1) Better customer draw

Increasing added value through branding

2) Higher contract rates

Focusing more on derivative businesses
Lowering sales cost rate

3) Stronger profit margins

Human resource development
Improving operations and management

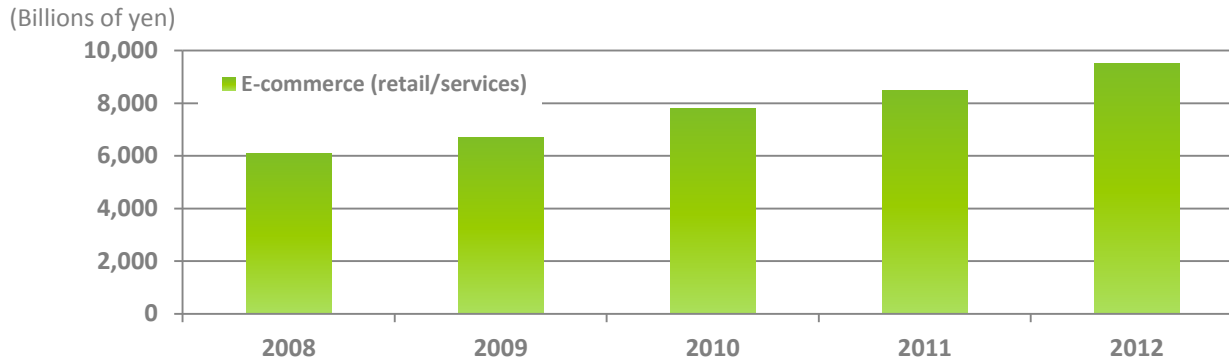
4) Greater customer satisfaction

Boosting profitability for existing facilities as well as the overall business by establishing a stable foundation for operations

Corporates Business

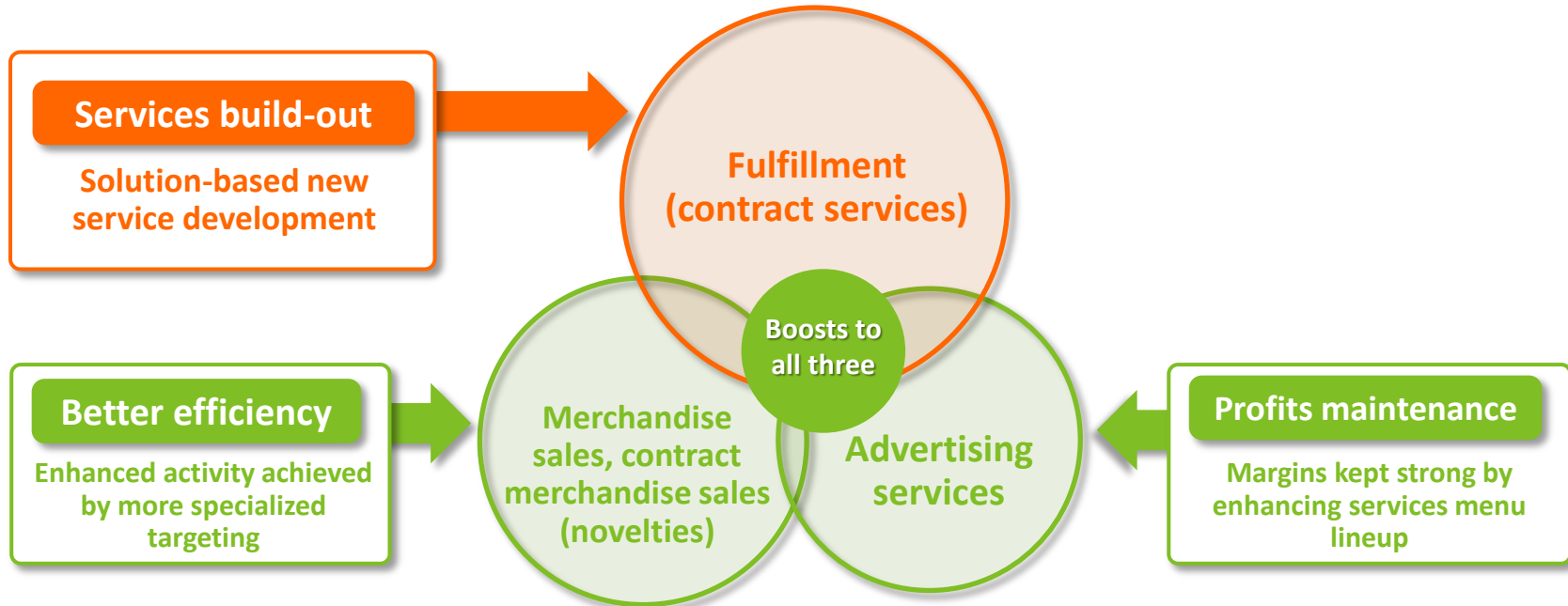
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B2C demand at corporations has grown alongside the expansion of the e-commerce market.



* Figures based on Ministry of Economy, Trade and Industry e-commerce market survey data

Expand the corporates business, **mainly through fulfillment services**, which have continuity and profitability to corporate customers.



New Businesses

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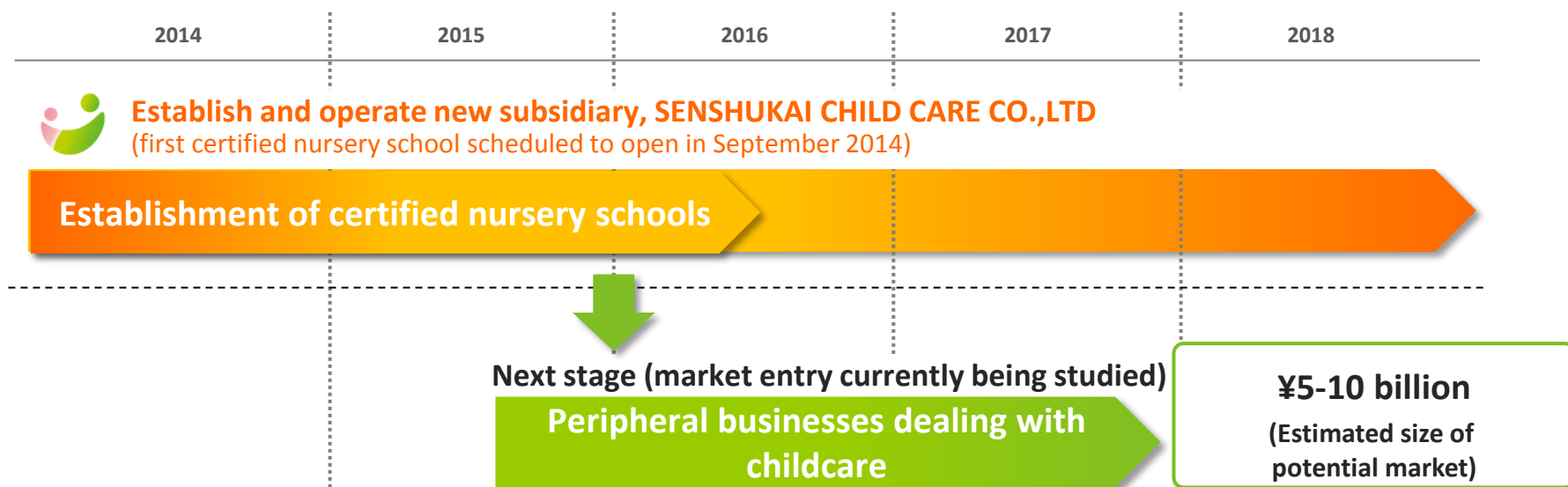
Along with our slogan “Women's Smiles Company,” we keep developing unique businesses to fulfill women customers' needs.

Overview

1. Put priority on developing new businesses likely to generate meaningful synergies with existing businesses due to high compatibility.
2. Cultivate peripheral businesses to complement those new businesses that we develop.



Establish and operate certified nursery schools in 2014 and develop peripheral services going forward.



We keep developing businesses that bring a smile to women customers' faces.

Senshukai Group Targets

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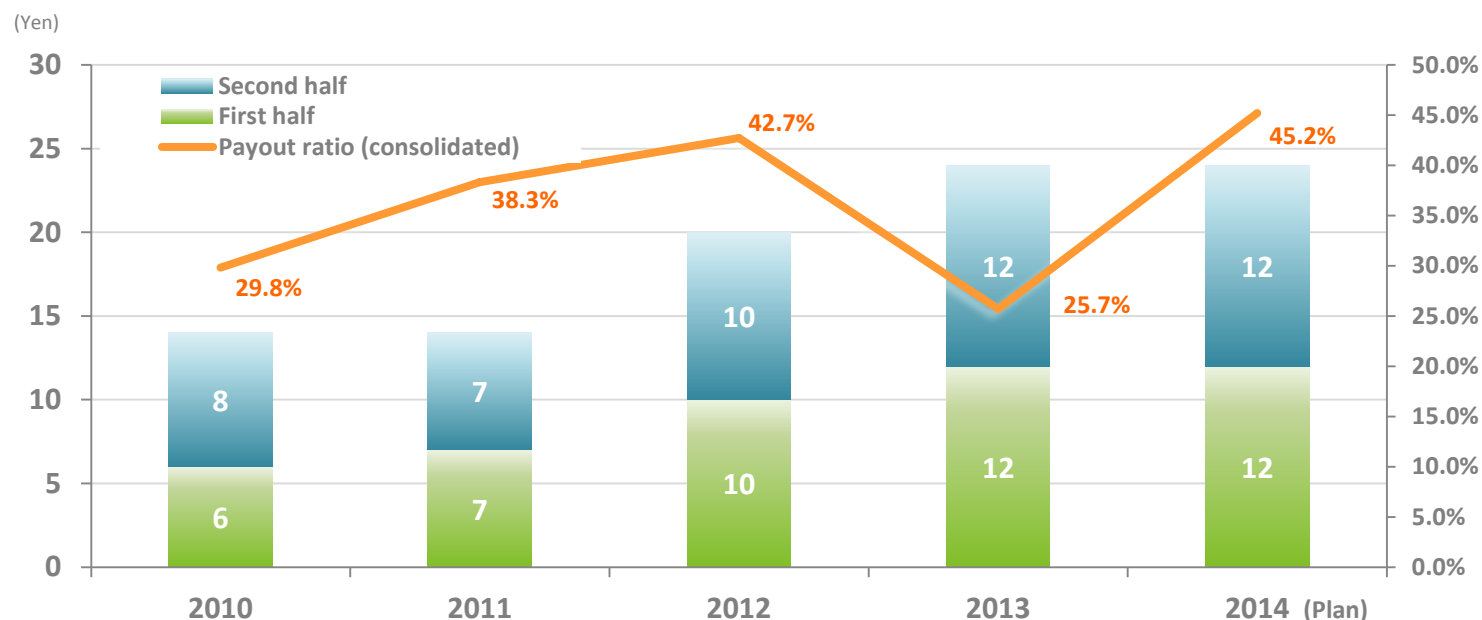
Medium- to Long-term Management Targets (consolidated)

(Millions of yen)

| | Fiscal 2013 | % to net sales | Fiscal 2014 | % to net sales | Fiscal 2018 | % to net sales |
|------------------|-------------|----------------|-------------|----------------|-------------|----------------|
| Net sales | 141,552 | 100.0% | 150,000 | 100.0% | 187,000 | 100.0% |
| Gross profit | 69,077 | 48.8% | 70,772 | 47.2% | 92,226 | 49.3% |
| SG&A expenses | 65,057 | 46.0% | 67,172 | 44.8% | 82,227 | 44.0% |
| Operating income | 4,019 | 2.8% | 3,600 | 2.4% | 10,000 | 5.3% |
| Net income | 4,046 | 2.9% | 2,300 | 1.5% | 6,500 | 3.5% |
| Return on equity | | 8.5% | | 4.5% | | 10.0% |

The Group's policy regarding the distribution of earnings to shareholders is to strive continuously for **a payout ratio of 30% on a consolidated basis**.

The Group will use internal reserves to invest in the development of new businesses for the medium to long term, to promote the rationalization of existing businesses, to conduct mergers and acquisitions for expanding the Group businesses, to improve the soundness of its financials, and to generally further strengthen its competitiveness and operations.



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The forward-looking statements contained in this presentation are based on information that was available at the time of release of this presentation. Actual results could differ significantly from these projections due to a variety of factors.