March 26, 2025

DESCENTE (Investor Briefing): Q&A Summary

Date: March 26, 2025 (Wed.) 14:00 to 15:00
Presenters: Tsuyoshi Mimura, Chief Operating Officer, Fashion Apparel Division
Takayoshi Tsuji, General Manager, Apparel Department 2
Mediator: Kazunori Harada, General Manager, Investor Relations Division

Q: What specifically changes with the privatization and 100% subsidiary conversion of DESCENTE? What does the increased shareholding allow ITOCHU to do?

A: (Respondent: Mimura) The growth strategies explained today were scrutinized in collaboration with DESCENTE as part of the PMI following privatization. Before privatization, with a 44.5% shareholding and both companies being publicly listed, there were restrictions on information sharing, making it difficult to share data and discuss growth strategies. Post-privatization, discussions aimed at growth have progressed, and what needs to be addressed has become clear. Additionally, with the conversion to a 100% subsidiary, there is no profit outflow to minority interests, allowing us to fully deploy resources from our company to realize growth strategies. Since the TOB in 2019, we have already dispatched 18 personnel (including transferees) to DESCENTE, but further resource provision, including additional personnel dispatch, was limited while both companies were listed. Post-privatization, efforts to enhance DESCENTE's corporate value are being accelerated in an integrated manner.

Q: Based on a simple aggregation of the sales figures for Japan, South Korea, and China mentioned on Page 18 of the presentation materials, I understand that DESCENTE aims to expand its scale to approximately 1.5 times the FYE 2024 level in the future. On the other hand, as you aim to double the consolidated net profit to 25 billion yen, I assume that profitability improvement will play a significant role. To what extent will the increase in the DTC ratio contribute to this improvement, and what is the target level for the DTC ratio? Additionally, I would like to ask about the target level for the operating profit margin. (DTC: Direct to Consumer, products sold through our own retail stores)

A: (Respondent: Tsuji) The FYE 2025 performance forecast announced by DESCENTE was sales of 130 billion yen, operating profit of 9 billion yen, and consolidated net profit of 12.5 billion yen. We assume sales of around 170 billion yen when achieving the 25 billion yen target. DESCENTE China, which is performing well, is an equity-method affiliate and thus not consolidated in the sales figures in the financial statements. Achieving the 25 billion yen target will require an improvement in the operating profit margin, which we aim to raise to about 10%. As a strategy, increasing the DTC ratio is important. As of the first half of FYE 2025, the overall DTC ratio for DESCENTE was 48%, while for the key focus DESCENTE brand, it was 57% as of the end of December 2024. We aim to achieve a DTC ratio of 60-70% company-wide and 80-90% for the DESCENTE brand in the future.

Q: I understand that operating profit margin of 10% is roughly double the current level. In addition to increasing the DTC ratio, cost reductions, including SG&A expenses, will likely be necessary. What measures are being considered in this regard? Also, what are the key challenges in increasing the DTC ratio?

A: (Respondent: Tsuji) Post-privatization, we have involved deeply into DESCENTE to improve profitability. In this context, there is room for improvement in the management of SG&A expenses, such as advertising and logistics costs, as well as in gross profit margins, and we plan to address these areas promptly. Profitability improvement will also be advanced through supply chain optimization with our support. Additionally, pricing of the product is also extremely important. Unlike wholesale business, DTC business allows significant room for self-directed pricing. By injecting know-how on appropriate pricing, including utilizing external personnel, we aim to improve profitability. One of the challenges in increasing the DTC ratio is the rising rent, particularly in urban areas, and the difficulty in securing well-located properties. Currently, there are 16 DESCENTE directly operated stores, but we plan to develop stores optimally for expanding DESCENTE products by collaborating with retail business companies within the ITOCHU Group, such as JOI'X and Leilian, which have abundant know-how and networks in store development.

Q: As ITOCHU aims for 10% growth in consolidated net profit overall, what is the image of the necessary capital investment for DESCENTE to ensure growth?

A: (Respondent: Mimura) DESCENTE will continue to advance capital investment, including in factories responsible for manufacturing. The Mizusawa Factory is undergoing a revamp with an investment of 3 billion yen. Also, the Yoshino Factory and Saito Factory will undergo timely renovations and updates. However, as domestic production in Japan accounts for less than 10% of the total, we do not anticipate increasing this ratio, and the investment plan is intended to maintain the current level.

Q: Please tell us about the image of management resource allocation for Japan, South Korea, China, and other areas.

A: (Respondent: Mimura) The future sales image on Page 18 of the presentation materials envisions about four years ahead. Given the outstanding growth rate and market size in China, we will continue to focus on the China market. Japan and South Korea will advance rebranding and increase the DTC ratio. Furthermore, enhancing brand value in Japan and South Korea will also contribute to enhancing brand value in China. We will also promote sales in Europe, the United States, and Southeast Asia more than before, but rapid scale expansion is challenging, and we aim for a sales scale of 10 billion yen in the next few years.

Q: What are the current operating profit margins by region (Japan, South Korea, and China), the factors behind them, and the hurdles for future improvement?

A: (Respondent: Mimura) Comparing Japan and South Korea, Japan's operating profit margin is lower due to a lower DTC ratio, while South Korea, which is DTC-focused, is at a higher level. China boasts a higher operating profit margin compared to Japan and South Korea. We plan to drive profit growth by expanding sales in China, where profit margins are high.

Q: Is it sustainable to secure human resources at domestic production bases in Japan, including the Mizusawa Factory, and what about the potential for labor-saving through DX, etc.?

A: (Respondent: Tsuji) At the Mizusawa Factory, we continuously pass on skills by hiring young people graduating from local high schools. We are also advancing technical exchanges with the Yoshino and Saito Factories. While recognizing DX and labor-saving as future considerations, we have already implemented equipment aimed at improving production efficiency in the new Mizusawa factory under construction. However, we will continue skilled manual work to ensure functionality that forms the core of our product competitiveness, while clearly distinguishing areas that can be streamlined for greater efficiency.

Q: Is it correct to understand that the relationship with Anta in the Chinese market is good and stable? Is it possible to maintain the 46% ownership ratio in DESCENTE China, a JV with Anta?

A: (Respondent: Mimura) When I was stationed in China, I served as a director of DESCENTE China, and our relationship with Anta was very good. The roles are clearly divided: DESCENTE was responsible for product development from scratch (0 to 1), and DESCENTE China took it from 1 to 10, or even 100, expanding and adapting it in the Chinese style. Additionally, DESCENTE holds the manufacturing rights for the ALLTERRAIN series, including the popular Mizusawa Down, and the products made by DESCENTE in Japan are sold in China. Anta understands DESCENTE's capabilities, and we plan to maintain a friendly relationship and grow together while maintaining the current ownership ratio.

A: (Respondent: Tsuji) During my tenure at ITOCHU TEXTILE (CHINA) CO., LTD., which I was stationed at in the past, we had a strong relationship with Anta beyond DESCENTE China's products. In addition to transactions of about 5 billion yen scale with the DESCENTE brand, we supply products and fabrics to brands such as FILA and Amer Sports handled by Anta. We aim to further strengthen the relationship between DESCENTE and Anta, as well as between ITOCHU and Anta.

Q: Regarding the consolidated net profit target of 25 billion yen aimed for in five years, could you provide a breakdown by region? Does it include profit targets for regions like Europe and the United States that are planned to be developed in the future?

A: (Respondent: Tsuji) The breakdown of the 25 billion yen target is envisioned as slightly more than half from China, with the remainder coming from Japan and South Korea. We aim to achieve the 25 billion yen target by steadily expanding existing businesses in Japan, South Korea, and China. We plan to promote market development in Europe and the United States through organizational enhancements, including personnel sent from our company. However, the contribution to the 25 billion yen target is expected to be limited.