

## **Q&A Session**

### **Q1**

What measures will you take to bring about a recovery in bridal jewelry sales in the 2H?

### **A1**

We will bolster product capabilities and strengthen our ability to attract customers. As far as bolstering product capabilities is concerned, we are enhancing our product lineup through the development of around 120 items for sale at 4°C BRIDAL ring specialty stores. After introducing new products on a large scale in June, we will also release several dozens of remaining new items in October. Introduction was on a trial basis at certain stores depending on the product. The plan is to then roll out across our nationwide network those items that are selling well. Turning specifically to 4°C bridal jewelry, which is mainly marketed through the department store channel, we will release a variety of new products including PREFECT PLATINUM999, which as the name suggest boasts a platinum purity of 99.9%, in addition to 45th anniversary limited edition products. In order to strengthen our ability to attract customers, we will once again utilize paper media to promote the appeal of our products. After previously suspending activities, we will again advertise in the popular zexy magazine. As a completely new initiative, we will also link with the zexy.net online site. This portal will allow customers to make appointments when visiting our stores. Complementing these measures, we will increase our online promotional activity expenditures by a factor of four compared with the previous fiscal year. As consumers become increasingly budget-conscious, discounts and bridal fairs will play important roles in customers' purchasing decisions. While sticking to our policy of not engaging in discount sales, we will extend the periods of bridal fairs throughout the 2H. At the same time, we will work to secure bridal jewelry sales by advancing new and increasingly attractive fairs.

### **Q2**

According to a survey by Yano Research Institute Ltd., the jewelry market is expected to experience a growth trajectory in the leadup to the Tokyo Olympic Games. Against this backdrop, the Group's performance in the current fiscal year remains limited to a slight increase. Is this because of a downturn in 4°C share, or does it reflect a contraction in the jewelry market as a whole?

**A2**

There is a sense that trends in the department store channel jewelry market are flat or showing signs of a slight contraction. Against this backdrop, the Company's existing jewelry store sales have exceeded the levels recorded during the corresponding period of the previous fiscal year. This has allowed us to maintain our market share. Meanwhile, the bridal market is exhibiting a decline owing to a drop in the number of marriages. Taking into consideration the year-on-year downturn in the Company's existing bridal jewelry store sales, we will endeavor to bring about a recovery going forward.

**Q3**

What are your store opening plans for the next fiscal year, FY2/19, ending February 2019?

**A3**

We intend to provide a comprehensive explanation of our store opening plans for the next fiscal year and beyond when we announce details of our Fifth Medium-Term Management Plan that begins from March 2018. In overall terms, we expect that our store opening endeavors will mainly revolve around new brands and business formats. As a part of efforts to develop new 4°C Jewelry store formats, we intend to push forward certain prototype stores during the current fiscal year. This will include one new and three renovated stores. From FY2/19 and beyond, we will further advance remodeling activities as we work toward new prototype stores that help enhance the brand value of 4°C Jewelry while discussing with department stores and developers.

**Q4**

Looking at the Company's balance sheet, you have posted investment securities totaling ¥23 billion. Is the ¥0.5 billion equity in earnings of affiliates derived from these investment securities?

**A4**

Our interest in FUJI CO., LTD. makes up around ¥14-¥15 billion of the ¥23 billion in investment securities held. Listed on the First Section of the Tokyo Stock Exchange, FUJI CO., LTD. engaged in GMS activities mainly in the Chugoku and Shikoku areas of Japan. Our Group company, AS'TY Inc. maintains an equity interest of 22.6%. Equity in earnings of affiliates are projected to come in at roughly ¥1 billion for the full

fiscal year.

**Q5**

Turning to the Company's Statement of Income, YONDOSHI HOLDINGS INC. has posted a loss on sales of shares of subsidiaries and associates as an extraordinary loss as well as foreign exchange losses as non-operating expenses, respectively. Can you provide details of the Company's future loss on sales of shares of subsidiaries and associates as well as foreign exchange losses?

**A5**

The loss on sales of shares of subsidiaries and associates was recorded as a result of the sale of MISUZU Co., Ltd., a company engaged in apparel SPA activities, in April 2016. Taking into consideration current conditions, we do not expect to incur any further losses in the future. The foreign exchange gains and losses are attributed to the purchase and import of products from overseas by AS'TY Inc., an apparel manufacturing business. The Company enters into foreign currency exchange contracts at the time purchase orders are issued. While we do not engage in risk hedge activities through the use of derivatives, we do not anticipate any major volatility with respect to gains and losses.

**Q6**

You are looking to increase overhead expenses in connection with online promotional activities in the current fiscal year by a factor of four compared with the previous year. Can you provide us with details of specific measures being undertaken?

**A6**

We launched an online 4°C BRIDAL service via the zexy.net site as of the end of September in the bridal jewelry business that allows customers to place reservations before visiting stores. In addition, we will focus on SEM advertising while closely monitoring the effects of investments. Moreover, we will encourage customers calling into our stores to subscribe to our LINE service. On top of LINE push notifications, customers can also apply for subscription from our homepage. As far as department store fashion jewelry is concerned, we are ramping up promotional activities using SEM advertising as well as the four Instagram, Face Book, LINE, and Twitter social network services.

**Q7**

You positioned efforts to bolster online promotional activities and extend the duration of fairs as a major priority issue in a bid to secure profits in the current fiscal year. Can you elaborate on your approach toward selling, general and administrative expenses?

**A7**

We will focus our sales and promotional overhead expenses on two areas, online advertising and fairs. The television commercials that were broadcast from the second half of October and over November last year will not be continued this year. As a result, we have more than enough financial resources to cover sales and promotional overhead expenses.

**Q8**

Plans are in place to undertake a temporary review of store opening activities in China in the Group's oversea business and to engage in test marketing. Can you tell us about your current and future policies?

**A8**

Anticipating an increase in fashion jewelry sales in line with the growing middle class in China, plans were made to open 10 new stores. However, we decided that the opening of stores in one fell swoop in anticipation of an expansion in the middle class was not necessarily the best strategy to take. Looking ahead, our plans are to retain only profitable stores in China. On this basis, we will inject resources into new marketing.