

The **198**th Fiscal Year

Business Report

April 1, 2017 ▶ March 31, 2018

BUSINESS
REPORT

daitobo

since 1896

Daitobo Co., Ltd.

Securities code: 3202

Dear Shareholders



Kazuhiro Yamauchi

President and Representative Director

Please allow me to begin by extending my heartfelt gratitude to our shareholders for their continued patronage and support.

I would like to make a brief statement on our performance for the 198th fiscal year (from April 1, 2017 to March 31, 2018).

Introduction

In the fiscal year under review, the Japanese economy continued to expand moderately as the employment and income environment improved,

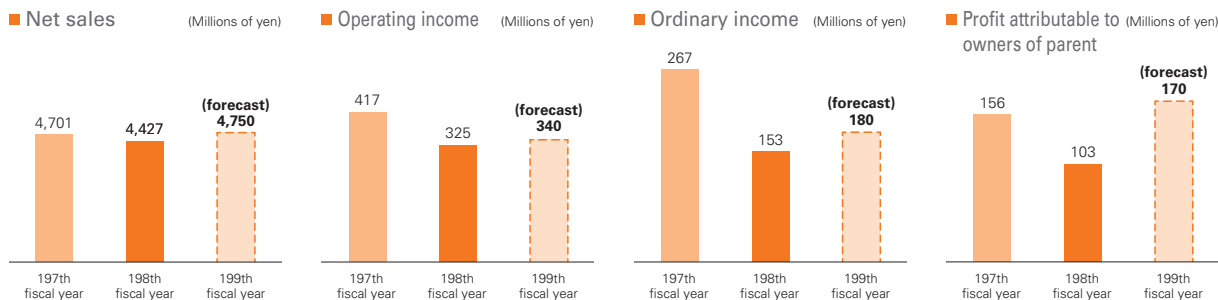
backed by ongoing accommodative monetary policy and the effects of various government policies.

In this environment, the Company Group continued implementing the management strategy in accordance with our mid-term management plan, “Bridge to the Future.”

Performance in the fiscal year under review was generally favorable, with profits trending in line with the mid-term management plan, as profitability improved in the health business department of the health care business and the textile and apparel business department. However, some one-time expenses occurred as a result of the decision made on March 28, 2018 to engage in construction (Stage 4 Development) to expand and renew the “SUN TO MOON Kakitagawa” commercial facility (in Shizuoka Prefecture), including an increase in depreciation due to the dismantling of certain facilities and the payment of fees to raise development funds through a syndicated loan.

As a result, although profit before income taxes increased year-on-year, one-time expenses significantly affected results, and operating income, ordinary income, and profit attributable to owners of parent after income taxes each declined year-

Consolidated financial highlights



* Notes: Forecasts shown above are based on the materials available as of the date of publication of this report, and actual business results may differ from these forecasts due to various factors.

on-year and fell below targets.

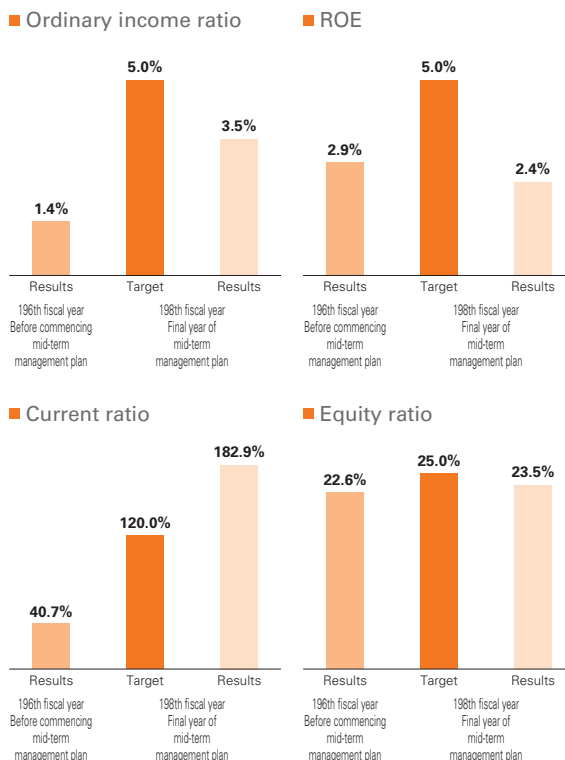
During the fiscal year under review, the Company was also able to make progress with initiatives aimed at new possibilities, including achieving of a capital and business alliance with First Brothers Co., Ltd., a decision for Stage 4 Development at the "SUN TO MOON Kakitagawa" commercial facility, and conclusion of a basic agreement related to the acquisition of certain businesses in the health care business. We deeply appreciate our shareholders once again since these results are entirely due to your understanding and support.

Moving forward, all officers and employees will make efforts as one to undertake the "Get Ahead of the Future mid-term management policy" launched in the new fiscal year, and continue striving to improve our corporate value over the medium-to long-term.

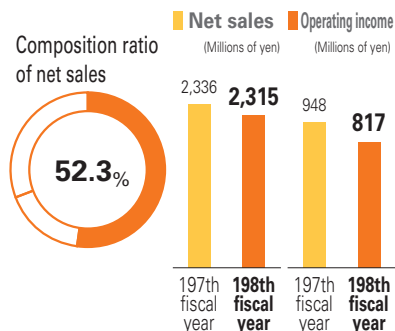
We appreciate our shareholders' continued encouragement and support.

June 2018

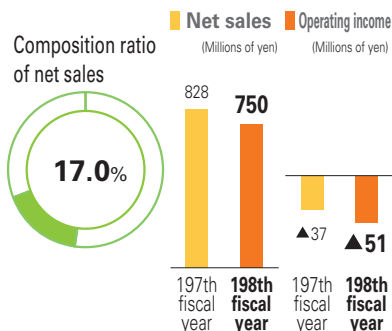
Achievement status for financial targets of mid-term management plan



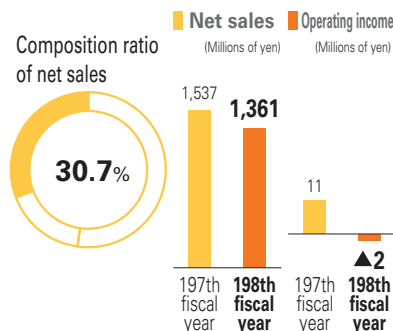
Commercial facility business



Health care business



Textile and apparel business





Mid-term Management Policy

Get Ahead of the Future

Q

Tell us about the basic concept of the new mid-term management policy.

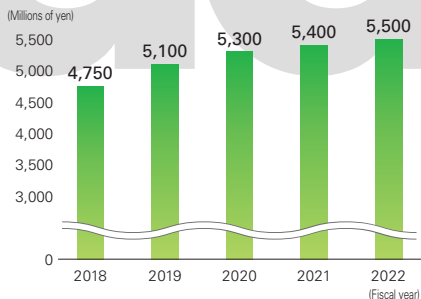
A

Under the assumption that the Japanese economy will continue to grow moderately, on the other hand, we consider that we are entering in times of unprecedented great uncertainty over the medium-to long-term in the future, including drastic market change with the 4th industrial revolution, serious labor shortage and uncertain trends in global politics and economics.

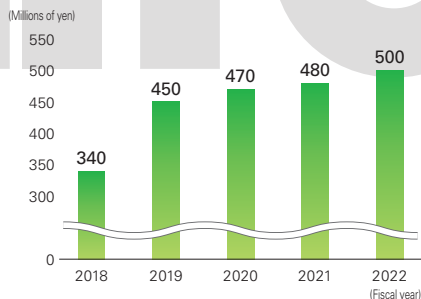
Therefore, we established five years as a mid-term for our management plan, based on the idea of promptly corresponding to the times of unprecedented uncertainty that is anticipated in the future. In addition, as for allocation of management resources, we will place priority on growth investment on the condition of financial soundness and securing human resources. Furthermore, we will establish our policy to conduct appropriate return of profits to shareholders and aim for resumption of dividend payment during the period of this mid-term management policy.

▶ Major profit and loss targets / financial targets

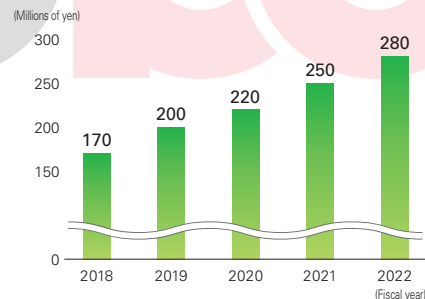
■ Net sales



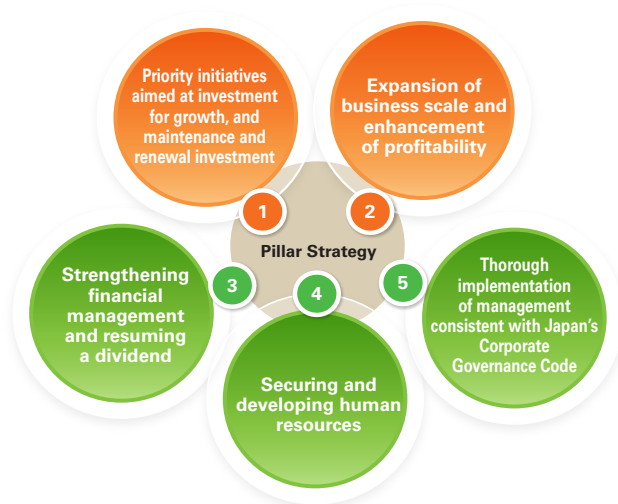
■ Operating income



■ Profit attributable to owners of parent



► Image of the Pillar Strategy



Q What are the key strategies within the mid-term management policy?

A We established five pillar strategies as follows (please refer to the left figure).

- ① Priority initiatives aimed at investment for growth, and maintenance and renewal investment
 - ② Expansion of business scale and enhancement of profitability
 - ③ Strengthening financial management and resuming a dividend
 - ④ Securing and developing human resources
 - ⑤ Thorough implementation of management consistent with Japan's Corporate Governance Code
- Profit and loss targets / financial targets based on these strategies are presented in the tables below.

Q Tell us about “priority initiatives aimed at investment for growth, and maintenance and renewal investment.”

A The Company will continue to prioritize investment in the commercial facility business, its pillar of earnings. Especially, the Company will begin construction (Stage 4 Development) to expand and renew “SUN TO MOON Kakitagawa,” one of the leading shopping centers in Shizuoka Prefecture, during 2018 which is a milestone year of 100th anniversary for establishment of our Group's Mishima Plant in Shizuoka Prefecture. Aiming to complete in the summer of 2019, after opening in a full-scale, we expect that the annual number of purchasing customers will increase nearly to 10 million (please refer to page 7 for the Stage 4 Development).

In addition, we will perform maintenance and renewal investment in domestic plants of health care business that are located in Niigata Prefecture.

■ Profit and loss targets

(Millions of yen)

Fiscal year	2018	2019	2020	2021	2022
Net sales	4,750	5,100	5,300	5,400	5,500
Operating income	340	450	470	480	500
Profit attributable to owners of parent	170	200	220	250	280

■ Financial targets

Fiscal year	2018	2019	2020	2021	2022
Operating margin	7%	9%	9%	9%	9%
ROE *1	4%	4%	5%	5%	5%
NetDER *2	215%	225%	200%	175%	155%

*1 ROE: Return on equity = profit per share / equity per share *2 NetDER: Net debt-to-equity ratio = (interest-bearing debt - cash and cash equivalents) / equity



Tell us about “expansion of business scale and enhancement of profitability.”



Although our profitability has increased from the management reform to date, we still have challenges for expansion of business scale due to difficulties overcoming shrinking trends from restructuring in textile and apparel business and riding a tailwind of sleep-related health boom in health care business. Therefore, the Group will take the plunge to focus management resources on the commercial facility business, thereby making the expansion of business scale and enhancement of profitability certain.

In addition, as it focuses on expanding business scale, the Company will maintain an awareness of concepts such as ESG (Environmental, Social, and Governance) and CSV (Creating Shared Value), and strengthen collaborative initiatives with business alliance partners.

By taking initiatives maintaining awareness of synergies within the Group’s businesses, we will engage on creating new businesses in the future and set sights on business acquisitions in health care business that the market is expected to expand, thereby leading to the acceleration of the growth speed.

Profit and loss targets by business segment are presented in the tables below.



Tell us your strategic themes for each business segment.



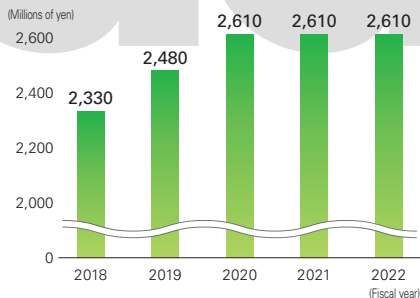
Strategic themes for pillar of each segment are as follows.

- ① Commercial facility business: Ensuring competitive advantage as number one store in the region
- ② Health care business: Focusing on sleep-related business through offering of high quality sleep
- ③ Textile and apparel business: Strengthening of knitwear / uniform businesses that utilize wool which is our founding business

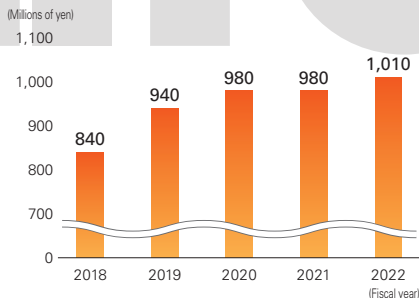
Profit and loss targets by business segment

A Commercial facility business

Net sales

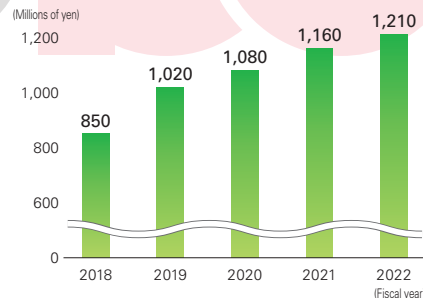


Operating income



B Health care business

Net sales





Tell us about “strengthening financial management and resuming a dividend.”



We consider securing free cash flow and reducing interest-bearing debt balance such as syndicate loan which we financed in connection with Stage 4 Development of “SUN TO MOON Kakitagawa” are the most important themes in securing a sound financial position. We will strengthen financial management in order to reduce capital cost.

As for dividends, I would like to take this opportunity to again sincerely apologize for not being able to pay dividend due to the uncertain elimination of the retained deficit brought forward for a long time. Through the steady implementation of various management measures being held in this mid-term management policy, including the effect of capital reduction, the Company aims to resume dividend payments during the period covered by this mid-term management policy.



Tell us about “securing and developing human resources.”



In the time of labor shortage, for a company to maintain sustainable growth, it is indispensable to secure human resources and improve productivity per person. We will raise recruiting competitiveness and strengthen cultivation

of IT human resources. In addition, as for national initiatives toward utilization of women workforce, we will recognize again that our business fields are originally suited for women, and engage in hiring women workforce actively.



Tell us about “thorough implementation of management consistent with Japan’s Corporate Governance Code.”



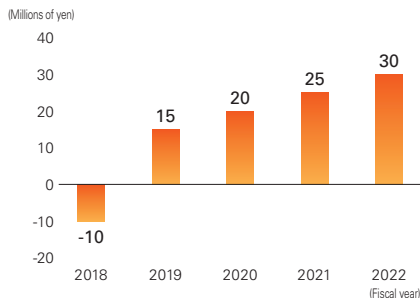
By placing importance on interests of stakeholders including our shareholders, as well as promoting responses to social issues through the business activities, we will make efforts to create positive values in both economic and social values, and ensure sustainable growth and enhancement of corporate value over the mid- to long-term.

Backed by our management philosophy “enterprising spirit” and “mindset of benefiting ourselves and others,” all the employees in the Company will work together to accomplish various measures in this mid-term management policy. We would like to ask our shareholders for their continued support and guidance.

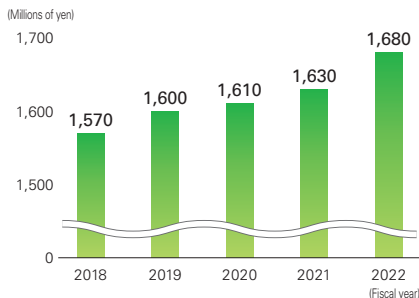
For details of the mid-term management policy, please refer to our website.

Textile and apparel business

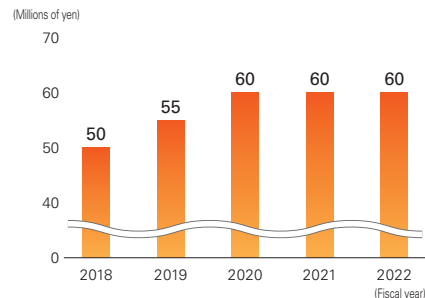
Operating income



Net sales



Operating income



Pillar Strategy Investment for Growth

Construction (Stage 4 Development) to expand and renew SUN TO MOON Kakitagawa

- Development concept
 “Birth of Happy New Junction”
 Leaping forward to the next step after the 20th anniversary of its opening.



Location	Shimizu-cho, Sunto-gun, Shizuoka Prefecture * Located along National Route 1, 2 km south of Shinkansen Mishima station. Next to Kakitagawa Park, a place selected as one of the 100 best waters in Japan
Site area	Approximately 108,000 m ²
Schedule	April 2018: Commencement of expansion and renewal construction Summer 2019: Scheduled to complete expansion and renewal construction
Floor space	Approximately 119,000 m ²
Parking lot	Approximately spaces for 3,270 cars available
Leasable area	Approximately 66,000 m ²



Review of Financial Results

Consolidated balance sheet

(Thousands of yen)

Description	End of this fiscal year (as of March 31, 2018)	End of the prior fiscal year (as of March 31, 2017)
(Assets)		
Current assets	3,011,089	3,022,133
Non-current assets	15,877,766	16,071,652
Property, plant and equipment	15,497,544	15,701,243
Intangible assets	8,181	9,417
Investments and other assets	372,040	360,992
Total assets	18,888,855	19,093,785
(Liabilities)		
Current liabilities	1,646,688	1,523,259
Non-current liabilities	12,791,231	13,240,938
Total liabilities	14,437,919	14,764,197
(Net assets)		
Shareholders' equity	(558,177)	(661,897)
Capital stock	1,500,000	1,500,000
Capital surplus	503,375	503,375
Retained earnings	(2,554,346)	(2,658,134)
Treasury shares	(7,206)	(7,138)
Accumulated other comprehensive income	5,004,849	4,990,863
Stock acquisition rights	4,264	622
Total net assets	4,450,935	4,329,588
Total liabilities and net assets	18,888,855	19,093,785

Consolidated statement of income

(Thousands of yen)

Description	For this fiscal year (from April 1, 2017 to March 31, 2018)	For the prior fiscal year (from April 1, 2016 to March 31, 2017)
Net sales	4,427,778	4,701,997
Cost of sales	3,267,704	3,432,247
Gross profit	1,160,074	1,269,750
Selling, general and administrative expenses	834,424	852,681
Operating income	325,650	417,068
Non-operating income	35,683	73,470
Non-operating expenses	207,387	222,937
Ordinary income	153,946	267,602
Extraordinary income	—	109,743
Extraordinary losses	—	229,234
Profit before income taxes	153,946	148,111
Income taxes-current	57,035	57,143
Income taxes-deferred	(6,876)	(65,112)
Profit	103,788	156,079
Profit attributable to owners of parent	103,788	156,079

Consolidated statement of cash flows

(Thousands of yen)

Description	For this fiscal year (from April 1, 2017 to March 31, 2018)	For the prior fiscal year (from April 1, 2016 to March 31, 2017)
Cash flows from operating activities	559,135	528,592
Cash flows from investing activities	(86,777)	343,770
Cash flows from financing activities	(363,993)	109,641
Effect of exchange rate change on cash and cash equivalents	509	(855)
Net increase (decrease) in cash and cash equivalents	108,873	981,148
Cash and cash equivalents at beginning of the period	1,668,446	687,297
Cash and cash equivalents at end of the period	1,777,319	1,668,446

Business fields

Commercial facility business

Daitobo's commercial properties are the go-to place for pleasant lifestyles. We will offer enriched living space based on our vision of "creating space that delights our customers."

- Shopping malls



Health care business

In response to the aging population and rising health consciousness, the Company supports the healthy and comfortable life of customers with products drawing on our proprietary technology. Our strength lies in the high technological ability of the Group's domestic production bases.

- Health-promoting textile materials-related
- Home-use medical devices
- Health-promoting foodstuffs
- General bed and bedding



Textile and apparel business

Daitobo will satisfy the diverse needs of our customers, from apparel fashion to uniforms, based on its vision of "creating products that delight our customers."

- Uniforms for both official and civilian users
- Production-management type OEM operations
- Knitwear planning



Group companies

1 Daitobo Estate Co., Ltd. (management and operation of shopping centers)

61-2, Tamagawa, Shimizu-cho, Sunto-gun, Shizuoka 411-0902, Japan

TEL: +81-55-981-8800

URL: <http://www.suntomoon.co.jp/>

2 Niigata Daitobo Co., Ltd. (manufacturing of bed and bedding)

133-1 Shitadairashinden, Tokamachi, Niigata 948-0123, Japan

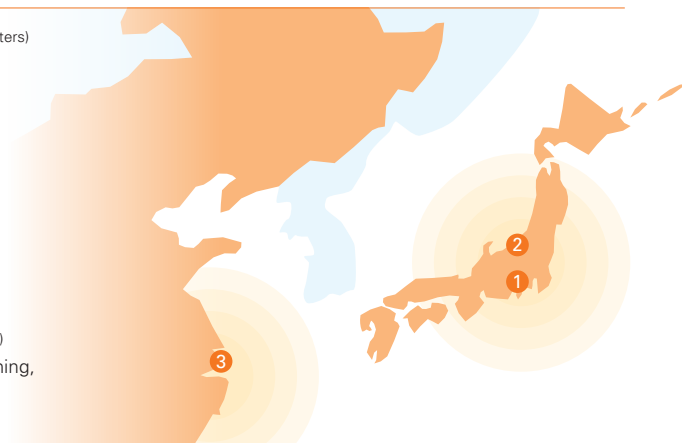
TEL: +81-25-768-2996

URL: <http://www.niigata-daitobo.com/>

3 DAITOBOSHOKU (SHANGHAI) CORPORATION (trading)

Rm. 802, Zhaocheng Tower, No. 120, Tianshan West Road., Changning, Shanghai, People's Republic of China

TEL: +86-21-62757733



Corporate Overview (as of June 30, 2018)

Established	February 27, 1896
Capital stock	¥1,500,000,000
Place of business	
Head Office	6-1 Nihonbashihoncho 1-chome, Chuo-ku, Tokyo, Japan +81-3-6262-6565
Nagoya Sales Department	17-9 Honmachi 4-chome, Ichinomiya-shi, Aichi, Japan +81-586-23-4811
Osaka Sales Department	3-6 Minamikyuhojimachi 2-chome, Chuo-ku, Osaka, Japan +81-6-6262-8322
Auditor	BDO Toyo & Co.

IR information

Please visit the Company's website with IR information such as summary of financial results and securities report, as well as the latest financial information and matters for timely disclosure.

<http://www.daitobo.co.jp/ir/>



Members of the Board of Directors (as of June 30, 2018)

Directors (excluding Directors serving as Audit and Supervisory Committee Members)



President and Representative Director
Director and Executive Officer

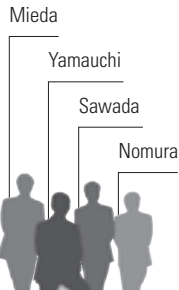
Kazuhiro Yamauchi
Shogo Mieda

Vice President and Representative Director

Toshiyasu Nomura
Yasunobu Sawada

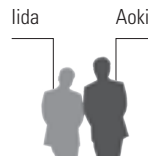
Outside Director

Executive Officers



General Manager, Textile and Apparel Business Headquarters
General Manager, Commercial Facility Business Headquarters, President of Daitobo Estate Co., Ltd.

Hiroshige Aoki
Wataru Iida



Directors serving as Audit and Supervisory Committee Members



Director (Audit and Supervisory Committee Member)

Yuji Kakuma

Outside Director (Audit and Supervisory Committee Member)

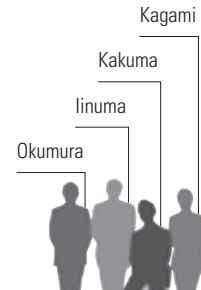
Haruki Iinuma

Outside Director (Audit and Supervisory Committee Member)

Takashi Kagami

Outside Director (Audit and Supervisory Committee Member)

Shusaku Okumura



(Note 1) Messrs. Yasunobu Sawada, Haruki Iinuma, Takashi Kagami and Shusaku Okumura are Outside Directors (independent directors).

(Note 2) The Company has an Audit and Supervisory Committee which is composed of four (4) Audit and Supervisory Committee Members.

Status of Shares

Status of Shares (as of March 31, 2018)

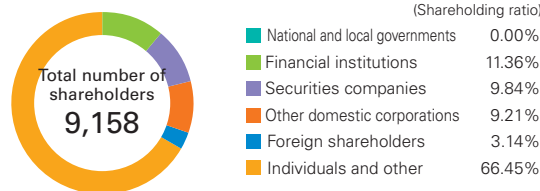
Total number of shares authorized to be issued	96,000,000 shares
Total number of shares issued	30,000,000 shares
Total number of shareholders	9,158

Principal Shareholders (Top 10)

Shareholder name	Number of shares held (Thousand shares)	Shareholding ratio (%)
SBI SECURITIES Co., Ltd.	1,069	3.57
JAPAN SECURITIES FINANCE CO., LTD.	1,048	3.50
First Brothers Co., Ltd.	682	2.27
Japan Trustee Services Bank, Ltd. (Trust account 5)	599	2.00
SEED INC.	501	1.67
Developer Sanshin inc.	500	1.67
SMBC Nikko Securities Inc.	434	1.45
Japan Trustee Services Bank, Ltd. (Trust account 2)	403	1.34
JPMorgan Securities Japan Co., Ltd.	383	1.28
Matsui Securities Co., Ltd.	307	1.02

Note: Shareholding ratio is calculated excluding treasury stock (68,599 shares).

Breakdown of Shares by Type of Shareholder



We resolved to change our shareholder benefit program following the change to the number of shares per unit at the Board of Directors' meeting held on August 10, 2017.

1 Eligible shareholders

The program targets shareholders who own 100 shares or more of the Company's share for six consecutive months or longer and are registered or recorded in the shareholders' register as of March 31 of each year.

2 Detail of the plan

Consecutively held period	Number of shares held		
	100 shares or more but less than 1,000 shares	1,000 shares or more but less than 2,000 shares	2,000 shares or more
Six months or more but less than one year	One benefit discount coupon for products available at the Company's internet shopping site	① QJO card worth ¥2,000 ② One benefit discount coupon for products available at the Company's internet shopping site	① QJO card worth ¥4,000 ② One benefit discount coupon for products available at the Company's internet shopping site
One year or more	Two benefit discount coupons for products available at the Company's internet shopping site	① QJO card worth ¥3,000 ② Two benefit discount coupons for products available at the Company's internet shopping site	① QJO card worth ¥5,000 ② Two benefit discount coupons for products available at the Company's internet shopping site

Commencement timing and method

The program will commence for the shareholders who are registered or recorded in the shareholders' register as of March 31, 2018.

Benefits will be mailed after the Annual General Meeting of Shareholders.

Information for Shareholders

Fiscal year	From April 1 to March 31 of the following year
Record dates for dividend of surplus	Year-end dividend March 31 Interim dividend September 30
Annual General Meeting of Shareholders	June every year
Administrator of shareholders' register (special account management institution)	4-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan Sumitomo Mitsui Trust Bank, Limited.

Mailing address	8-4 Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited.
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(For telephone inquiries) 0120-782-031 (toll-free in Japan)
Method of public notice

Public notices by the Company shall be done by electronic means;
however, in the event that accidents or other unavoidable reasons prevent public notice by electronic means, the notice will be posted in the The Nikkei.

Daitobo Co., Ltd.

<http://www.daitobo.co.jp/>

For inquiries regarding this report, please contact:
Business Management Headquarters TEL: +81-3-6262-6565

