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DUNLOP SPORTS (7825)

Consolidated Fiscal Year (Million Yen, IFRS)		Net Sales	Operating Profit	Profit Attributable to Owners of the Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY12/2015		78,264	2,235	1,224	42.2	10.0	1,116.8
FY12/2016		73,299	4,012	1,876	64.7	40.0	1,161.3
FY12/2017CoE		76,000	2,800	1,600	55.2	35.0	-
FY12/2016	YoY	(6.3%)	79.5%	53.2%	-	-	-
FY12/2017CoE	YoY	3.7%	(30.2%)	(14.7%)	-	-	-
Consolidated Half Year (Million Yen, IFRS)		**Net Sales**	**Operating Profit**	**Profit Attributable to Owners of the Parent**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q2 FY12/2017CoE		36,500	1,300	600	-	-	-
Q3 to Q4 FY12/2017CoE		39,500	1,500	1,000	-	-	-
Q1 to Q2 FY12/2017CoE	YoY	-	-	-	-	-	-
Q3 to Q4 FY12/2017CoE	YoY	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (27 March 2017)

Short-term Adjustments

DUNLOP SPORTS, manufacturing and selling golf clubs and golf balls as the key earning pillars, is trying to get at a long-term growth principally by means of recovering own market shares in North America. However, short-term earnings are to adjust. This is due mainly to costs starting to rise after recent decreases. While FY12/2017 Company forecasts are going for net decreases of some ¥1,200m in operating profit over the previous year, the Company's analysis suggests that net decreases of ¥1,100m are to appear by increasing raw material prices in line with hiking crude oil prices, etc. and that net decreases of ¥800m by increasing expenses. Given a one-off factor, expenses in FY12/2016 came down a lot over the previous year, having given net increases of ¥700m in operating profit, which is not to reappear in FY12/2017. Meanwhile, the Company suggests that the market shares of golf clubs and golf balls in North America are on the verge of recovering. As far as we could gather, the Company's measures to rebuild operations in North America are starting to make steady progress, triggered by bullet write-off of remaining goodwill of ¥3,947m as of the end of FY12/2015, associated with Roger Cleveland Golf Company, Inc., i.e., the subsidiary based in California of the United States in charge of the Company's operations in North America. The Company is going for buoyant sales in North America in the near future, suggesting no further meaningful losses to be generated here in FY12/2017. Midterm management plan (FY12/2016 to FY12/2020) to have been released at the release of FY12/2015 results (12 February 2016) are calling for prospective sales of ¥100,000m, operating profit of ¥6,000m and ROE of more than 5% in the last year of the plan, i.e., FY12/2020, suggesting CAGR of 5.1% in prospective sales and 32.3% in earnings through FY12/2016 to FY12/2020. The Company also suggests that all those figures are basically achievable with IFRS to have been voluntarily adopted since the yearend results of FY12/2016.

In FY12/2016, net sales came in at ¥73,299m (down 6.3% YoY), operating profit ¥4,012m (up 79.5%) and operating profit margin 5.5% (up 2.6% points). The Company has adopted IFRS since the yearend results of FY12/2016, but mentions that the figures were roughly in line with those of equivalents of Japanese standards (not audited). By business segment, Sports Goods saw net sales of ¥60,406m (down 8.5%), segment profit of ¥3,286m (up 98.8%) and segment profit margin of 5.4% (up 2.9% points). It appears that this business segment drives business performance as a whole for the Company to a large extent, having accounting for 82.4% of net sales and 81.7% of segment profit. Here the Company is heavily involved with golf clubs and golf balls with collective exposure by almost 80% in terms of net sales. Given unfavorable market conditions domestically and overseas, net sales of both were also unfavorable. Nevertheless, the Company saw improving sales mix, driven by firm sales of *XXIO Nine*, i.e., the mainstay golf clubs in Japan creating high added value and thus carrying high gross profit margin. On top of this, costs came down across the board, which was another factor for increasing operating profit. As in the past years, the Company saw steady benefits from cost cutting, while having seen decreases of expenses and lowering prices of imported goods in line with yen's appreciation.

FY12/2017 Company forecasts are going for prospective net sales of ¥76,000m (up 3.7% YoY), operating profit of ¥2,800m (down 30.2%) and operating profit margin of 3.7% (down 1.8% points). Meanwhile, prospective dividend is ¥35.0 per share, implying payout ratio of 63.4%, compared with ¥40.0 per share, implying payout ratio of 61.8%, in FY12/2016. Although dividend is to be marginally cut back over the previous year, payout ratio remains high. Meanwhile, according to the Company, the market conditions will remain unfavorable in FY12/2017, but Company forecasts assume buoyant net sales for the mainstay golf clubs and golf balls. Still, operating profit is to come down over the previous year. In regards to increasing prices of raw materials, the Company refers to that procurement prices of synthetic rubber, i.e., raw materials for golf balls, are on the rise in line with hiking crude oil prices as a concrete example. Meanwhile, in regards to expenses, Company forecasts assume regular successes of performance for professional players contracted with the Company and thus corresponding expenses stemming from here. Said expenses were small in FY12/2016 as the professional players did not perform well temporarily.

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2.0 Company Profile

Manufacturing and Selling Golf Goods & Tennis Goods

Company Name	DUNLOP SPORTS CO. LTD. Company Website IR Information Share Price
Established	1 July 2003
Listing	13 October 2006: Tokyo Stock Exchange 1st Section (Ticker: 7825)
Capital	¥9,207m (As of the end of December 2016)
No. of Shares	29,000,000 shares, including 183 treasury shares (As of the end of December 2016)
Main Features	● Set up in July 2003 as spinoff of sports division from Sumitomo Rubber Industries, Ltd. ● Golf clubs and golf balls are the mainstay earnings pillars ● Ample room to beef up market shares in North America
Businesses	Ⅰ. Sports Goods Ⅱ. Services & Golf Course Management Ⅲ. Wellness
Top Management	President & representative director: Kazuo Kinameri
Shareholders	Sumitomo Rubber Industries 60.38%, Togo Sangyo 2.78%, Japan Trustee Services (trust account) 1.95% (As of the end of December 2016)
Headquarters	Chuo-ku, Kobe-city, JAPAN
No. of Employees	Consolidated: 1,956, Unconsolidated: 361 (As of the end of December 2016)

Source: Company Data

3.0 Recent Trading & Prospects

FY12/2016 Results

In FY12/2016, net sales came in at ¥73,299m (down 6.3% YoY), operating profit ¥4,012m (up 79.5%), pretax profit ¥2,903m (up 20.5%), net profit ¥2,151m (up 42.2%) and profit attributable to owners of the parent ¥1,876m (up 53.2%). Pretax profit has failed to increase as much as operating profit due mainly to booking of financial expenses of ¥1,253m (up ¥1,015m YoY).

The Company, importing club heads, i.e., the key components of golf clubs from China, has been involved with reservation of forward exchange contract to cope with US-dollar-denominated procurement stemming from here to date. Given yen's rate higher than initially expected when settled, it appears that the Company suffered from a major forex loss. As far as we could gather, this accounted for the bulk of above-mentioned financial expenses. Initial Company forecasts assumed ¥120 per US dollar.

Forex Rate of the Key Currencies

		FY12/2015	FY12/2016	FY12/2017
US Dollar	Against Japanese Yen	121.1	108.8	110.0
Korean Won	Against Japanese Yen	0.107	0.094	0.096
Euro	Against Japanese Yen	134.3	120.3	120.0
US Dollar	Year-on-Year Net Changes	-	(12.3)	+1.2
Korean Won	Year-on-Year Net Changes	-	(0.014)	+0.002
Euro	Year-on-Year Net Changes	-	(14.1)	(0.3)
US Dollar	Rate of Changes	-	(10%)	+1%
Korean Won	Rate of Changes	-	(13%)	+2%
Euro	Rate of Changes	-	(10%)	(0%)

Source: Company Data

Compared with Company forecasts (IFRS), found in the presentation document of Q2 FY12/2016 results, net sales were worse by ¥2,401m (3.2%), operating profit better by ¥312m (8.4%) and profit attributable to owners of the parent better by ¥576m (44.3%).

As far as we could gather, net sales fell short of forecasts due mainly to sluggishness in Japan and negative impacts from yen's appreciation overseas, both beyond expectations. Meanwhile, at the operating level, yen's appreciation against US dollar reduced cost of above-mentioned imports for club heads, while cost cutting and reductions of expenses made progress more than expected. In regards to major overshoot of profit attributable to owners of the parent, the Company suggests that this was due mainly to income taxes smaller than expected. Given profit attributable to owners of the parent, i.e., the resource of dividend, the Company, being keen on sharing earnings with shareholders as one of the key initiatives, has raised its annual dividend in FY12/2016 up to ¥40.0 per share, implying payout ratio of 61.8%, from ¥20.0.

Meanwhile, the Company has voluntarily adopted IFRS (International Financial Reporting Standards), staring with the yearend results of FY12/2016, in order to facilitate international comparison of financial information as well as to improve quality of management control on a group basis. However, FY12/2016 results were roughly in line with those of Japanese standards (not audited) that had been adopted by then. According to the Company, the adoption of IFRS reduced net sales but just marginally, while having resulted in operating profit 2% larger, pretax profit 1% smaller and net profit 6% larger.

Differences between IFRS and Japan Standards

	IFRS (Million Yen)	Japan Standards (Million Yen)	Net Changes (Million Yen)	Net Changes (%)
Net Sales	73,300	73,300	(10)	(0%)
Operating Profit	4,000	4,000	+60	+2%
Pretax Profit	2,900	2,900	(10)	(1%)
Net Profit	1,900	1,800	+100	+6%

Source: Company Data

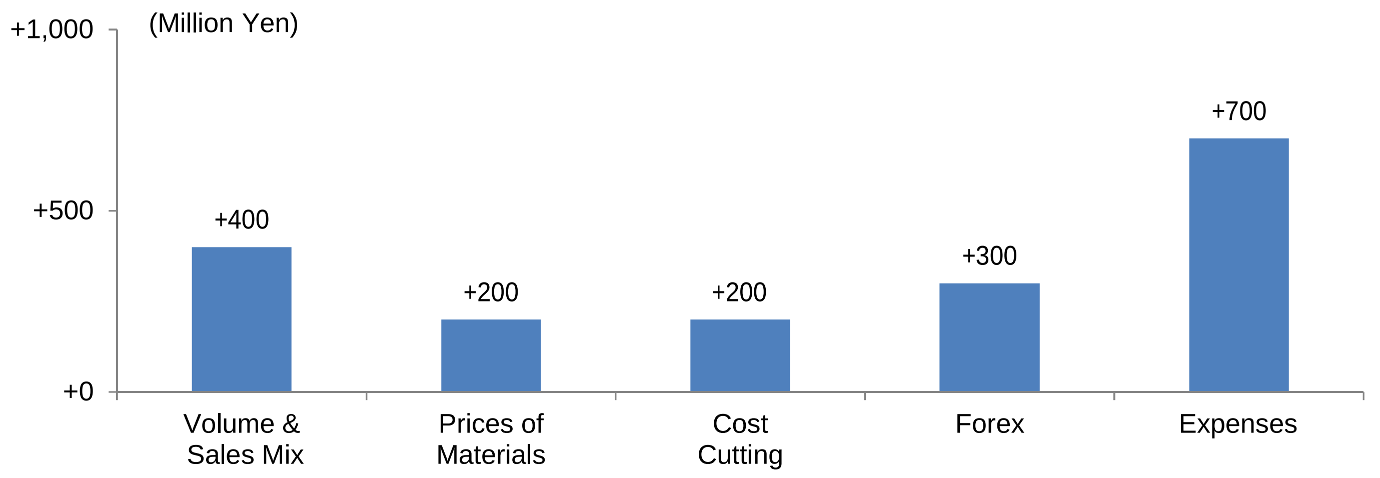
As far as existing Japanese standards are concerned, it was not obligatory to include all the subsidiaries including very small ones, but it is in regards to IFRS. This has made the Company include two new subsidiaries to be in charge of sales overseas in its consolidated accounts, i.e., Srixon Sports (Thailand) Co., Ltd. and Cleveland Golf Korea Co., Ltd.

Net sales saw add-ons of ¥200m due mainly to those of above-mentioned Cleveland Golf Korea Co., Ltd., while sales incentives, used to be booked as sales and as SG&A expenses at the same time, were deducted from net sales (and SG&A expenses), having reduced net sales by ¥200m. In regards to operating profit, the Company saw increases of ¥200m stemming from changes of goodwill write-off method as well as decreases of ¥100m due to no further capitalization of advertising expenses and changes of retirement benefit accounting calculation method. At the net level, the Company saw increases of ¥100m due to income taxes smaller to the same extent. This stemmed from difference of tax rate between Japanese standards and IFRS, while it is taken for granted that the issue is not of permanent difference but of temporary difference.

On the other hand, the Company claims that the market conditions in FY12/2016 were not favorable across the board, suggesting 99% of the previous year as market conditions for domestic golf goods in Japan, 92% for domestic tennis goods in Japan and 94% for golf goods in the United States. Domestic golf goods in Japan have failed to increase over the previous year, while domestic tennis goods suffered from adjustments. In the United States, some major local retailers of golf goods went bankrupt presumably due to unfavorable market conditions, according to the Company.

Given above-mentioned market conditions unfavorable, net sales as a whole for the Company have failed to increase over the previous year, but operating profit saw net increases of some ¥1,800m (¥2,235m to ¥4,012m). The Company saw improving sales mix, driven by firm sales of *XXIO Nine*, i.e., the mainstay golf clubs in Japan creating high added value and thus carrying high gross profit margin. On top of this, costs came down across the board, which was another factor for increasing operating profit. As in the past years, the Company saw steady benefits from cost cutting, while having seen decreases of expenses and lowering prices of imported goods in line with yen's appreciation.

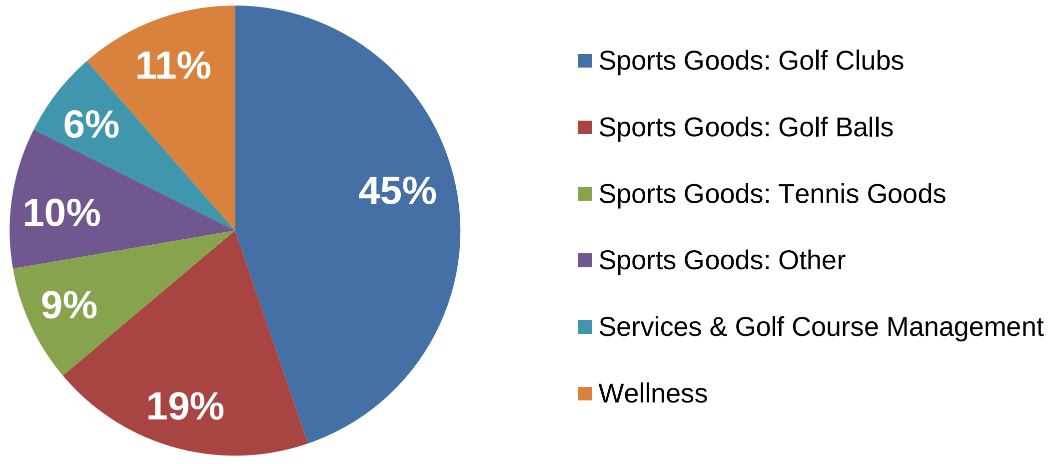
Factor Analysis for Net Changes of Operating Profit : FY12/2016



Source: Company Data, WRJ Calculation

The Company saw net sales of ¥32,800m (down 10%) for golf clubs and ¥14,000m (down 6%) for golf balls, having collectively accounted for almost 80% of net sales in Sports Goods or 45% of net sales as a whole for the Company and 19%, respectively. In both, net sales in Japan accounted for more than half of total.

Net Sales Composition Ratio : FY12/2016



Source: Company Data, WRJ Calculation

In regards to golf clubs, net sales came down in Japan, while having increased overseas but for impacts from forex changes. In Japan, sales of *XXIO Nine* were firm, but not as firm as expected due to intensifying competition, etc., according to the Company. As far as we could gather, net sales in Japan came down by more than 10% over the previous year. Meanwhile, net sales overseas increased by almost 10% on a local currencies basis. Thus, it appears that net sales in North America where the Company has been rebuilding own operations for some time also rose on a local currencies basis. In regards to golf balls, net sales came down just marginally in Japan, while having increased overseas but for forex changes. At the end of the day, the Company saw increasing sales overseas on a local currencies basis in regards to golf balls just like golf clubs, as far as we could gather.

In our estimates, net sales in North America came in at some US$64m (up 5% YoY), comprising mainly golf clubs and golf balls. As discussed above, net sales overseas of golf clubs and golf balls increased on a local currencies basis and this must have been the key driver here. More importantly, this trend in FY12/2016 is to be succeeded in FY12/2017 and onward, as far as we could see. The Company is looking to future acceleration of growth rate of net sales in North America where the market size is large and so is room to cultivate in the foreseeable future.

Income Statement (Cumulative, Quarterly): Japanese Standards

Income Statement (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q1 to Q2 12/2015	Cons.Act Q1 to Q3 12/2015	Cons.Act Q1 to Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q1 to Q2 12/2016	Cons.Act Q1 to Q3 12/2016	Cons.Act Q1 to Q4 12/2016	YoY Net Chg.
Sales	**17,091**	**37,921**	**56,400**	**78,117**	**17,161**	**36,612**	**55,011**	**73,300**	**(4,817)**
Cost of Sales	9,593	21,408	32,710	45,228	9,315	20,029	30,466	-	-
Gross Profit	7,498	16,512	23,689	32,889	7,845	16,583	24,545	-	-
SG&A	7,975	16,118	23,755	31,405	7,041	14,166	21,245	-	-
Operating Profit	**(477)**	**394**	**(65)**	**1,483**	**804**	**2,417**	**3,299**	**4,000**	**+2,517**
Non Operating Balance	152	427	235	318	(373)	(1,065)	(1,353)	(1,100)	(1,418)
Recurring Profit	**(325)**	**821**	**170**	**1,801**	**431**	**1,352**	**1,946**	**2,900**	**+1,099**
Extraordinary Balance	(21)	(21)	(22)	(4,055)	(3)	(1)	(11)	-	-
Pretax Profit	(346)	800	148	(2,254)	428	1,351	1,935	-	-
Tax Charges, etc.	236	707	444	1,034	136	436	500	-	-
NP Belonging to Non-Controlling SHs	211	451	443	313	170	323	347	-	-
Net Profit	**(795)**	**(358)**	**(739)**	**(3,601)**	**121**	**591**	**1,088**	**1,800**	**+5,401**
Sales YoY	+8.8%	+15.4%	+13.2%	+10.2%	+0.4%	(3.5%)	(2.5%)	(6.2%)	-
Operating Profit YoY	-	(54.1%)	-	(29.0%)	-	+512.5%	-	+169.7%	-
Recurring Profit YoY	-	(29.9%)	(88.9%)	(41.1%)	-	+64.7%	-	+61.0%	-
Net Profit YoY	-	-	-	-	-	-	-	-	-
Gross Profit Margin	43.9%	43.5%	42.0%	42.1%	45.7%	45.3%	44.6%	-	-
(SG&A / Sales)	46.7%	42.5%	42.1%	40.2%	41.0%	38.7%	38.6%	-	-
Operating Profit Margin	(2.8%)	1.0%	(0.1%)	1.9%	4.7%	6.6%	6.0%	5.5%	+3.6%
Recurring Profit Margin	(1.9%)	2.2%	0.3%	2.3%	2.5%	3.7%	3.5%	4.0%	+1.7%
Net Profit Margin	(4.7%)	(0.9%)	(1.3%)	(4.6%)	0.7%	1.6%	2.0%	2.5%	+7.1%
Tax Charges, etc. / Pretax Profit	-	88.4%	300.0%	-	31.8%	32.3%	25.8%	-	-

Income Statement (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q2 12/2015	Cons.Act Q3 12/2015	Cons.Act Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q2 12/2016	Cons.Act Q3 12/2016	Cons.Act Q4 12/2016	YoY Net Chg.
Sales	**17,091**	**20,830**	**18,479**	**21,717**	**17,161**	**19,451**	**18,399**	**18,200**	**(3,517)**
Cost of Sales	9,593	11,815	11,302	12,518	9,315	10,714	10,437	-	-
Gross Profit	7,498	9,014	7,177	9,200	7,845	8,738	7,962	-	-
SG&A	7,975	8,143	7,637	7,650	7,041	7,125	7,079	-	-
Operating Profit	**(477)**	**871**	**(459)**	**1,548**	**804**	**1,613**	**882**	**700**	**(848)**
Non Operating Balance	152	275	(192)	83	(373)	(692)	(288)	200	+117
Recurring Profit	**(325)**	**1,146**	**(651)**	**1,631**	**431**	**921**	**594**	**900**	**(731)**
Extraordinary Balance	(21)	0	(1)	(4,033)	(3)	2	(10)	-	-
Pretax Profit	(346)	1,146	(652)	(2,402)	428	923	584	-	-
Tax Charges, etc.	236	471	(263)	590	136	300	64	-	-
NP Belonging to Non-Controlling SHs	211	240	(8)	(130)	170	153	24	-	-
Net Profit	**(795)**	**437**	**(381)**	**(2,862)**	**121**	**470**	**497**	**700**	**+3,562**
Sales YoY	+8.8%	+21.5%	+9.0%	+3.0%	+0.4%	(6.6%)	(0.4%)	(16.2%)	-
Operating Profit YoY	-	+59.5%	-	+45.4%	-	+85.2%	-	(54.8%)	-
Recurring Profit YoY	-	+43.4%	-	+7.2%	-	(19.6%)	-	(44.8%)	-
Net Profit YoY	-	+61.9%	-	-	-	+7.6%	-	-	-
Gross Profit Margin	43.9%	43.3%	38.8%	42.4%	45.7%	44.9%	43.3%	-	-
(SG&A / Sales)	46.7%	39.1%	41.3%	35.2%	41.0%	36.6%	38.5%	-	-
Operating Profit Margin	(2.8%)	4.2%	(2.5%)	7.1%	4.7%	8.3%	4.8%	3.8%	(3.3%)
Recurring Profit Margin	(1.9%)	5.5%	(3.5%)	7.5%	2.5%	4.7%	3.2%	4.9%	(2.6%)
Net Profit Margin	(4.7%)	2.1%	(2.1%)	(13.2%)	0.7%	2.4%	2.7%	3.8%	+17.0%
Tax Charges, etc. / Pretax Profit	-	41.1%	-	-	31.8%	32.5%	11.0%	-	-

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly) : Japanese Standards

Segmented Information (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q1 to Q2 12/2015	Cons.Act Q1 to Q3 12/2015	Cons.Act Q1 to Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q1 to Q2 12/2016	Cons.Act Q1 to Q3 12/2016	Cons.Act Q1 to Q4 12/2016	YoY Net Chg.
Sports Goods	14,795	32,533	47,788	65,881	14,740	31,061	45,916	-	-
Services & Golf Course Management	324	1,433	2,651	4,237	383	1,445	2,889	-	-
Wellness	1,971	3,955	5,960	7,998	2,037	4,105	6,205	-	-
Sales	**17,091**	**37,921**	**56,400**	**78,117**	**17,161**	**36,612**	**55,011**	**73,300**	**(4,817)**
Sports Goods	(2.1%)	+5.5%	+4.0%	+3.5%	(0.4%)	(4.5%)	(3.9%)	-	-
Services & Golf Course Management	+27.6%	+8.2%	(6.4%)	(6.0%)	+18.2%	+0.8%	+9.0%	-	-
Wellness	+491.9%	+479.1%	+478.6%	+194.0%	+3.3%	+3.8%	+4.1%	-	-
Sales (YoY)	**+8.8%**	**+15.4%**	**+13.2%**	**+10.2%**	**+0.4%**	**(3.5%)**	**(2.5%)**	**(6.2%)**	**-**
Sports Goods	86.6%	85.8%	84.7%	84.3%	85.9%	84.8%	83.5%	-	-
Services & Golf Course Management	1.9%	3.8%	4.7%	5.4%	2.2%	3.9%	5.3%	-	-
Wellness	11.5%	10.4%	10.6%	10.2%	11.9%	11.2%	11.3%	-	-
Sales (Composition Ratio)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**
Sports Goods	(374)	369	(244)	1,044	855	2,336	3,012	-	-
Services & Golf Course Management	(128)	(67)	23	231	(120)	(51)	97	-	-
Wellness	19	80	136	178	62	121	172	-	-
Segment Profit	**(483)**	**381**	**(85)**	**1,455**	**798**	**2,405**	**3,282**	**-**	**-**
Adjustments	6	12	19	28	5	11	17	-	-
Operating Profit	**(477)**	**394**	**(65)**	**1,483**	**804**	**2,417**	**3,299**	**4,000**	**+2,517**
Sports Goods	-	(61.5%)	-	(42.6%)	-	+533.1%	-	-	-
Services & Golf Course Management	-	-	(28.1%)	(4.9%)	-	-	+321.7%	-	-
Wellness	-	-	-	-	+226.3%	+51.3%	+26.5%	-	-
Segment Profit（YoY)	**-**	**(55.4%)**	**-**	**(29.7%)**	**-**	**+531.2%**	**-**	**-**	**-**
Sports Goods	-	96.9%	-	71.8%	107.1%	97.1%	91.8%	-	-
Services & Golf Course Management	-	(17.6%)	-	15.9%	(15.0%)	(2.1%)	3.0%	-	-
Wellness	-	21.0%	-	12.2%	7.8%	5.0%	5.2%	-	-
Segment Profit (Composition Ratio)	**-**	**100.0%**	**-**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**	**-**
Sports Goods	(2.5%)	1.1%	(0.5%)	1.6%	5.8%	7.5%	6.6%	-	-
Services & Golf Course Management	(39.5%)	(4.7%)	0.9%	5.5%	(31.3%)	(3.5%)	3.4%	-	-
Wellness	1.0%	2.0%	2.3%	2.2%	3.0%	2.9%	2.8%	-	-
Operating Profit Margin	**(2.8%)**	**1.0%**	**(0.1%)**	**1.9%**	**4.7%**	**6.6%**	**6.0%**	**5.5%**	**+3.6%**

Segmented Information (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q2 12/2015	Cons.Act Q3 12/2015	Cons.Act Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q2 12/2016	Cons.Act Q3 12/2016	Cons.Act Q4 12/2016	YoY Net Chg.
Sports Goods	14,795	17,738	15,255	18,093	14,740	16,321	14,855	-	-
Services & Golf Course Management	324	1,109	1,218	1,586	383	1,062	1,444	-	-
Wellness	1,971	1,984	2,005	2,038	2,037	2,068	2,100	-	-
Sales	**17,091**	**20,830**	**18,479**	**21,717**	**17,161**	**19,451**	**18,399**	**18,200**	**(3,517)**
Sports Goods	(2.1%)	+12.8%	+1.0%	+2.1%	(0.4%)	(8.0%)	(2.6%)	-	-
Services & Golf Course Management	+27.6%	+3.6%	(19.2%)	(5.4%)	+18.2%	(4.2%)	+18.6%	-	-
Wellness	+491.9%	+466.9%	+477.8%	+20.6%	+3.3%	+4.2%	+4.7%	-	-
Sales (YoY)	**+8.8%**	**+21.5%**	**+9.0%**	**+3.0%**	**+0.4%**	**(6.6%)**	**(0.4%)**	**(16.2%)**	**-**
Sports Goods	86.6%	85.2%	82.6%	83.3%	85.9%	83.9%	80.7%	-	-
Services & Golf Course Management	1.9%	5.3%	6.6%	7.3%	2.2%	5.5%	7.8%	-	-
Wellness	11.5%	9.5%	10.9%	9.4%	11.9%	10.6%	11.4%	-	-
Sales (Composition Ratio)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**
Sports Goods	(374)	743	(613)	1,288	855	1,481	676	-	-
Services & Golf Course Management	(128)	61	90	208	(120)	69	148	-	-
Wellness	19	61	56	42	62	59	51	-	-
Segment Profit	**(483)**	**864**	**(466)**	**1,540**	**798**	**1,607**	**877**	**-**	**-**
Adjustments	6	6	7	9	5	6	6	-	-
Operating Profit	**(477)**	**871**	**(459)**	**1,548**	**804**	**1,613**	**882**	**700**	**(848)**
Sports Goods	-	+48.6%	-	+52.6%	-	+99.3%	-	-	-
Services & Golf Course Management	-	+52.5%	(32.8%)	(1.4%)	-	+13.1%	+64.4%	-	-
Wellness	-	-	+700.0%	+950.0%	+226.3%	(3.3%)	(8.9%)	-	-
Segment Profit （YoY)	**-**	**+59.4%**	**-**	**+45.6%**	**-**	**+86.0%**	**-**	**-**	**-**
Sports Goods	-	86.0%	-	83.6%	107.1%	92.2%	77.1%	-	-
Services & Golf Course Management	-	7.1%	-	13.5%	(15.0%)	4.3%	16.9%	-	-
Wellness	-	7.1%	-	2.7%	7.8%	3.7%	5.8%	-	-
Segment Profit (Composition Ratio)	**-**	**100.0%**	**-**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**	**-**
Sports Goods	(2.5%)	4.2%	(4.0%)	7.1%	5.8%	9.1%	4.6%	-	-
Services & Golf Course Management	(39.5%)	5.5%	7.4%	13.1%	(31.3%)	6.5%	10.2%	-	-
Wellness	1.0%	3.1%	2.8%	2.1%	3.0%	2.9%	2.4%	-	-
Operating Profit Margin	**(2.8%)**	**4.2%**	**(2.5%)**	**7.1%**	**4.7%**	**8.3%**	**4.8%**	**3.8%**	**(3.3%)**

Source: Company Data, WRJ Calculation

Sales of Sports Goods (Cumulative, Quarterly) : Japanese Standards

Sales of Sports Goods (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q1 to Q2 12/2015	Cons.Act Q1 to Q3 12/2015	Cons.Act Q1 to Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q1 to Q2 12/2016	Cons.Act Q1 to Q3 12/2016	Cons.Act Q1 to Q4 12/2016	YoY Net Chg.
Golf Clubs	8,000	17,100	24,900	36,300	8,200	16,300	24,500	-	-
Golf Balls	3,800	7,900	11,500	14,900	3,100	7,300	10,800	-	-
Other Golf Goods	1,500	4,000	6,000	7,700	1,800	3,800	5,400	-	-
Golf Goods	13,300	29,000	42,400	58,900	13,100	27,500	40,700	-	-
Tennis Goods	1,400	3,300	5,000	6,500	1,600	3,400	4,800	-	-
License Revenue	100	200	300	400	100	200	400	-	-
Sports Goods	**14,800**	**32,500**	**47,800**	**65,900**	**14,700**	**31,100**	**45,900**	**-**	**-**
Golf Clubs	(6%)	+4%	+1%	+5%	+3%	(5%)	(2%)	-	-
Golf Balls	+19%	+14%	+9%	+3%	(18%)	(7%)	(6%)	-	-
Other Golf Goods	(20%)	(2%)	+3%	(2%)	+15%	(4%)	(9%)	-	-
Golf Goods	(2%)	+6%	+3%	+4%	(2%)	(5%)	(4%)	-	-
Tennis Goods	+2%	+6%	+10%	+3%	+14%	+2%	(4%)	-	-
License Revenue	(6%)	(4%)	+6%	(2%)	(17%)	+17%	+8%	-	-
Sports Goods (YoY)	**(2%)**	**+5%**	**+4%**	**+3%**	**(0%)**	**(5%)**	**(4%)**	**-**	**-**
Golf Clubs	54%	53%	52%	55%	56%	52%	53%	-	-
Golf Balls	26%	24%	24%	23%	21%	23%	24%	-	-
Other Golf Goods	10%	12%	13%	12%	12%	12%	12%	-	-
Golf Goods	90%	89%	89%	89%	89%	88%	89%	-	-
Tennis Goods	9%	10%	10%	10%	11%	11%	10%	-	-
License Revenue	1%	1%	1%	1%	1%	1%	1%	-	-
Sports Goods (Composition Ratio)	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**-**	-

Sales of Sports Goods (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q2 12/2015	Cons.Act Q3 12/2015	Cons.Act Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q2 12/2016	Cons.Act Q3 12/2016	Cons.Act Q4 12/2016	YoY Net Chg.
Golf Clubs	8,000	9,100	7,800	11,400	8,200	8,100	8,200	-	-
Golf Balls	3,800	4,100	3,600	3,400	3,100	4,200	3,500	-	-
Other Golf Goods	1,500	2,500	2,000	1,700	1,800	2,000	1,600	-	-
Golf Goods	13,300	15,700	13,400	16,500	13,100	14,400	13,200	-	-
Tennis Goods	1,400	1,900	1,700	1,500	1,600	1,800	1,400	-	-
License Revenue	100	100	100	100	100	100	200	-	-
Sports Goods	**14,800**	**17,700**	**15,300**	**18,100**	**14,700**	**16,400**	**14,800**	**-**	**-**
Golf Clubs	(6%)	+14%	(5%)	+16%	+3%	(11%)	+5%	-	-
Golf Balls	+19%	+8%	+3%	(15%)	(18%)	+2%	(3%)	-	-
Other Golf Goods	(20%)	+14%	+18%	(19%)	+15%	(20%)	(20%)	-	-
Golf Goods	(2%)	+13%	(1%)	+4%	(2%)	(8%)	(1%)	-	-
Tennis Goods	+2%	+12%	+13%	(12%)	+14%	(5%)	(18%)	-	-
License Revenue	(6%)	+0%	+0%	+0%	(17%)	+0%	+100%	-	-
Sports Goods (YoY)	**(2%)**	**+13%**	**+1%**	**+2%**	**(0%)**	**(7%)**	**(3%)**	**-**	**-**
Golf Clubs	54%	51%	51%	63%	56%	49%	55%	-	-
Golf Balls	26%	23%	24%	19%	21%	26%	24%	-	-
Other Golf Goods	10%	14%	13%	9%	12%	12%	11%	-	-
Golf Goods	90%	89%	88%	91%	89%	88%	89%	-	-
Tennis Goods	9%	11%	11%	8%	11%	11%	9%	-	-
License Revenue	1%	1%	1%	1%	1%	1%	1%	-	-
Sports Goods (Composition Ratio)	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**-**	-

Source: Company Data, WRJ Calculation

Sales by Region (Cumulative, Quarterly) : Japanese Standards

Sales by Region (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q1 to Q2 12/2015	Cons.Act Q1 to Q3 12/2015	Cons.Act Q1 to Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q1 to Q2 12/2016	Cons.Act Q1 to Q3 12/2016	Cons.Act Q1 to Q4 12/2016	YoY Net Chg.
Japan	10,000	23,500	35,900	52,600	10,900	23,600	36,200	-	-
North America	2,000	4,100	5,900	7,500	1,600	3,600	5,500	-	-
Europe	1,400	2,900	4,300	5,200	1,400	2,900	3,800	-	-
Asia	3,000	6,300	8,600	10,400	2,900	5,600	8,100	-	-
Australia, South Africa, etc.	600	1,100	1,600	2,500	400	800	1,400	-	-
Overseas	7,000	14,400	20,500	25,600	6,200	13,000	18,800	-	-
Sales	**17,100**	**37,900**	**56,400**	**78,100**	**17,200**	**36,600**	**55,000**	**73,300**	**(4,800)**
Japan	+10%	+21%	+17%	+16%	+9%	+0%	+1%	-	-
North America	+0%	+2%	+2%	(10%)	(20%)	(12%)	(7%)	-	-
Europe	+17%	+7%	+16%	+8%	+0%	+0%	(12%)	-	-
Asia	+3%	+13%	+9%	+6%	(3%)	(11%)	(6%)	-	-
Australia, South Africa, etc.	+20%	+10%	+0%	(4%)	(33%)	(27%)	(13%)	-	-
Overseas	+6%	+8%	+7%	+0%	(11%)	(10%)	(8%)	-	-
Sales (YoY)	**+9%**	**+15%**	**+13%**	**+10%**	**+1%**	**(3%)**	**(2%)**	**(6%)**	**-**
Japan	58%	62%	64%	67%	63%	64%	66%	-	-
North America	12%	11%	10%	10%	9%	10%	10%	-	-
Europe	8%	8%	8%	7%	8%	8%	7%	-	-
Asia	18%	17%	15%	13%	17%	15%	15%	-	-
Australia, South Africa, etc.	4%	3%	3%	3%	2%	2%	3%	-	-
Overseas	41%	38%	36%	33%	36%	36%	34%	-	-
Sales (Composition Ratio)	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**-**

Sales by Region (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q2 12/2015	Cons.Act Q3 12/2015	Cons.Act Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q2 12/2016	Cons.Act Q3 12/2016	Cons.Act Q4 12/2016	YoY Net Chg.
Japan	10,000	13,500	12,400	16,700	10,900	12,700	12,600	-	-
North America	2,000	2,100	1,800	1,600	1,600	2,000	1,900	-	-
Europe	1,400	1,500	1,400	900	1,400	1,500	900	-	-
Asia	3,000	3,300	2,300	1,800	2,900	2,700	2,500	-	-
Australia, South Africa, etc.	600	500	500	900	400	400	600	-	-
Overseas	7,000	7,400	6,100	5,100	6,200	6,800	5,800	-	-
Sales	**17,100**	**20,800**	**18,500**	**21,700**	**17,200**	**19,400**	**18,400**	**18,300**	**(3,400)**
Japan	+10%	+30%	+11%	+14%	+9%	(6%)	+2%	-	-
North America	+0%	+5%	+0%	(36%)	(20%)	(5%)	+6%	-	-
Europe	+17%	+0%	+40%	(18%)	+0%	+0%	(36%)	-	-
Asia	+3%	+22%	+0%	(5%)	(3%)	(18%)	+9%	-	-
Australia, South Africa, etc.	+20%	+0%	(17%)	(10%)	(33%)	(20%)	+20%	-	-
Overseas	+6%	+10%	+5%	(22%)	(11%)	(8%)	(5%)	-	-
Sales (YoY)	**+9%**	**+21%**	**+9%**	**+3%**	**+1%**	**(7%)**	**(1%)**	**(16%)**	**-**
Japan	58%	65%	67%	77%	63%	65%	68%	-	-
North America	12%	10%	10%	7%	9%	10%	10%	-	-
Europe	8%	7%	8%	4%	8%	8%	5%	-	-
Asia	18%	16%	12%	8%	17%	14%	14%	-	-
Australia, South Africa, etc.	4%	2%	3%	4%	2%	2%	3%	-	-
Overseas	41%	36%	33%	24%	36%	35%	32%	-	-
Sales (Composition Ratio)	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**-**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly) : Japanese Standards

Balance Sheet (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q2 12/2015	Cons.Act Q3 12/2015	Cons.Act Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q2 12/2016	Cons.Act Q3 12/2016	Cons.Act Q4 12/2016	YoY Net Chg.
Cash & Deposit	2,252	2,557	2,248	1,669	1,931	2,073	2,141	-	-
Accounts Receivables	14,427	15,019	14,938	16,882	14,551	12,998	14,311	-	-
Inventory	16,377	16,235	15,871	14,993	16,029	14,766	14,495	-	-
Other	5,479	4,766	4,944	4,147	4,881	4,179	4,155	-	-
Current Assets	**38,535**	**38,577**	**38,001**	**37,691**	**37,392**	**34,016**	**35,102**	**-**	**-**
Tangible Assets	10,909	10,926	10,807	10,893	10,712	10,571	10,391	-	-
Intangible Assets	9,892	9,462	9,117	4,805	4,608	4,495	4,663	-	-
Investments & Other Assets	6,060	5,965	5,869	5,856	5,789	5,785	5,627	-	-
Fixed Assets	**26,863**	**26,354**	**25,794**	**21,555**	**21,110**	**20,852**	**20,681**	**-**	**-**
Total Assets	**65,398**	**64,932**	**63,796**	**59,247**	**58,503**	**54,868**	**55,783**	**-**	**-**
Accounts Payables	5,186	5,440	4,750	5,174	4,361	4,253	4,216	-	-
Short Term Debt	10,229	9,328	9,811	8,155	8,646	6,313	7,465	-	-
Other	7,361	6,765	7,802	7,392	7,567	6,813	7,273	-	-
Current Liabilities	**22,776**	**21,533**	**22,363**	**20,721**	**20,574**	**17,379**	**18,954**	**-**	**-**
Long Term Debt	1,575	1,555	1,035	1,030	1,025	1,020	15	-	-
Other	3,735	3,752	3,762	3,729	3,753	3,762	3,744	-	-
Fixed Liabilities	**5,310**	**5,307**	**4,797**	**4,759**	**4,778**	**4,782**	**3,759**	**-**	**-**
Total Liabilities	**28,086**	**26,841**	**27,160**	**25,481**	**25,352**	**22,161**	**22,713**	**-**	**-**
Shareholders' Equity	**34,047**	**34,484**	**33,809**	**30,946**	**31,068**	**31,538**	**31,744**	**-**	**-**
Other	3,265	3,607	2,826	2,820	2,082	1,169	1,326	-	-
Net Assets	**37,312**	**38,091**	**36,635**	**33,766**	**33,150**	**32,707**	**33,070**	**-**	**-**
Total Liabilities & Net Assets	**65,398**	**64,932**	**63,796**	**59,247**	**58,503**	**54,868**	**55,783**	**-**	**-**
Equity Capital	36,174	36,741	35,407	32,642	32,026	31,568	31,890	-	-
Interest Bearing Debt	11,804	10,883	10,846	9,185	9,671	7,333	7,480	-	-
Net Debt	9,552	8,326	8,598	7,516	7,740	5,260	5,339	-	-
Capital Ratio	55.3%	56.6%	55.5%	55.1%	54.7%	57.5%	57.2%	-	-
Net Debt Equity Ratio	26.4%	22.7%	24.3%	23.0%	24.2%	16.7%	16.7%	-	-
ROE (12 months)	1.1%	1.5%	0.5%	(10.2%)	(7.9%)	(7.8%)	(5.3%)	-	-
ROA (12 months)	3.9%	4.6%	2.8%	2.9%	4.1%	3.9%	6.0%	-	-
Days for Inventory Turnover	156	125	128	109	157	126	127	-	-
Inventory Turnover	2.3	2.9	2.8	3.3	2.3	2.9	2.9	-	-
Quick Ratio	73%	82%	77%	90%	80%	87%	87%	-	-
Current Ratio	169%	179%	170%	182%	182%	196%	185%	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative) : Japanese Standards

Cash Flow Statement (Million Yen)	Cons.Act Q1 12/2015	Cons.Act Q1 to Q2 12/2015	Cons.Act Q1 to Q3 12/2015	Cons.Act Q1 to Q4 12/2015	Cons.Act Q1 12/2016	Cons.Act Q1 to Q2 12/2016	Cons.Act Q1 to Q3 12/2016	Cons.Act Q1 to Q4 12/2016	YoY Net Chg.
Operating Cash Flow	-	(775)	-	1,480	-	3,319	-	-	-
Investing Cash Flow	-	(970)	-	(1,974)	-	857	-	-	-
Operating CF & Investing CF	**-**	**(1,745)**	**-**	**(494)**	**-**	**4,176**	**-**	**-**	**-**
Financing Cash Flow	-	1,710	-	(255)	-	(1,865)	-	-	-

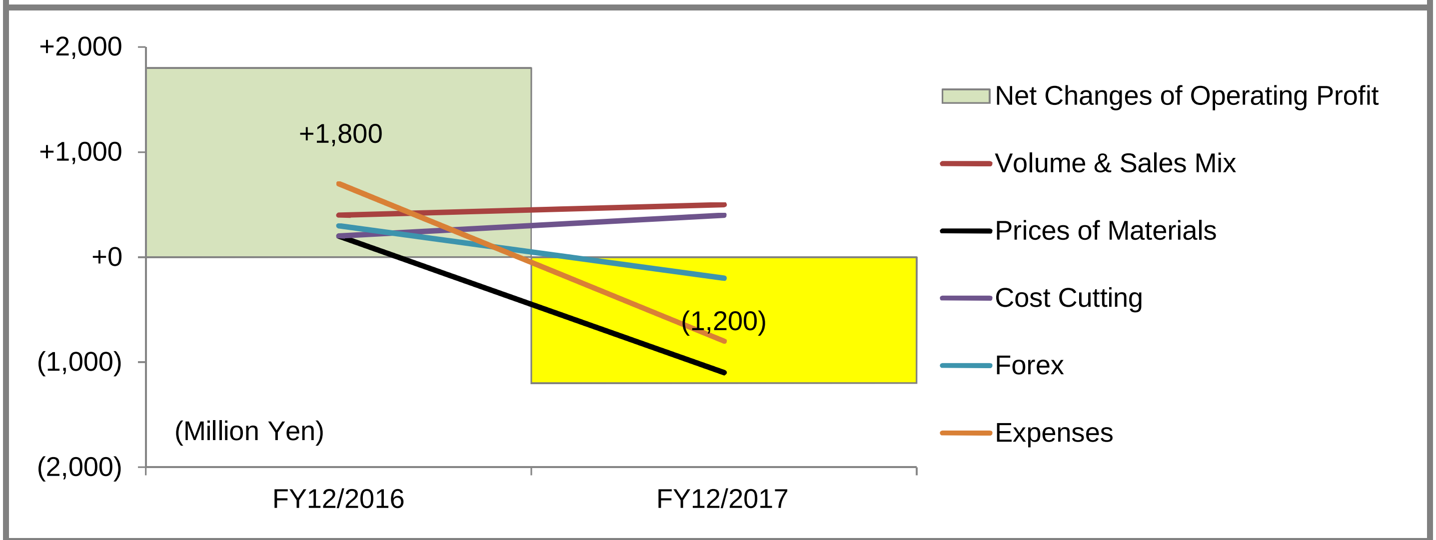
Source: Company Data, WRJ Calculation

FY12/2017 Company Forecasts

FY12/2017 Company forecasts are going for prospective net sales of ¥76,000m (up 3.7% YoY), operating profit of ¥2,800m (down 30.2%) and profit attributable to owners of the parent ¥1,600m (down 14.7%). Earnings are to come down in spite of increasing sales. This is basically due to increasing costs. In particular, prices of materials are to surge, while one-off deceases of expenses taken place in FY12/2016 are not to reappear.

Meanwhile, the Company is not to suffer from major negative impacts due to forex loss stemming from forward exchange contract, although it did in FY12/2016. Most recently, the Company has started to cut back exposure to reservation of forward exchange contract, resulting in no major profit or loss stemming from here. In regards to annual dividend, Company forecasts are going for ¥35.0 per share, implying payout ratio of 63.4%, in FY12/2017, versus ¥40.0 per share, implying payout ratio of 61.8%, in FY12/2016. Annual divided is to come down, but payout ratio remains high.

Factor Analysis for Net Changes of Operating Profit: FY12/2016 and FY12/2017



Source: Company Data, WRJ Calculation

Company forecasts assume unfavorable market conditions to persist in FY12/2017, preceded by those in FY12/2016, going for 98% of the previous year for domestic golf goods in Japan, 98% for domestic tennis goods in Japan and 99% for golf goods in the United States. However, Company forecasts are going for buoyant prospective net sales for the mainstay golf clubs and golf balls, respectively, ¥34,500m (up 5%) and ¥14,700m (up 5%), driving net sales as a whole for the Company.

In regards to golf clubs, net sales are to increase in Japan as well as overseas. As far as we could gather, the rate of growth overseas on a local currencies basis is to be larger than that of Japan. Meanwhile, in regards to golf balls, net sales of the domestic market in Japan are to remain unchanged, while net sales overseas are to increase.

Still, operating profit is to come down by some ¥1,200m over the previous year. Increasing prices of raw materials are to generate net decreases of ¥1,100m and increasing expenses net decreases of ¥800m. In FY12/2016, professional players contracted with the Company failed to perform well, although just temporarily, and thus expenses stemming from here were reduced, while Company forecasts assume regular good performance for them and thus regular level of expenses stemming from here. On top of this, expenses are to increase, driven by aggressive sales promotions overseas mainly in North America

FY12/2016 Company Forecasts & Results

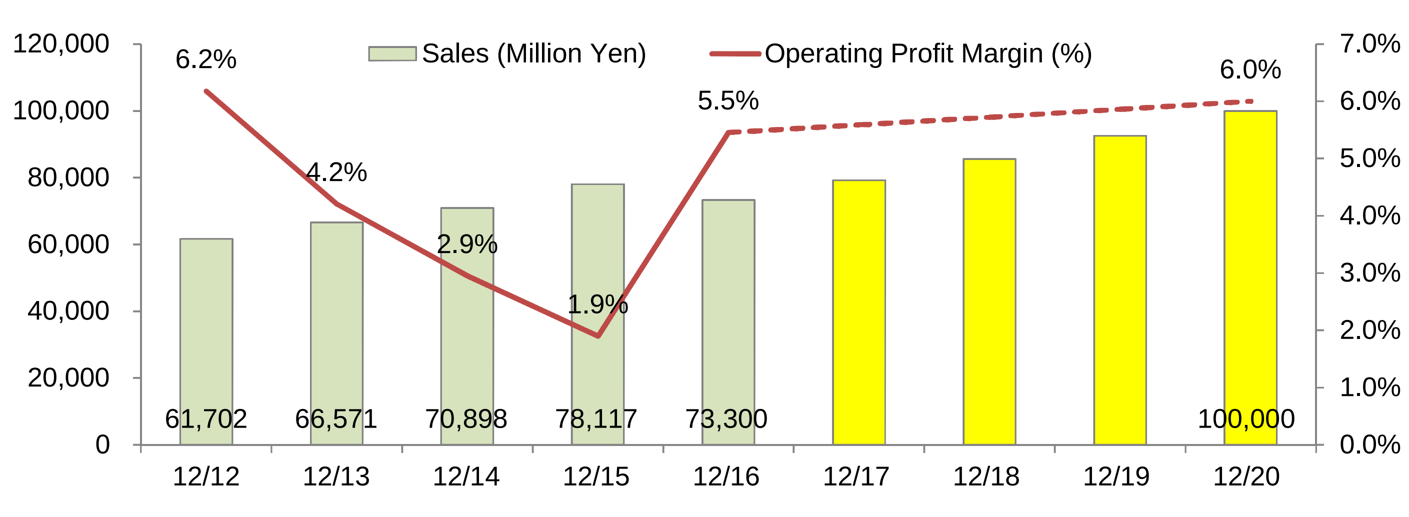
Consolidated Fisal Year (Million Yen)	Date	Event	Sales	OP	RP	NP
FY12/2016CoE	12-Feb-16	Q4 Results	78,500	2,000	2,000	1,100
FY12/2016CoE	10-May-16	Q1 Results	78,500	2,000	2,000	1,100
FY12/2016CoE	2-Aug-16	Revision	76,000	3,500	2,200	1,200
		Amount of Gap	(2,500)	1,500	200	100
		Rate of Gap	(3.2%)	75.0%	10.0%	9.1%
FY12/2016CoE	5-Aug-16	Q2 Results	76,000	3,500	2,200	1,200
FY12/2016CoE	7-Nov-16	Q3 Results	74,000	3,500	2,200	1,200
		Amount of Gap	(2,000)	0	0	0
		Rate of Gap	(2.6%)	0.0%	0.0%	0.0%
FY12/2016CoE	9-Feb-17	Revision	73,000	3,900	2,800	1,700
		Amount of Gap	(1,000)	400	600	500
		Rate of Gap	(1.4%)	11.4%	27.3%	41.7%
FY12/2016Act	14-Feb-17	Q4 Results	73,300	4,000	2,900	1,800
		Amount of Gap	300	100	100	100
		Rate of Gap	0.4%	2.6%	3.6%	5.9%
FY12/2016CoE	12-Feb-16	Q4 Results	78,500	2,000	2,000	1,100
FY12/2016Act	14-Feb-17	Q4 Results	73,300	4,000	2,900	1,800
		Amount of Gap	(5,200)	2,000	900	700
		Rate of Gap	(6.6%)	100.0%	45.0%	63.6%
Consolidated Half Year (Million Yen)	**Date**	**Event**	**Sales**	**OP**	**RP**	**NP**
Q1 to Q2 FY12/2016CoE	12-Feb-16	Q4 Results	38,000	800	700	200
Q1 to Q2 FY12/2016CoE	10-May-16	Q1 Results	38,000	800	700	200
Q1 to Q2 FY12/2016CoE	2-Aug-16	Revision	36,600	2,400	1,300	550
		Amount of Gap	(1,400)	1,600	600	350
		Rate of Gap	(3.7%)	200.0%	85.7%	175.0%
Q1 to Q2 FY12/2016Act	5-Aug-16	Q2 Results	36,612	2,417	1,352	591
		Amount of Gap	12	17	52	41
		Rate of Gap	0.0%	0.7%	4.0%	7.5%
Q1 to Q2 FY12/2016CoE	12-Feb-16	Q4 Results	38,000	800	700	200
Q1 to Q2 FY12/2016Act	5-Aug-16	Q2 Results	36,612	2,417	1,352	591
		Amount of Gap	(1,388)	1,617	652	391
		Rate of Gap	(3.7%)	202.1%	93.1%	195.5%
Consolidated Half Year (Million Yen)	**Date**	**Event**	**Sales**	**OP**	**RP**	**NP**
Q3 to Q4 FY12/2016CoE	12-Feb-16	Q4 Results	40,500	1,200	1,300	900
Q3 to Q4 FY12/2016CoE	10-May-16	Q1 Results	40,500	1,200	1,300	900
Q3 to Q4 FY12/2016CoE	2-Aug-16	Revision	39,400	1,100	900	650
		Amount of Gap	(1,100)	(100)	(400)	(250)
		Rate of Gap	(2.7%)	(8.3%)	(30.8%)	(27.8%)
Q3 to Q4 FY12/2016CoE	5-Aug-16	Q2 Results	39,388	1,083	848	609
		Amount of Gap	(12)	(17)	(52)	(41)
		Rate of Gap	(0.0%)	(1.5%)	(5.8%)	(6.3%)
Q3 to Q4 FY12/2016CoE	7-Nov-16	Q3 Results	37,388	1,083	848	609
		Amount of Gap	(2,000)	0	0	0
		Rate of Gap	(5.1%)	0.0%	0.0%	0.0%
Q3 to Q4 FY12/2016CoE	9-Feb-17	Revision	36,388	1,483	1,448	1,109
		Amount of Gap	(1,000)	400	600	500
		Rate of Gap	(2.7%)	36.9%	70.8%	82.1%
Q3 to Q4 FY12/2016Act	14-Feb-17	Q4 Results	36,688	1,583	1,548	1,209
		Amount of Gap	300	100	100	100
		Rate of Gap	0.8%	6.7%	6.9%	9.0%
Q3 to Q4 FY12/2016CoE	12-Feb-16	Q4 Results	40,500	1,200	1,300	900
Q3 to Q4 FY12/2016Act	14-Feb-17	Q4 Results	36,688	1,583	1,548	1,209
		Amount of Gap	(3,812)	383	248	309
		Rate of Gap	(9.4%)	31.9%	19.1%	34.3%

Source: Company Data, WRJ Calculation

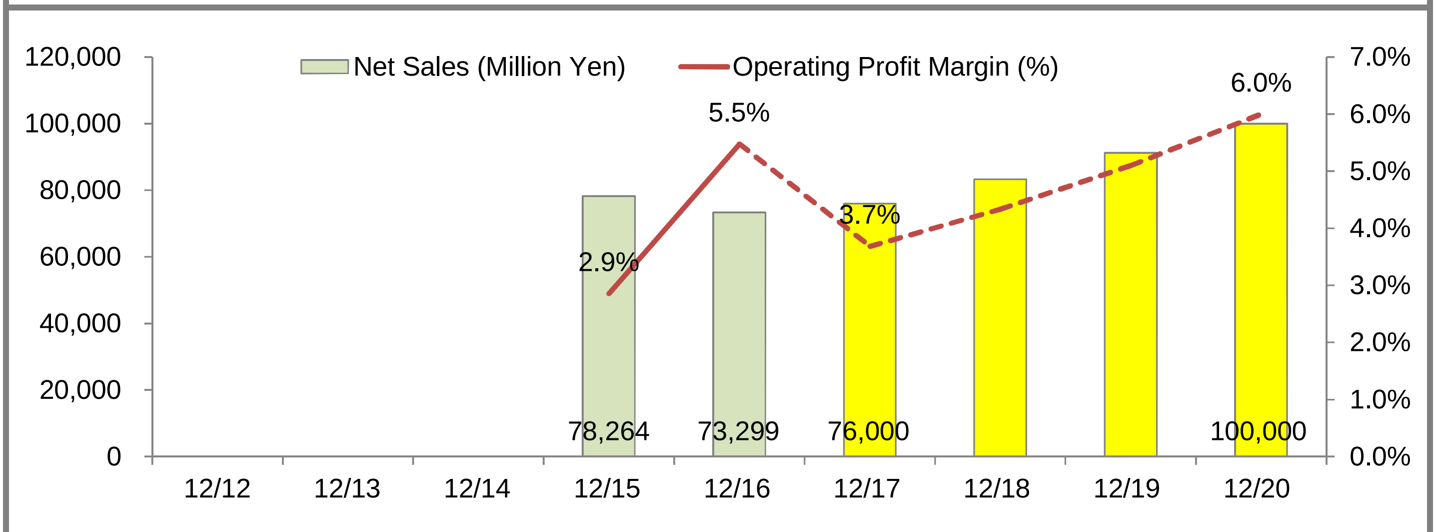
Long-Term Prospects

The Company is trying to get at a long-term growth principally by means of recovering own market shares in North America. At the release of FY12/2015 results (12 February 2016), the Company also came up with its midterm management plan (FY12/2016 to FY12/2020), calling for prospective sales of ¥100,000m, operating profit of ¥6,000m and ROE of more than 5% in the last year of the plan, i.e., FY12/2020. Thus, the Company is calling for CAGR of 5.1% in prospective sales and 32.3% in earnings over the 5 years through FY12/2016 to FY12/2020. Based on said growth rate of earnings, it should be the case that ROE of 5% is achievable at rather earlier stage, literally resulting in ROE of more than 5% in the last year of the plan, i.e., FY12/2020. Meanwhile, the plan assumes ¥120.0 per US dollar.

Long-Term Prospects (Japanese Standards)



Long-Term Prospects (IFRS)

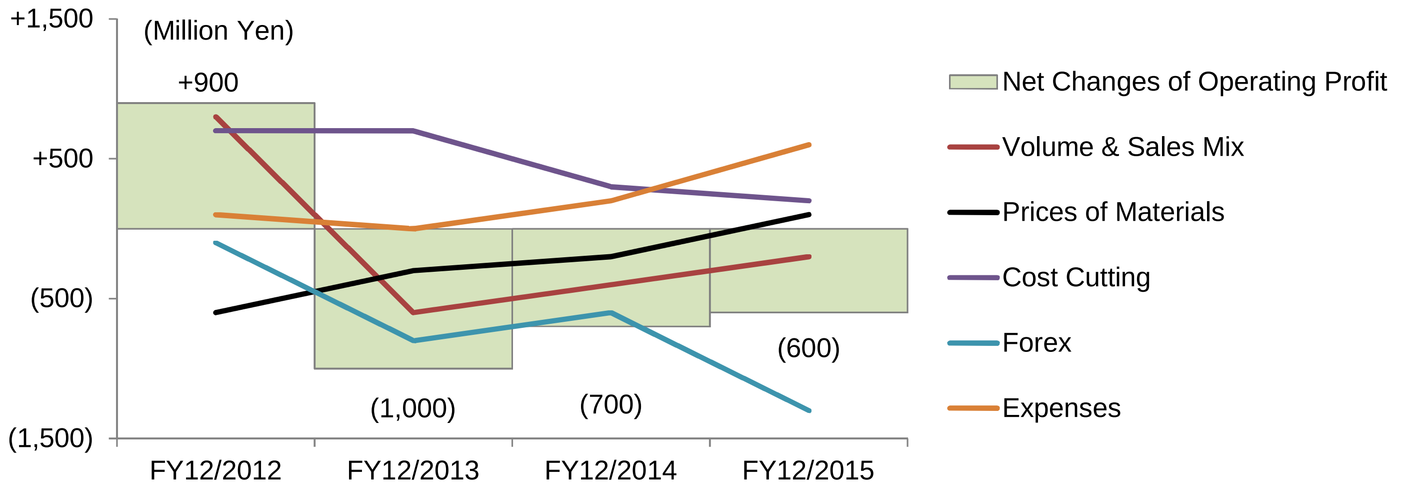


Source: Company Data, WRJ Calculation

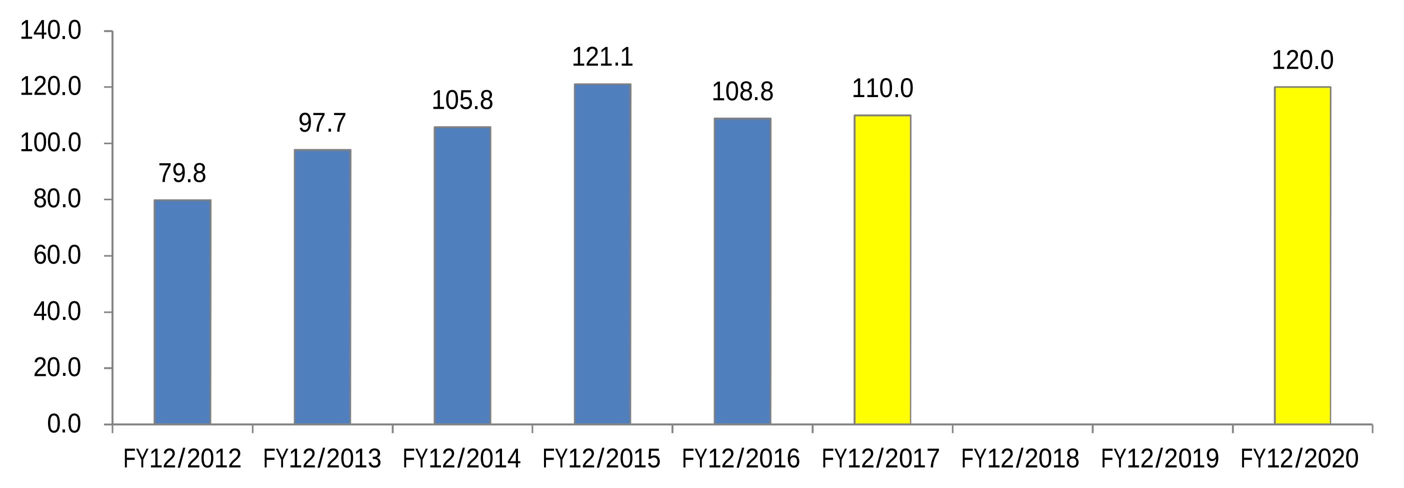
Although the Company has not released all those prospective figures of the midterm management plan based on IFRS to date, it is suggested that prospective net sales, operating profit, etc. are basically in line with those of equivalents in the existing midterm management plan. As mentioned earlier, there was no major gap in equivalent figures between the two in FY12/2016 results. Meanwhile, in regards to FY12/2015 results, operating profit was ¥2,235m in IFRS versus ¥1,483m in Japanese standards, implying operating profit larger by ¥752m in IFRS over Japanese standards, resulting in operating profit margin of 2.9% in IFRS versus 1.9% in Japanese standards.

This has a lot to do with changes of goodwill write-off method. As mentioned earlier, the Company implemented bullet write-off on remaining goodwill of ¥3,947m as of the end of FY12/2015, associated with Roger Cleveland Golf Company, Inc., i.e., the subsidiary based in California of the United States in charge of the Company's operations in North America. In Japanese standards, the Company saw expenses of ¥560m for write-off of said goodwill in FY12/2016, but said expenses were not recognized in IFRS. This is the key reason for the gap in terms of operating profit.

Factor Analysis for Net Changes of Operating Profit : FY12/2012 to FY12/2015 (Japanese Standards)



Japanes Yen against US Dollar



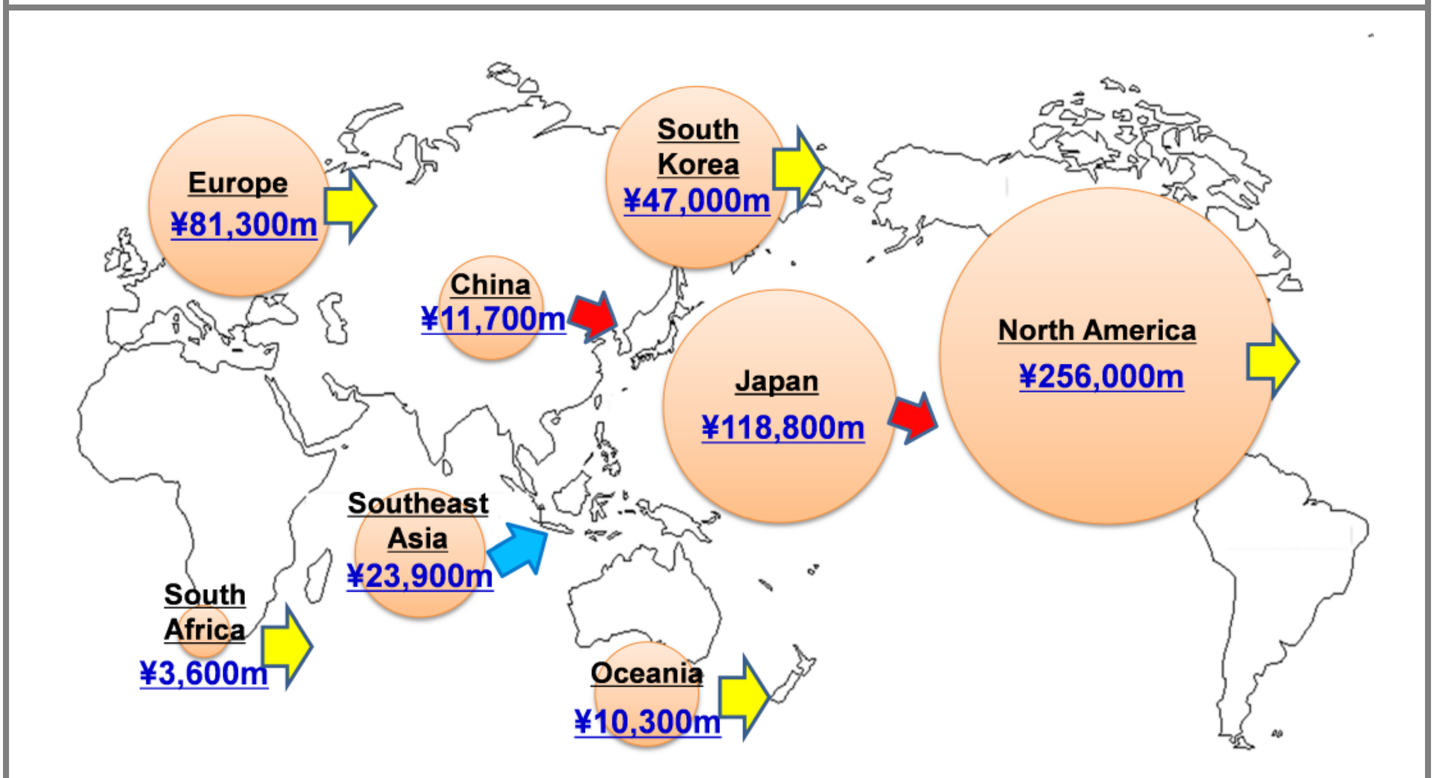
Source: Company Data

Over the three-year period through FY12/2013 to FY12/2015, the Company's operating profit margin had been under pressure consistently, while the Company saw cumulative net decreases of some ¥2,300m in operating profit during the same period. When based on figures of the Company's Factor Analysis for Net Changes of Operating Profit, it should have been the case that the Company saw cumulative net decreases of no less than ¥2,700m associated with yen's appreciation by over 50% (¥79.8 per US dollar to ¥121.1 per US dollar) during the same period. In a sense, it could be said that the net deceases of operating profit as a whole for the Company during the same period were basically all in line with those associated with yen's appreciation against US dollar.

The Company is exposed to US-dollar-denominated procurement to a large extent, importing club heads, i.e., the key components of golf clubs, on a US-dollar basis from China, exceeding exposure to US-dollar-denominated net sales in North America, etc. This is the reason why yen's appreciation against US dollar cuts back the Company's operating profit. Meanwhile, vice versa is also true, as confirmed in FY12/2016 results.

In regards to the markets for golf clubs and golf balls in Japan from which the Company currently obtains the bulk of earnings as a whole, the Company sees limited growth potentials going forward even in a long-term view. This is because the market is matured, while the Company has been the leader since a long time ago. As opposed to this, the Company has been losing market shares particularly on the golf clubs side over past years in North America where the market size is more than twofold of Japan. The Company's market share has come down to 2.5% in CY2016 versus 7.2% in CY2010 (source: Golf Datatech, on a value basis) for golf clubs, while 3.0% from 3.8% for golf balls (although the Company once saw recovery) during the same period.

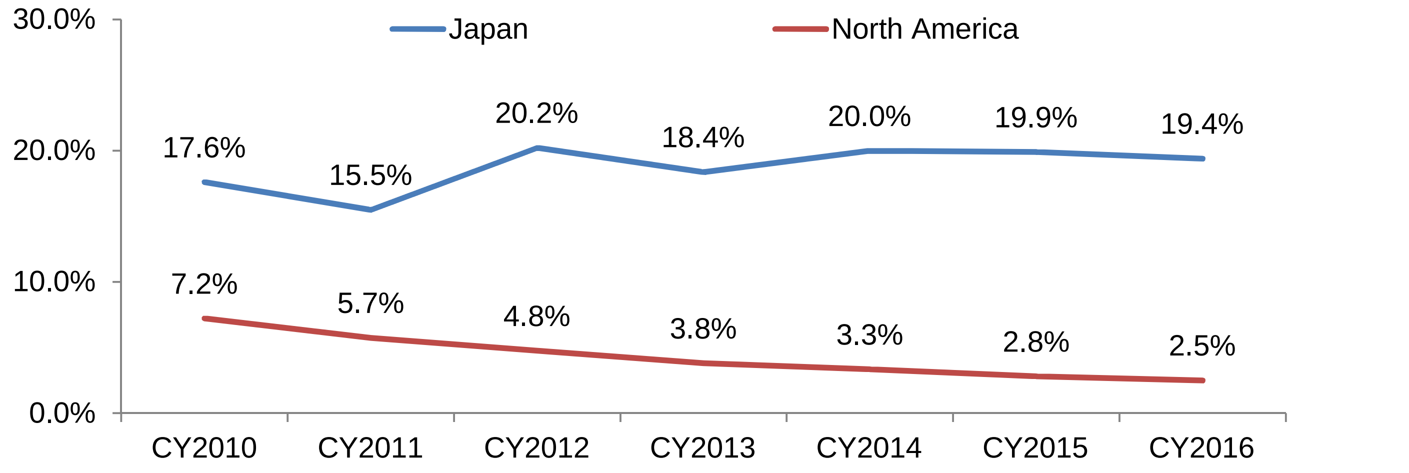
The Market Size of Golf Goods (Golf Clubs and Golf Balls) by Region (CY2015)



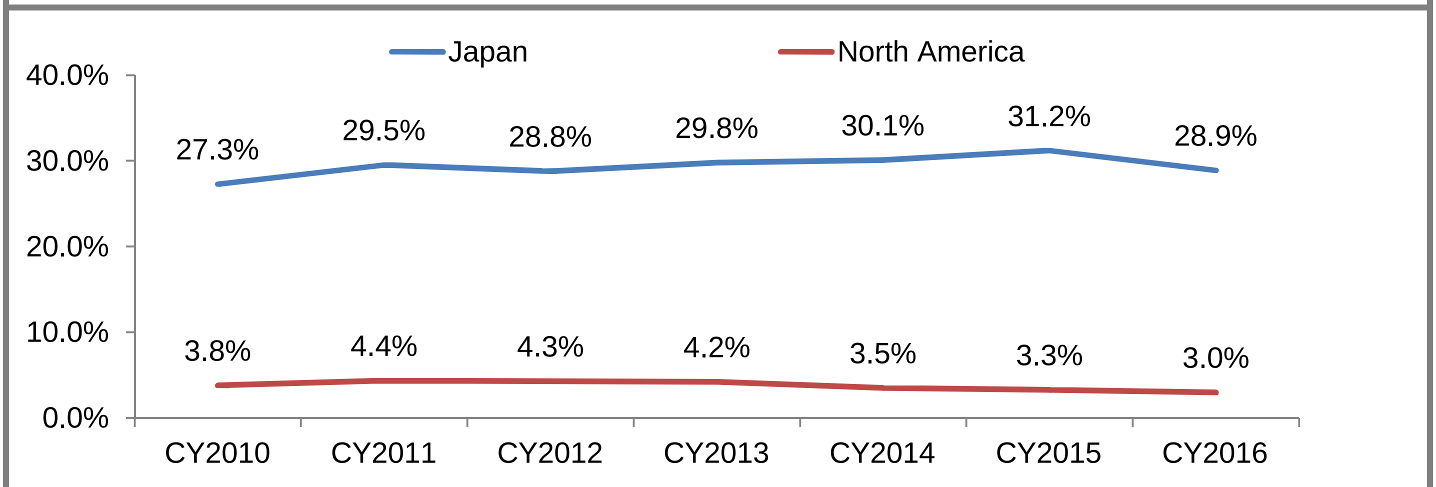
Source: Company Data (figures, estimated by the Company)

In December 2007, the Company merged with Roger Cleveland Golf Company, Inc. (Cleveland), i.e., manufacturer of golf clubs based in California of the United States, having consolidated it as own subsidiary and started up sales promotions on a full-fledged basis in North America together with *CG (Cleveland)* golf clubs. In early days, the Company was making corporate efforts to sell golf clubs across the board including wood, iron, wedge, putter, etc. as in Japan. However, it turned out be the case that sales were increasingly concentrated on wedge of which *CG (Cleveland)* golf clubs exceptionally remained competitive. This is the reason why the Company has been losing shares in the market for golf clubs in North America. In FY12/2015, consistent shortfall of earnings till then led to bullet write-off on remaining goodwill for Cleveland as of the end of the fiscal year.

The Market Shares of Golf Clubs (Japan, North America)



The Market Shares of Golf Balls (Japan, North America)



Source: YSP Golf Data by Yano Research Institute (Japan) and Golf Datatech (North America), both on a value basis

Meanwhile, the Company has come up with and revealed its strategy to aggressively invest in North America to promote sales in there under new senior management, i.e., Kazuo Kinameri who was appointed as president & representative director in March 2015. Prior to above-mentioned bullet goodwill write-off, the Company was forced to cut back expenses including those of sales promotions with purpose to reduce consistent losses to have been generated. However, now, after said bullet goodwill write-off, the Company can afford rebuilding operations with strategy to promote sales, according to the Company. It was too early to see any major benefits from here in FY12/2016, but the Company should see gradually increasing benefits from here to short-term earnings, starting in FY12/2017 and even more in following years.

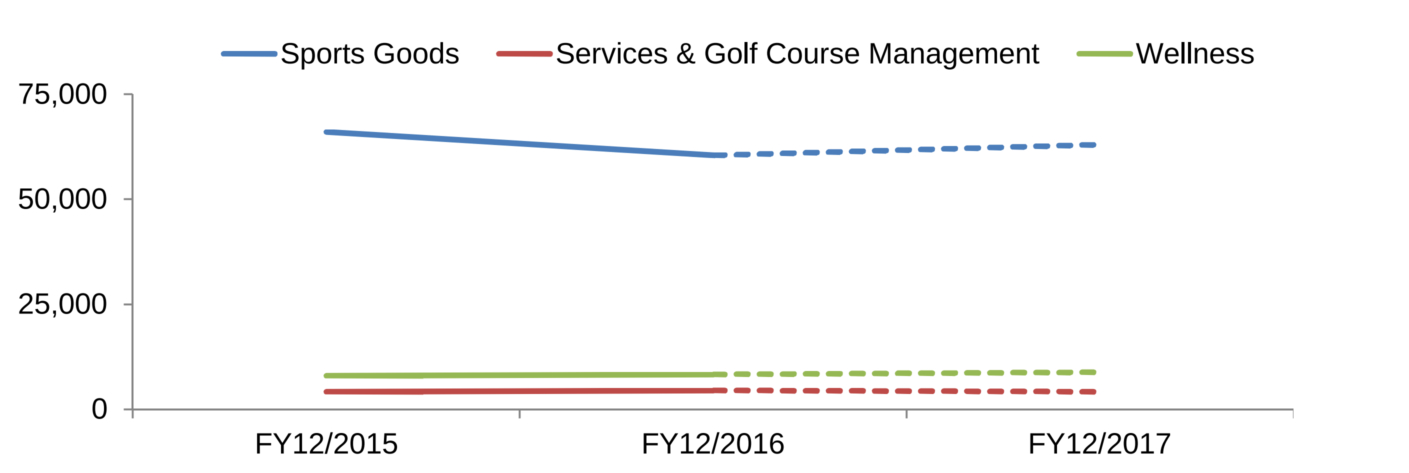
At the same time, the Company is looking to increasing domestic sales of Wellness to run operations of fitness clubs, etc. in a long-term view, but basically to increasing sales overseas of golf clubs and golf balls including those of North America in midterm management plan in terms of contributions to prospective operating profit. The Company is trying to get at steady growth on a global basis going forward by means of introducing golf clubs and golf balls, branded as *XXIO*, *SRIXON* and/or *CG (Cleveland)* across the board overseas meeting with needs of each region.

4.0 Business Model

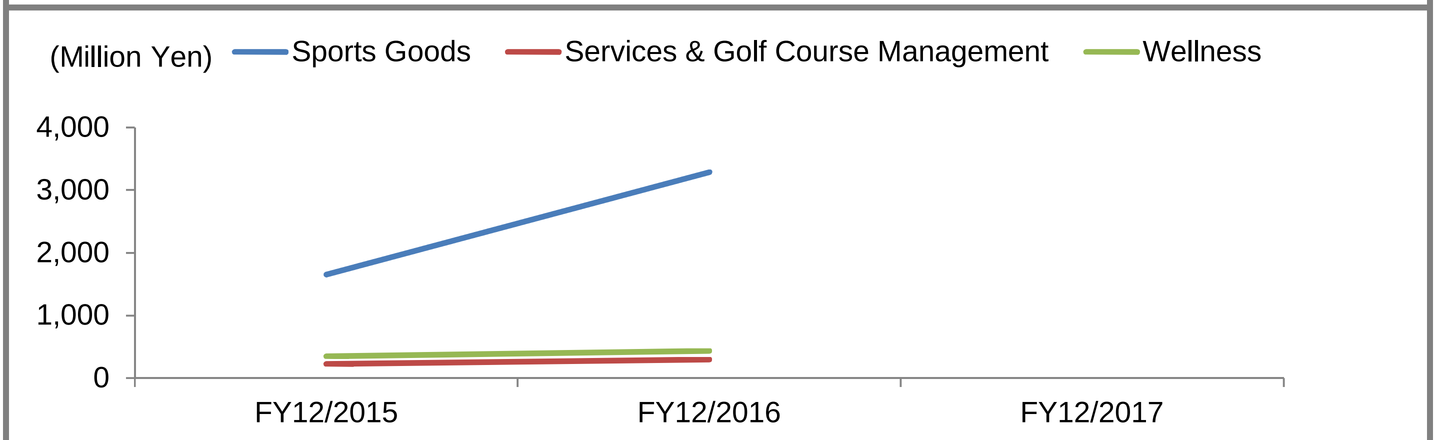
Manufacturing and Selling Golf Goods & Tennis Goods

The Company is running three business segments comprising Sports Goods, Services & Golf Course Management and Wellness. Nevertheless, current earnings of the Company basically hinge on Sports Goods only. In FY12/2016, net sales of Sports Goods came in at ¥60,406m (down 8.5% YoY), segment profit ¥3,286m (up 98.8%) and segment profit margin 5.4% (up 2.9% points), having accounted for 82.4% of net sales as a whole for the Company and 81.7% of segment profit. Thus, this business segment is overwhelming important for earnings as a whole for the Company.

Net Sales



Segment Profit

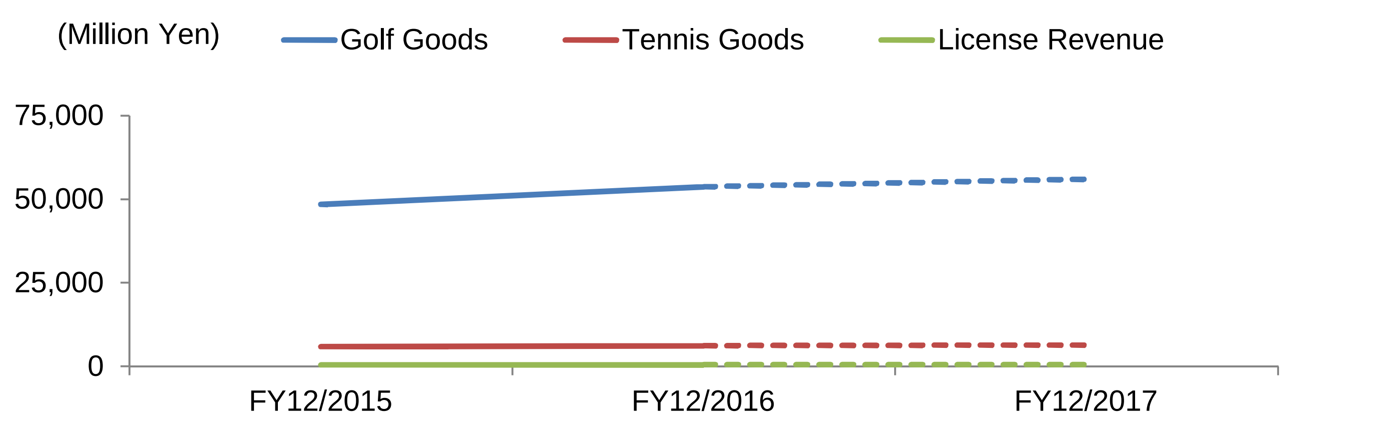


Source: Company Data

In Sports Goods, which is the key driver for earning of the Company as a whole, the mainstay products are golf goods (golf clubs, golf balls and other golf goods), collectively accounting for 89% of net sales in this business segment, comprising 54% by golf clubs, 23% by golf balls and 11% by other golf goods.

In regards to the mainstay products here, i.e., golf clubs and golf balls, the Company is the leader in Japan, from where more than half of sales are derived for each. The Company saw market share of 19.4% for golf clubs in Japan in CY2016 and 28.9% for golf balls (source: "YSP Golf Data" by Yano Research Institute, on a value basis).

Net Sales of Sports Goods



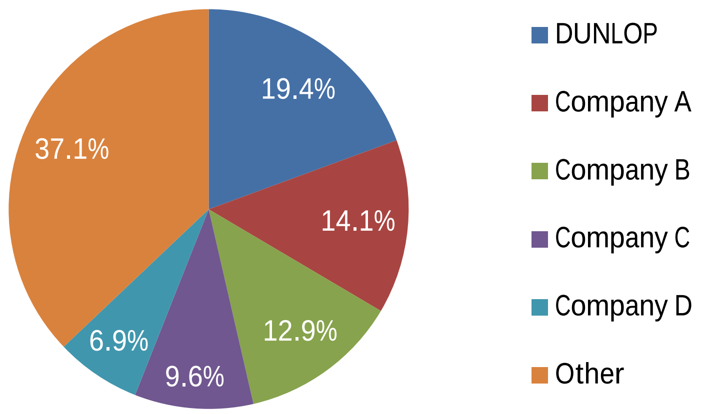
Source: Company Data, WRJ Calculation

While golf clubs and golf balls collectively account for the bulk of net sales in Sports Goods, this domain also include those of golf shoes sold in Japan as well as caddy bags and other diversified goods sold domestically and overseas. On the golf shoes side, for example, the Company has been running operations to sell *ASICS* golf shoes since 25 January 2014 in Japan based on exclusive contract with ASICS Corporation that holds highly-appreciated expertise for new product development.

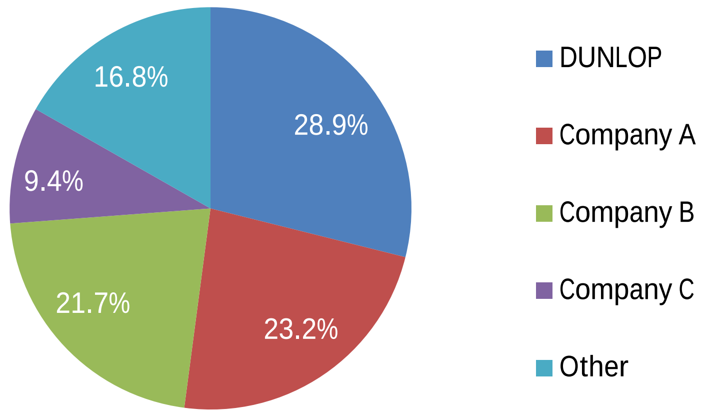
In regards to golf apparel comprising golf wears, rain wears, caps, socks, etc., the Company used to run operations of selling all those products branded as *XXIO, SRIXON* and *CG (Cleveland)* on its own. Meanwhile, since the beginning of FY12/2016, the Company has consigned all those operations to DESCENTE, LTD. after placing exclusive emphasis on men's items branded as *SRIXON*. The Company has made a changeover for its business model here and is now just collecting royalty income associated with said consignment.

Meanwhile, the Company is also the leader of tennis goods in Japan, comprising hardball tennis rackets and hardballs for tennis as in golf clubs and golf balls. However, they collectively account for only 10% of sales in Sports Goods, implying limited exposure to tennis goods for the Company as a whole. It appears that the Company sees gross profit margin nicely high for hardballs for tennis, mass-produced with own production facilities just like golf balls, but hardball tennis rackets carries gross profit margin relatively low as operations in here basically represent trading of procured merchandises.

Domestic Market Shares of Golf Clubs by Market Participant (CY2016)



Domestic Market Shares of Golf Balls by Market Participant (CY2016)



Source: YSP Golf Data by Yano Research Institute (on a value basis)

On 1 October 2014, the Company procured all the shares outstanding of KITZ Wellness (capital ¥300m), running collective 22 operating bases of comprehensive fitness clubs, etc. in Kanto region and Miyagi prefecture from KITZ CORPORATION, having incorporated this as consolidated subsidiary. This deal made the Company newly exposed to operations of fitness clubs on top of existing operations of golf and tennis by domain and this is expected to "strengthen the basis of existing domains, while the Company develops into an entity to cope with broader customer base and broader customer needs", according to the Company.

In FY03/2014, KITZ Wellness saw sales of ¥5,513m (down 1.5% YoY) and operating profit of ¥326m (up 6.9%). Meanwhile, the procurement of all the shares outstanding in here generated contributions of ¥4,200m from the Company versus net assets value of ¥3,556m as of the end of FY03/2014 and those for advisory fees, etc. Goodwill to stem from all those contributions was to be written off equally for 15 years.

On top of this, on 7 November 2014, the Company procured shares of Sapporo Sports Plaza Corporation (capital ¥10m) to run fitness clubs, while having made it consolidated as subsidiary. Combined with above-mentioned deal, this suggests that the Company is aggressively increasing exposure to domain of fitness clubs. Meanwhile, the Company newly set up business segment of Wellness in FY12/2014, having put together all those operations to run fitness clubs and those of existing golf school and tennis school.

As recognized in above-mentioned deals associated with operations of fitness clubs, the Company is getting at horizontal expansion in sports industry with golf and tennis as the main spindles by means of implementing mergers & acquisitions. Most recently, the Company is newly setting up small-sized fitness club operation bases (*Compact Gym*), coping with 24-hour operations while dedicating to machine training, on top of running existing regular ones. Thus, the Company is currently increasing its exposure to operations of fitness clubs even further, albeit not quite quickly.

In regards to *Compact Gym*, the Company set up three bases in FY12/2015, while having done so for 6 more in FY12/2016, which is expected to be followed by openings of 10 new bases in FY12/2017. Meanwhile, in a long-term view, further mergers & acquisitions could be an option in regards to fitness club according to the Company, while the Company has come up with a plan to steadily and persistently increase the number of own operation bases under management by means of taking over third-party-run operation bases to have come to the timing of facilities renewals, taking care of renewals of the facilities on behalf of the existing operators.

Mainstay Products (Image Pictures)

SRIXON

XXIO Nine

Hardball for Tennis

Hardball Tennis Racket

Source: Company Data

5.0 Financial Statements

Income Statement: IFRS

Income Statement (Million Yen)	Cons.Act FY 12/2015	Cons.Act FY 12/2016	Cons.CoE FY 12/2017	YoY Net Chg.
Net Sales	**78,264**	**73,299**	**76,000**	**+2,701**
Cost of Net Sales	(45,980)	(41,662)	-	-
Gross Profit	32,284	31,636	-	-
SG&A expense	(30,075)	(27,682)	-	-
Other income	214	138	-	-
Other Profit	(188)	(79)	-	-
Operating Profit	**2,235**	**4,012**	**2,800**	**(1,212)**
Financal Income	367	105	-	-
Financa; Expenses	(238)	(1,253)	-	-
Equity in Earnings of Affiliates	45	37	-	-
Pretax Profit	2,409	2,903	-	-
Income Taxes	(897)	(751)	-	-
Net Profit	1,512	2,151	-	-
Profit Attributable to Owners of the Parent	**1,224**	**1,876**	**1,600**	**(276)**
(Non-Controlling Interests)	287	274	-	-
Net Sales YoY	-	(6.3%)	+3.7%	-
Operating Profit YoY	-	+79.5%	(30.2%)	-
Profit Attributable to Owners of the Parent YoY	-	+53.2%	(14.7%)	-
Gross Profit Margin	41.3%	43.2%	-	-
(SG&A / Net Sales)	38.4%	37.8%	-	-
Operating Profit Margin	2.9%	5.5%	3.7%	(1.8%)
Income Taxes / Pretax Profit	37.2%	25.9%	-	-

Source: Company Data, WRJ Calculation

Net Sales of Sports Goods Businesses : IFRS

Net Sales of Sports Goods (Million Yen)	Cons.Act FY 12/2015	Cons.Act FY 12/2016	Cons.CoE FY 12/2017	YoY Net Chg.
Golf Clubs	29,300	32,800	34,500	+1,800
Golf Balls	13,200	14,000	14,700	+700
Other Golf Goods	5,900	6,900	6,700	(200)
Golf Goods	48,400	53,700	56,000	+2,300
Tennis Goods	5,900	6,200	6,400	+200
License Revenue	400	500	500	+0
Sports Goods	**54,800**	**60,400**	**63,000**	**+2,500**
Golf Clubs	-	(10%)	+5%	-
Golf Balls	-	(6%)	+5%	-
Other Golf Goods	-	(12%)	(3%)	-
Golf Goods	-	(9%)	+4%	-
Tennis Goods	-	(4%)	+3%	-
License Revenue	-	(9%)	(1%)	-
Sports Goods (YoY)	**-**	**(9%)**	**+4%**	**-**
Golf Clubs	-	54%	55%	-
Golf Balls	-	23%	23%	-
Other Golf Goods	-	11%	11%	-
Golf Goods	-	89%	89%	-
Tennis Goods	-	10%	10%	-
License Revenue	-	1%	1%	-
Sports Goods (Composition Ratio)	**-**	**100%**	**100%**	**-**

Source: Company Data, WRJ Calculation

Segmented Information : IFRS

Segmented Information (Million Yen)	Cons.Act FY 12/2015	Cons.Act FY 12/2016	Cons.CoE FY 12/2017	YoY Net Chg.
Sports Goods	66,028	60,406	63,000	+2,594
Services & Golf Course Management	4,237	4,526	4,200	(326)
Wellness	7,998	8,366	8,900	+534
Net Sales	**78,264**	**73,299**	**76,100**	**+2,800**
Sports Goods	-	(8.5%)	+4.3%	-
Services & Golf Course Management	-	+6.8%	(7.2%)	-
Wellness	-	+4.6%	+6.4%	-
Net Sales (YoY)	**-**	**(6.3%)**	**+3.8%**	**-**
Sports Goods	84.4%	82.4%	82.8%	-
Services & Golf Course Management	5.4%	6.2%	5.5%	-
Wellness	10.2%	11.4%	11.7%	-
Net Sales (Composition Ratio)	**100.0%**	**100.0%**	**100.0%**	**-**
Sports Goods	1,653	3,286	-	-
Services & Golf Course Management	225	298	-	-
Wellness	349	434	-	-
Segment Profit	**2,228**	**4,020**	**-**	**-**
Adjustments	6	(7)	-	-
Operating Profit	**2,235**	**4,012**	**2,800**	**(1,212)**
Sports Goods	-	+98.8%	-	-
Services & Golf Course Management	-	+32.4%	-	-
Wellness	-	+24.4%	-	-
Segment Profit (YoY)	**-**	**+80.4%**	**-**	**-**
Sports Goods	74.2%	81.7%	-	-
Services & Golf Course Management	10.1%	7.4%	-	-
Wellness	15.7%	10.8%	-	-
Segment Profit (Composition Ratio)	**100.0%**	**100.0%**	**-**	**-**
Sports Goods	2.5%	5.4%	-	-
Services & Golf Course Management	5.3%	6.6%	-	-
Wellness	4.4%	5.2%	-	-
Operating Profit Margin	**2.9%**	**5.5%**	**3.7%**	**+1.1%**

Source: Company Data, WRJ Calculation

Per Share Data : IFRS

Per Share Data (Before Adjustments for Split) (Yen)	Cons.Act FY 12/2015	Cons.Act FY 12/2016	Cons.CoE FY 12/2017	YoY Net Chg.
No. of Shares FY End (-000 Shares)	29,000	29,000	-	-
Treasury Shares FY End (-000 Shares)	0	0	-	-
Basic Earnings Per Share	42.2	64.7	55.2	-
Diluted Earnings Per Share	-	-	-	-
Equity Per Share Attributable to Owners of the Parent	1,116.8	1,161.3	-	-
Dividend Per Share	10.0	40.0	35.0	-
Payout ratio	23.7%	61.8%	63.4%	-
Per Share Data (After Adjustments for Split) (Yen)	**Cons.Act FY 12/2015**	**Cons.Act FY 12/2016**	**Cons.CoE FY 12/2017**	**YoY Net Chg.**
Share Split Factor	1	1	1	-
Basic Earnings Per Share	42.2	64.7	55.2	-
Equity Per Share Attributable to Owners of the Parent	1,116.8	1,161.3	-	-
Dividend Per Share	10.0	40.0	35.0	-

Source: Company Data, WRJ Calculation

Net Sales by Region : IFRS

Net Sales by Region (Million Yen)	Cons.Act FY 12/2015	Cons.Act FY 12/2016	Cons.CoE FY 12/2017	YoY Net Chg.
Japan	46,600	49,800	50,700	+900
North America	6,600	7,000	8,300	+1,300
Europe	4,200	4,700	4,900	+100
Asia	9,000	9,700	10,200	+400
Australia, South Africa, etc.	1,800	2,000	1,900	(0)
Overseas	21,700	23,500	25,300	+1,800
Net Sales	**68,300**	**73,300**	**76,000**	**+2,700**
Japan	-	+7%	+2%	-
North America	-	+6%	+19%	-
Europe	-	+12%	+4%	-
Asia	-	+8%	+5%	-
Australia, South Africa, etc.	-	+11%	(5%)	-
Overseas	-	+8%	+8%	-
Net Sales (YoY)	**-**	**+7%**	**+4%**	**-**
Japan	68%	68%	67%	-
North America	10%	10%	11%	-
Europe	6%	6%	6%	-
Asia	13%	13%	13%	-
Australia, South Africa, etc.	3%	3%	3%	-
Overseas	32%	32%	33%	-
Net Sales (Composition Ratio)	**100%**	**100%**	**100%**	-

Source: Company Data, WRJ Calculation

Cash Flow Statement : IFRS

Cash Flow Statement (Million Yen)	Cons.Act FY 12/2015	Cons.Act FY 12/2016	Cons.CoE FY 12/2017	YoY Net Chg.
Operating Cash Flow	1,514	7,541	-	-
Investing Cash Flow	(1,989)	(1,823)	-	-
Operating CF & Investing CF	**(475)**	**5,718**	**-**	**-**
Financing Cash Flow	(240)	(4,844)	-	-

Source: Company Data, WRJ Calculation

Statement of Financial Position : IFRS

Statement of Financial Position (Million Yen)	Cons.Act FY 12/2015	Cons.Act FY 12/2016	Cons.CoE FY 12/2017	YoY Net Chg.
Cash & Cash Equivalents	1,690	2,486	-	-
Trade & Other Receivables	17,246	13,478	-	-
Inventory	14,869	14,322	-	-
Other	2,400	2,579	-	-
Current Assets	**36,205**	**32,865**	**-**	**-**
Property, Plant & Equipment	10,379	9,816	-	-
Goodwill	2,997	2,991	-	-
Intangible Assets	2,127	2,145	-	-
Other Financial Assets	3,983	3,922	-	-
Deferred Tax Assets	3,747	3,497	-	-
Other	384	364	-	-
Fixed Assets	**23,617**	**22,735**	**-**	**-**
Total Assets	**59,823**	**55,600**	**-**	**-**
Debt	8,548	5,176	-	-
Trade & Other Payables	8,572	7,741	-	-
Other	4,064	3,663	-	-
Current Liabilities	**21,184**	**16,580**	**-**	**-**
Debt	1,030	12	-	-
Liability for Retirement Benefits Provisions	2,199	2,355	-	-
Other	1,813	1,730	-	-
Fixed Liabilities	**5,042**	**4,097**	**-**	**-**
Total Liabilities	**26,227**	**20,678**	**-**	**-**
Capital Stock	9,207	9,207	-	-
Capital Surplus	9,294	9,318	-	-
Retained Earnings	14,031	15,541	-	-
Treasury Stocks	(0)	(0)	-	-
Other Components of Equity	(144)	(390)	-	-
Total Equity Attributable to Owners of the Parent	**32,388**	**33,676**	**-**	**-**
Non-Controlling Interests	1,208	1,245	-	-
Total Equity	**33,596**	**34,922**	**-**	**-**
Total Liabilities & Equity	**59,823**	**55,600**	**-**	**-**
Equity Attributable to Owners of the Parent	32,388	33,676	-	-
Interest-Bearing Debt	9,578	5,188	-	-
Net Debt	7,888	2,702	-	-
Ratio of Equity Attributable to Owners of the Parent toTtotal Assets	54.1%	60.6%	-	-
Net Debt Equity Ratio	24.4%	8.0%	-	-
Ratio of Profit to Equity Attributable to Owners of the Parent (ROE)	3.8%	5.7%	-	-
Ratio of Profit Before Income Taxes to Total Assets (ROA)	4.0%	5.0%	-	-
Days for Inventory Turnover	118	125	-	-
Inventory Turnover	3.1	2.9	-	-
Quick Ratio	89%	96%	-	-
Current Ratio	171%	198%	-	-

Source: Company Data, WRJ Calculation

6.0 Other Information

Cultivated Market for Golf and Tennis in Japan

It was October 1909 that Dunlop based in the United Kingdom set up Japan branch office in Kobe, which is the antecedent of the Company. The branch office was changed to local company based in Japan in 1917 and so was corporate identity to Dunlop Rubber (Far East). In 1930, the Company started up manufacturing golf balls and tennis balls as the forerunner in Japan and, then, in April 1960, the Company accepted capital injections from Sumitomo Group.

Meanwhile, the Company started up the manufacturing of golf clubs in 1964 and launched *XXIO* golf clubs, i.e., the mainstay golf clubs at present in February 2000. Then, in July 2003, the Company was newly set up as spinoff of sports division from Sumitomo Rubber Industries, Ltd., i.e., SRI Sports Limited, in order to thoroughly carry out “independent management based on scale and characteristics of business” and “speedy management based on decision-making at places nearer to the market”, by means of running integrated operations including those of manufacturing to sales.

The Company, having contributed a lot to development of the domestic market for golf and tennis since the startup of the manufacturing of golf balls and tennis balls as the forerunner in Japan, in 1930, got listed onto the 1st Section of Tokyo Stock Exchange in October 2006. Then, this was followed by acquisition & merger with Roger Cleveland Golf Company, Inc. i.e., manufacturer of golf clubs based in the United Sates, in December 2007, to be involved with development of overseas markets on a full-fledged basis. Meanwhile, the Company has been identified as DUNLOP SPORTS CO. LTD. since May 2012.

The Company claims for “Enriching the sporting lives with advanced technology” as its corporate philosophy. Based on this, the Company mentions three management visions as follows: “Enhance brand value, meet global customers’ expectations and win their trust”, “Seek to provide customers fun and enjoyment and create trusted products and services worldwide” and “Ensure an environment where all staff members are encouraged to optimize their skills while valuing teamwork”. Having contributed to development of the domestic market for golf and tennis in Japan a lot so far, the Company is now heading for business development overseas, mainly in North America, while being increasingly involved with operations to run fitness clubs so that the Company should see long-term earnings growth.

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Company History

Date	Events
October 1909	Dunlop, based in the United Kingdom, set up branch office in Kobe Japan
1917	Became Japanese company, identified as Dunlop Rubber (Far East)
1930	Manufacturing of golf balls and tennis balls as the forerunner in Japan
April 1960	Accepted capital injections by Sumitomo Group
1961	Started up manufacturing of the DUNLOP FORT tennis balls
1964	Started up manufacturing of golf clubs
December 1974	Started up holding DUNLOP PHONEIX TOURNAMENT
April 1994	Set up Golf Science Center (Tamba-city, Hyogo-prefecture)
January 1995	Head office and factory, damaged by the Great Hanshin-Awaji Earthquake
February 2000	Launch of *XXIO* golf clubs
July 2003	Spun off from Sumitomo Rubber as SRI Sports Limited to succeed sports division
October 2006	Listing onto the 1st Section of Tokyo Stock Exchange
September 2007	Established joint company in Thailand to start up manufacturing of tennis balls
December 2007	Merged with US golf club manufacturer, Roger Cleveland Golf Company, Inc.
2008	Promoted reorganization of sales channels on a global basis for better efficiency
May 2012	Identified as DUNLOP SPORTS CO. LTD.

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