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## Medium-Term Management Vision for 2009 to 2014

Sanei International Co., Ltd.

**SANEI**  
INTERNATIONAL

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### Promoting structural reform over the mid- to long-term in Phase 3 of the company's existence

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In light of the harsh retail climate, Sanei International is pursuing a company-wide restructuring program aimed at shifting management focus.

This medium-term management vision will form the basis of our medium-term management plans.

Our vision is grounded in "customer value production".  
We are committed to consolidating our strengths and delivering new value to our customers.

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Medium-Term Management Vision for 2009 to 2014

## 1. Introduction

The Development of Sanei International  
Corporate Roadmap

## Our Development

## Change now essential

	Fiscal Year	Business Model	Turnover	Achievements	Leading Brands	Category	Main Channel
Phase I	1949-1976	Textiles	¥0-5 billion	Establishment	Textiles - mass-market apparel	-	-
Phase II	1977	Apparel sales through directly-managed stores	¥5-120 billion	Launch of VIVAYOU brand	VIVAYOU, Pinky & Dianne	DC	Marui
	circa 1990			Launch of NATURAL BEAUTY brand	NATURAL BEAUTY, BODY DRESSING Deluxe, Jill Stuart	Brand business	Department stores
	1996			Launch of NATURAL BEAUTY BASIC brand	NATURAL BEAUTY BASIC, PROPORTION BODY DRESSING, FREE'S SHOP	SPA / select shop	Station buildings
	2003			Launch of & by P&D brand		Retail SPA/ select shop	Urban & suburban shopping centers
Phase III	2009-2038		¥120 billion~				

## Challenges

Dissolving frontiers in the business domains that were created during the 1970s

Necessity of developing a new business model

➔ Promoting structural reform over the mid- to long-term in Phase 3 of our existence

For the first 30 years following our establishment, Sanei International was a wholesale supplier of textiles and mass-market apparel. We entered the apparel manufacture industry in the 1970s, using this decade to put the DC business on track, and setting the stage for the success of our brand businesses during the 1990s. Sanei International was among the first to develop an SPA business in the latter half of the 1990s, and this has formed the base of our operations to date.

Sanei International has accumulated 60 years of experience in the rapidly changing apparel industry. During this time, we have launched numerous brands and offered our customers values that consistently reflect the essence of the times.

As paradigm shifts continue throughout the business world and operating environments become increasingly harsh, so Sanei International, with its 60-year history, is being forced to change. Current approaches are no longer viable and we must develop a new business model fast.

Sanei International is currently expediting structural reforms with a view to success over the medium- to long-term.

Roadmap		Goals and Strategies for Respective Phases						
		Phase 3, first term			Phase 3, second term			
		2008	2009	2010	2011	2012	2013	2014
Strategy		High point		Period of transition			New era	
		From growth to maturity		Restructuring			Fresh start	
		<ul style="list-style-type: none"> <li>➤ Strengthen brand strategies</li> <li>➤ Brand production Consolidate planning capabilities and creativity &amp; product strength</li> </ul>		<ul style="list-style-type: none"> <li>➤ Change marketing strategies</li> <li>➤ Develop new business model</li> <li>➤ Reform profit structure</li> </ul>			<div style="border: 1px solid gray; border-radius: 50%; padding: 10px; text-align: center;">                     Build on strong planning capabilities and creativity and high-profit structure to achieve growth                 </div>	
Performance		1) Improve brand loyalty  Increase corporate value as 2) manufacturer  Leverage strengths to enter 3) new markets		1) Leverage strengths to affect change, build store loyalty  2) Establish a customer value production business  3) Restructure the company's revenue base			1) Reproduce profitable business structure  2) Gain a competitive advantage in the new era (store & brand loyalty)  3) Use links with customers to create markets	

We intend to put our medium-term management vision into action during the transition period when risks and opportunities abound, thereby laying the foundations for rapid progress in the ensuing era.

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Medium-Term Management Vision for 2009 to 2014

## 2. Market Analysis

Changes in Consumer Behavior  
Changes in Distribution Channels

Changes in Consumer Behavior

Consumption is now led by "consumers" not "corporations"

1970s

- Apparel as luxury item
- Fashion purchases the exception, not the norm
- Fashions dictated by industry
- Magazines as the leading source of information
- Cheap and nasty products
- Straining resources to make purchases
- Consumption of commodities



Today

- Fast fashion
- The commoditization of fashion
- Fashion dictated by the market
- The Internet as the leading source of information
- Low-cost, high-sensitivity products the norm
- Realistic consumption
- Consumption of experience

Consumer perceptions have undergone major shifts since the 1970s when Sanei International launched its brand business.

In the past, shopping was a central pastime. It was an event that people would dress up for, boarding the train in their best clothes to go in search of desired items.

Today, however, fewer people are willing to expend the same amount of time or money on shopping. Shopping is a casual pastime that is done while running errands, going to see a movie or amusing one's children.

The same goes for clothing: people now shop for clothes with family or friends, at prices that won't break the bank. What's more, they are only willing to pay for items that are in tune with personal sensitivities.

In the past, companies would use magazines to dictate fashions, today however, personal blogs attract attention and fashions are led by stylish trendsetters.

Today it is consumers and not companies that lead consumption.

Major Changes

Consumption as the exception with department stores being the leading destination and people dressing up and putting their hearts into shopping



Consumption as the norm, with shopping centers being the leading destination and people shopping while running errands or out having fun

Clothes were items that people yearned for but could little afford; they would read fashion magazines and save up to buy sought-after items



Clothing purchases are routine, with people buying items that suit their own style and arranging them to effect

Changes in Distribution

Channel Diversification

Market Analysis

Channel diversification continues and changes in the structure of the channels are expected to pick up speed.

Market restructuring is in progress in so-called "urban shopping centers" - station and fashion buildings, in suburban shopping centers and outlet malls located in the suburbs and the regions, and in the e-commerce sector.

These markets have already progressed through the growth stage and are entering a new phase in their development.

Channel Decentralization

- 1 Department stores are no longer the center of consumption
- 2 Shopping center sales are on the increase
- 3 Successes and failures are becoming increasingly obvious within the shopping center sector, with large shopping centers doing noticeably well.

Predictions for the market

- Changes in the market structure to pick up speed
- Investment in large-scale stores and stores with plans to expand will pick up speed

Growth of the e-commerce market

- 4 The e-commerce market is growing steadily
- 5 Internet penetration is high and the market is expanding

Predictions for the market

- E-commerce businesses are at the make-or-break stage
- Investment will accelerate in what is a strategic channel



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Medium-Term Management Vision for 2009 to 2014

### 3. Customer Value Production

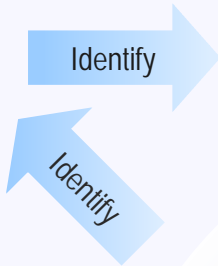
Customer Value Production

Customer Value Production

Combine brand production and the ability to identify with the customer to create new value

Customers  
Times

Customer Value Production

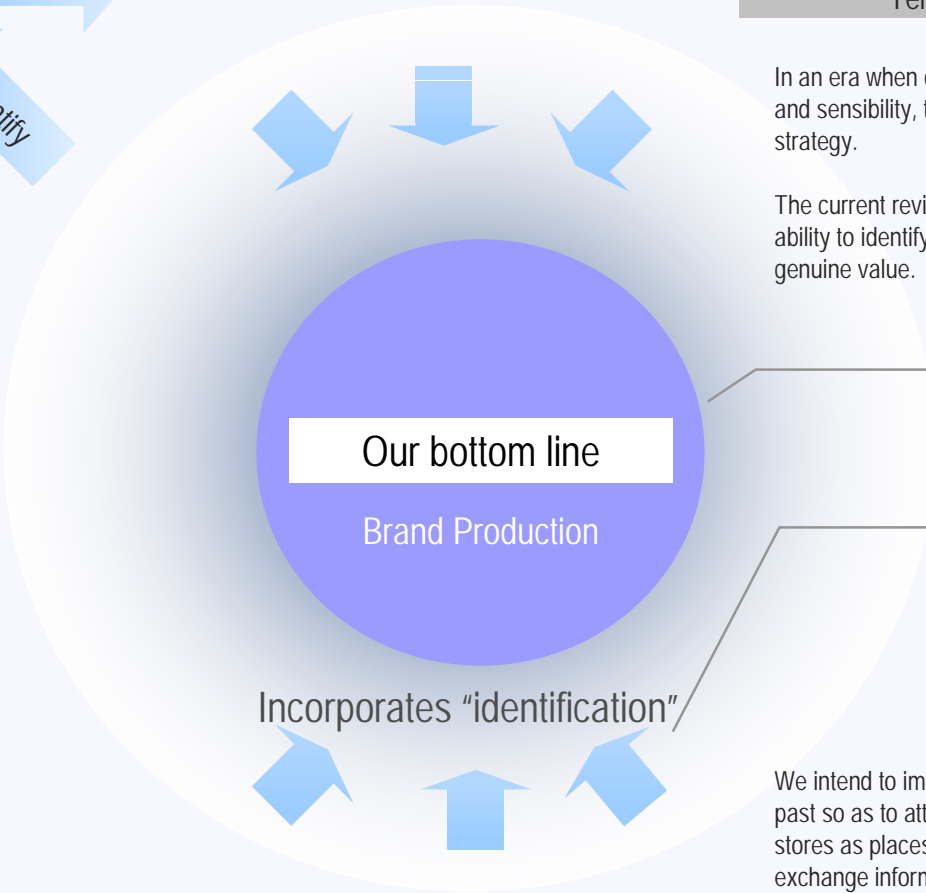


Identify with the times (customers)

“Customer value production” lies at the heart of the Medium-Term Management Vision for 2009 to 2014

In an era when customers have found their own balance between price and sensibility, the ability to identify with the customer is critical to strategy.

The current review will examine our understanding of customers, the ability to identify with them, and the ability to offer products that are of genuine value.



Our bottom line

Brand Production

Incorporates “identification”

To date, we have drawn on strong planning capabilities and creativity to stay half a step ahead, and have used our brands to give expression to the values of the times. This is what we call brand production and it is what defines us as a company.

We will use brand production to enhance our identification with our customers and the times, and are committed to improving our planning capabilities and creativity.

We plan to brush-up both products and promotions so as to offer our customers genuine value.

We intend to implement plans that offer greater entertainment than in the past so as to attract more customers seeking different pleasures into stores as places to “shop”, “have fun”, “kill time” and “gather and exchange information”, and will use our stores to produce new customer value.

>>> Consolidation of company strengths and planning capabilities and creativity to deliver new customer value

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Medium-Term Management Vision for 2009 to 2014

## 4. Medium-Range Strategies

Background to our medium-range strategies

Medium-range strategy 1: Change market strategies

Medium-range strategy 2: Develop our business model

Medium-range strategy 3: Reform our profit structure

Other Sanei International business concerns

The Background

Examining the whereabouts of consumption

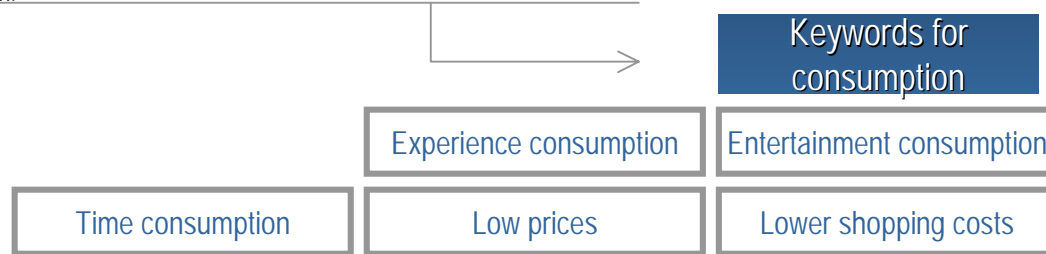


When consumers buy clothing they want to shop in the same place where they go to bank and have fun.

Consumers want to shop at their own pace and at a time that suits them, whether that be the middle of the night or during office hours.

If they're going to buy similar items, then they want to make their purchases in a place that offers fun and excitement.

What's more, low prices are a given.



Urban shopping centers (station & fashion buildings), suburban shopping centers and non-store businesses (e-commerce included) know what consumers want.

With diversification in distribution channels continuing, we need to explore urban and suburban shopping centers and non-store businesses as the categories capable of giving voice to the consumption keywords above.

The Background

Market Analysis & Sanei International Strengths

Major upcoming markets

Urban shopping centers  
(Station & fashion buildings)

Suburban shopping centers

Non-store businesses (e-commerce included)

Sanei International believes that both urban and suburban shopping centers and non-store businesses are the future for the apparel industry. Success in these markets will hinge on the capabilities and creativity to produce store presentation and designs that are intended to attract customers and to plan exceptional merchandise, with low-cost operations required to underpin these efforts.

Business success factors

The ability to attract customers

Strong products

Low-cost operations

Planning capabilities and creativity

Company strengths

Planning capabilities and creativity

Brand production capabilities

We have established a number of successful models for the shopping center market, including FREE'S SHOP and NATURAL BEAUTY BASIC. Our up-to-the-minute products, together with store designs and promotions that are intended to put customers in touch with the latest information have proved highly popular. This success is grounded in our planning capabilities and creativity. Our task is to hone these abilities and to establish a competitive advantage.

> Sanei International has established three medium-range strategies based on our awareness of the current situation and will put these strategies into action in the coming months and years.

Medium-range strategy 1

Change market strategies  
(p. 14)

Medium-range strategy 2

Develop our business model  
(p. 15)

Medium-range strategy 3

Reform our profit structure  
(p. 16)

## Medium-Range Strategy 1

## Change market strategies

### Market Strategy

The market is undergoing drastic change due to the qualitative changes that are taking place in consumer behavior.

Markets that understand consumer keywords such as "experience consumption", "time consumption", "low prices", "entertainment consumption" and "lower shopping costs" are set to become consumption centers.

In an age of major uncertainty, this company's structural reforms will focus on leveraging our strengths as we expand our presence in markets that are certain to attract customers.

1) Consolidate markets that understand the consumer keywords

2) Consolidate markets by leveraging company strengths

3) Seek entry into markets with high growth potential



Consolidate **urban SC**  
(station & fashion bldg) business

Consolidate **suburban SC**  
business

Consolidate **non-store (e-commerce included)** business

Market strategy    Increased profitability

August 2008 results: sales of ¥120 billion at 1,017 stores

	Department store brands 706 outlets; ¥74 billion	Urban/suburban SC brands 311 outlets; ¥43 billion	Non-stores (e-commerce included) ¥2.4 billion
Sales share	62%	36%	2%
Profit share	50%	45%	5%

We have developed a profitable business model for markets in which we aim to strengthen our presence.

Our plan is to push steadily ahead with overall profit structure reforms by strengthening our presence in these markets.

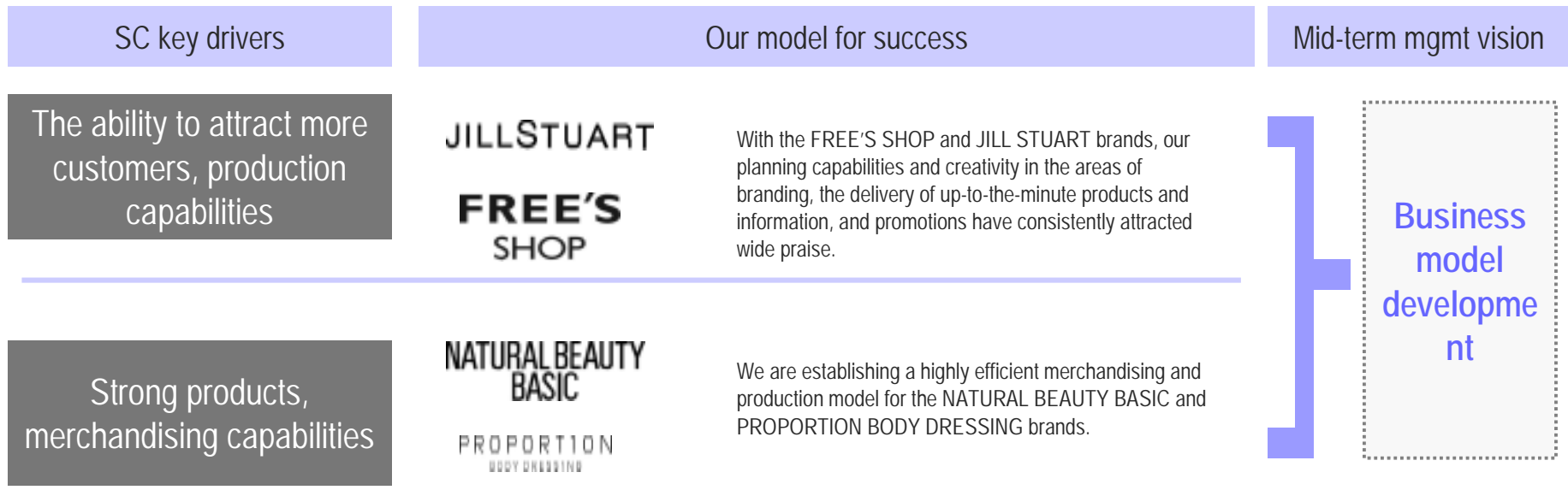
The figures shown cover domestic apparel sales only. Sales have been adjusted on a store basis.

## Medium-Range Strategy 2

Develop our business model: strengthen planning capabilities and creativity, establish competitive edge

### Need to develop our business model

We aim to develop our business model so as to change the structure of the channels in which we operate. The key drivers for success in the shopping center market are: the ability to pull in more customers, production capabilities, strong products, and merchandising capabilities.



Sanei International intends to use these business assets to expand our presence in the markets in which we operate. We are developing a customer value production business that combines brand loyalty and entertainment and is based on highly efficient merchandising and production infrastructure. Our goal is to establish a competitive advantage in the shopping center market by developing our business model from an out-and-out customer's perspective.

In developing a new model, "customer value production" will serve as the base

Medium-Range Strategy 3

Profit structure reform

Our basic policy for achieving profit structure reform is to “improve store profitability”. To complement this, our goal is to establish a low-cost operating system.

Basic Policy

Improve store profitability = Increase sales per store × decrease store operating costs

In order to improve store profitability, it will be necessary to curb selling and other store operating costs, and to increase both the volume of sales per store and store efficiency.

Store size and store optimization model

Our policy for urban shopping centers (station and fashion buildings) and suburban shopping centers is to increase the number of stores that fit this optimal store model.

> We have established a profitable business model (p. 14) for the urban and suburban shopping centers that are the target of our consolidation measures, and plan to promote profit structure reform by expanding and consolidating these businesses.

Supplementary measure

Realize low-cost operations

- Abolish or merge unprofitable stores that do not fit the optimal store model
- Reduce store selling, interior fittings and other operating costs
- Review costs by improving the distribution system
- Utilize highly efficient production models such as NATURAL BEAUTY BASIC in-house

Abolish/merge unprofitable stores

Reduce store operating costs

Review distribution costs

Create production model synergies



Other business concerns

Non-store business expansion

Focus expansion efforts on SELECSO<sup>NIC</sup>, our directly-managed online shopping store

~August 31, 2008

Medium-term



SELECSO<sup>NIC</sup>, our directly-managed online shopping store, has made extremely healthy progress since it was launched in March 2006.

In the spring of 2009, we launched INTERNATIONAL SELECSO<sup>NIC</sup> targeting customers who demand both high quality and fashion sensitivity. We are developing a range of new services for this website, including SWAK a real fashion magazine, the first edition of which is currently available online.

We understand that this market addresses the changes occurring in consumer behavior, including the desire to comparison shop, the desire to shop without being waited on, and the desire to shop in the middle of the night when consumers have time to spare.

- Membership: 95,000 (475% YOY)
- Annual sales: ¥1.31 billion (278% YOY)
- Average site visitors per month: 350,000
- Average hits per month: 771,000
- Average PV per month: 19,500,000 (Aug.2008 results)

We intend to expand this strategic business over the medium-term while responding flexibly to the various needs of our consumers.

- Comparison shopping
  - Lower shopping costs
  - Consume while having fun
  - Dramatic progress in the digital environment
- Changing consumers  
 Changing environment

Mid-term goal      Increase sales of SELECSO<sup>NIC</sup> to at least 10% of our total sales

Medium-range strategies

Link SELECSO<sup>NIC</sup> to the official Sanei International website to consolidate customer data and thus offer services that are better tailored to the needs of our customers. Strengthen the links with real stores to create an environment in which customers feel free to visit both stores and the website as their personal preferences and/or circumstances dictate. Develop and provide appropriate services, such that customers can enjoy the shopping experience in either environment. Pursue customer value that cannot be given full representation in stores, and offer new benefits that are exclusive to the non-store business.

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Medium-Term Management Vision for 2009 to 2014

## 5. The desired profit structure

The desired profit structure

## Desired profit structure

## The profit structure we are seeking to establish in Phase 3

The following is the profit structure we are targeting over the mid- to long-term through the implementation of our respective medium-range strategies. Looking ahead, our goal is to reduce both the gross margin ratio and the ratio of expenses.

	~Aug.31, 2008 (Results)	~Aug.31, 2009 (Estimates)	Business objectives
Net sales	100%	100%	100%
Cost of sales	40%	42%	46%
Gross margin	60%	58%	54%
Total expenses	56%	59%	46%
Operating income	4%	1%	8%

Create customer value

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Offer customers high quality products at reasonable prices

Reform the profit structure so as to make this possible

The figures shown cover domestic apparel sales only. Sales have been adjusted on a store basis.

### [Medium-range strategies and profit structure]

In order to create new value for our customers, we intend to promote the various medium-range strategies and ultimately to make drastic changes to our profit structure. Competition in the years ahead will come from retail SPA companies. Our goal is to forge a customer value production business that is based on a low cost profit structure that is comparable to that of our competitors and that draws on our advanced planning capabilities and creativity.

## Medium-Term Management Vision for 2009 to 2014

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The plans for the future of this company and results projections included in these materials are based on currently-available information. They offer no guarantee of future results. We wish to caution you that the information contained herein may be subject to change without prior notice in line with future economic and/or market trends.