BAROQUE JAPAN LIMITED

Medium-Term Management Plan
"GLOBAL NEW RETAIL 1st Stage 2024"
(2020/2~2024/2)

April 15, 2019

Tokyo Stock Exchange, First Section : 3548

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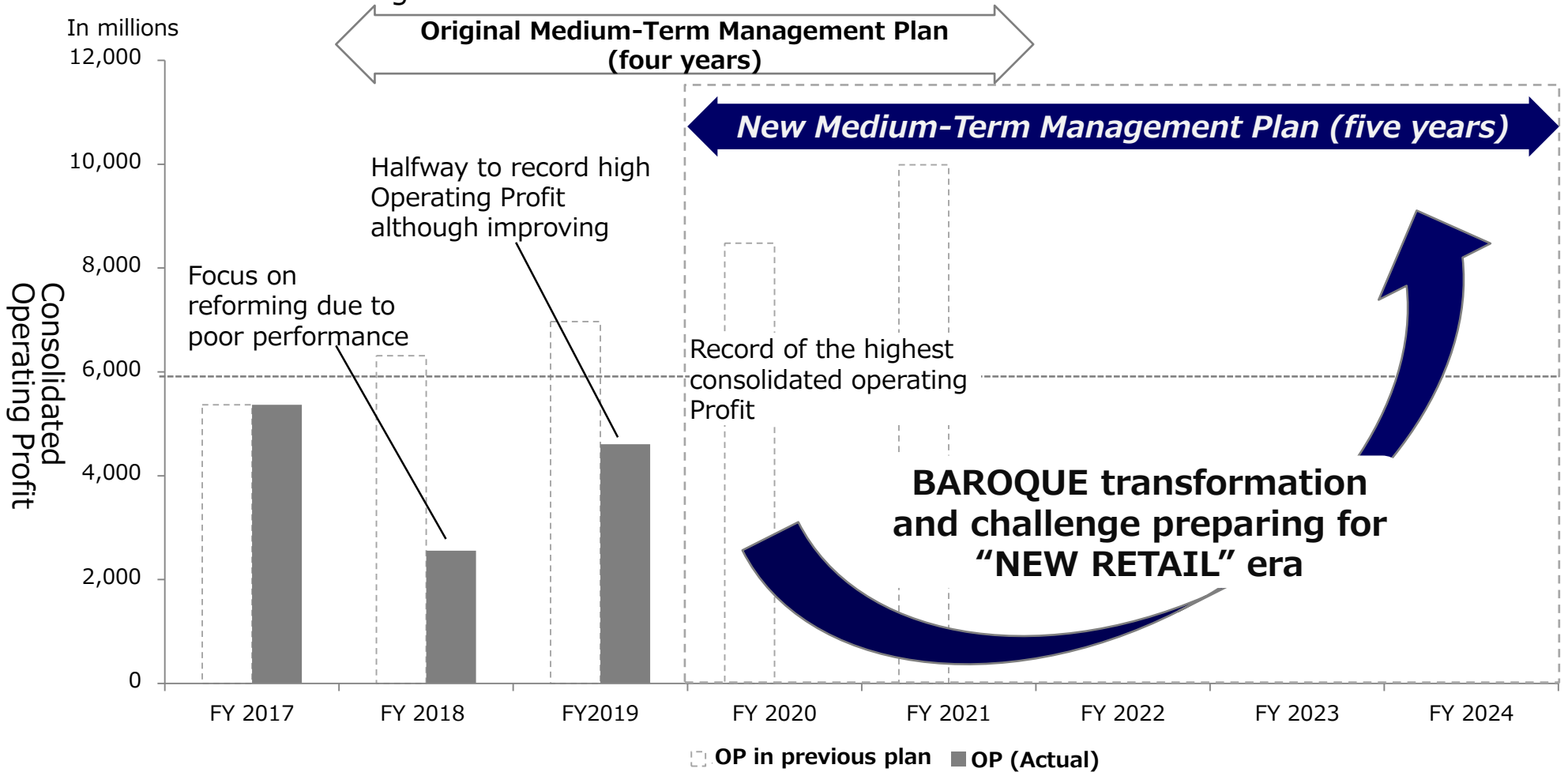
Background of New Medium-Term Management Plan "GLOBAL NEW RETAIL 1st Stage 2024"

- Since we reformed our current domestic business due to the poor performance in FY2018/01, reconsidered China business strategy due to the change of the major shareholders of Belle, and business environment changing surrounding us, **we revised the Medium-Term Management Plan issued in March 2017 as zero-clear basis.**
- We will achieve BAROQUE transformation and challenge preparing for "NEW RETAIL" era in the new Medium-Term Management Plan.



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With our company philosophy “Challenge,” we aim to become a company that world wide customers support and set the grand goal to expand Baroque globally as a leading Japanese fashion brand

<BAROQUE WAY>

Corporate Slogan	**Enjoy fashion and enjoy life more.**
OUR MISSION	**We make the world happier and brighter through our fashion. In appreciation of our customers, business partners, shareholders, and local communities that support our “individuality”, “emotion,” and “passion,” we become a company that they trust.**
OUR VALUES	**Passion of “I like fashion” Respect “Individuality” and “Sensitivity” ⟩ Fashion-Oriented** **“Sympathy” and “Resonance” with customers ⟩ Customer-Oriented** **Fostering human resources, growing yourself Joy of “achievement” in team ⟩ Open Innovation × Team Up**

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Our Vision for the Future (1)

“Core Competence” × “Innovation” ⇒ Global Challenge

Baroque Japan's strengths include
"persistence to manufacturing / quality" and "strong fans and sales staff."

Our origin, such as our passion to customers, our attentive services and our detailed communication skills, will become the most valuable elements in the changing times, when ICT and digitization rapidly evolves.

and

Digital and AI technologies will support our businesses, which have “warmth” that connects people through people's hands and leads to customers' hands.

Baroque China, Hong Kong, USA, and good distribution networks in other countries
Media (magazines, Web Magazine) created and dispatched from in-house.
Strong SNS transmission, highly valued domestically
Our established marketing skills
People are connected to people and our brands

All connections will be based on platforms via ICT and digital
A well-balanced business between AI and people is what we aim in the future
NEW RETAIL that Baroque Japan think is everything evolving and expanding, of things going on in Baroque “NOW”

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Our Vision for the Future (2)

Basic Concept “Core Competence × Innovation”

<Core Competence>

- Trust, empathy and passion to the brand that comes from the customer service of the sales staff, cuddle up to customers
- Creativity, PR, and CS responses, developed and proposed by head office staff with sales experience from the customer's perspective

×

<Innovation>

- Enrich customer experience with digital technologies utilization
  ⇒ NEW RETAIL
- Work style reform with ICT utilization
  ⇒ Reward
  ⇒ Working environment for women to continue working
  ⇒ Recruit global and ICT people
- Team up with partners for collaboration



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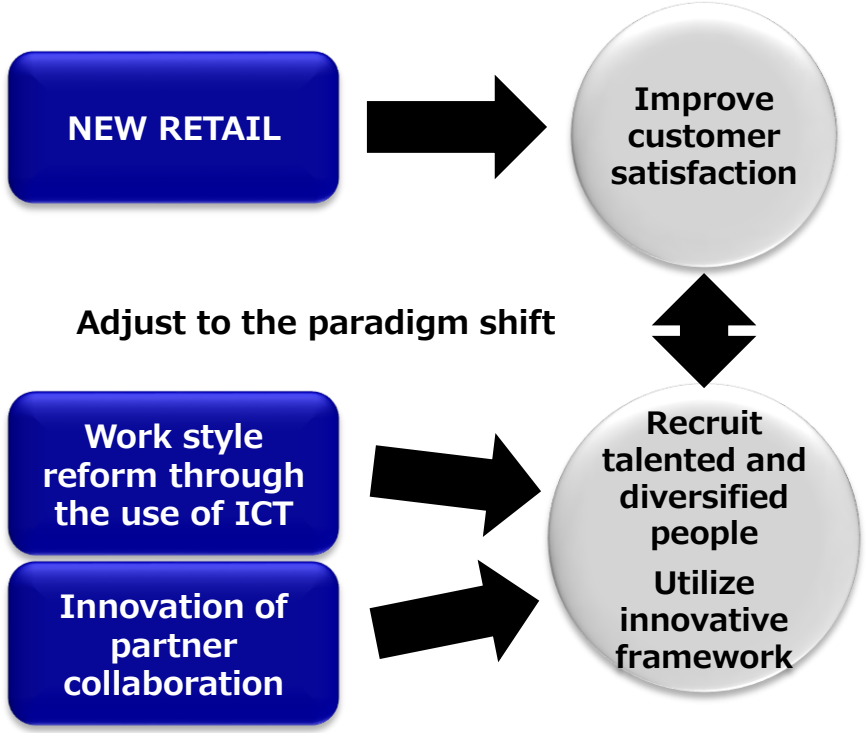

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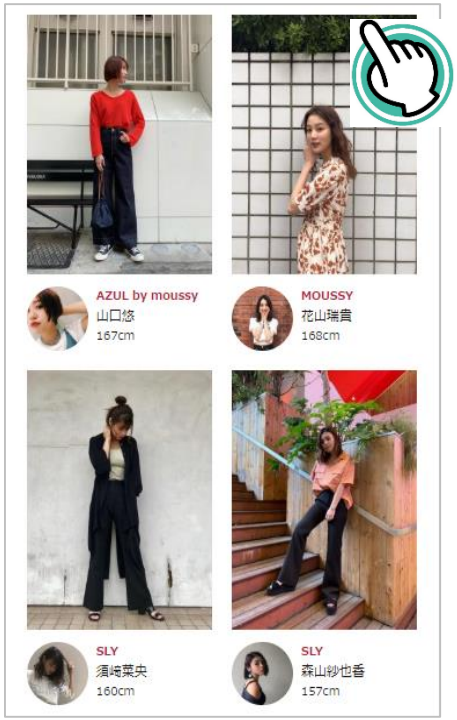
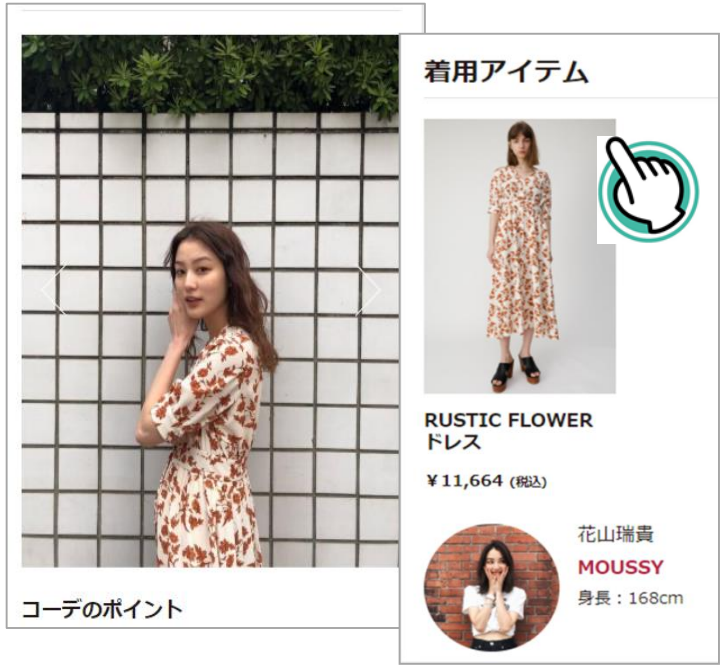
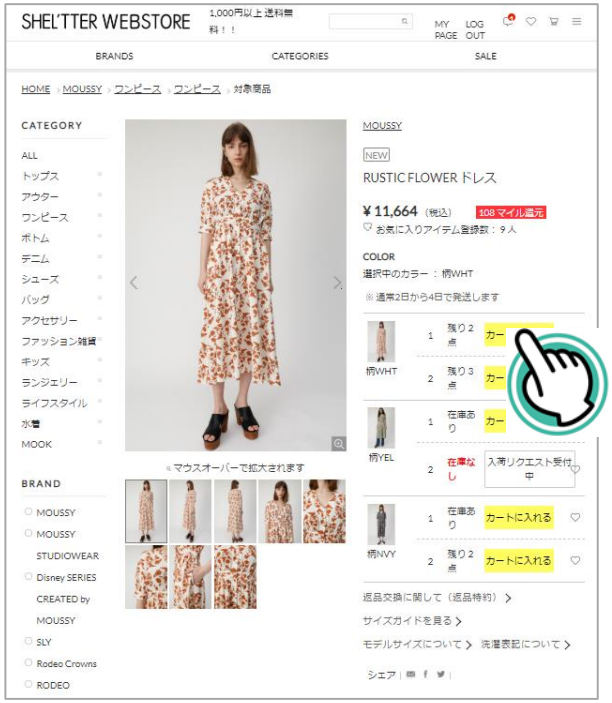
Our Vision for the Future (3)

- Staff skill to make proposals × combine with digital = “STAFF SNAP”
- Customer service which traditionally limited to retail outlets, now can be done through SNS, possible to link customers "anytime, anywhere"

Current Status of STAFF SNAP Utilization







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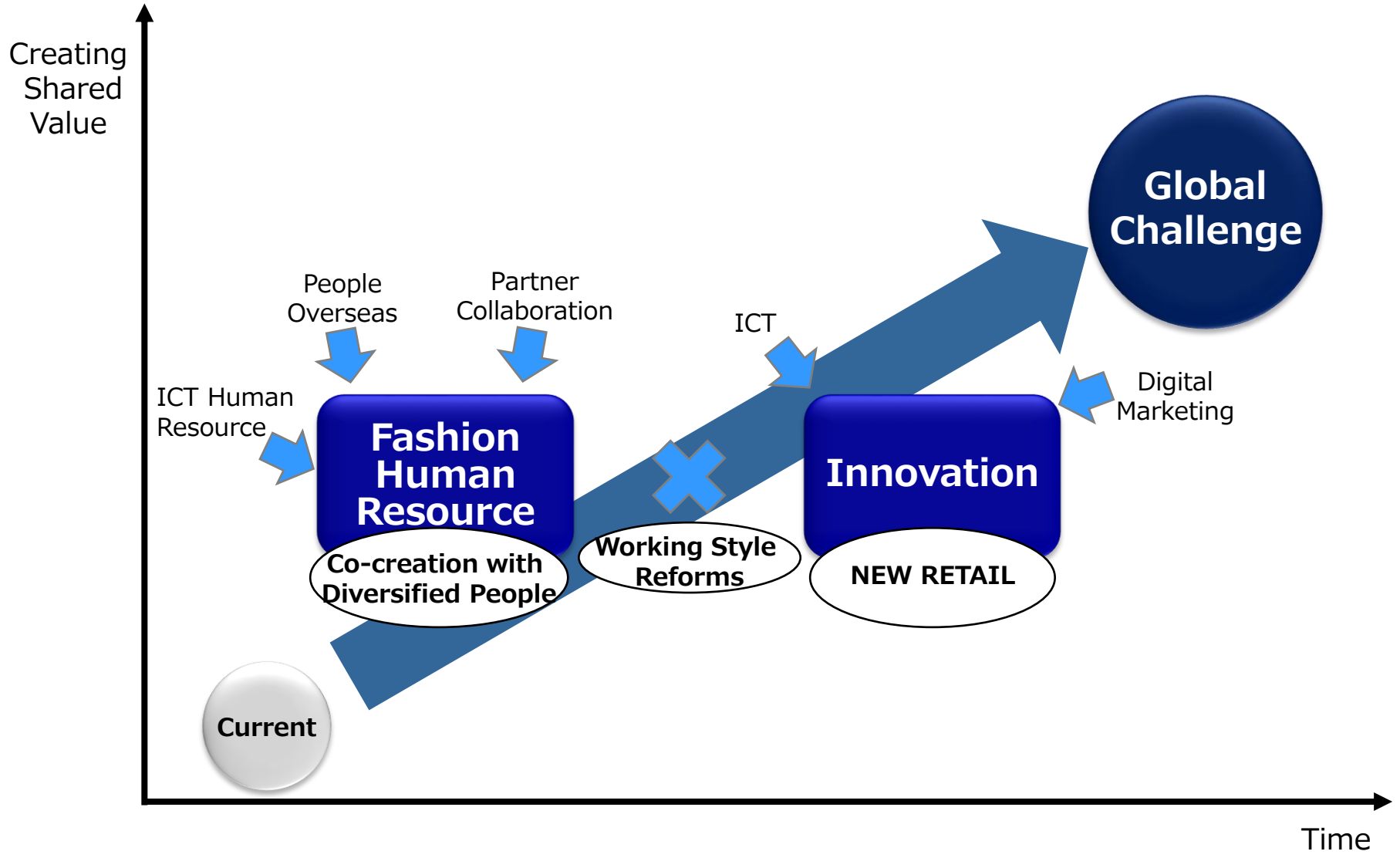
Our Vision for the Future (4)

「Core Competence」 × 「Innovation」 ⇒ Global Challenge



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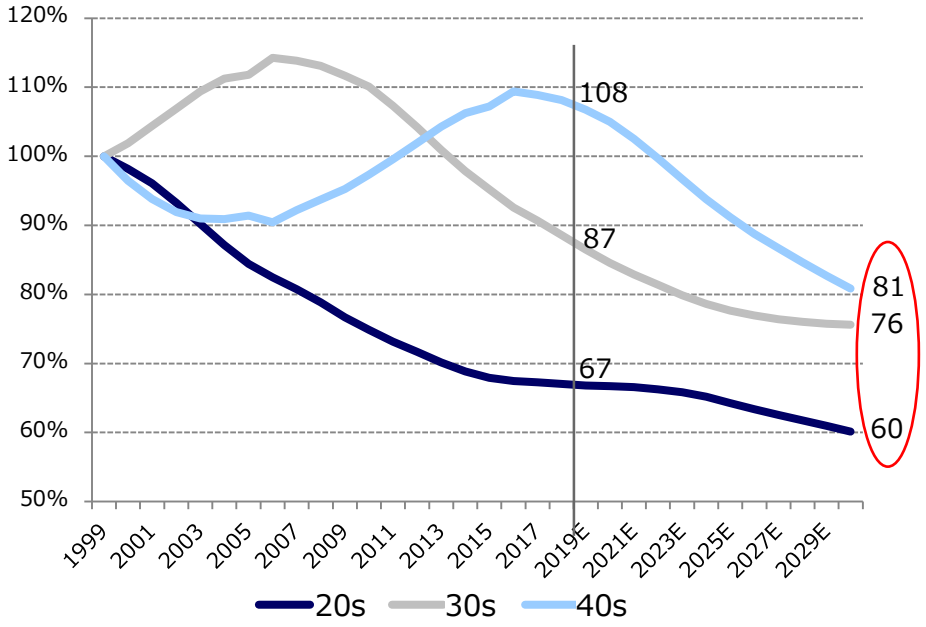
“Business Environment Surrounding Us (Domestic)”

- Oversupply of clothing
- Decline in potential buyers due to Japan's declining birthrate and aging population
- Decrease in fashion spending due to diversification of personal values
- Uncertainty about the outlook for the domestic economy
- Difficulties in recruiting due to the decline in the young population
- Application of ICT/digitization to NEW RETAIL era including e-commerce

Era in which only truly-needed-items are sold

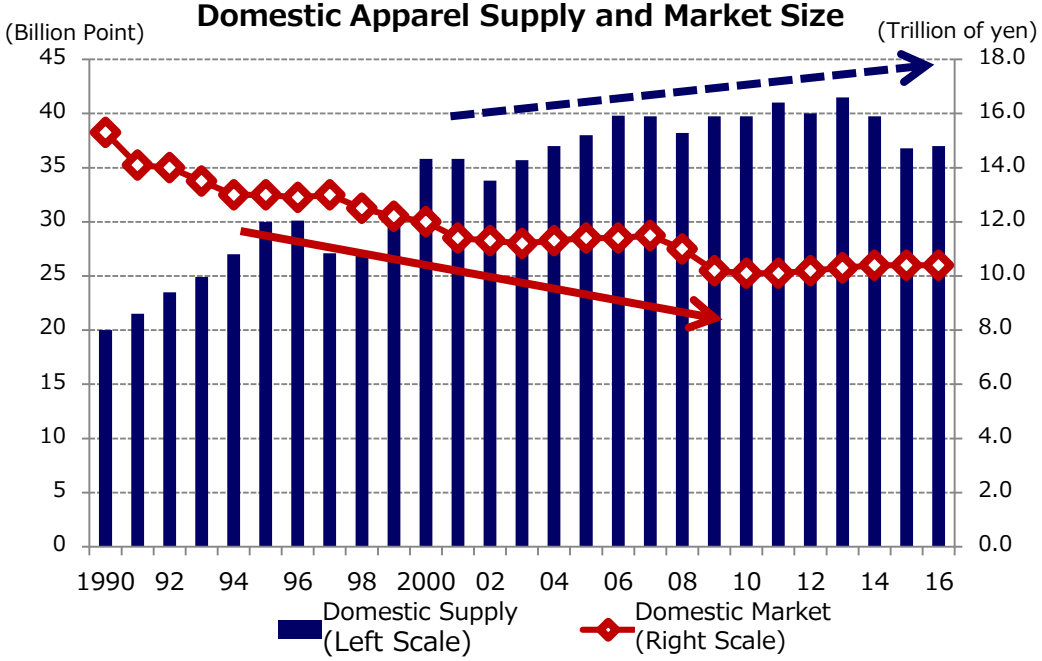
More attractiveness・convenience and more efficient store management through NEW RETAIL

Population Trends and Forecasts by Age (1999 = 100%)



Source : Euromonitor

Domestic Apparel Supply and Market Size



Source : Ministry of Economy, Trade and Industry - Manufacturing Industries Bureau

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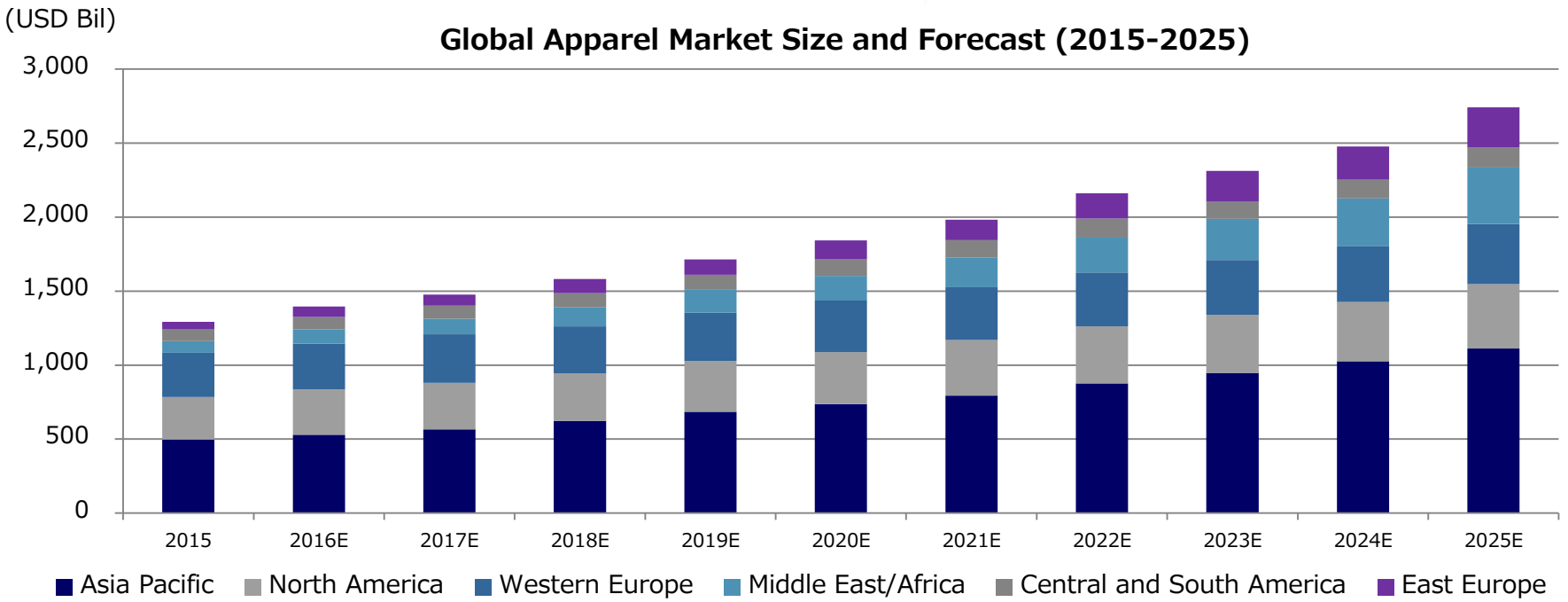
“Business Environment Surrounding Us (Overseas)”

- Oversupply of clothing (heightened environmental awareness) mainly in developed countries such as EU and the U.S
- Uncertainty about the world economy
- Growing population, mainly in Asia, and increasing demand for apparel
- Demand for high-quality products
- Japanese creativity is well-known as top quality in the world

Our high level of creativity, quality, customer service and communication are competitive globally, including Europe and the U.S.

Opportunities to win increased demand not only in China but also in Asia.



Source: ROLAND BERGER

Based on our company philosophy and business environment, what is our vision for the future?

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Key Strategy of New Medium-Term Management Plan "GLOBAL NEW RETAIL 1st Stage 2024"

In the first 5 years of our vision for future, the new Medium-Term Management Plan aims to increase corporate value based on the following concepts

『 GLOBAL NEW RETAIL 1st Stage 2024 』
Challenges for Domestic Growth and Global Expansion through Innovation

Priority Strategies of the Medium-Term Management Plan	Link	Priority Solutions of the Medium-Term Management Plan
Global/Innovation Human resource development		
Challenge #1 To become more global (Create business foundation for overseas sales to exceed domestic) ※Overseas sales are based on retail base		1. Active global expansion (Wholesale + Store Opening) 2. Sustainable expansion of China business 3. Enhance head office staff with overseas nationalities to 10%
Challenge #2 To provide more attractiveness and convenience through NEW RETAIL solution under the innovation concept		4. Accumulating, analyzing and utilizing data through NEW RETAIL 5. Develop new businesses and categories through Open Innovation (including M&A)
Challenge #3 To evolve and expand brand businesses (Strengthen our competitive brands)		6. Creating attractive products customers willing to purchase at list price 7. Brand selection and concentration
Challenge #4 To become more robust company to pursue "profit maximization"		8. Promoting Supply Chain Management (SCM) Reforms 9. Restructuring stores and head office organization

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1. Active Global Expansion (Wholesale + Store Opening) (1)

Aiming to open 90 stores in countries and regions other than China in the final year of the Medium-Term Management plan

- Aiming to reverse domestic/overseas sales ratio, accelerate to **expand MOUSSY and ENFÖLD** into countries/regions other than China
- Conduct testing in each countries through wholesale business, and connect to opening new stores
- Maximize the strength of the Japanese brand to accelerate global expansion in the optimal form

Europe
- Incorporate trend
- Expansion of wholesale business
- New openings through JV, etc.

China ★
- Sustainable expansion
- NEW RETAIL operation

Middle East
- Expansion of wholesale business

Asia (excluding China) ★
- New openings through direct store, JV, etc.
- Expansion of wholesale business



ENFÖLD



MOUSSY
- Be the first broadcaster

North America ★
- Incorporate trend
- Expansion of wholesale business



MVS JEANS
- Expand “Made in Japan Jeans” out from the U.S to global

★ Opening stores other than China

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MOUSSY's Target Customers/Price Range/Product Strategies

- Going to launch MOUSSY VINTAGE stores in Japan from AW 2020 season, which is highly rated in the world as Made in Japan Denim
- Also plan to expand MOUSSY MENS lineup aiming MOUSSY to evolve as one and only apparel brand
- We will position **MOUSSY Omotesando as global flagship store** to accelerate expansion in Europe, North America and Asia



MOUSSY VINTAGE LADIES & MENS — 2020 AW Season



Original Line — MOUSSY CAPSULE COLLECTION

MOUSSY MENS — 2020 AW Season

Collaboration (Disney, Adidas etc.)

MOUSSY STUDIOWEAR

High Price / Low Price

Teenager / Young (25yrs old) / Middle age



MOUSSY Omotesando store will become global flagship store

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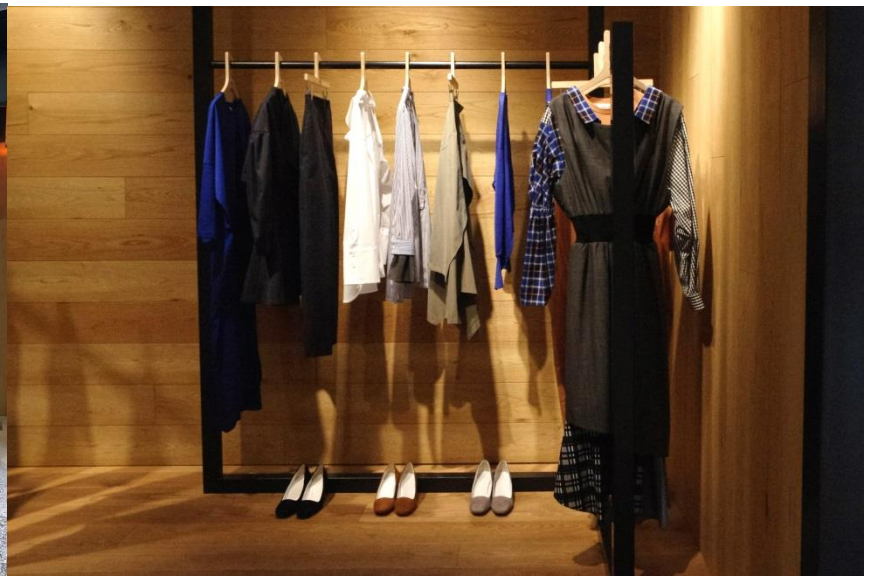
ENFÖLD's Current Status and Future Vision

- We establish position as a brand that leads the domestic contemporary zone* by offering mode state design comparable to European and U.S. brands at affordable price

- ENFÖLD will further expand its product lineup and shift its position to the overseas Contemporary Brand, which **attract wealthy customers in Asia**





Providing products with mode taste design which is comparable to European and U.S brands at affordable price



Building on demand from wealthy customers in Asia, strengthen overseas expansion to become a globally recognized designer brand



* It is mainly categorized as women's apparel at department stores. Price range and taste are between the domestic working women brand and the import brand in Europe and the U.S.

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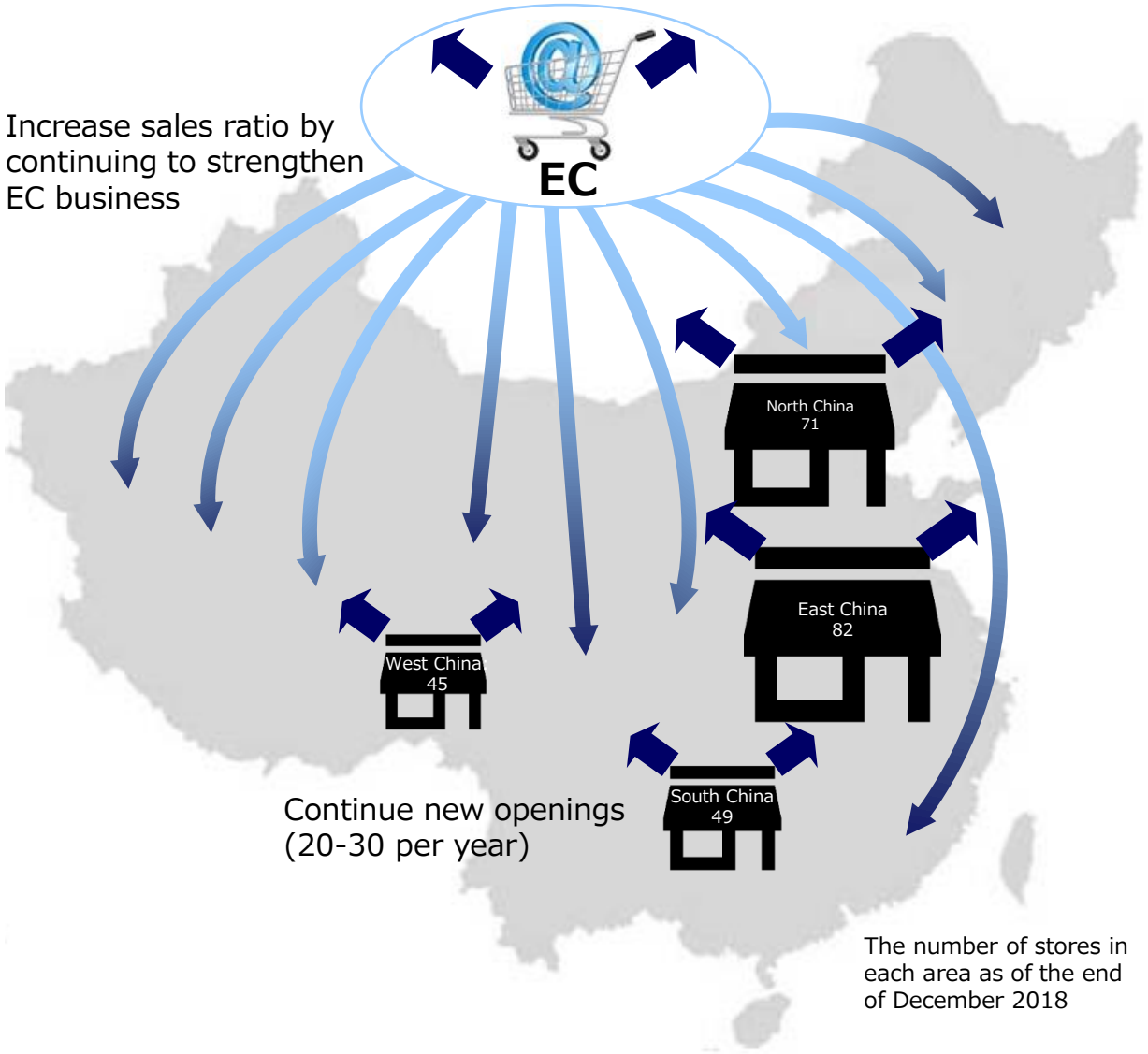
- While Chinese economy has been slowing down, we aim to invest for the future to accelerate growth when Chinese economy returns to a recovery phase

- While carefully considering large-scale store openings, we continue to expand NEW RETAIL stores and strengthen EC platform

- **As for already launched brands, we aim for efficient management while maintaining store opening pace (annual net increase of 20-30 stores)**

Aiming for sustainable expansion even Chinese economy has been landing



The number of stores in each area as of the end of December 2018

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3. Enhance Head Office Staff with Overseas Nationalities to 10%

- The ratio of overseas nationals currently working at headquarters is around 3%, but it will be raised to 10% in five years
- Diversify nationalities while expanding globally

National Workers at the Head Office



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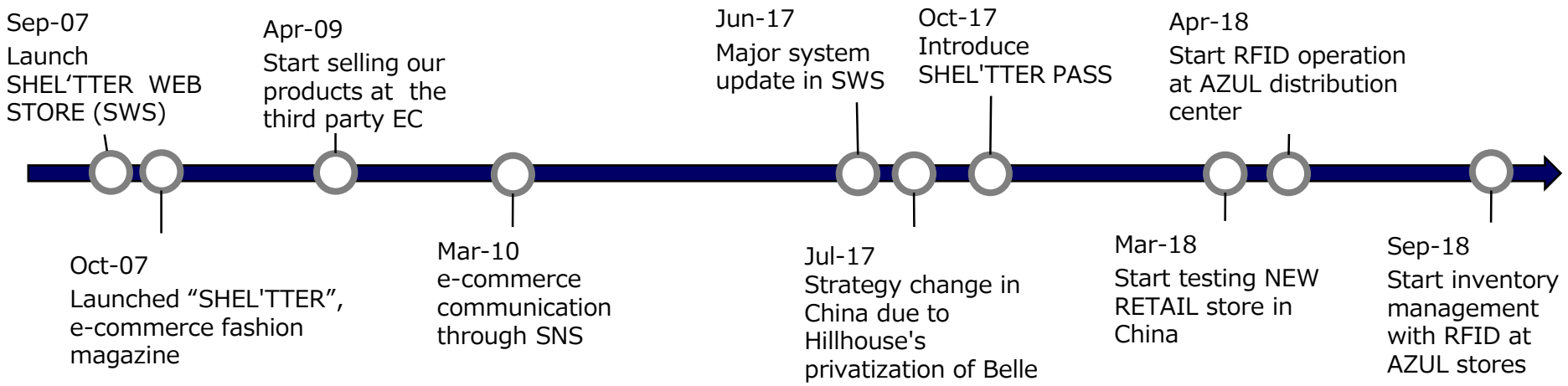
Story of our past effort on NEW RETAIL



Lesson through our NEW RETAIL tests

- Introduction of RFID will significantly improve store operation efficiency, and this will lead to improve customer service and reduce future costs
- Enable to accumulate data through investment but it is necessary to have human resources to analyze it. Establish expert team for analysis of basic data
- NEW RETAIL cashless payment plays as a role in Chinese social infrastructure which is a foundation to improve consumers' convenience and company's data marketing

Priorities of our NEW RETAIL initiatives:

1. **More efficient store operating costs**
2. **Effective utilization of accumulated data**
3. **Cashless operation**
4. **Adopting effective NEW RETAIL models**

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1. Utilize RFID for efficient inventory management and MD

- Promote efficient inventory operations and utilize data in MD field, through monitoring inventory data in both EC and stores through RFID
- Implement RFID into all AZUL stores by the end of FY2020/02
- Plan to implement RFID into other brands

Store RFID Tool


Hand Reader

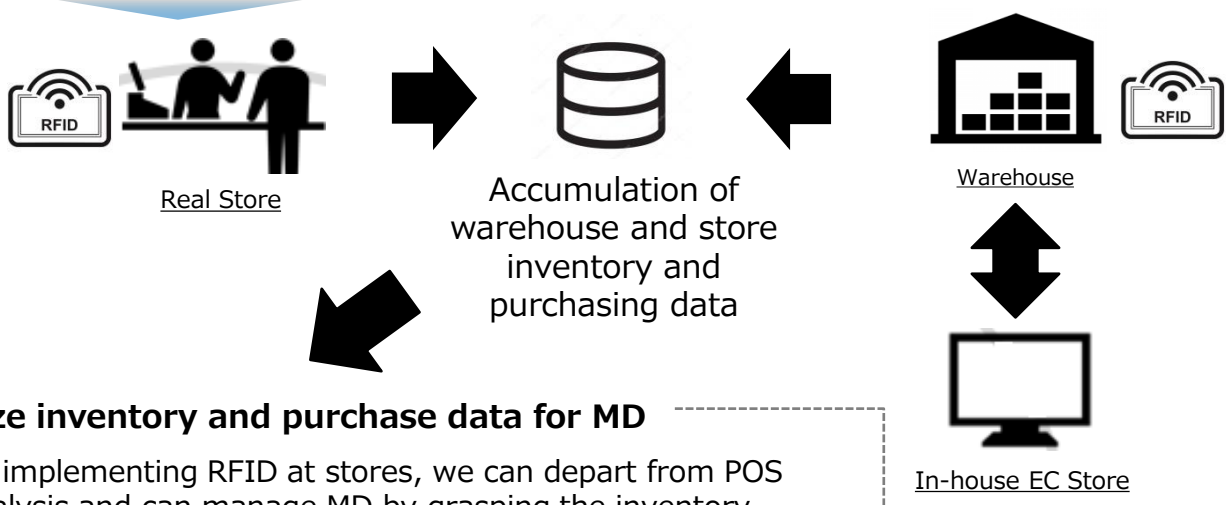

Traffic Counter


POS Register

Benefits of Store RFID Implementation

- By implementing RFID into stores, it is possible to reduce inventory operation, deliveries, product search, cash register, etc.

e.g. reducing workload and opportunity lost, secure time for customer service



Utilize inventory and purchase data for MD

- By implementing RFID at stores, we can depart from POS analysis and can manage MD by grasping the inventory information.

e.g. Efficient restocking from the backyard and warehouse through monitoring inventory at store, reducing stock-out, etc.

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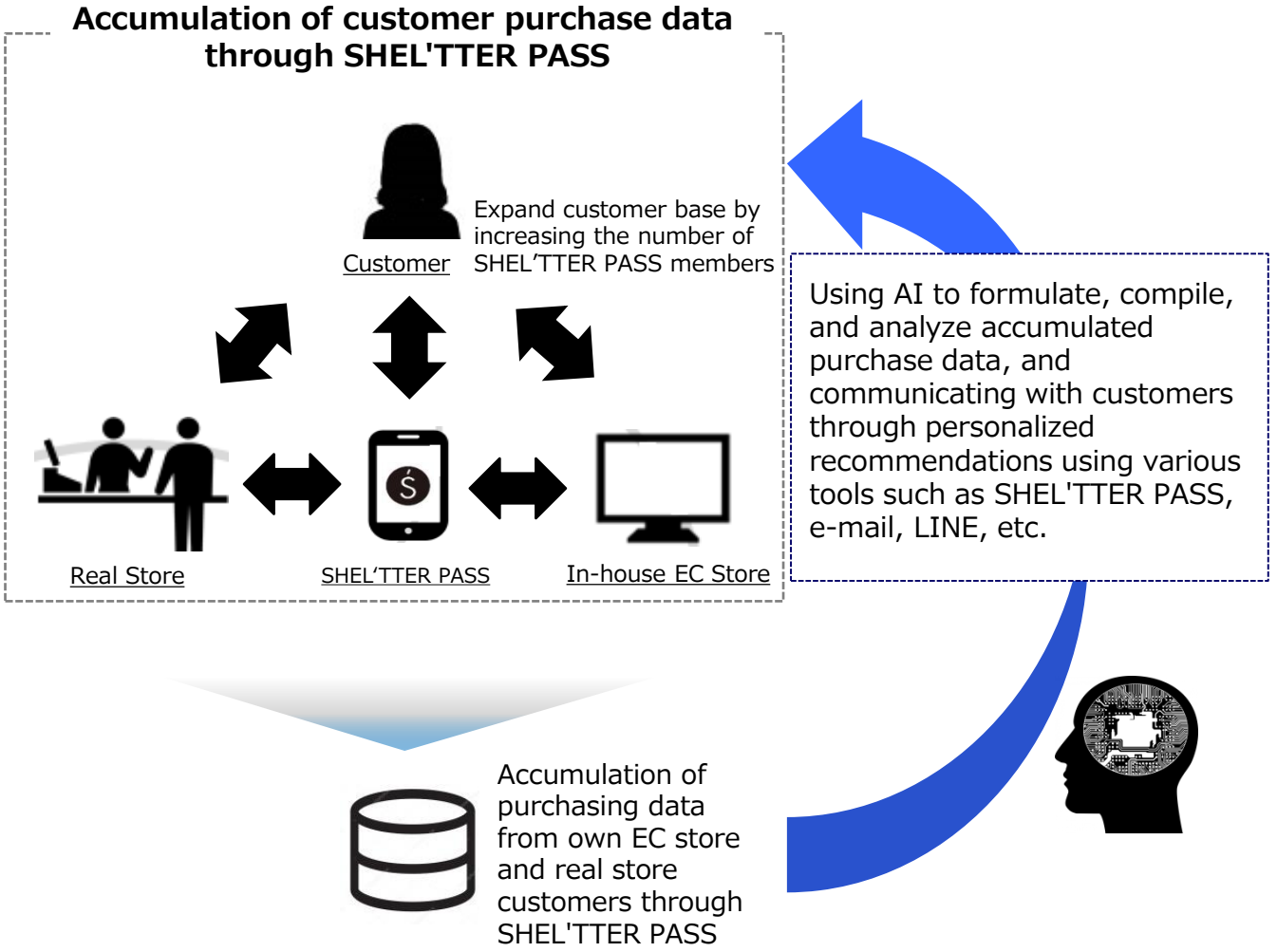
2. Digital Marketing Utilizing Customer Purchase Data

- Integrated our brands' service points and sales promotion activities by implementing SHEL'TTER PASS
- Promotion of personalized digital marketing based on customer data from our own EC store
- Established Digital Marketing team to strengthen sales promotion activities



Establish Digital Marketing Team

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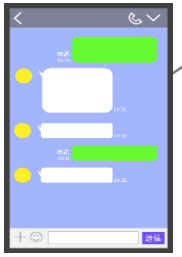
Example of NEW RETAIL Model

Introduction of ICT and EC for customer facing



- Instantly communicating with customers through chat, video and videophone

Sales Increase
Efficiencies

Strengthen influencer contact



- In the 5G period, the role of influencer's live distribution becomes more important

Sales Increase

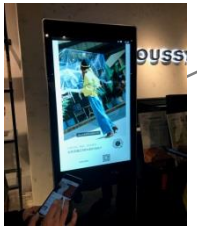
Digitize customer preferences and sizes



- Recommending products with customer preferences and sizes based on purchase data at real stores, etc. via EC

Sales Increase
Efficiencies

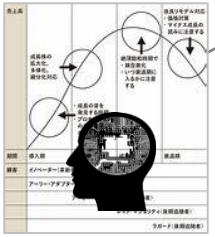
Shift from real store to showrooms store



- With no inventory-less at real stores and concentrating settlement into EC, focus solely on customer service

Sales Increase
Efficiencies

Semi-automation of MD



- Efficient MD strategies using big data and AI and maximize sales and profits

Sales Increase
Efficiencies

EC and real store platform business



- Providing know-how to people who want to make clothes

New business
Sales Increase

etc.

Utilize NEW RETAIL models to improve efficiency and increase sales

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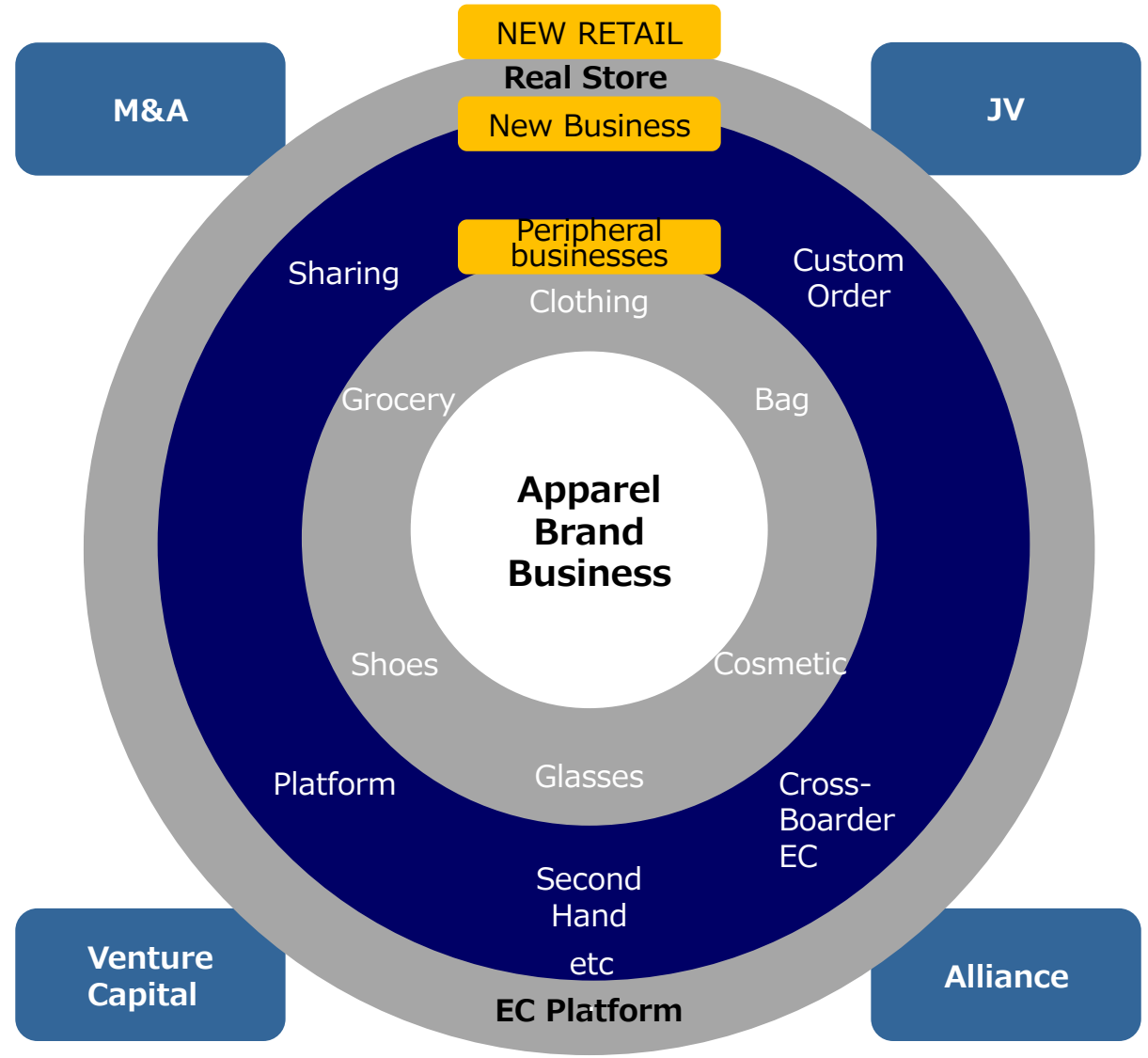
5. Develop New Business and Categories through Open Innovation (including M&A, etc.) (1)

- New business models emerge due to diversification of individual values and ICT development
- Actively invest in new businesses which strengthen apparel
- Accelerate investment to strengthen EC infrastructures that contribute to our NEW RETAIL initiatives
- <u>In order to achieve the above, we will choose the best method not only by ourselves but also by alliance, JV, venture capital investment and M&A</u>

Our New Business Domain



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5. Develop New Business and Categories through Open Innovation (including M&A, etc.) (2)

- On Wednesday, February 27, we held a press conference to announce the launch of NEXT IS YOU, next-generation content-development project to discover new businesses (application period started)

- Focus on the business plan and aim to build new business for a wide range of people in the future. Provide support of up to 10 billion yen by medium-to long-term perspective

【About “NEXT IS YOU”】
Special Site : https://nextisyou.jp/
Application Period : February 27, 2019 (Wednesday) to May 31, 2019 (Friday)
Application : Check the details from special Site (https://nextisyou.jp/) and apply



CEO Murai, Guest Jin Katagiri, and the ambassadors of the contest
From the right, Mahiro Nakamura, Aisako Tsuji, CEO Murai, Jin Katagiri, Shinko Nagata, and Takumi Yoshida

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AZUL by MOUSSY's Current Status and Future Vision

- Expanded as comprehensive men and women brands, offering jeans-based casual styling with the keywords of "COOL"
- Although we have focused on reviewing MD, customers numbers have declined due to the homogenization with other SC brands. As a result, we are still in the middle of improving sales
- We will attract more customers, increase store entry and purchase rate, by improving store environment and sales promotion. We will also introduce new lines







Restructuring business base

- Making store operation more efficient with ICT utilization
- **Rebuilding Win-Win Relationships with FC owners**
- Optimizing store management structure (direct store ⇔ franchise)

Strengthening MD

- Expanding design range of basic items
- Setting price which match with item value

Making new lineup

- **Adult casual brand (BEGE Collection) backed by big data**
- Brand (AZUL TOKYO) focusing on goods for foreign tourist
- Introducing select items at large stores

Recovering number of customers

- Attract more customers through store VMD and PR activities including SNS
- Acquire a broad range of mass-market customers and new customers by product development for AZUL's existing customers

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Strengths and Weaknesses of Product by Brand/Category

Our Product Strength

Our Assignment of Brand/Product Appeal

FB・SB	Select	Other	SC
MOUSSY	ENFÖLD	SHEL'TTER	AZUL by moussy
SLY	någonstans	STACCATO	RODEO CROWNS WIDE BOWL
rienda	RIM.ARK	OUTLET	

Commitment and high quality based on the founding concept "making clothes we want to wear"

High inventory turnover ratio to keep stores fresh

Skill to create fashion through understanding the timely trend

Planning and MD capabilities for SC

Strong relationship with customers through staff and SNS, etc.

Excess orders and inventories due to sales priority

Behind systematization due to each brand line working individually

Promotion of business efficiency and analysis & utilization of accumulated data

- **Strengthen our competitive brands**
- **Integrate and promote business efficiency for areas which can be standardized within the brand category**

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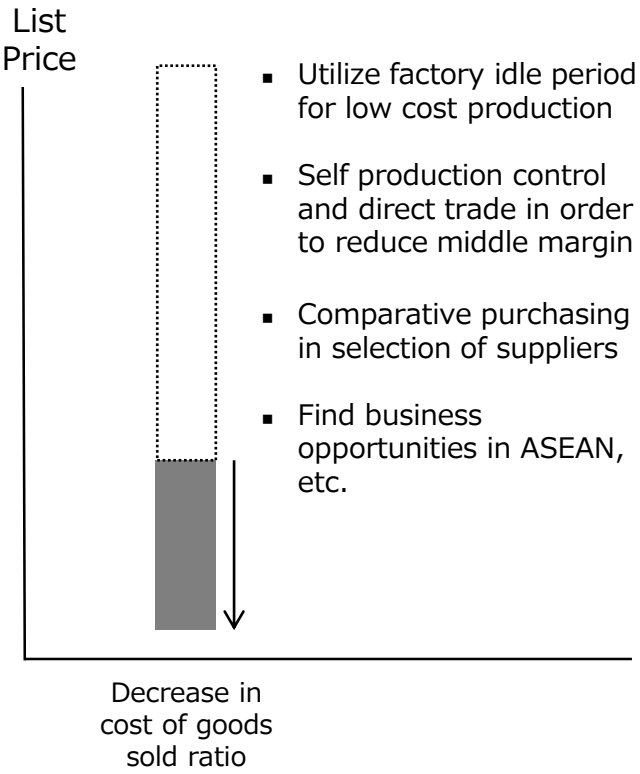
Consolidated Gross Profit Margin

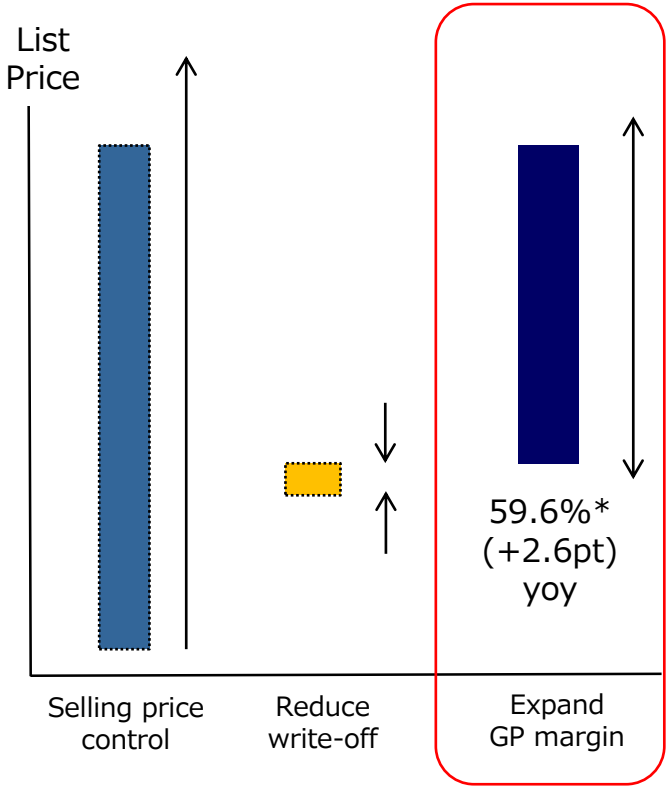
■ Our Initiatives to Improve Gross Margin = Supply Chain Management (SCM)

Product Development ▶ **Procurement** ▶ **Sales/Loss from Inventory Reevaluation**

- Define target customers in each item
  - ➢ cutting down item numbers
- Refine order amount
  - ➢ shade in order amount of each items
  - ➢ prevent out of stock
- Produce items with our brand image × trend element



- Utilize factory idle period for low cost production
- Self production control and direct trade in order to reduce middle margin
- Comparative purchasing in selection of suppliers
- Find business opportunities in ASEAN, etc.



*Domestic gross profit margin for FY2019/01

Produce competitive items
Optimize purchase amount

Procuring only controllable amount together with reducing purchasing cost

Appropriate inventories enables reasonable SALE promotion & write-off reduction

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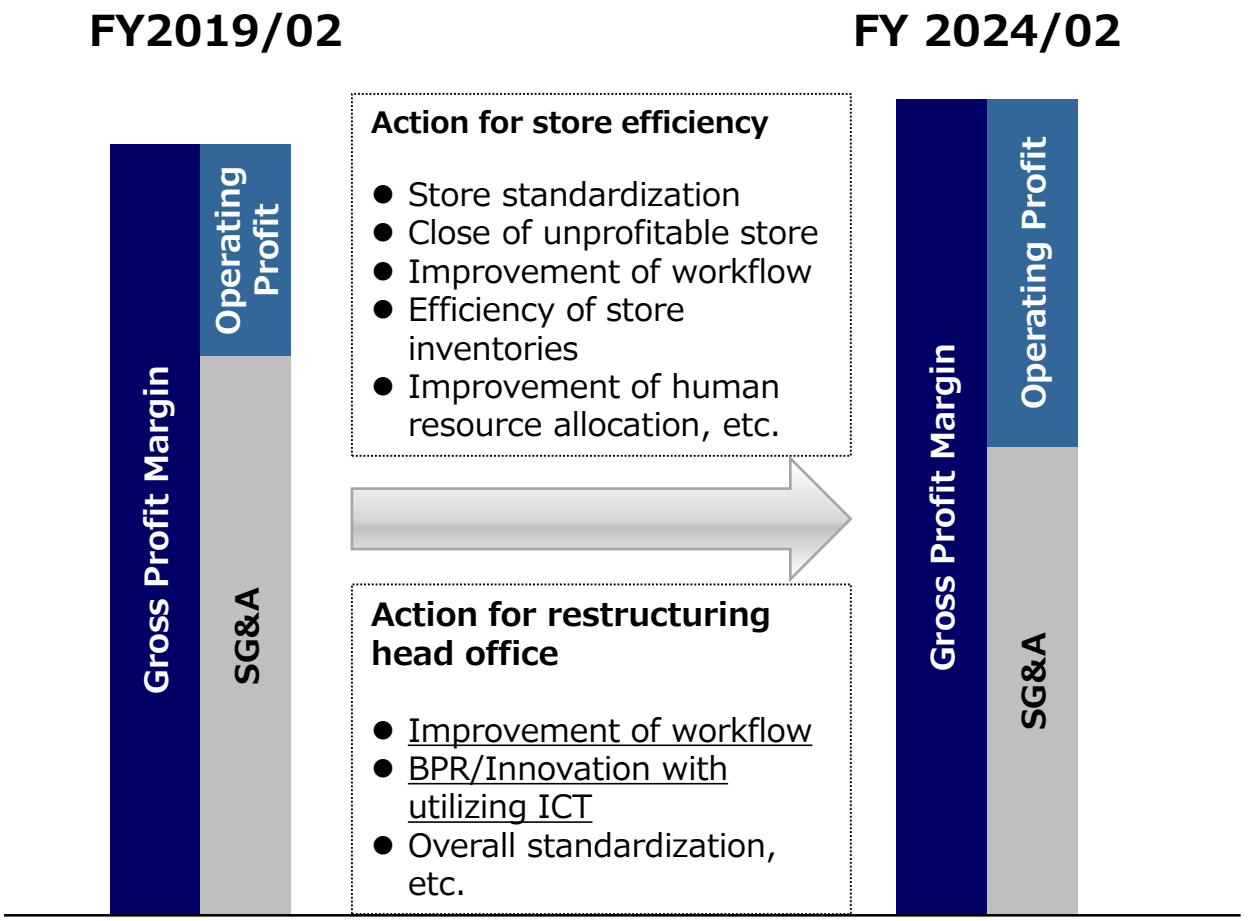
Restructuring of Domestic Stores and Head Office Organization

- Looking at the profitability of each store, there are still stores with problems
- There are rooms for improvement in the overall system since each division conducts its business independently
- In addition to improving gross profit margin by discount price control and reducing procurement cost. We aim to improve SG&A by making store and head office operations more efficient.



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Consolidated Performance Targets

	FY2019/01 (12 month results as reference)	FY2020/02 (Full-Year Forecast)
Sales	¥67.73 billion	**¥100 billion** (5-year CAGR 10. 2%)
Gross Profit	¥38.05 billion	**¥56 billion** (5-year CAGR 10. 1%)
Operating Profit	¥4.67 billion (Operating Profit Ratio 6.9%)	**¥8.5 billion** (5-year CAGR 16.2%) (Operating Profit Ratio 8.5%)
Ordinary Profit	¥4.67 billion	**¥8.7 billion** (5-year CAGR 17.1%)
Net Profit	¥3.04 billion	**¥5.7 billion** (5-year CAGR 17.0%)
Overseas Sales Ratio (Overseas sales are based on retail sales base)	24.0%	**33.0%**
ROE	16.3%	**20.0%**

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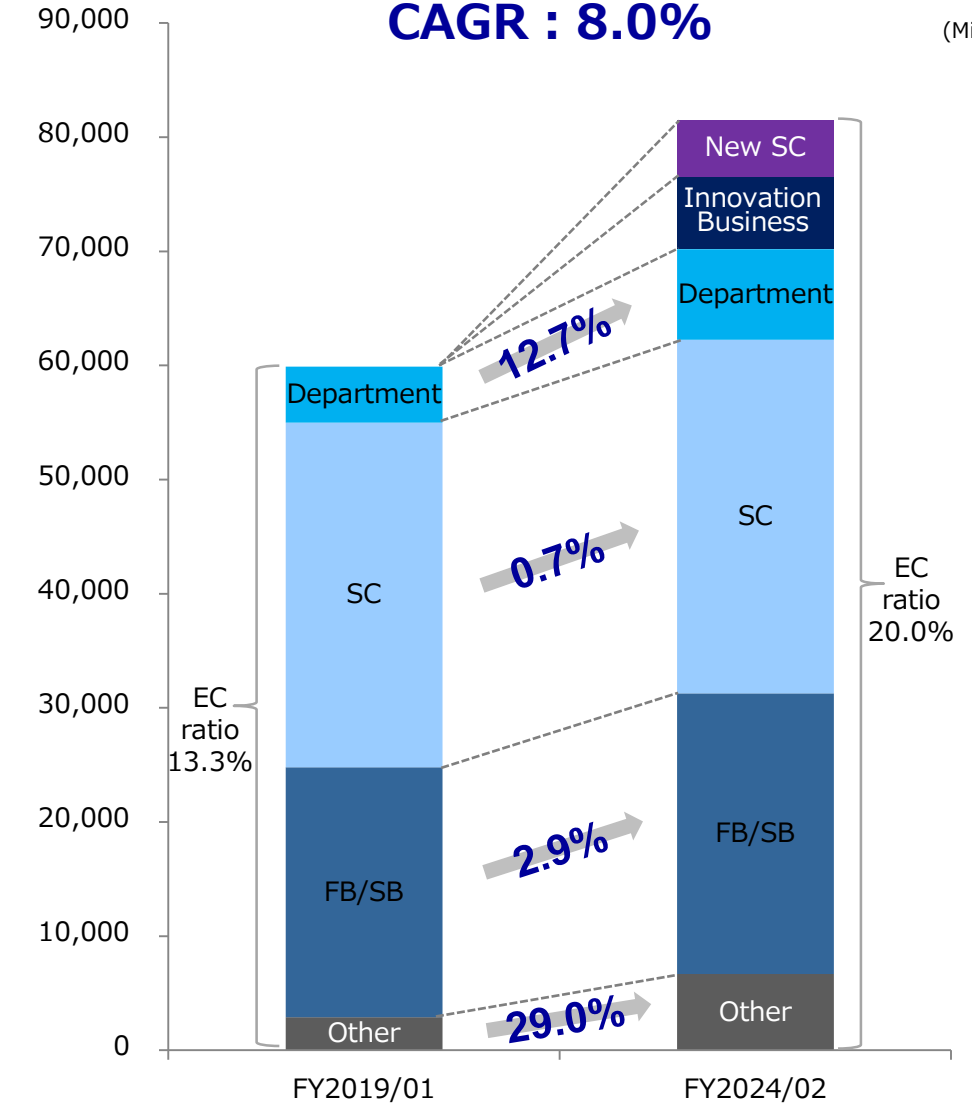
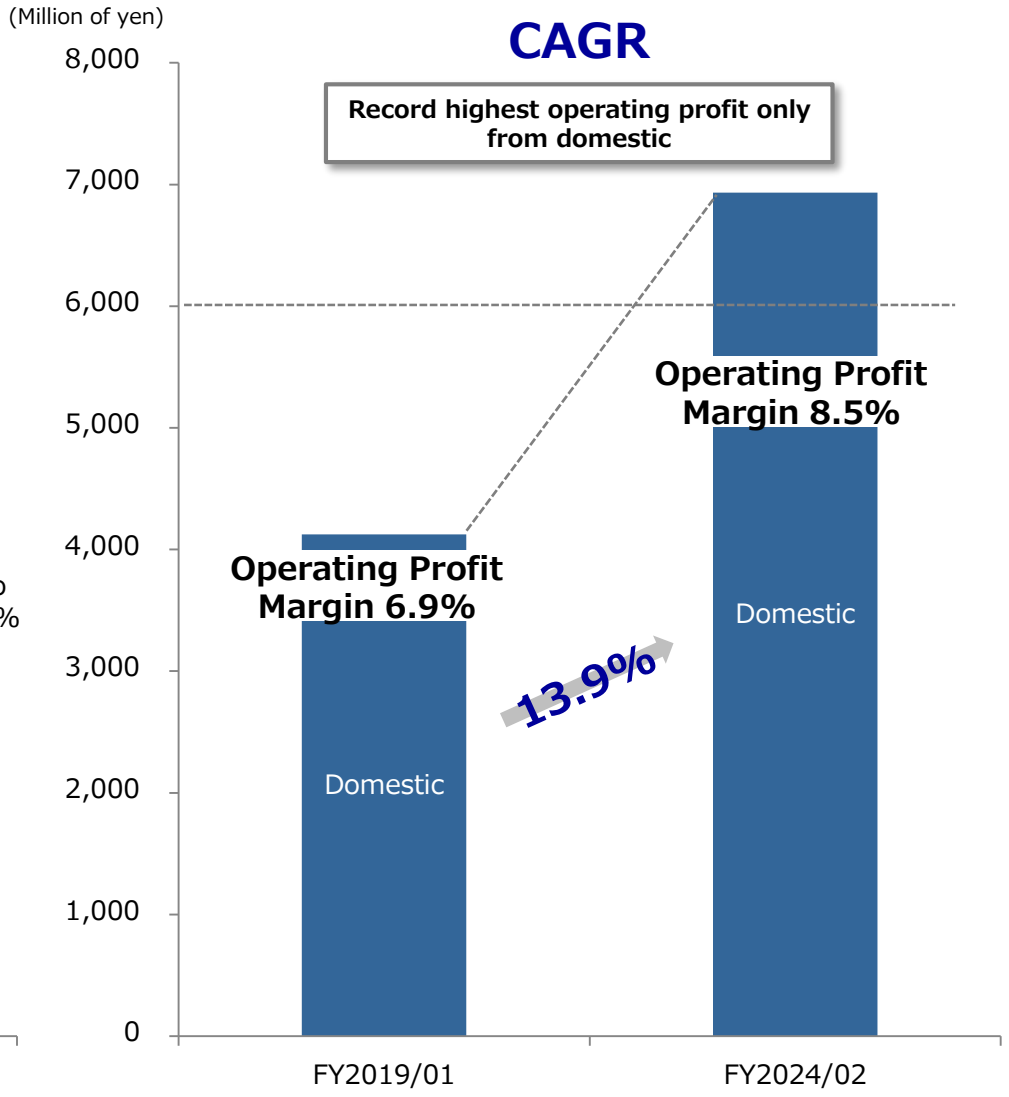
Details of Domestic Consolidated Sales/Operating Profit Targets

Consolidated Domestic Sales Results and Targets (by Category)



Domestic Consolidated Operating Profit Results and Targets



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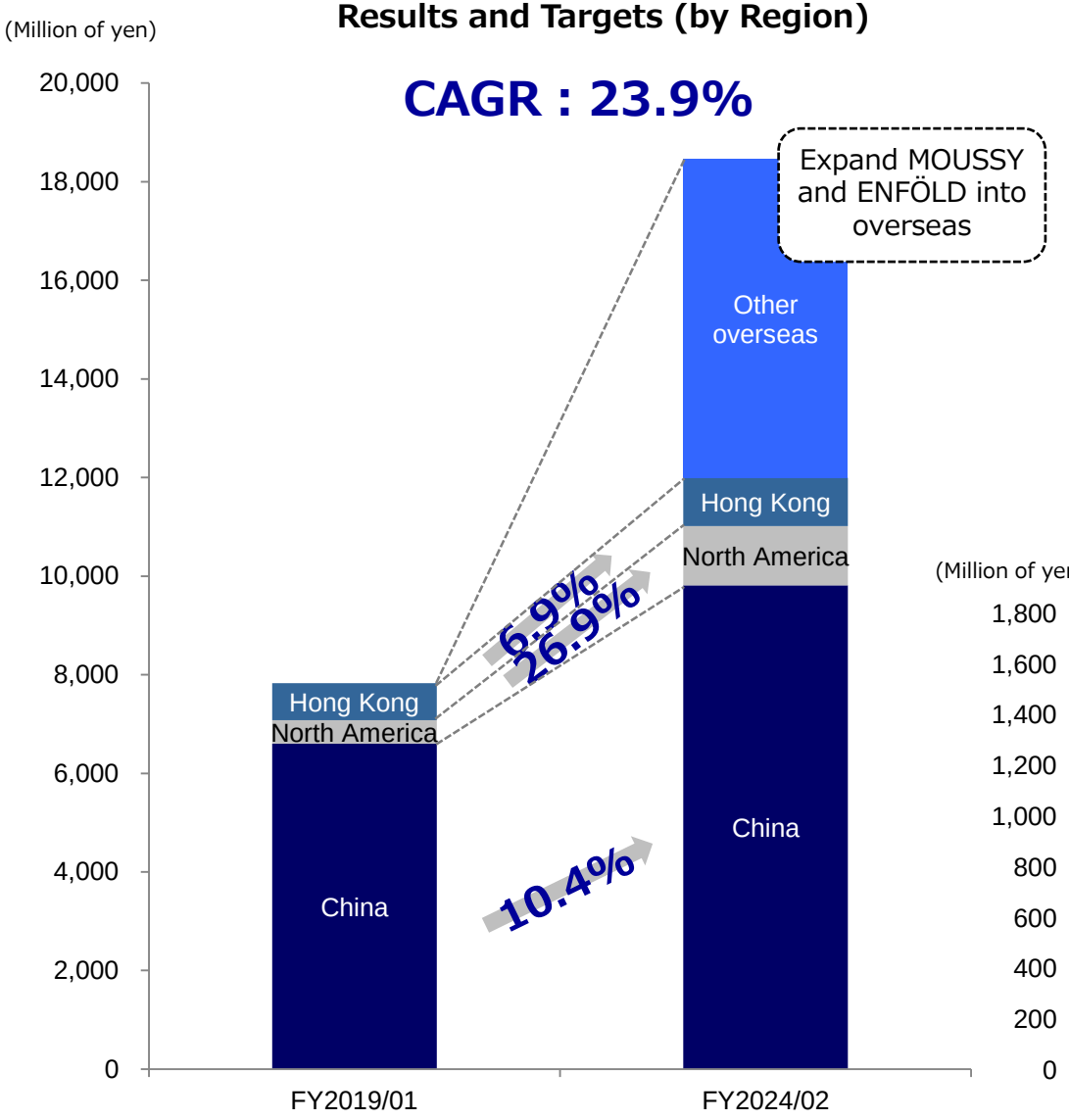
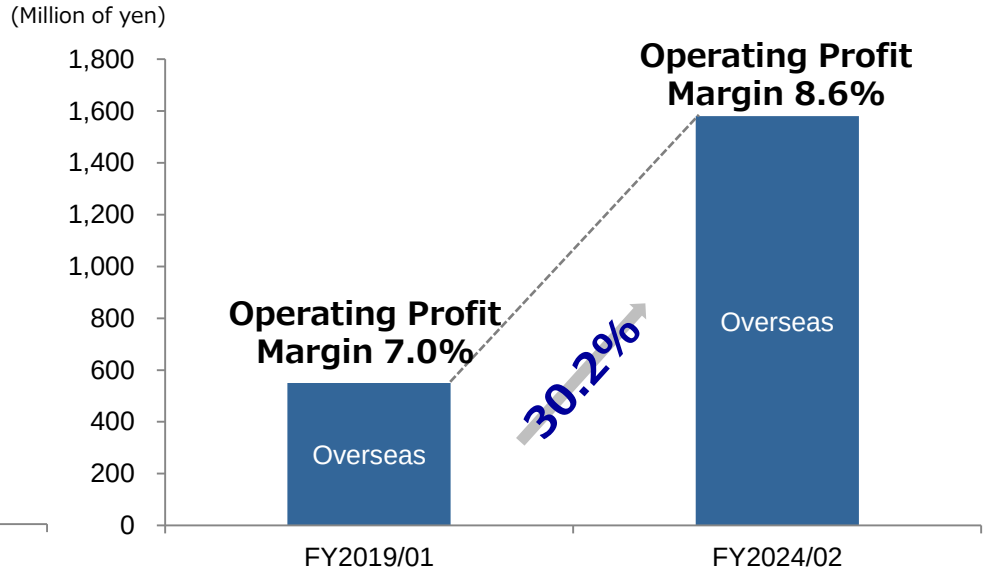
Details of Consolidated Overseas Sales/Operating Profit Targets

Consolidated Overseas Business Sales Results and Targets (by Region)



Consolidated Overseas Operating Profit Results and Targets



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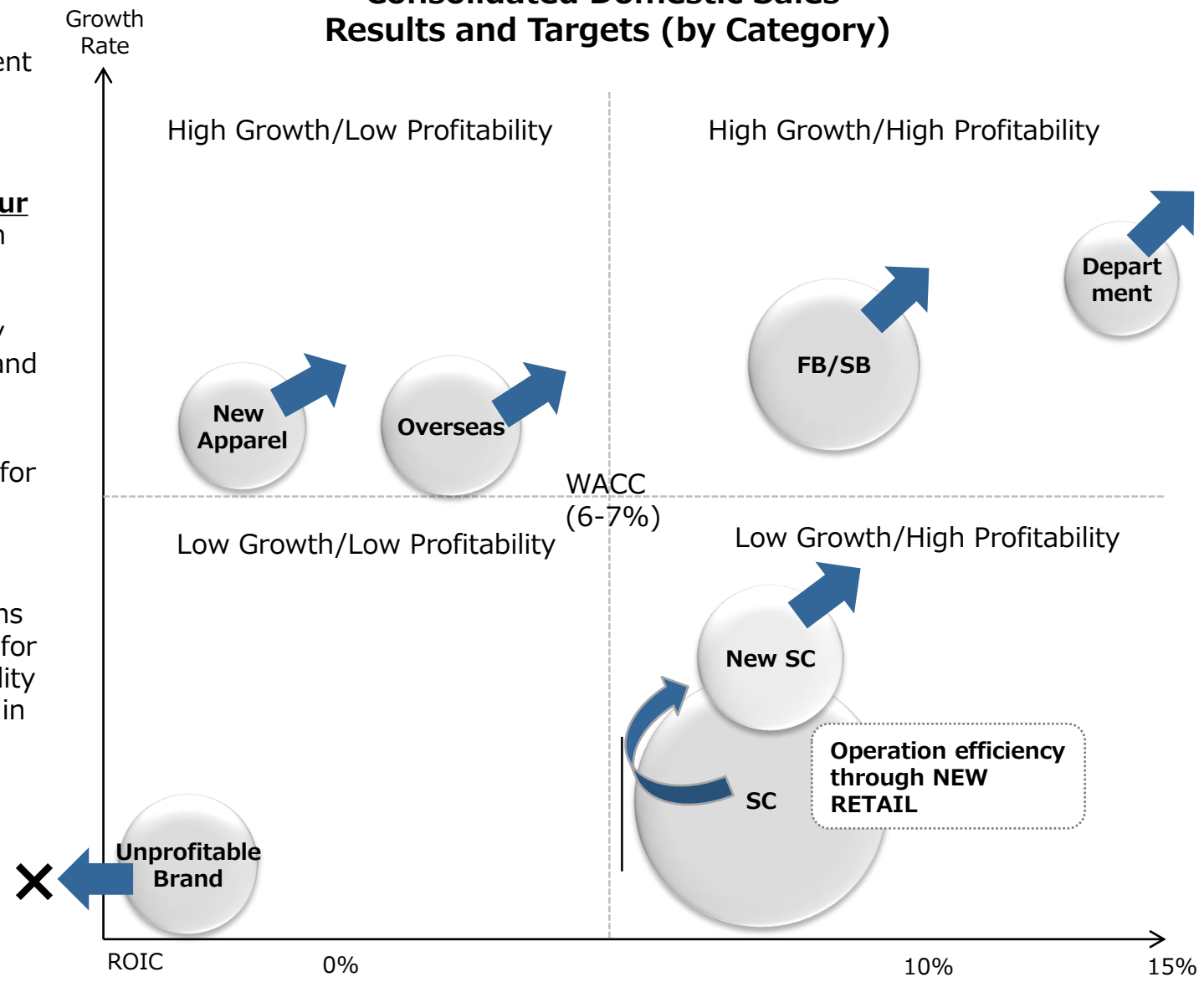
Direction of Business (Category) from ROIC (WACC) Perspective

- Calculating ROIC of our current business (by category)
- **As SC mainly focusing on franchise business, SC is our "cash cow,"** aiming to return back to growth (not just maintaining ROIC level). Considering new SC category deriving from our current brand line
- Targeting higher profitability for FB/SB and Department categories
- Making management decisions based on withdrawal criteria for low growth and low profitability brands. Aiming black figures in the newly launched apparel businesses

Consolidated Domestic Sales Results and Targets (by Category)



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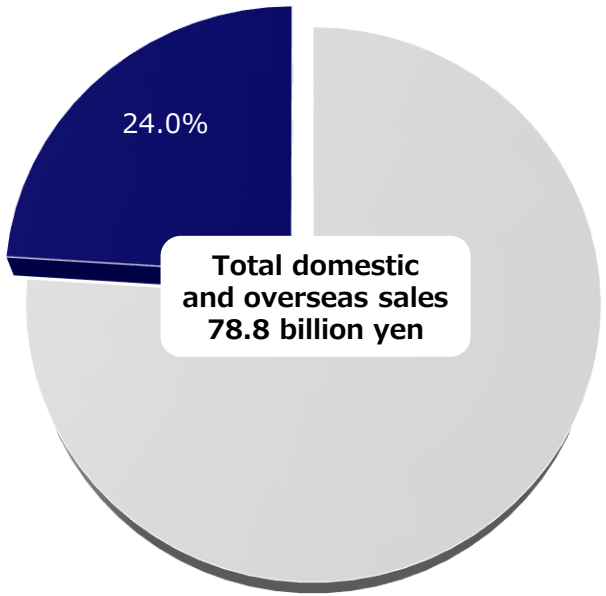
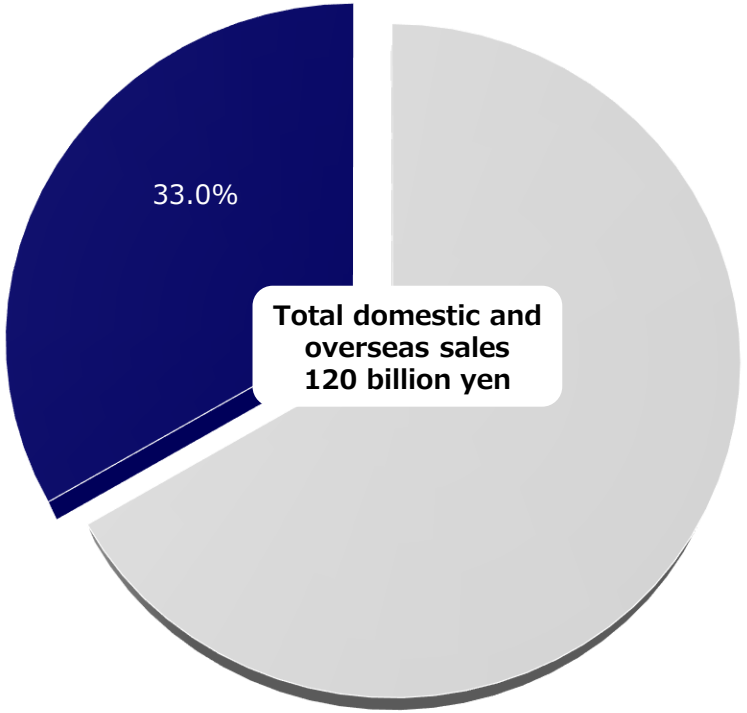
Overseas Sales Ratio (Retail Basis)

FY2019/01*
***12-month results as reference**



FY2024/02
(New Medium-Term Plan Targets)



Increase overseas sales (retail basis) from the current 1/4 to 1/3 in five years

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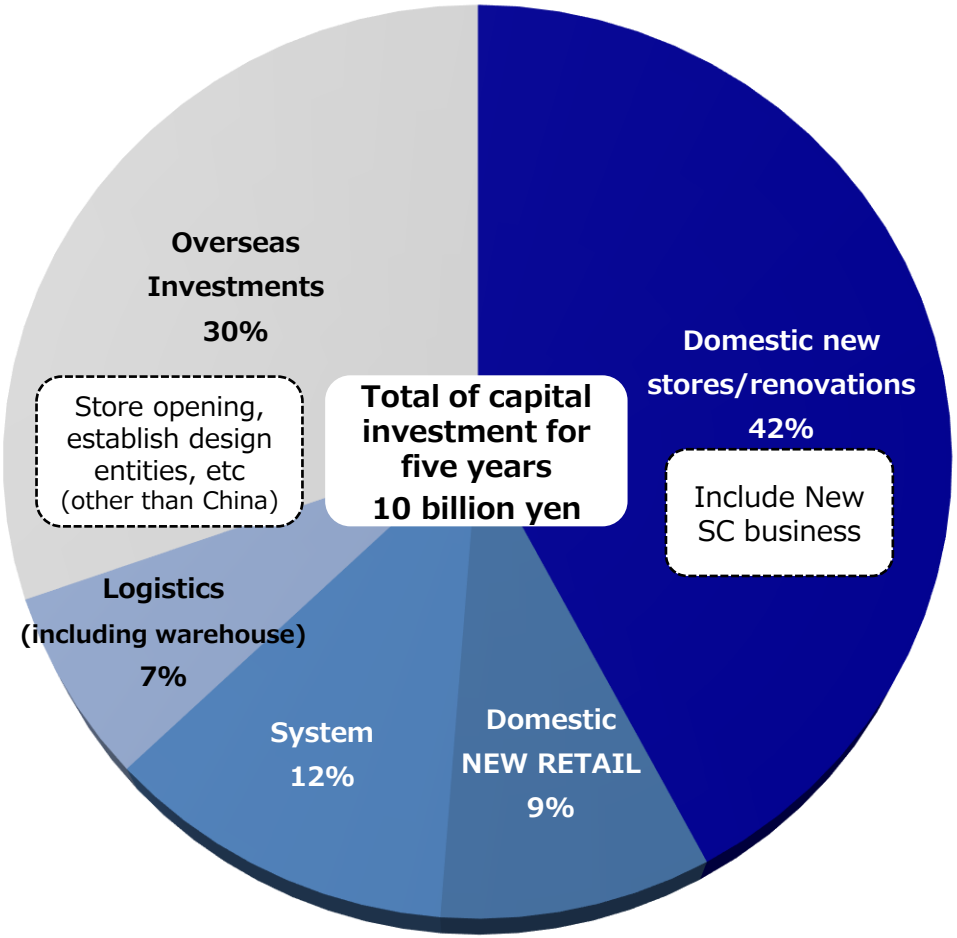
- Capex plan to invest 10 billion yen in five years
- Domestic new stores/renovations were our main investments. In addition to the above, we will focus on the following areas:
  - Investment in systems and stores, including domestic NEW RETAIL
  - Logistics (warehouse automation)
  - Overseas investments (other than China)
- Furthermore, in case of M&A and others become in line, we will regard these as additional investments

Capex Plan during the New Medium-Term Plan Period



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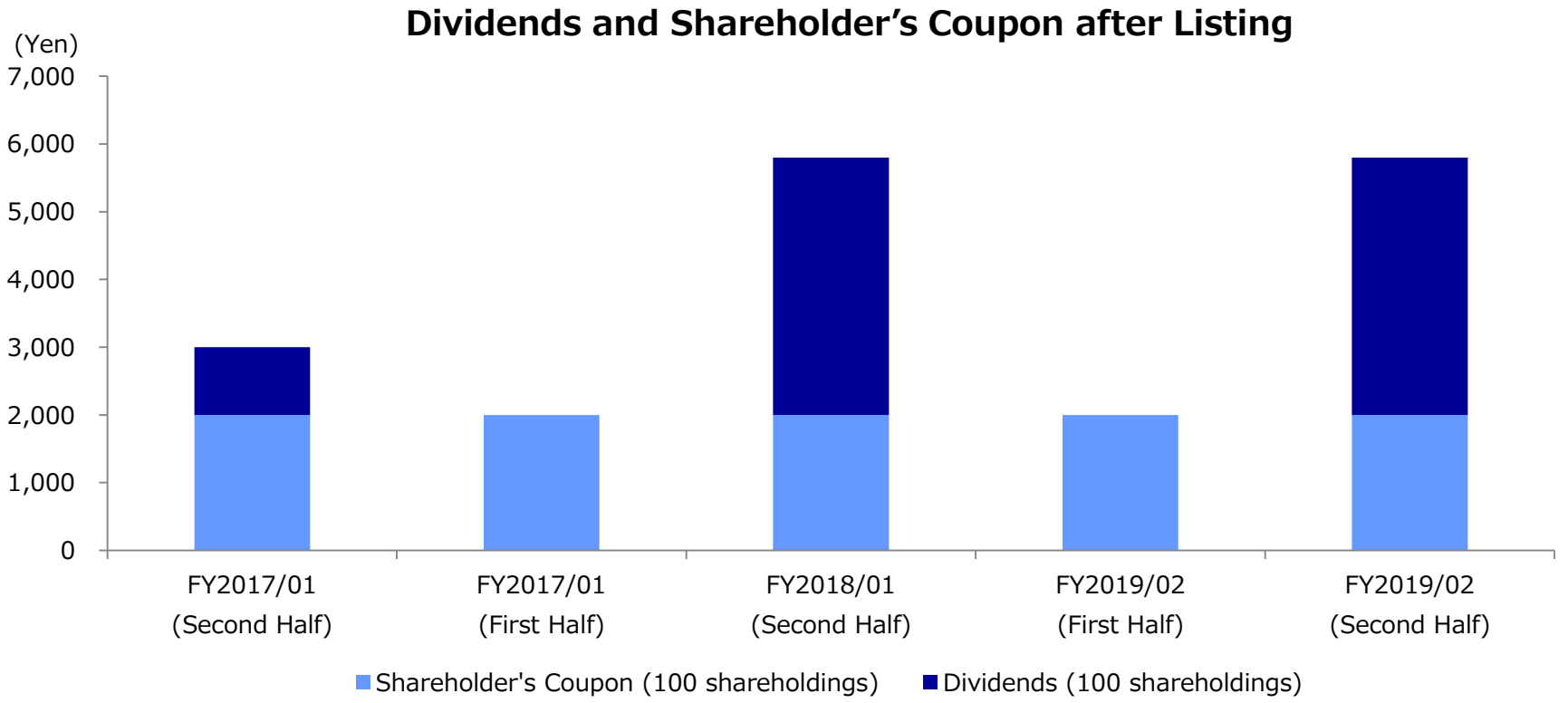
Shareholder Return

■ Return profits to shareholders with “a dividend payout ratio of about 30%-40%”



	FY2017/01	FY2018/01	FY2019/02
Cash dividends per share (yen)	10	38	38
Total dividends paid (million of yen)	355	1,377	1,391
Dividend payout ratio	9.2%	110.1%	46.7%
Dividends yield (Right allotment of the period-end at closing price of the last day)	0.6%	3.8%	4.3%

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Our ESG Activities

Environment

- Control excess production
- Developing products with considering animal welfare, such as the use of fake fur
- Developing environmentally conscious products such as organic cotton
- Efforts for global environmental conservation such as tree-planting





Society

- Efforts for various events and contributions as a member of the United Nations' WFP Association
- Promoting employment of disabilities
- Working style reforms
- Diversity promotion (female manager and recruiting foreigners)
- Industry-university joint project with Josai University
- BAROQUE "All for JAPAN" PROJECT (earthquake disaster donation)



Governance

- Strengthening corporate governance and internal controls
- Utilizing external Executive Director (two independent external Executive Directors of eight Executive Directors)
- Succession planning of internal Executive Director
- Preparing establishment of nominating committee, compensation committee, and preparation of Executive Director's compensation disclosure
- Responsible dialogue with shareholders and investors

WFP World Food Programme

AFJ All for JAPAN! BAROQUE JAPAN LIMITED

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「Core Competence」×「Innovation」⇒ Global Challenge



Transfer of our Core Competence

Local Business expansion through Innovation

Shanghai



Baroque HQ



Expansion of Foreign Nationals at Head Office

London



Hong Kong



New York



Local management recruitment

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Disclaimer

- **This document contains forward-looking statements. All statements other than statements of historical fact included herein, including without limitation, those regarding our financial position, business strategy, management plans and objectives for future operations are forward-looking statements. Any such forward-looking statements are subject to risk and uncertainty and thus could differ materially from actual results.**
- **The risk and uncertainties that could affect the forward-looking statements are difficult to predict. The company assumes no obligation to publicly revise or update its forward-looking statements in the case of unexpected changes, events, or circumstances that could affect them. Given the uncertainties of forward-looking statements, we caution readers not to place undue reliance on these statements.**

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