

Overview of the Second Medium-Term Management Plan

Steps Toward Improvements in Sustainable Growth

December 18, 2018

Hidekuni Kuroda
President and CEO
Kokuyo Co., Ltd.

1. Review of the first medium-term management plan
2. Overview of the second medium-term management plan
3. Capital policy

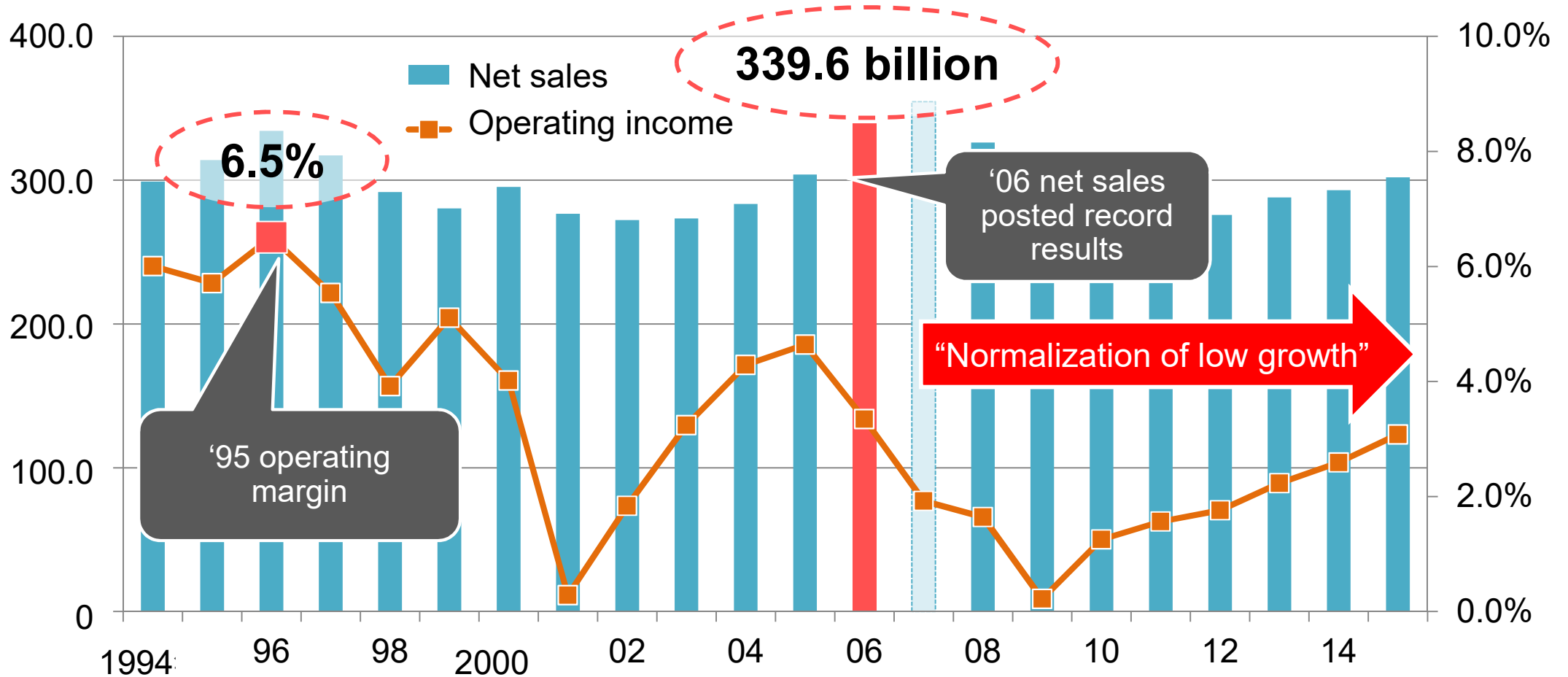
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Business performance (Through to 2015)

An extended state of low growth has persisted until the introduction of the first medium-term management plan

Business performance before the introduction of the first medium-term management plan

(Billions of yen)



“Breaking free from low growth” has been set as a medium- to long-term management issue
We will strive to become a Life & Work Style Company that contributes to the society

Medium- to long-term issue

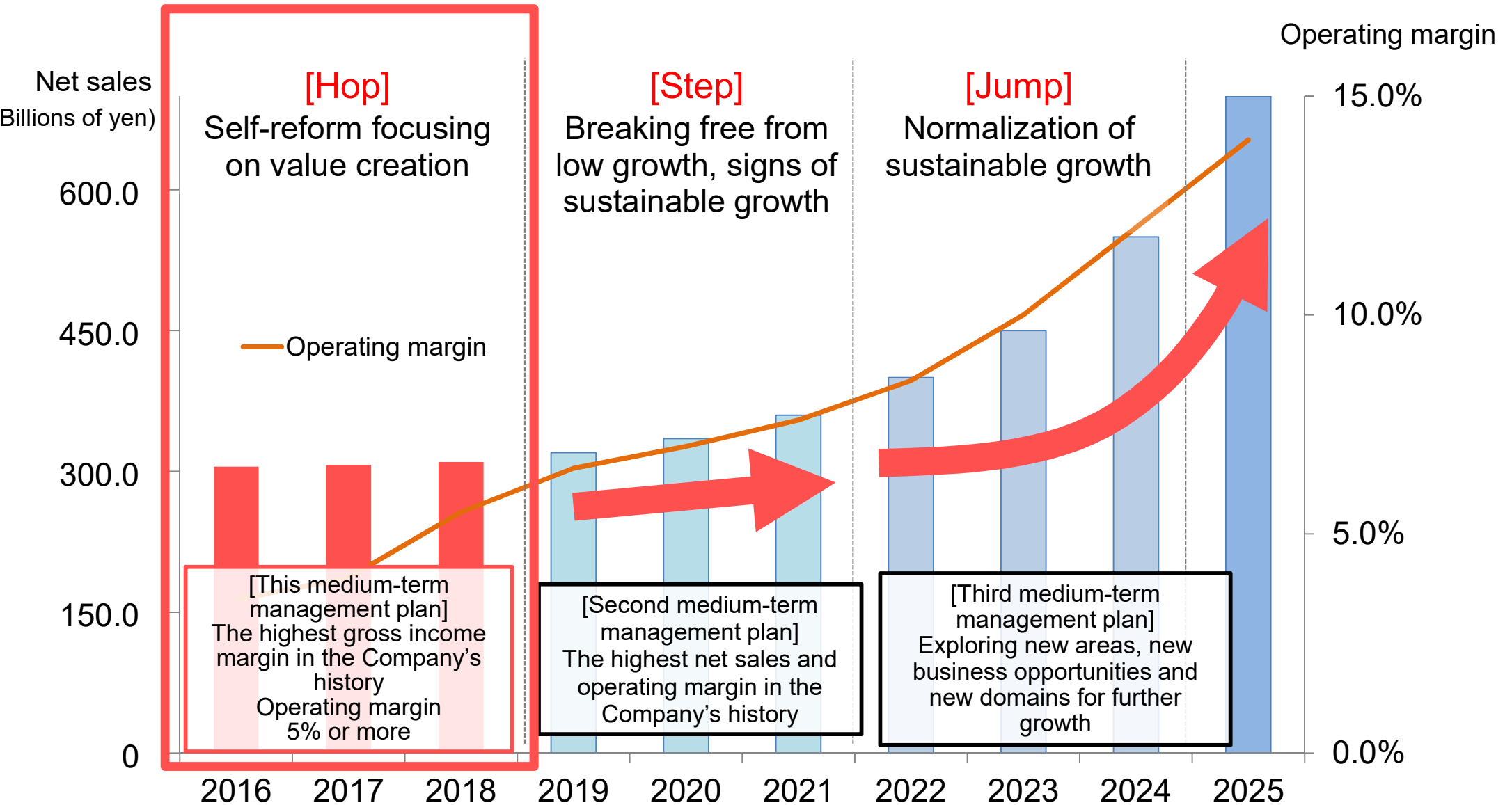
“Breaking free from low growth”

What we want to achieve

Kokuyo aims to become a Life & Work Style Company by providing value that enhances the creativity of people through its products and services for better work and learning experience and higher quality of life, thereby contributing to the society.

Positioning of the first medium-term management plan

As an initial step towards “breaking free from low growth,” we will strive for “self-reform focusing on value creation.”



During this time we worked on operation model reform and development of the ability to sustain profitability

Basic Management Policies

Self-reform focusing on value creation

Value Transformation 2018

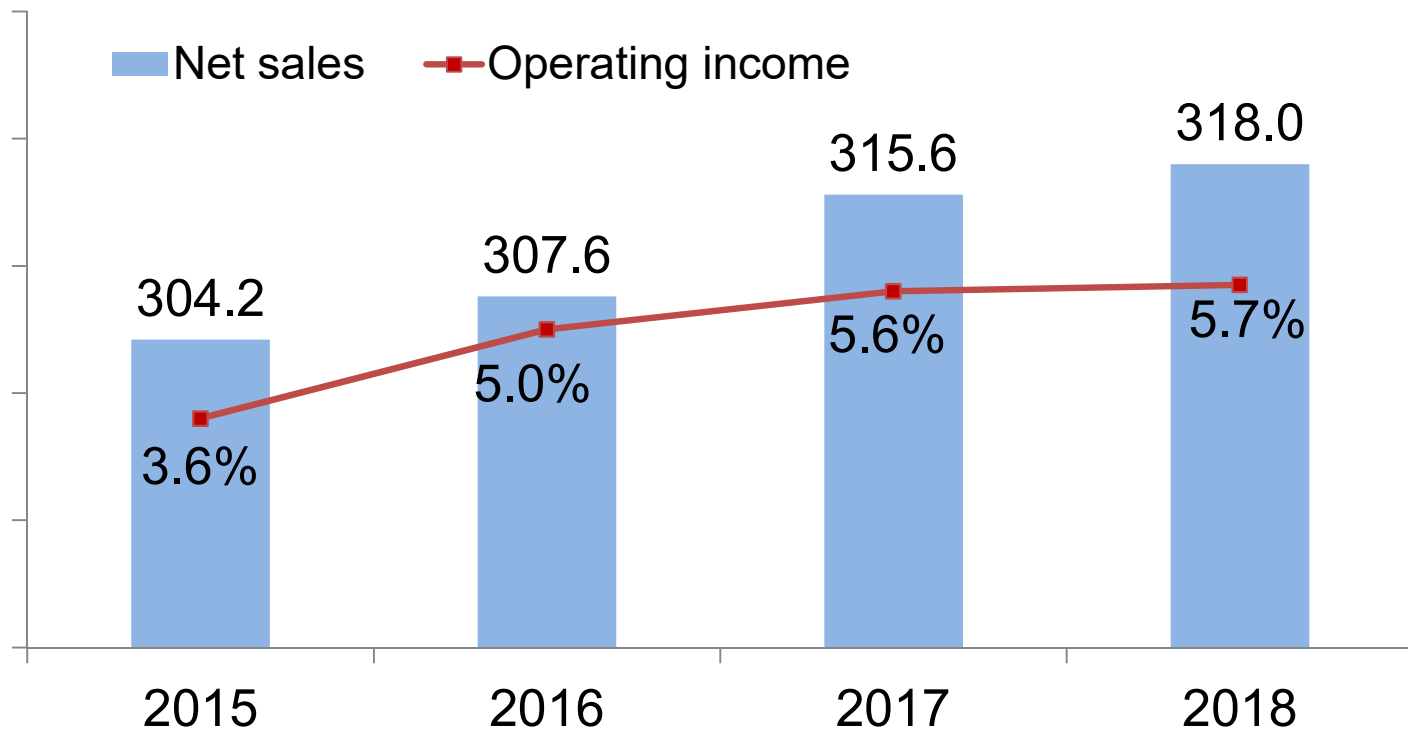
1. “Operation model reform” that realizes customer-oriented value creation
2. “Development of the ability to sustain profitability” to enable medium- to long-term sustainable growth

Targets for the three-year period

Our goal for the Company is set to securing capital for growth, realizing a highly efficient management system, and achieving a self-sustained business model in overseas operations

We worked towards these goals while upwardly revising numerical targets






- Secure capital for growth: Operating income of ¥17 billion or more from the domestic business
- Realize highly efficient management system: Overall company operating margin of 5.5% or more
- Achieve self-sustained business model in overseas operations: Stabilization of operating results of the overseas businesses



	FY 2018
Net sales	¥318 billion
Gross income margin	36.1%
SG&A ratio	30.4%
Op and Op margin	¥18 billion 5.7%

Company reforms and improvements were enacted decisively, the results of which are readily apparent

The Company's reputation rose in turn, leading to increased confidence within the Company

-  • Improvements in gross profit margin due to an increased NB rate
-  • Expanded our share of the domestic furniture market
-  • Business sell-offs allowed us to further invest our resources into the furniture in the big Tokyo metropolitan area
-  • Improvements in the PB rate for online and catalog sales
-  • Implemented work style reforms at our SST office



Although impacted by the transfer of the store business, 2018 is expected to mark the seventh consecutive period that revenues have increased, and the ninth consecutive period that operating profits have grown. This indicates that significant progress has been made towards resolving the medium to long-term issues facing the Company.

Comparison of results and targets set for 2015

(Billions of yen)

		2015	2018		2015 results comparison		Comparison to initial target	
		Actual results	Initial target	Projection	Diff. in amount	Diff. in ratio	Diff. in amount	Diff. in ratio
Net sales	Stationery	97.5	100.4	97.2	-0.3	-0.3%	-3.2	-3.2%
	Furniture	126.5	127.1	132.1	+5.6	+4.4%	+5.0	+3.9%
	Online and catalog sales and retail	109.6	122.6	120.8	+11.2	+10.2%	-1.8	-1.5%
	Reconciliation	-29.2	-32.1	-32.1	-	-	-	-
	Total	304.2	318.0	318.0	+13.8	+4.5%	+0.0	+0.0%
Operating income	Stationery	4.6	7.8	6.8	+2.2	+47.8%	-1.0	-12.8%
	Furniture	6.3	13.1	14.5	+8.2	+130.2%	+1.4	+10.7%
	Online and catalog sales and retail	2.4	4.1	3.7	+1.3	+54.2%	-0.4	-9.8%
	Reconciliation	-2.3	-7.0	-7.0	-	-	-	-
	Total	11.1	18.0	18.0	+6.9	+62.2%	+0.0	+0.0%

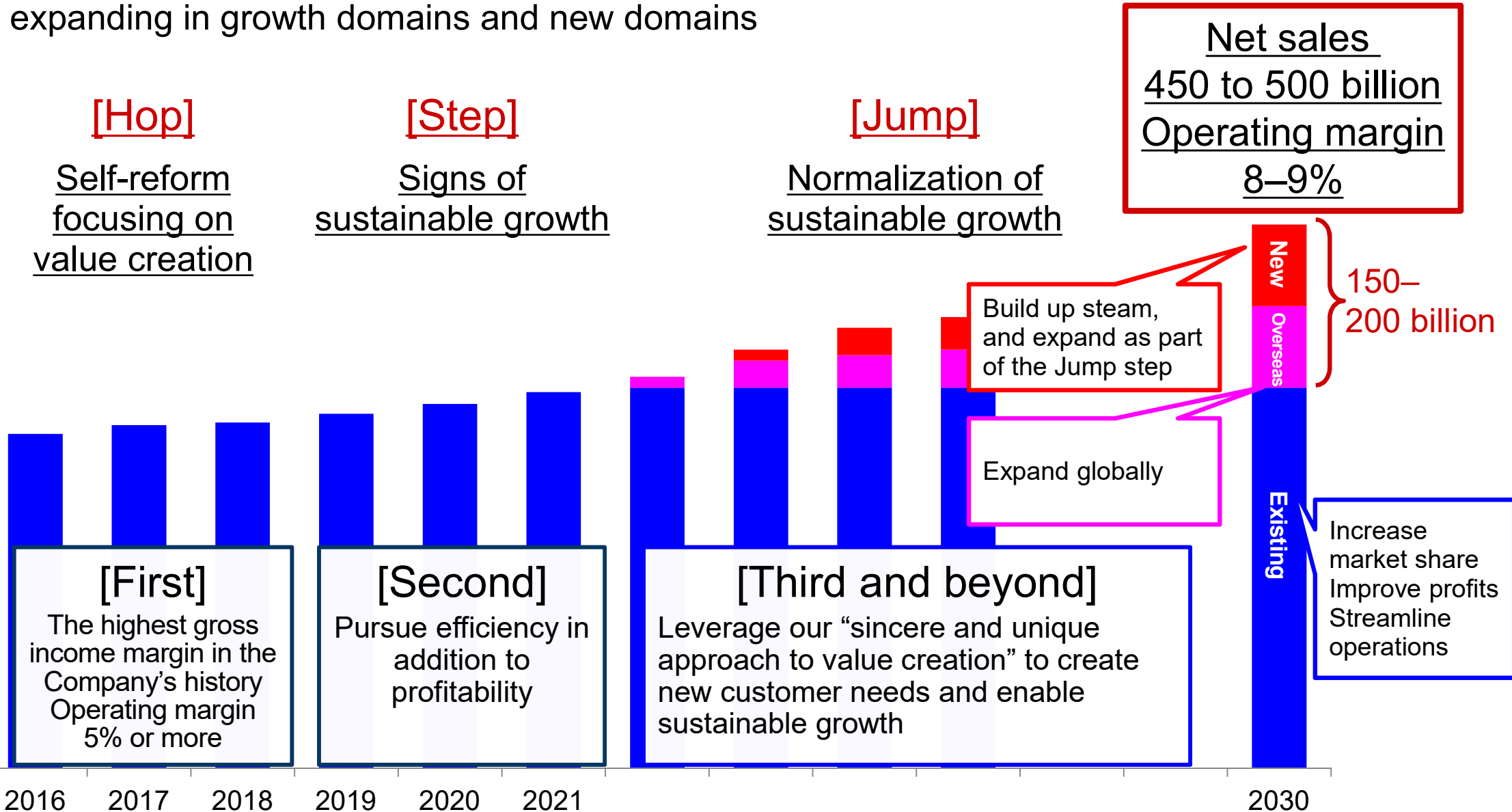
*The store business arm of the furniture business, which was involved in the manufacture and sale, etc. of store fixtures, was transferred to a third party as of January 1, 2018 as part of a company split. Sales for this business for 2017 were 9.9 billion yen.

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Vision to achieve by 2030

By 2030 we shall achieve our vision for the medium- to long-term with net sales of ¥450 to 500 billion

In addition to sustaining and strengthening the profitability of existing business, aim for expanding in growth domains and new domains



The basic policy is set to “Enabling sustainable growth – Smart & Sustainable Transformation 2021.” Improve our smart revenue-earning capabilities with an eye toward variety, and we shall implement streamlined business operations premised on rapid growth over the medium- to long-term

Second medium-term management plan basic policy
Enabling sustainable growth
Smart & Sustainable Transformation 2021

Priorities for the three-year period

1. Improve our smart revenue-earning capabilities with an eye toward variety
2. Implement streamlined business operations premised on rapid growth over the medium- to long-term

These rapidly changing business environments are starting to show signs of improvement

Signs of change

Stationery

Shift from “office supplies” to “problem solving stationery that boosts creativity”
Demand for high quality stationery on the rise in Asia and in ASEAN countries

Office spaces

Shift from purchasing office furniture as an expense to developing spaces as a form of investment
The spread of work style reforms and ABW is expected to accelerate

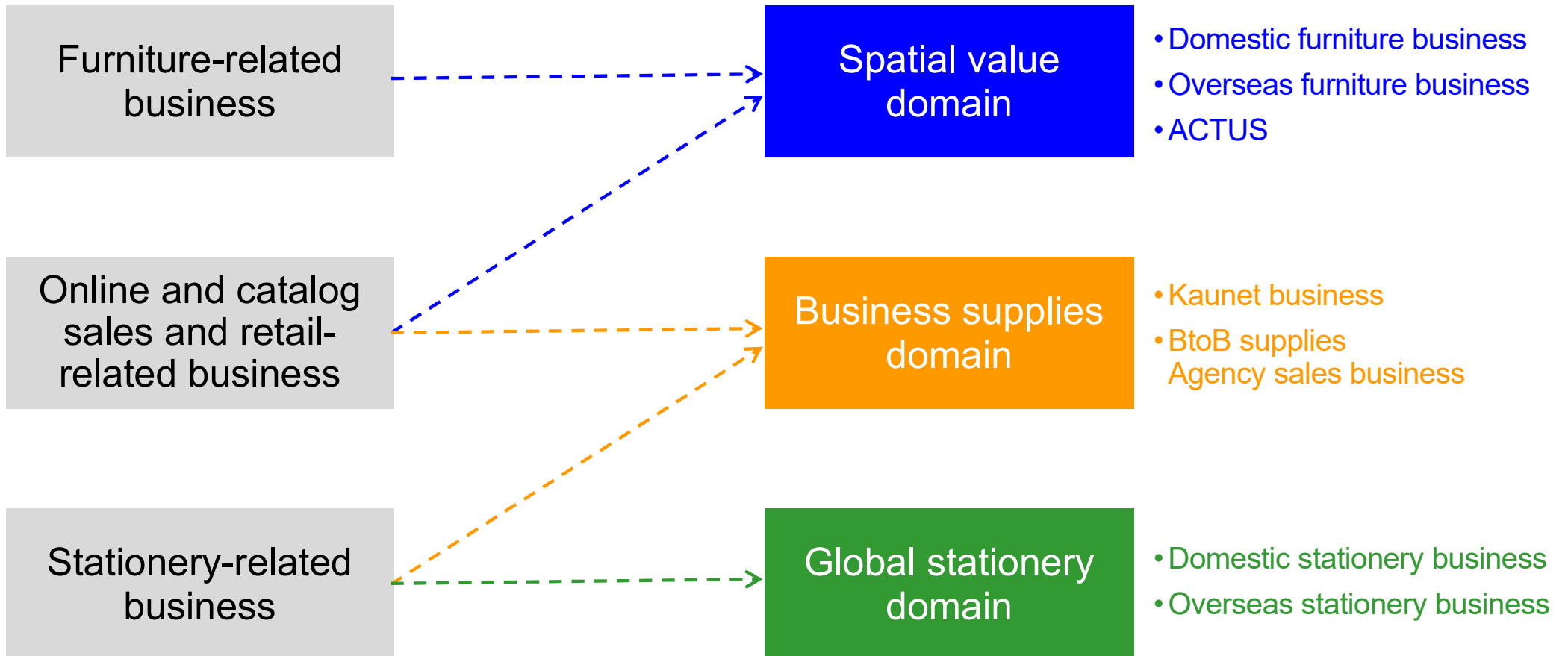
Distribution

Changes in purchasing behavior leading to the further diversification of product needs
The rise in distribution costs and personnel expenses is expected to continue

We use the medium-term management plan to clarify how to grow each business line in the pursuit of further improvement and growth

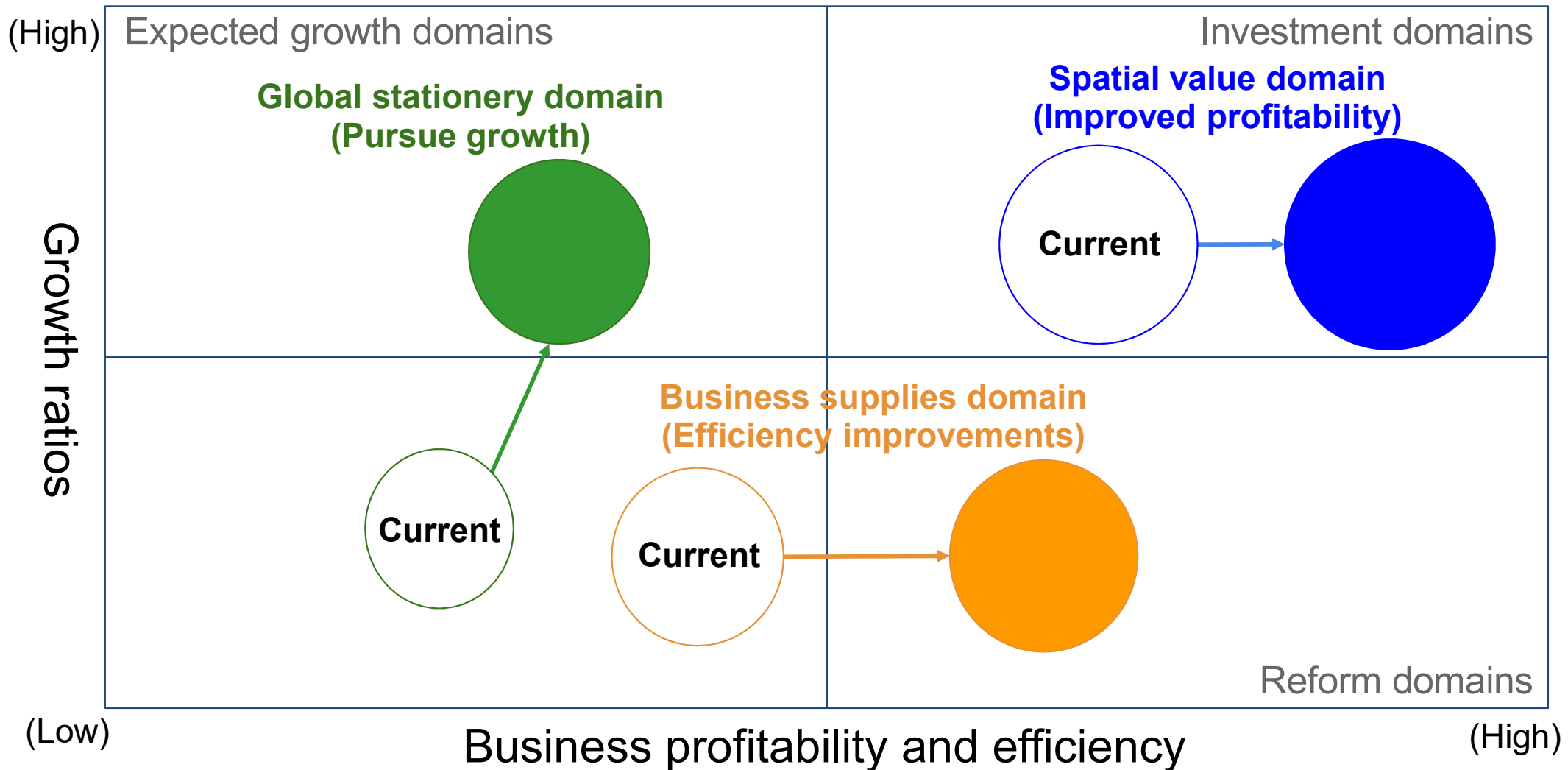
We establish three business domains to shift from a purely object-based perspective to a perspective that takes into account customers' changing needs in the future

Changing business category lines through the setting of domains



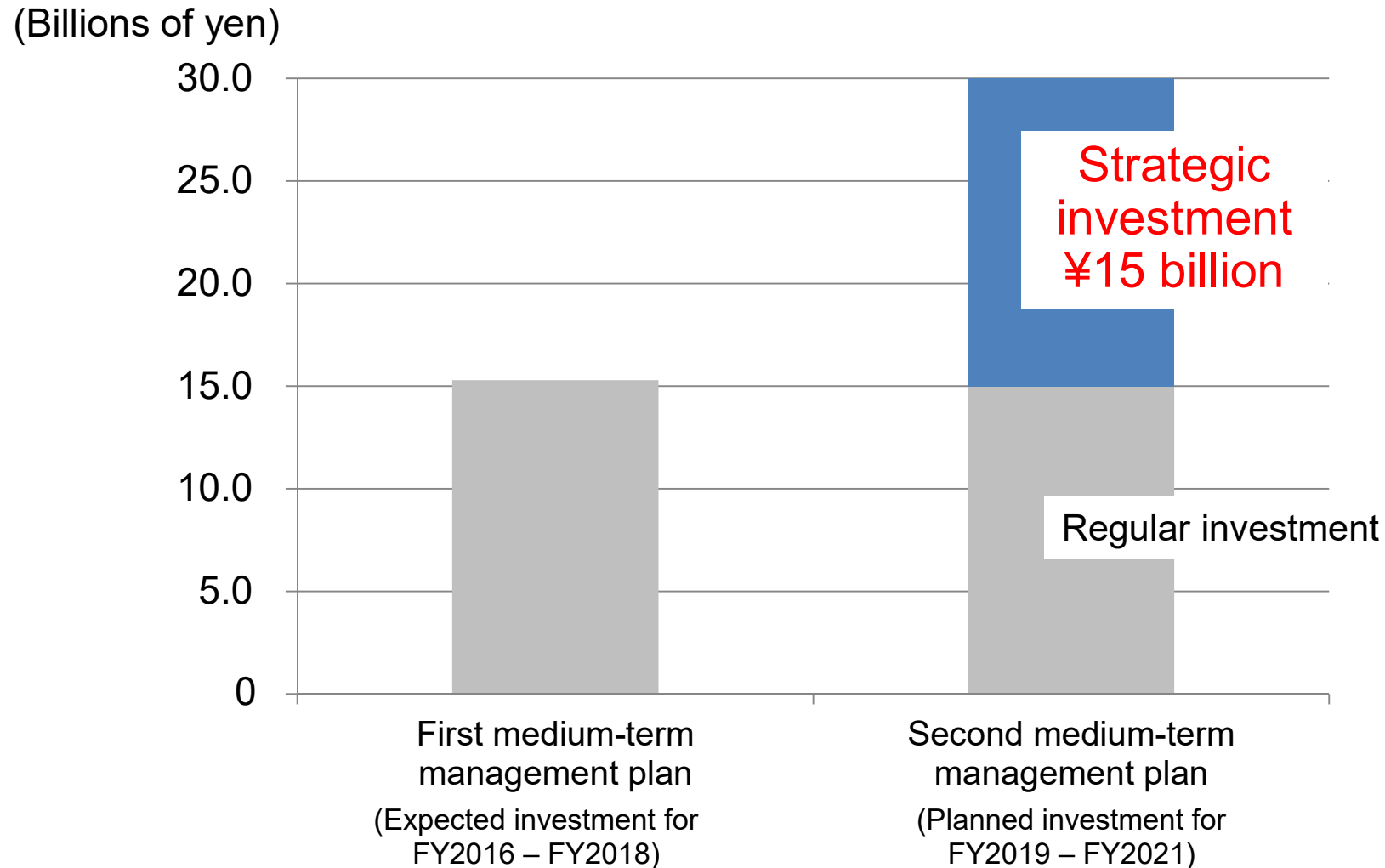
We engage in more diverse investment and resource allocations as a step where we would like to be with each domain

Operating business domains through growth ratios and business profitability and efficiency



In addition to regular investments, we continue to implement strategic investments in the pursuit of sustainable growth for the future
Strategic investments go beyond business divisions, and are tied into our domain strategy

Investment amounts



We anticipate an increase in net sales of 8.8% and an increase in operating margin of 19.4% over the (expected) results for the term ended December 2018

Comparison of forecast results and targets set for 2018

(Billions of yen)

	FY2018	FY2021		
	Projection (released July 2018)*	Target	Compared to FY2018	Annual growth rate
Net sales	318.0	346.0–	+8.8%	+3.2%
Gross profit (ratio)	113.6 (35.7%)	127.8– (37.0%–)	+12.5% (+1.3pts)	+4.3%
Operating income (ratio)	18.0 (5.7%)	21.5– (6.2%–)	+19.4% (+0.5pts)	+5.9%

* Figures for the fiscal year ending December 2018 are estimates made when the Financial Results for the Six Months Ended June 30, 2018 were released.

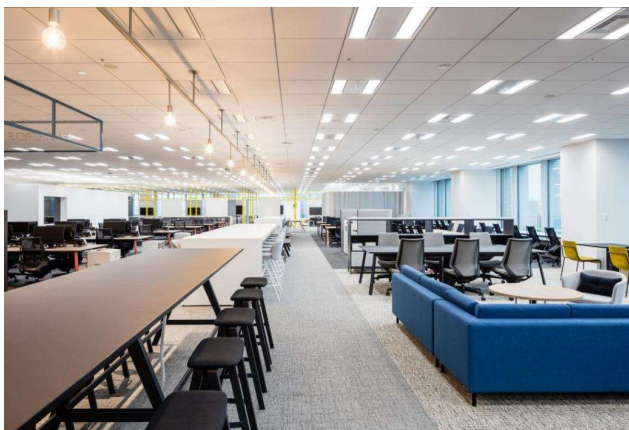
Explore growth areas (global, living, etc.) for the medium- to long-term

- Support worldwide growth in the need for activity-based working (ABW)
- Continue to ensure sustainable growth in the domestic furniture business for which a large volume of furniture is supplied to large office buildings located right on our doorstep, in the big Tokyo metropolitan area

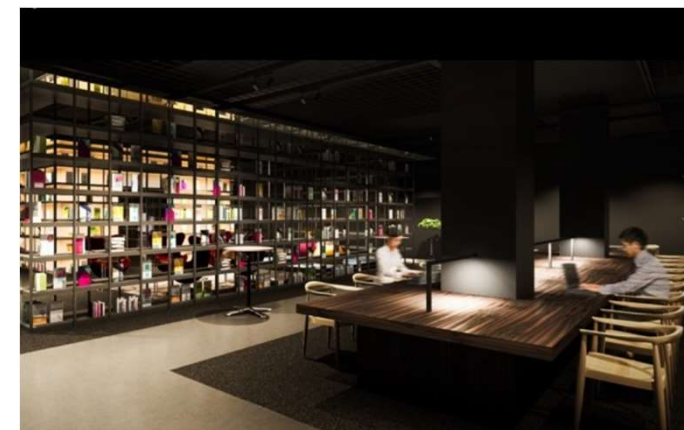
*ABW(Activity Based Working) A freeform working style where employees can freely choose the time and place to perform work according to the type of work performed and the employee's mood

ABW initiatives implemented at KOKUYO

•Central office (Shinagawa SST Office)



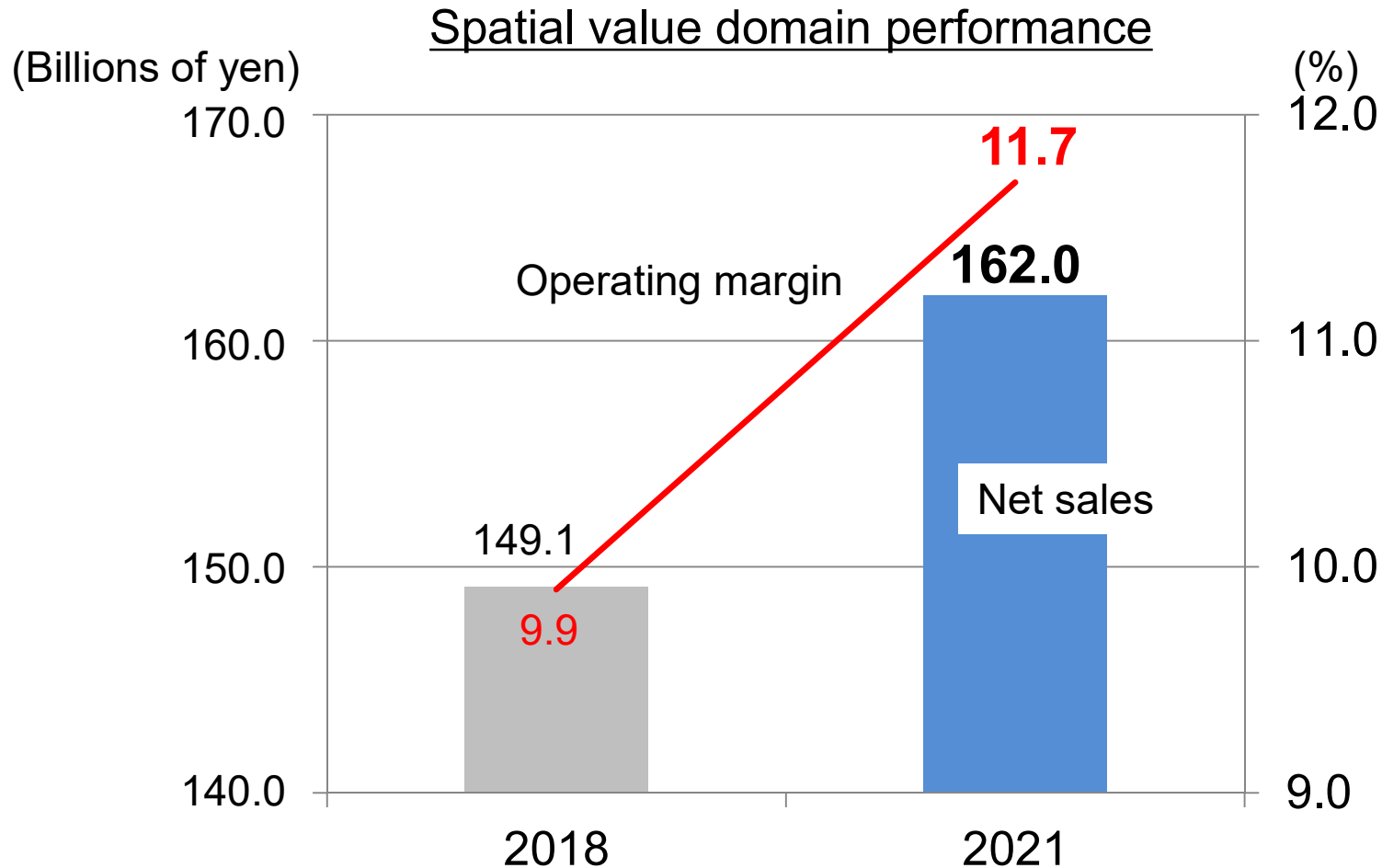
•Satellite office (Diverary)



- Besides work performed at the central office, a range of spaces and systems have been set up to best suit the varying nature of work performed
- Satellites offices and external co-working spaces can also be used to facilitate work being performed

Actively invest business resources in working towards improving profits in the domestic furniture business

In the investment phase, we forecast net sales to be at ¥162 billion by 2021, with an operating margin of at least 11.7%

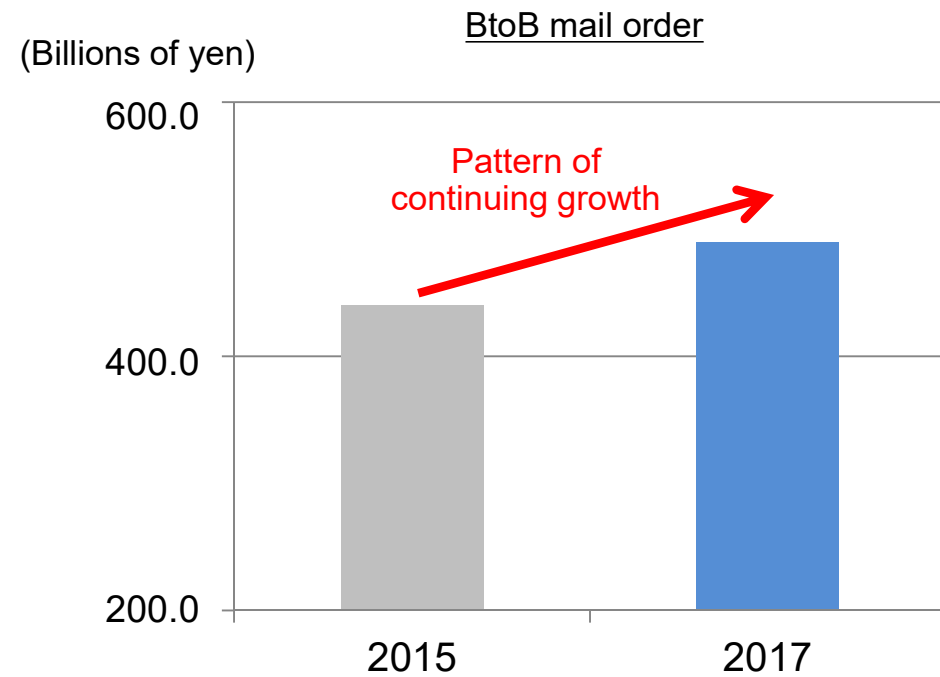
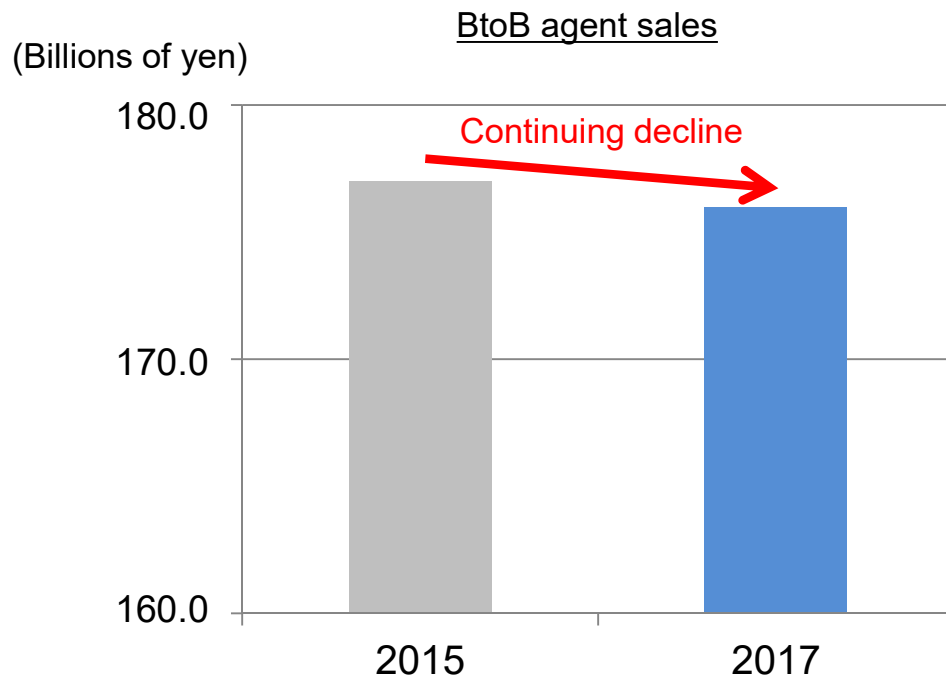


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Conduct structural reform and strengthen our customer base for greater business sustainability

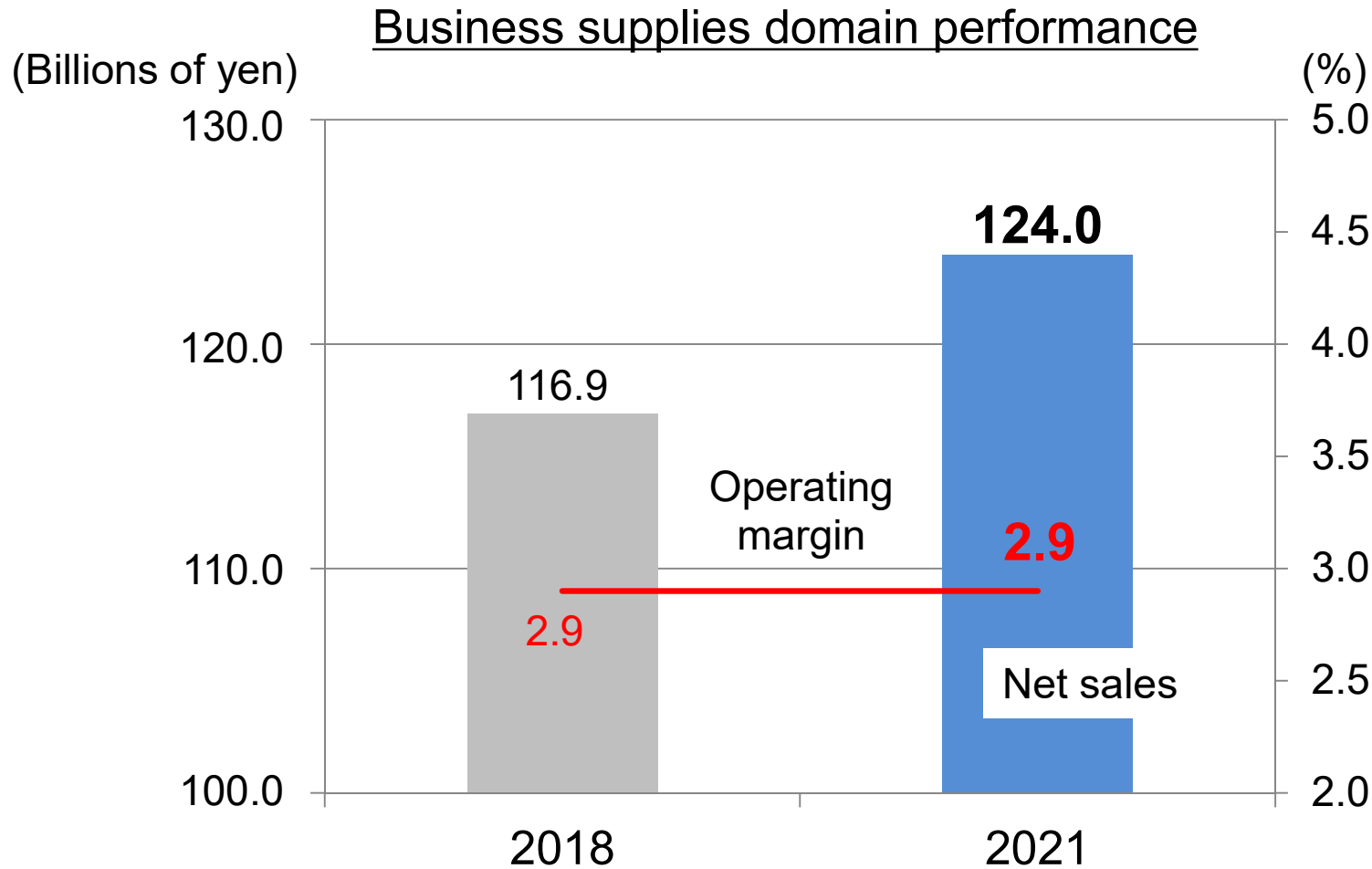
- Streamline operations through a migration strategy formed based on the perspective of integrating the sales agent sales model and the mail-order model, areas which are undergoing a period of great change, and ‘integrating in-house Company functions.’
- Work on improving efficiency across all business divisions over all domains

Changing scale of the office supplies market



(Source: Kokuyo)

In the reform phase, we will look to achieving net sales in line with the market, and securing profitability to absorb the increased distribution costs, etc.
 We forecast net sales to be at ¥124 billion by 2021, with an operating margin of at least 2.9%

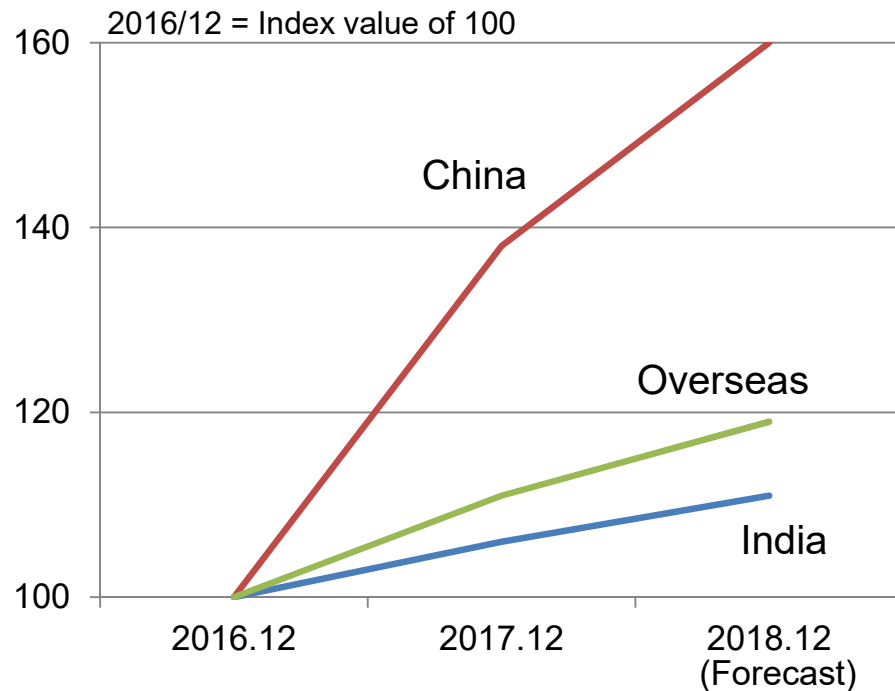


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Expand our market share in the global stationery market

- Resolve inefficiencies with our domestic business lines, which have otherwise achieved the No.1 market share, and are renowned for their high quality and brand power
- Through 'learning,' etc., maintain sustainable growth in markets with a promising outlook (China, India, etc.)
- Formulate and review growth strategies in new growth areas (new areas and categories)

Overseas stationery business sales trends



'Learning' product examples (India)



Camlin Wax Crayon

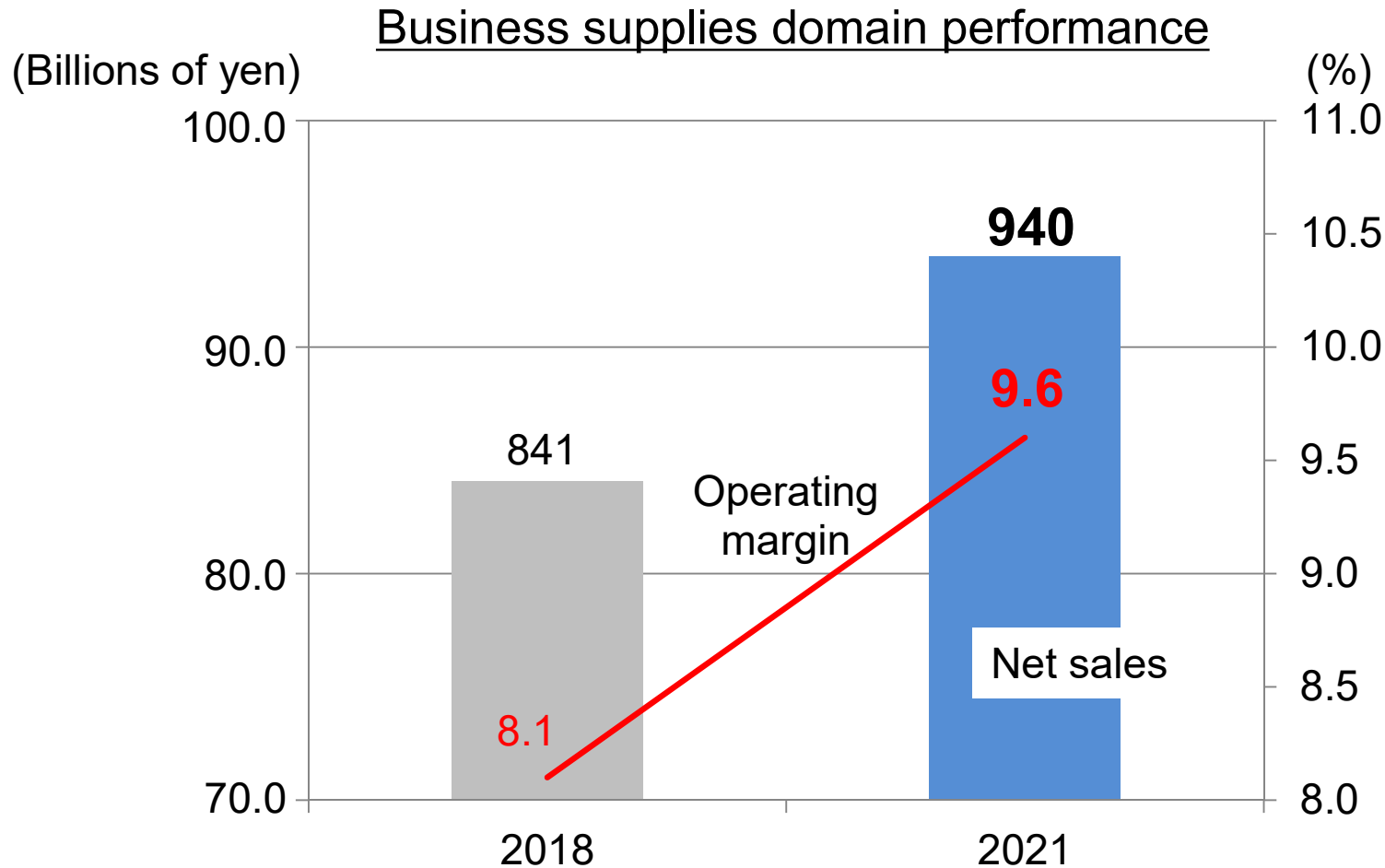


Camlin Plastic Crayon



Camlin Mechanical Pencils

In the growth phase, we will strive to boost revenues focused on overseas markets, and improve profitability both overseas and in Japan
 We forecast net sales to be at ¥94 billion by 2021, with an operating margin of at least 9.6%



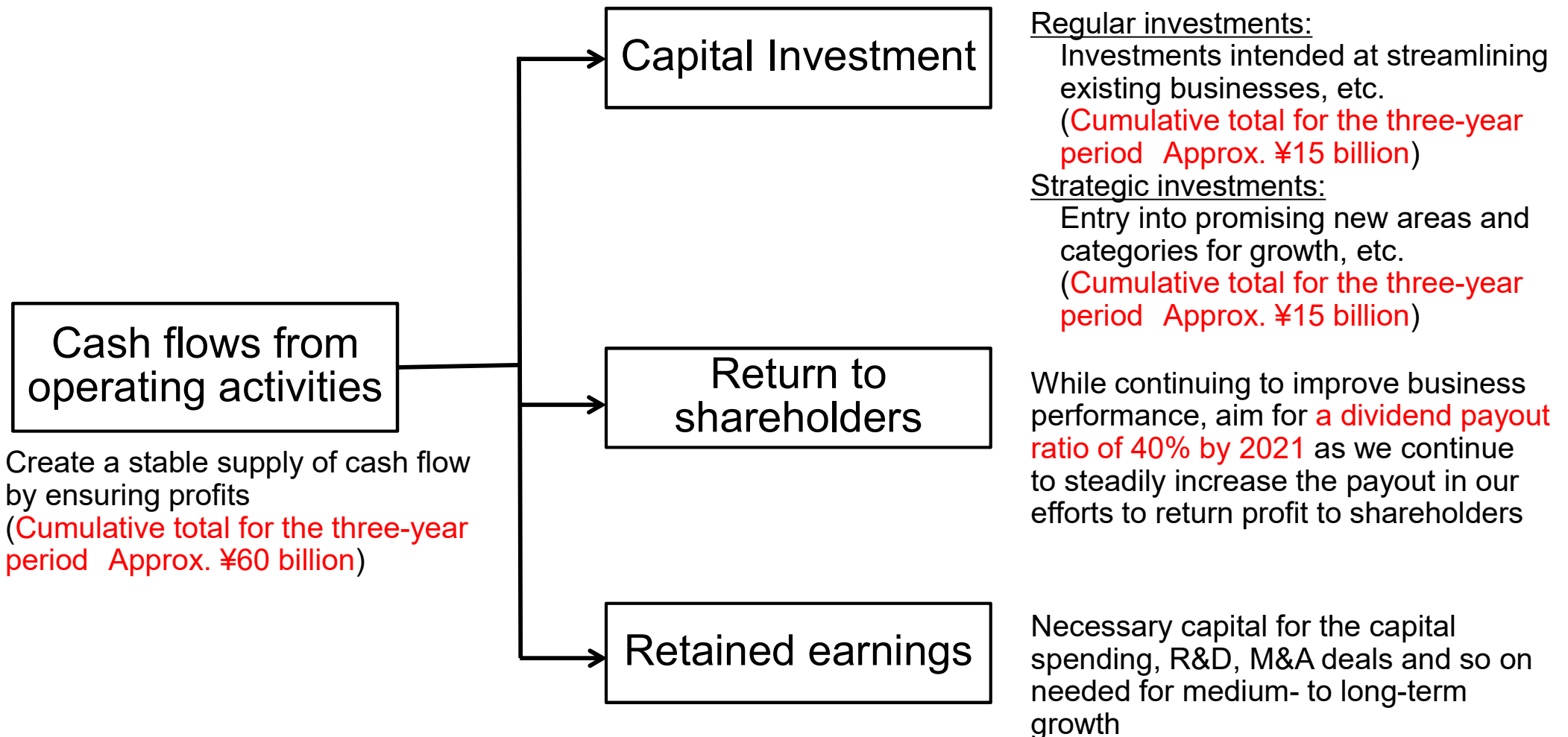
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The distribution of sales CF generated will be prioritized on aggressive investment toward achieving further growth

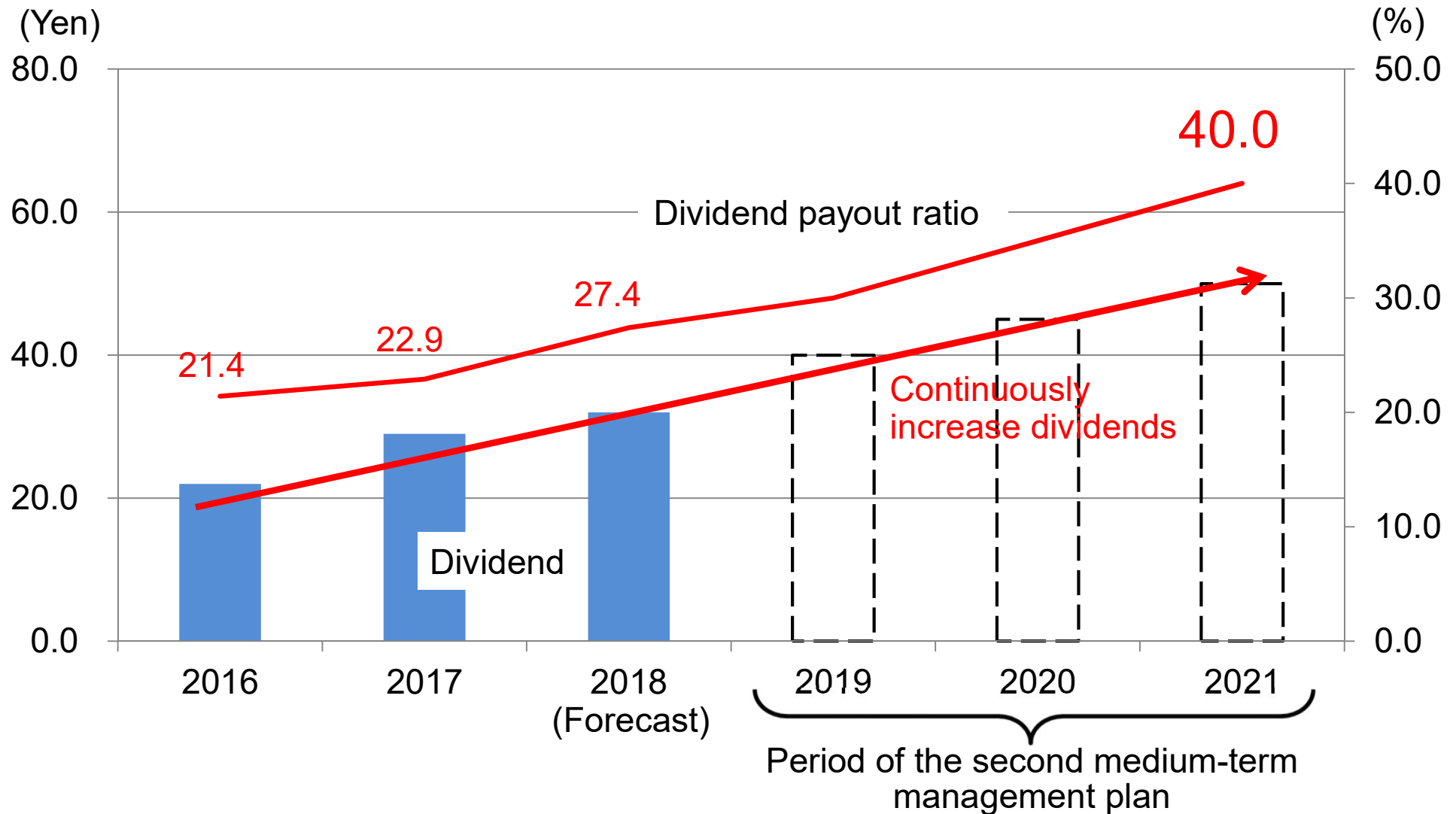
Set a retained earnings/dividend payout ratio standard while maintaining investment frameworks for M&As intended at expanding the scope of the business for the future

Image of the distribution of cash flows from operating activities



Aim for a dividend payout ratio of 40% by 2021 as we continue to steadily increase the payout in our efforts to return profit to shareholders

Dividend per share and dividend payout ratio trends



KOKUYO

Note: Forecasts of future KOKUYO earnings included in this presentation contain various inherent risks and uncertainties.
Actual earnings may differ substantially from these forecasts.