



Revised Version of the Second Medium-Term Management Plan (revised version)

(January 2015 – December 2017)

**From the Regeneration Stage
to the Growth Stage**

Laox Co., Ltd.

Second Section of the Tokyo Stock
Exchange: 8202

October 27, 2016

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Progress from January 2015 to June 2016 under the Second Medium-Term Management Plan (January 2015 – December 2017)



Progress from January 2015 to June 2016 under the Second Medium-Term Management Plan

The following is the progress to June 2016 under the Second Medium-Term Management Plan (2015-2017).

[Three premiums]

■ Store premium

- Construction of the nationwide network of general tax-free shops
 - ➔ 50-store system
- Major cities, popular areas for inbound customers, airports and harbors

■ MD premium

- Product lineup with a strong focus on “made in Japan”
- Joint development with the representative leading manufacturers of Japan


■ Human resources premium

- In-depth education in Japanese, Chinese and English at Laox University
- Full implementation of Japanese-style hospitality service


[Status of achievement]



Reached 41 stores, mainly in major cities throughout Japan.
Also opened stores in main airports and cruise harbors.




Achieved a 90% ratio of products made in Japan among 70,000 – 80,000 SKU on a steady basis. Of these, 10% are original products including PB and monopoly products.



The ratio of foreign nationals to regular employees exceeds 60%. Up to 21 languages are used in the stores. More efforts are needed regarding Japanese-style hospitality service.

[Two features]

- Highly efficient unique operation
- Establishment and strengthening of a unique sales system



Established a position as a pioneer in the tax-free business by fully displaying efficient tax exemption procedures and sales operations, as well as the sales system and marketing, making excellent use of the network with China.

Background of Revision



Background of Revision: What Has Changed

We announced the Second Medium-Term Management Plan in February 2015. However, the external environment surrounding the Company changed rapidly in 2016.

What has changed	Impact on the Company	Countermeasures in practice
[Changes in the behavior of inbound tourists, the main customers of the Company]		
Rapid change from the consumption of things to the consumption of values. Shift in motivation to visit Japan from exclusive interest in shopping as symbolized by shopping sprees to experience-based consumption.	A decline in the average purchase per customer. A fall in the number of paying customers.	Introduced the sales meister system to raise the average purchase per customer and strengthen sales capability. Began embarking on the value consumption business, with the “made in Japan” culture as the MD content.
Increase in free independent travelers (FITs). Of Chinese tourists visiting Japan, the ratio of FITs increased from 38% in 2014 to 57% in 2015. It rose to 63% in the first half of 2016.	Diversification of products purchased. Customer service was tested more extensively.	Further expansion of SKU and strengthening of proposal-based MD. Renovated stores focusing on FITs to differentiate between stores for groups and stores focusing on FITs.
Shift from an overemphasis on the golden route to local tourist routes. Accelerated diversification of tourist routes.	More tourists go to local regions for the purpose of experience, and they prefer products with strongly regional characteristics.	The response to store openings in popular local areas has been completed. Strengthened area characteristics of MD.
[Impact of exchange rates]		
Rapid appreciation of the yen *February 12 was the announcement date of the medium-term plan. As of February 12, 2015, 120.20 yen to the dollar and 19.20 yen to the yuan. As of June 30, 2016, 102.91 yen to the dollar and 15.46 yen to the yuan.	Motivation to buy so-called luxury items and high-ticket items slowed. The average purchase per customer declined.	Strengthened sales capability and enhanced products in the low price range.
[Changes in the tax system in China]		
A rise in customs duties and a strengthened check function.	A sharp decline in bulk buying. A fall in the average purchase per customer.	

Background of Revision: What Has Not Changed

Although the external environment has changed, our strategies and the direction of our efforts for the inbound business have not changed.

<Belief>

The inbound business is essential for the growth of Japan, and it is the market that will grow stably in the future!

- ★Position ourselves as the leading company in the inbound market in Japan.
- ★Deliver quality products and services made in Japan to people around the world.
- ★Contribute to the globalization of Japan through our strategies.

<Strategies>

★Store opening strategy: **Achieved** ➡ **Continue to open stores in good locations actively, regardless of the number of stores.**

- Opened stores in major cities throughout Japan, popular areas for foreigners, and airports and harbors that are important traffic points, and built a nationwide network of general tax-free stores.

★MD product strategy: **Achieved** ➡ **Constantly refreshing it.**

- A wide range of categories are offered, centered on products that are made in Japan.
- Achieved proposal-based displays, while constantly arranging popular products based on our own database and the marketing data of the parent in China.

★Highly efficient operation with high response capabilities to inbound customers: **Achieved** ➡ **Strengthen it further.**

- Commenced our efforts for the change of operation and an improvement in customer service in step with increasing FITs.

★Sales strategy with overwhelming strength in group tours: **Achieved** ➡ **Build a new FIT scheme while riding on our strengths.**

- Build a stronger flow of FIT sales, taking advantage of our sales expertise in group tours.
- Work aggressively to diversify the nationalities of customers.

★Globalization of human resources: **Working** ➡ **Aim for further globalization (Japanese offer hospitality to foreigners, and foreigners offer hospitality to Japanese on a routine basis).**

- 60% of the Company's employees are foreign nationals from 17 countries, but they are mainly Chinese. We will therefore achieve a balance in their nationalities in the future.

Background of Revision: Government Perspective

Inbound tourism in Japan is expected to grow continuously in the future.

[Reference]

Overview of the “Council for the Development of a Tourism Vision to Support the Future of Japan” of the Abe administration

* Extract of numerical targets

	2012	2015	2020	2030
Number of foreign tourists visiting Japan	8.36 million	19.74 million	40 million	60 million
Amount of inbound tourism consumption	1,084.6 billion yen	3,477.1 billion yen	8 trillion yen	15 trillion yen
Cumulative total nights' stay by foreigners in local regions	—	—	70 million nights	130 million nights
Number of repeaters among foreign tourists	—	—	24 million	36 million

* Extract of government efforts

(Results) The strategic relaxation of visa requirements, the expansion of the tax-free system, the enhancement of the immigration control structure, and the expansion of the airline network, etc.

(Future) Three viewpoints and 10 reforms to become a tourism-oriented developed nation *See below.

Viewpoint 1
Enhance the promotion of tourism resources to make it the foundation for local revitalization.

- **Open attractive public facilities widely to the public and the world.**
 - Boldly disclose and open the state guest houses in Akasaka and Kyoto, etc.
- **Promote understanding of cultural properties as tourism resources from a tourist's perspective, rather than preservation, and use them.**
 - Develop 200 tourism spots nationwide by 2020, with cultural properties as the core, and enhance support in a focused manner by developing 1,000 projects including easy-to-understand multilingual explanations.
- **Develop the national parks to a world level.**
 - Improve five parks across the country to experience-based utilization-type parks by 2020 in a focused manner, using the power of the private sector.
- **Prepare a landscape plan in major tourist spots to create a beautiful cityscape.**
 - Formulate a landscape plan in all prefectures and half of all municipalities in principle by around 2020.

Viewpoint 2
Evolve tourism into a core industry by renovating the tourism industry and increasing its international competitiveness.

- **Create a tourism industry that values productivity by revising old regulations.**
 - Shake up more than 60-year-old regulations and systems and promote and support the tourism industry with the general package including the cultivation of top-level management personnel, the development of private lodging rules, and the improvement of the productivity of the lodging industry.
- **Develop a new market and achieve long stays and a rise in consumption at the same time.**
 - Implement the strategic relaxation of visa requirements and promotion targeting the wealthy population in Europe, the U.S. and Australia.
 - Fundamentally improve the support system for attracting and holding MICE.
 - Improve the environment to accept business jets in the Tokyo area.
- **Regenerate and revitalize run-down hot spring resort areas and local cities through management with forward-looking thinking.**
 - Form 100 DMOs of a world level by 2020.
 - Achieve stable and continuous tourism-based community development by making maximum use of the power of the private sector, taking advantage of the tourism spot regeneration and revitalization fund and deregulation, etc.

Viewpoint 3
Create an environment where all tourists can enjoy sightseeing easily and without stress.

- **Realize the world's most comfortable stay by dramatically improving soft infrastructure.**
 - Drastically change the scenery of immigration by using the world's best technology.
 - Achieve a stress-free environment for using telecommunications and transportation.
 - Achieve cashless tourism.
- **Achieve comfortable travel to anywhere in Japan by fully providing the “regional revitalization corridor.”**
 - Make the Japan Rail Pass available for purchase even after arrival in Japan.
 - Enhance access transportation to tourist spots linked to the opening of the Shinkansen and the operation of concession airports, etc.
- **Create a vibrant society by reforming the method of working and the method of taking leave.**
 - Raise the utilization rate of annual paid leave to 70% by 2020.
 - Level tourism demand by introducing a system to facilitate the taking of leave by family members and decentralizing the leave to be taken.

Numerical Targets

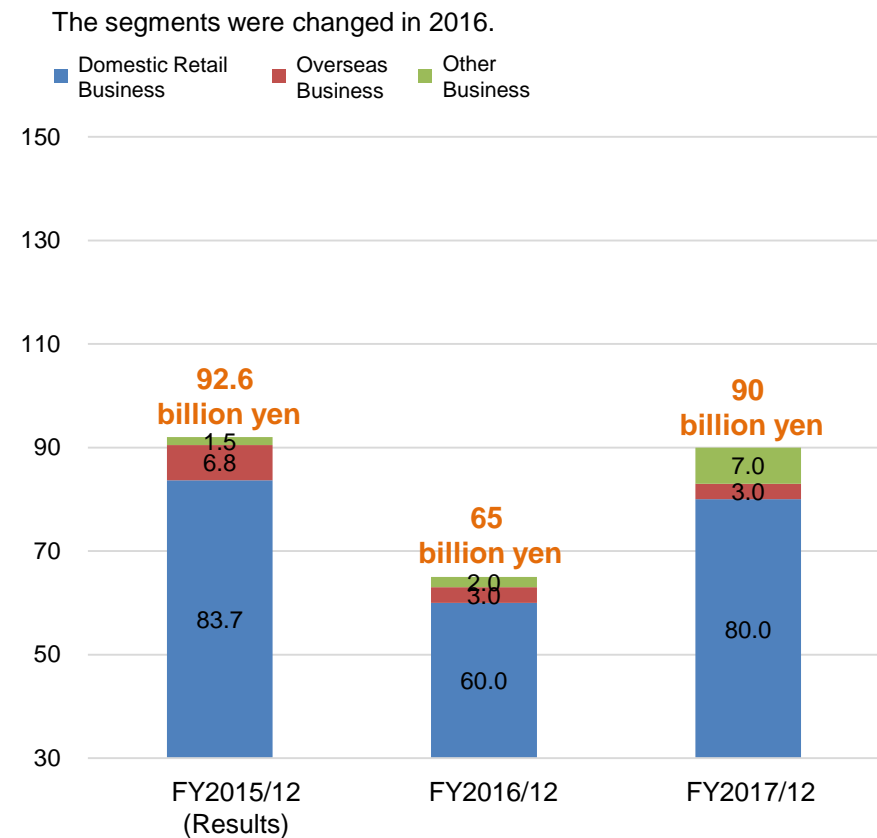
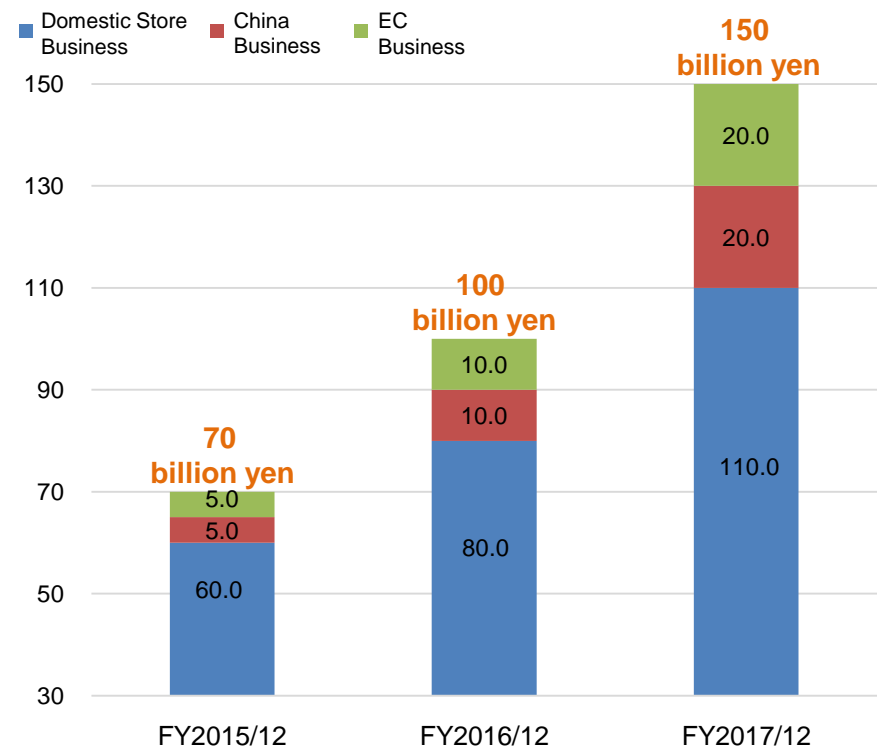


Numerical Targets: Consolidated Net Sales

In this revision of the Medium-Term Management Plan, we will change our numerical targets alone in line with environmental changes.

Before revision

After revision



* Unit: Billion yen

Numerical Targets: By Segment

[Before revision]

Consolidated performance targets (Unit: Million yen)

	2015/12	2016/12	2017/12
Net sales	70,000	100,000	150,000
Gross profit	22,960	33,200	49,650
Gross profit margin	33%	33%	33%
Operating income	4,550	7,000	12,000
Operating income margin	6.5%	7.0%	8.0%

Targets in major segments (Unit: Million yen)

		2015/12	2016/12	2017/12
Net sales	Domestic Store	60,000	80,000	110,000
	China Branch	5,000	10,000	20,000
	Trade Intermediary	5,000	10,000	20,000
Gross profit (margin)	Domestic Store	21,210(35.4)	29,200(36.5)	40,650(37)
	China Branch	750(15)	2,000(20)	5,000(25)
	Trade Intermediary	1,000(20)	2,000(20)	4,000(20)
Operating income (margin)	Domestic Store	7,800(13)	10,400(13)	14,300(13)
	China Branch	30(0.6)	500(5)	1,000(5)
	Trade Intermediary	250(5)	500(5)	1,000(5)



[After revision]

Consolidated performance targets (Unit: Million yen)

	2015/12 (Results)	2016/12	2017/12
Net sales	92,693	65,000	90,000
Gross profit	32,325	22,750	31,500
Gross profit margin	34.8%	35%	35%
Operating income	8,586	1,250	2,700
Operating income margin	9.2%	1.9%	3.0%

Targets in major segments (Unit: Million yen)

		2015/12 (Results)		2016/12	2017/12
The segments were changed in 2016.					
Net sales	Domestic Store	83,782	Domestic Retail	60,000	80,000
	China Branch	6,897	Overseas	3,000	3,000
	Trade Intermediary	1,500	Other	2,000	7,000
Gross profit (margin)	Domestic Store	31,173(37.2)	Domestic Retail	22,200(37.0)	29,760(37.2)
	China Branch	842(12.2)	Overseas	270(9.0)	340(11.3)
	Trade Intermediary	316(21.0)	Other	280(14.0)	1,400(20.0)
Operating income (margin)	Domestic Store	11,081(13.0)	Domestic Retail	3,600(6.0)	5,600(7.0)
	China Branch	-407	Overseas	—	—
	Trade Intermediary	-237	Other	40(2.0)	210(3.0)

New Initiatives with a View to the Third Medium-Term Management Plan (January 2018 – December 2020)



New Initiatives with a View to the Third Medium-Term Management Plan

We will evolve and grow our business while responding to changes in the environment.

Existing businesses

1. Arrangement of stores

- Clarification of store concept (stores mainly for groups and stores focusing on FITs)

2. Strengthening of area characteristics

- Strengthening of products limited to regions in close cooperation with regional manufacturers

3. Enhancement of sales capability

- Introduction of the sales meister system.

4. Diversification of MD categories and the expansion of proposal-based MD

New initiatives

1) From product sales to response to the consumption of value

We will raise the customer satisfaction level with total service by promoting the diversification of business.

[Inroads into the experience-based value consumption business]

- With the operation of complex facilities as a start, we will make inroads into restaurants, entertainment and real estate, etc.

[Strengthening of MD made in Japan]

- Expand the range of product categories from the perspective of Japanese culture and fashion.

2) Acceleration of globalization

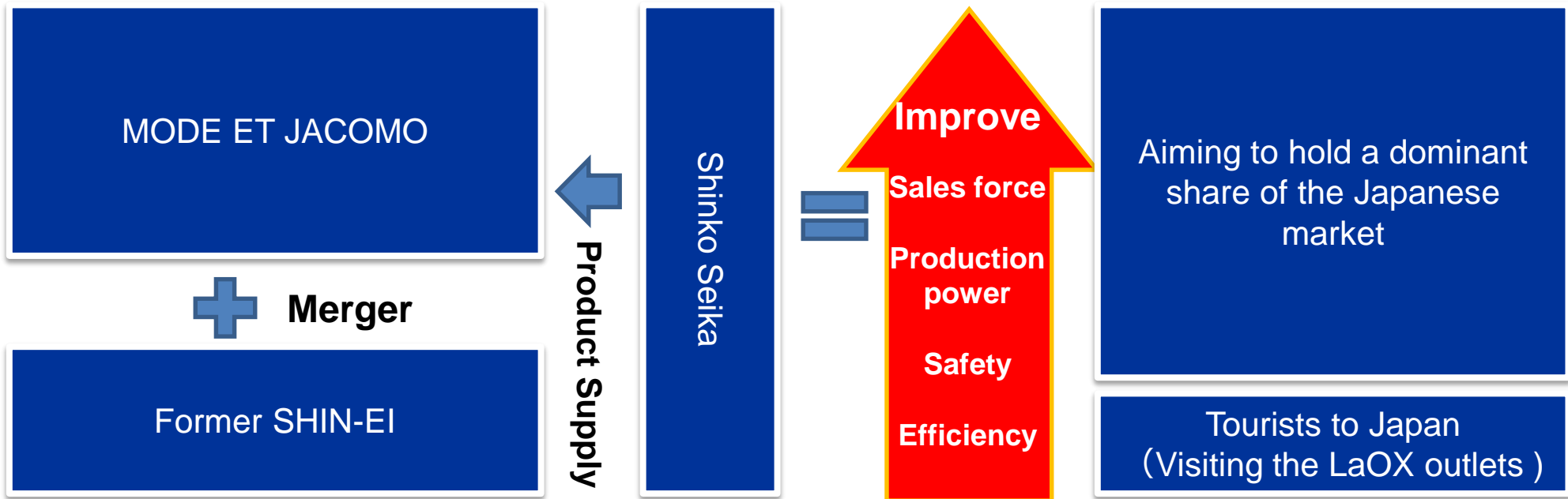
We will accelerate the globalization of our business.

[Diversification of nationalities of inbound customers centered on Asia]

[Active approach to Japanese customers]

New Initiatives with a View to the Third Medium-Term Management Plan

As a domestic business, the former SHIN-EI Corporation was taken over by MODE ET JACOMO. Shinko Seika Kogyo Co., Ltd. will also be revitalized to improve its ability to provide safe and high quality products and services made in Japan.



[Purpose]

In terms of sales, MODE ET JACOMO-based improvements need to be made to the design ability, safety, and efficiency.

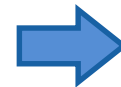
- Take over some of the brands from the former SHIN-EI
- Integration of the warehouses and logistics infrastructure of the former SHIN-EI
- Exchange and effective use of employees and improved after-purchase support



Improvement of design ability/safety/efficiency

In terms of production, Shinko Seika Kogyo will be revitalized to carry on and develop reliable technologies.

- Revitalization of a traditional ladies shoes manufacturer founded in 1939



Succession and development of technological capability

LaOX will also provide the world with safe and high quality products and services made in Japan.

To Shareholders and Investors



To Shareholders and Investors

Medium-term plan

- Our globalization strategy with the main focus on the inbound business remains unchanged.
We are also working continuously to grow the inbound business in Japan with conviction. We will revise our results forecasts in light of environmental changes in 2015 and 2016 because they came to the surface earlier than expected, and announce them as the “revised version of the second medium-term management plan” to report our latest initiatives.
- We plan to announce the third medium-term management plan for 2018 to 2020 as scheduled.
- We will continue to make efforts to achieve the evolution and growth of our business.

Dividends

We will continue to make active efforts to achieve the evolution and growth of our business, but our first goal is to make a stable profit.
Accordingly, our intention to achieve the resumption of dividends in the period of the second medium-term management plan, which we announced in the second medium-term management plan, also remains the same. Although the share price of the company is only an evaluation by the market, we will continue to strive to promote understanding by correctly communicating information about our efforts.

For inquiries related to investor relations, please contact the following:

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Notes

1. The numerical values listed in the financial forecasts, etc. in this document have been calculated based on the decisions and assumptions drawn from currently available information. The actual results may differ significantly from the values presented due to uncertainty in these decisions and assumptions, and future changes in the business management and internal and external situations.
2. This document has been prepared based on the Summary of Financial Statements for 2st Quarter of the Term Ending December 2016.
3. The differences and ratios have been calculated in units of one million yen and are rounded down.