

BUSINESS REPORT

25th



Mac-House

Mens, Womens, Kids Clothing & Lifestyle Goods



**Business
Report for the
25th Term**
March 1, 2014 to
February 28, 2015

FOR CASUAL LIFE
Mac-House
JASDAQ
Securities Code: 7603

To Our Shareholders

The Spirit of Trial and Error

Our company Mac-House is an operator of a chain of stores specializing in casual clothing. The company grew exponentially in the 1990s by opening a number of freestanding stores across Japan, selling mass quantities of jeans.

The denim boom among young people at the time worked in our favor. However, since the 2000s our market share for jeans began to shrink due to the rapid emergence of fast-fashion brands marketing inexpensive jeans and casual wear. Women's fashion chains and GMSs have also joined the low-priced denim competition. The future outlook for the Japanese casual clothing industry as a whole also appears grim, with foreign fast-fashion brands entering the Japanese market one after another, consumers spending less on clothes due to the low birthrate and aging of society, and the consumption-tax hike dragging down consumer spending, all working against our business, which is based on relatively high-priced jeans targeting the young market segment.

The company's trajectory so far and the current situation make it obvious that conventional business resuscitation based on patch and mend is no longer valid. What shareholders, employees, business partners and all other stakeholders want is growth. Achieving growth requires fundamental reform of our basic business model. It is also clear, however, that most successful business models are not born on the spur of the moment, or devised theoretically, as attested by the ubiquitous examples of company successes and failures.

Success requires the spirit of trial and error—try if it might lead to success; withdraw without hesitation if it does not work. I believe repeating the process of trial and error will guide us to a successful business model. “Innovativeness” may be another way of describing such a spirit of trial and error.

As president of Mac-House, I have constantly explored business models geared for major success. Ten months after assuming my current post, I launched the home accessories brand Navy Store to encourage female customers to spend



May 2015

Takashi Shiratsuchi
President & CEO

more time and shop for more items at our stores. The Navy Store has not only succeeded in attracting female customer attention, but also helped our employees drastically broaden their merchandizing perspectives, thereby preparing the groundwork for growing out of our reliance on jeans and “American casual” alone.

In 2015, my second year as Mac-House president, I have launched the major theme “Business Casuals by Mac-House,” commencing the sale of men's tailored jackets at all of our stores. We are also trying out the sale of business suits at about 50 of our stores.

Furthermore, we completely renovated our existing store in Saitama Prefecture, Outlet J. Vivamall Oi Store, to open our first Mac-House SUPER STORE (MHSS) on a pilot basis on March 28, 2015. MHSS features a completely new store concept, merchandising, and sales promotions strategy, aiming to double our conventional level of sales. The first MHSS successfully achieved record-high opening sales among all Mac-House's renovated stores.

Lifestyle goods, tailored jackets, and SUPER STORE are all very bold challenges that would have been unthinkable in the past, but challenges we cannot avoid in order to hold out in today's fiercely competitive casual clothing market and win greater growth. Stalling leads to retreat, and progress can only be achieved through a multitude of experiments.


Promoting the spirit of trial and error has invigorated the workplace, encouraging new ideas from employees. Above all, nothing makes me happier than seeing more employees starting to regard work as a pleasure, rather than a chore. I do not think we can ever hope to repay our shareholders or our business partners unless our workplace is invigorating to our employees.

Mac-House will not let up or turn away from its quest for innovative business models, and I look forward to your continued support and encouragement.


Highlights

Net Sales:  **35,952** million yen

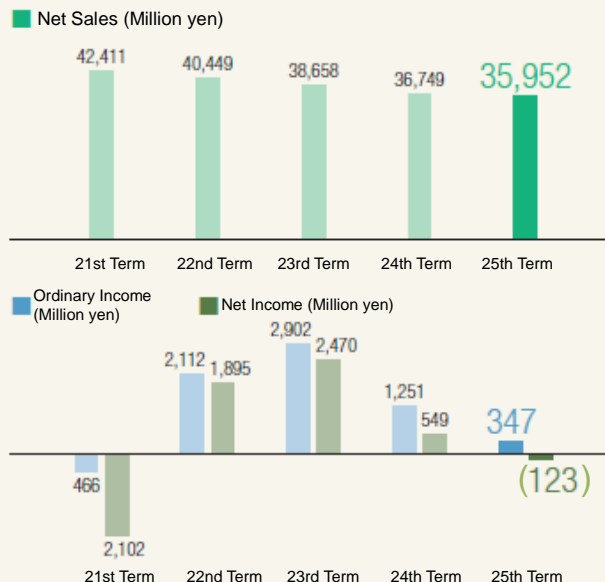
Net sales declined during FY 2013. Although the number of stores increased by six outlets, comparable sales decreased by 4.9%.

Ordinary Income:  **347** million yen

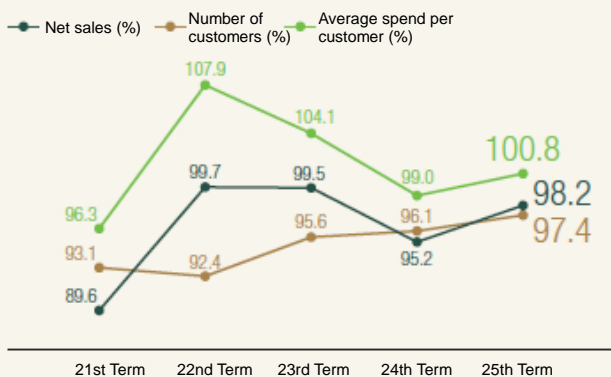
Ordinary income declined due to lower net sales and a lower gross profit margin affected by more discount sales and inventory clearance sales.

Net Income:  **(123)** million yen

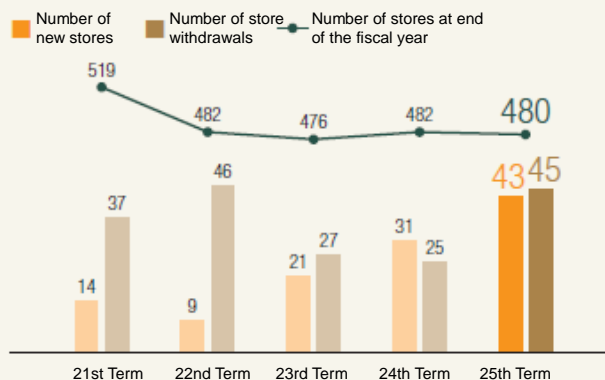
Net profit decreased due to lower ordinary income.



Trend at Existing Stores



Trend in the status of the opening and closing of stores



Quest for a Business Model for Growth

A new business model that does not rely solely on jeans and casual clothing

Three-way reform of sales, merchandise, and sales promotion

1. Business Casuals by Mac-House

Navy® PREMIUM, a sub-brand of our private brand Navy®, is a casual business style that offers a mature look for both work and play.

- Jackets
- Pants
- Shirts
- Bags



2. Low-price Project launched

We aim to attract more customers and sell more items by offering low-priced, valuable products. We mainly deliver innerwear and legwear for kids and women under private brands such as Real Standard, Free nature, and RUSH HOUR (R/H).



Low-priced kids' products

- To attract families with kids
- Planned sales: 1 million items
Price range: 290 to 490 yen



3. Mac-House SUPER STORE (MHSS)

New business format,

Vivamall Oi Store opened on March 28, 2015, the first MHSS store. LAGUNA TEN BOSCH Gamagori Store opened on April 24, 2015, the second MHSS store.

This casual clothing store offers a variety of stylish clothes under a new concept, ranging from low-priced fast fashion items, famous brand jeans, and biker, street, surf, and casual fashion, to business casuals and suits.

- Sales floor space: 660 to 990 square meters



Topics

Expanding the RUN DENIM lineup

Under our private brand Navy, the RUN DENIM now offer men's jackets, shirts, and bottoms for women's and kids using stretchy denim with a completely new feel.



Functional innerwear and legwear



Comfortable innerwear developed in collaboration with *Tarzan* magazine

Shapes the breasts without giving stress

Sports bras with Y-back straps 1,990 yen + tax

Women's hip-up boxer shorts 1,290 yen + tax

Quick Dry Innerwear

The SA·RA·RI Cool line launched last year has been modified into the year-round SA·RA·RI line.



Silky innerwear

SA·RA·RI 990 yen + tax

*Increased year-round products

Developing Navy® SPORTS as our core category



Navy® SPORTS is a new brand that delivers both the stylishness of a fashion brand and the functionality of sportswear.



Field parka

Men's 7,900 yen + tax

Women's 6,900 yen + tax

New TV celebrities appointed as brand ambassadors

Natsuki Kato and Tsuyoshi Mori have been appointed as the new faces of Mac-House.



Expanding mobile membership



Information on special offers are sent via e-mail newsletters.

New mobile members are welcome!

Registration is free and simple

via smartphone or other mobile devices.

<http://mac-house.jp/>

Mac-House Mobile

Search



Our Stores

Introducing Mac-House retail spaces

Mac-House

Mens, Womens, Kids Clothing
& Lifestyle Goods

Mac-House offers a wide range of items from low-priced fast fashion products to well-known international brand items. We also expanded private brand categories for highly demanded functional innerwear and legwear, and unique lifestyle goods.

We have also launched items that offer a mature look for both work and play, including supremely comfortable tailored jackets.

*Lifestyle goods are sold at approximately 200 stores.



Retail spaces

Apparel



Business casuals



Lifestyle goods



Innerwear/legwear

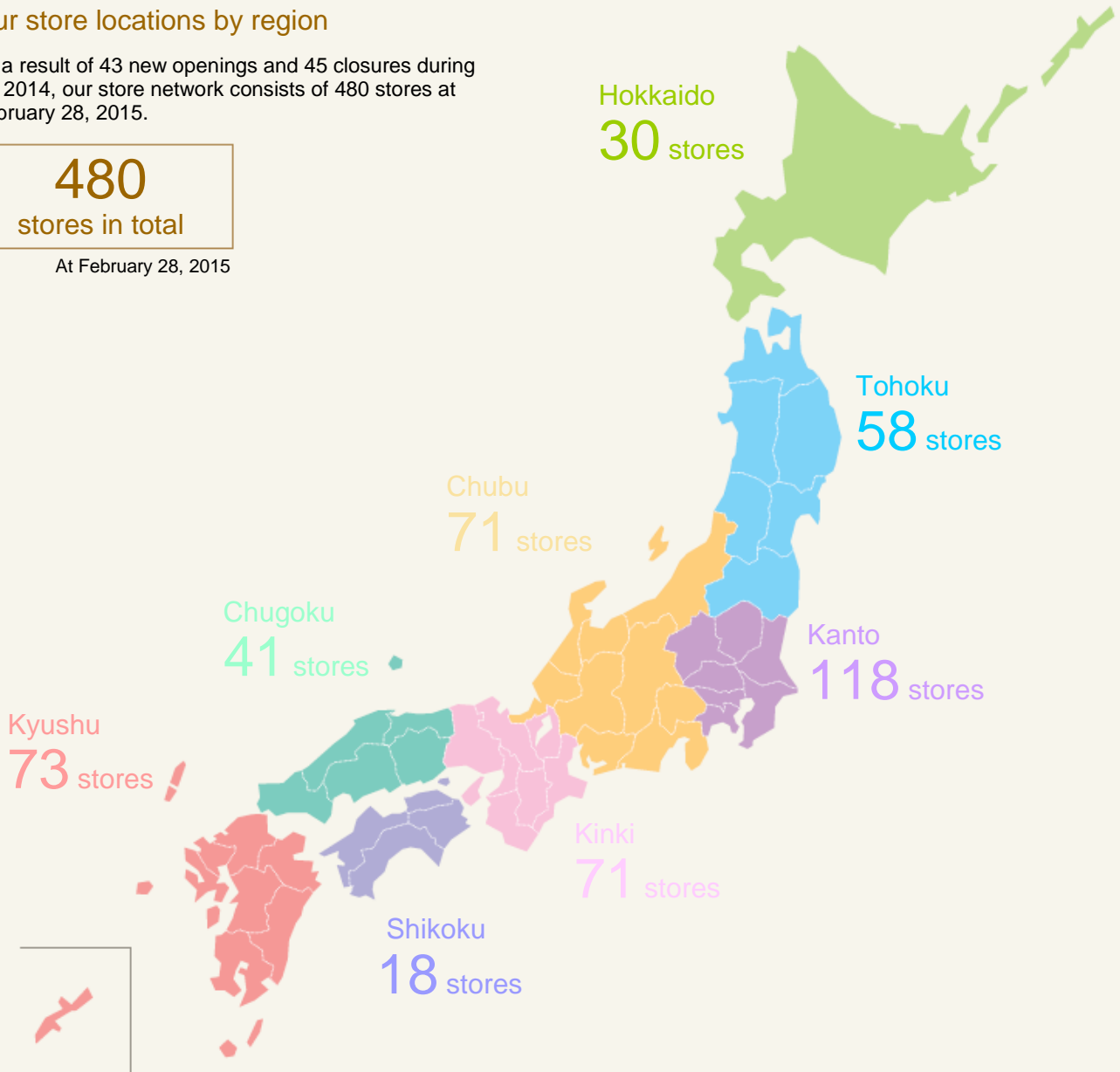


Our store locations by region

As a result of 43 new openings and 45 closures during FY 2014, our store network consists of 480 stores at February 28, 2015.

480
stores in total

At February 28, 2015



Financial Statements

Balance Sheets (Condensed)

(Million yen)

| Accounting items | As of the end of the fiscal year under review (February 28, 2015) | As of the end of the previous fiscal year (February 28, 2014) |
|---|--|--|
| Assets: | | |
| Current Assets | 20,067 | 20,277 |
| Noncurrent Assets | 7,576 | 7,737 |
| Property, plant and equipment | 1,732 | 1,559 |
| Intangible assets | 216 | 195 |
| Investments and other assets | 5,627 | 5,983 |
| Total Assets | 27,644 | 28,015 |
| Liabilities: | | |
| Current Liabilities | 9,877 | 9,391 |
| Noncurrent Liabilities | 2,496 | 2,642 |
| Total Liabilities | 12,374 | 12,033 |
| Net Assets: | | |
| Shareholders' Equity | | |
| Capital stock | 1,617 | 1,617 |
| Capital surplus | 5,299 | 5,299 |
| Retained earnings | 8,472 | 9,209 |
| Treasury stock | (153) | (152) |
| Total Shareholders' Equity | 15,236 | 15,974 |
| Subscription rights to shares | 17 | 9 |
| Total Net Assets | 15,269 | 15,981 |
| Total Liabilities and Net Assets | 27,644 | 28,015 |

Note: Figures are rounded down to the nearest million yen.

Current Assets:

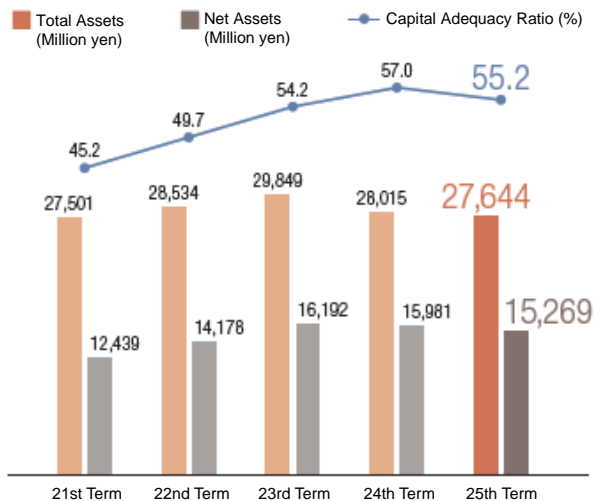
Total current assets decreased by ¥210 million from a year earlier, primarily as a result of a decline in cash and deposits of ¥3,028 million and an increase in merchandise of ¥2,730 million.

Noncurrent Assets:

Total noncurrent assets decreased by ¥160 million from the previous year, primarily due to a decline in lease and guarantee deposits of ¥283 million.

Total Assets, Net Assets and Capital Adequacy Ratio

Net assets decreased by ¥711 million from a year earlier, mainly as a result of a net loss of ¥123 million and dividends of ¥613 million. The capital adequacy ratio to total assets declined by 1.8 percentage point from the previous year to 55.2%.



Statements of Income (Condensed) (Million yen)

| Accounting item | FY 2014 (March 1, 2014 to February 28, 2015) | FY 2013 (March 1, 2013 to February 28, 2014) |
|--|--|--|
| Net sales | 35,952 | 36,749 |
| Cost of sales | 19,298 | 19,643 |
| Gross profit | 16,653 | 17,105 |
| Selling, general and administrative expenses | 16,451 | 15,965 |
| Operating income | 202 | 1,140 |
| Non-operating income | 452 | 473 |
| Non-operating expenses | 306 | 362 |
| Ordinary income | 347 | 1,251 |
| Extraordinary income | 11 | 13 |
| Extraordinary loss | 295 | 138 |
| Income before income taxes | 63 | 1,126 |
| Income taxes-current | 171 | 407 |
| Income taxes-deferred | 16 | 168 |
| Net income | (123) | 549 |

Note: Figures are rounded down to the nearest million yen.

Statements of Cash Flows (Condensed) (Million yen)

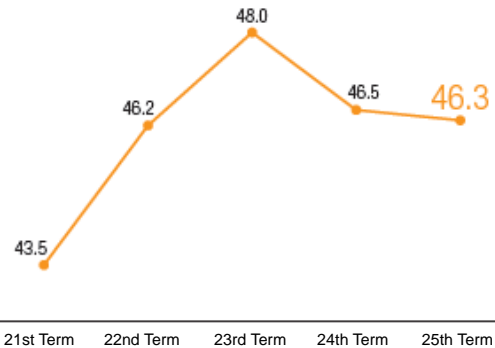
| Accounting item | FY 2014 (March 1, 2014 to February 28, 2015) | FY 2013 (March 1, 2013 to February 28, 2014) |
|--|--|--|
| Net cash provided by operating activities | (1,720) | (817) |
| Net cash used in investing activities | (403) | (352) |
| Net cash used in financing activities | (706) | (904) |
| Net increase in cash and cash equivalents | (2,829) | (2,075) |
| Cash and cash equivalents at beginning of period | 9,143 | 11,218 |
| Cash and cash equivalents at end of period | 6,313 | 9,143 |

Note: Figures are rounded down to the nearest million yen.

Gross Margin Ratio

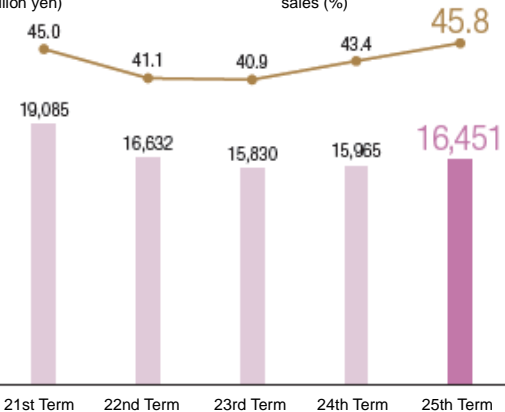
Gross margin ratio declined due to increased discount sales resulting from intensified competition.

— Gross margin ratio (%)



Selling, General and Administrative Expenses

■ Selling, general and administrative expenses (Million yen) ● Ratio of selling, general and administrative expenses to net sales (%)



Corporate Profile/Status of Shares

Corporate Profile

(As of February 28, 2015)

| | |
|-----------------------------|---|
| Trade name: | Mac-House Co., Ltd. |
| Address of the Head Office: | Shin-Koenji Twin Building, 1-7-7, Umesato, Suginami-ku, Tokyo |
| Establishment: | June 1, 1990 |
| Capital: | 1,617,850,000 yen |
| Number of employees: | 339 |
| Principal business: | Operation of chain stores nationwide focusing mainly on the retail of clothing. |

Management

(As of May 20, 2015)

| | |
|---|---------------------|
| President & CEO (Representative Director): | Takashi Shiratsuchi |
| Director and Advisor: | Masao Funahashi |
| Director: | Yoshio Kazami |
| Director: | Koshiro Sugiura |
| Director: | Hisami Kitahara |
| Director: | Ai Ishizuka |
| Standing Auditor: | Mamoru Tamura |
| Auditor: | Shinichi Miura |
| Auditor: | Kiyoshi Yamamoto |
| Auditor: | Yoshiaki Uchida |

Notes:

Of the directors listed above, Ai Ishizuka is an outside director, the definition of which is specified by Article 2-15 of the Companies Act.

Of the auditors listed above, Mamoru Tamura, Shinichi Miura, Kiyoshi Yamamoto, and Yoshiaki Uchida are outside company auditors, the definition of which is specified by Article 2-16 of the Companies Act.

Introduction to the Shareholder Special Benefit Plan

Mac-House presents shareholders with "Shareholder Special Benefit" vouchers as one way of returning profits to our shareholders, in the hope that as many shareholders as possible can use our merchandise and services and become fans of Mac-House.

| | |
|--|-----------------------------------|
| Shareholders holding 100 shares or more and less than 500 shares | A voucher equivalent to 1,000 yen |
| Shareholders holding 500 shares or more and less than 1,000 shares | A voucher equivalent to 3,000 yen |
| Shareholders holding 1,000 shares or more | A voucher equivalent to 5,000 yen |

* The base date for the allocation of the vouchers is the end of February; to be sent once a year in late May.

Memorandum for Our Shareholders:

Fiscal year:

From March 1 to the end of February of the following year

Ordinary general meeting of shareholders:

Held in May of each year.

Record date:

End of February of each year

(If necessary, we will make a public notice in advance.)

(Record date for shareholders entitled to receive dividends):

Year-end dividend: End of February of each year

Interim dividend: August 31 of each year

Shareholder registry administrator and account management

organization of special accounts:

Mitsubishi UFJ Trust and Banking Corporation; 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo

Payment Handling Bank:

Transfer Agent Dept., Mitsubishi UFJ Trust and Banking Corporation; 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo

(Mailing address):

Transfer Agent Dept., Mitsubishi UFJ Trust and Banking Corporation; 10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081
Telephone: 0120-232-711 (Toll free)

Number of shares in one unit: 100

Securities exchange on which the shares are listed:

Tokyo Stock Exchange

Method of providing public notice:

Public notices shall be provided electronically. However, if the public notices cannot be provided electronically due to unavoidable reasons, such notices shall be posted in the *Nihon Keizai Shimbun*.

For our public notices, please visit the following website:

<http://www.mac-house.co.jp>

Notes:

- As a result of the transition to dematerialization of stock certificates, procedures relating to change of address, share purchase demand, etc. from shareholders, shall be handled by the account management organizations (securities firms, etc.), in principle, with which shareholders hold accounts. Shareholders are kindly requested to contact the securities firms, etc. in which accounts are held. Please note that the shareholder registry administrator (Mitsubishi UFJ Trust and Banking Corporation) is not entitled to handle the above-mentioned procedures.
- With respect to the procedures relating to the shares recorded for special accounts, please contact the above-mentioned special account management organization (Mitsubishi UFJ Trust and Banking Corporation) as account management organization. The domestic branches of Mitsubishi UFJ Trust and Banking Corporation may mediate the procedures.
- Unpaid dividends shall be paid at branches or the head office of Mitsubishi UFJ Trust and Banking Corporation.



Shin-Koenji Twin Building, 1-7-7, Umesato, Suginami-ku, Tokyo 166-0011
Telephone: +81-3-3316-1911