



2018/19 INTERIM RESULTS

HONMA Golf (6858.hk)

One of the Most Prestigious and Iconic Brands in the Golf Industry

November 2018



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Financial Highlights

Key Financials



#1 Premium golf brand founded in 1959

Decades of dedications towards Quality and Craftsmanship

- Listed on the HKEx since Oct 2016
- Market cap ^{as of 20 Nov 2018}: HKD 4.5 Billion

	Six Months Ended 30 Sep 2018	YoY change (JPY base)
Net Sales	JPY 11,503.2 Million / USD 104.5 Million ⁽¹⁾	+9.3%
Gross Profit Margin	59.1 %	+33bps
Operating Profit ⁽²⁾	JPY 2,036.5 Million / USD 18.5 Million ⁽¹⁾	+25.7%
Net Operating Profit ⁽³⁾	JPY 1,425.1 Million / USD 13.0 Million ⁽¹⁾	+15.4%
Net Profit	JPY 2,134.5 Million / USD 19.4 Million ⁽¹⁾	+92.2% ⁽⁴⁾
Reported Earnings Per Share	JPY 3.5 / HKD 0.25 ⁽¹⁾	+92.2% ⁽⁴⁾
Proposed Interim Dividend	JPY 1.75 / share	

- Note**
- (1) Exchange rate: 1USD = 110.04JPY; 1HKD = 14.03 JPY
 - (2) Operating profit is derived from profit before tax by (i) subtracting other income and gains, (ii) adding other expenses and (iii) adding RSU expenses
 - (3) Net operating profit is derived from net profit by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding RSU expenses and (iv) adding impact on tax.
 - (4) Net profit surged compared with net operating profit growth due to favorable translation results.

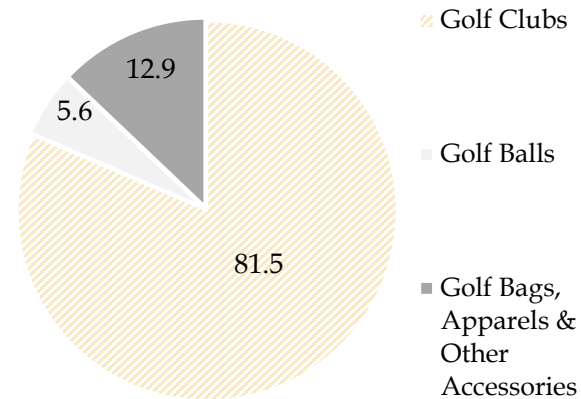
As We Stand Today

Key Statistics as of 30 Sep 2018

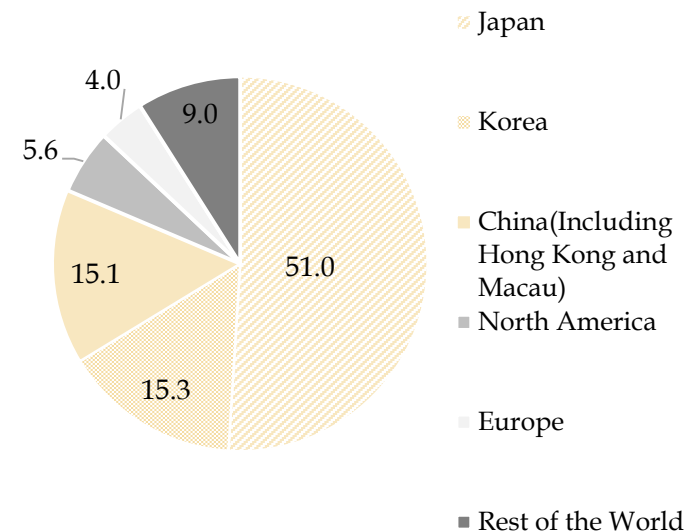
- **294** skilled craftsmen and R&D personnel
- **68** HONMA branded self-operated stores
- **3,600+** doors via third party retailers & wholesalers
- products sold in approximately **50** countries worldwide

1H FY2019 Revenue Mix – JPY 11,503 Million (+9.3% YOY)

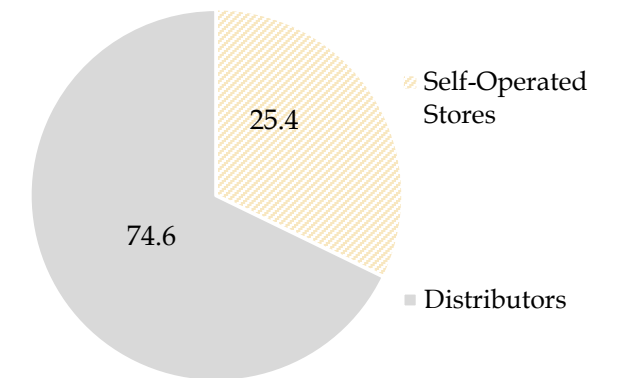
By Product Category



By Region

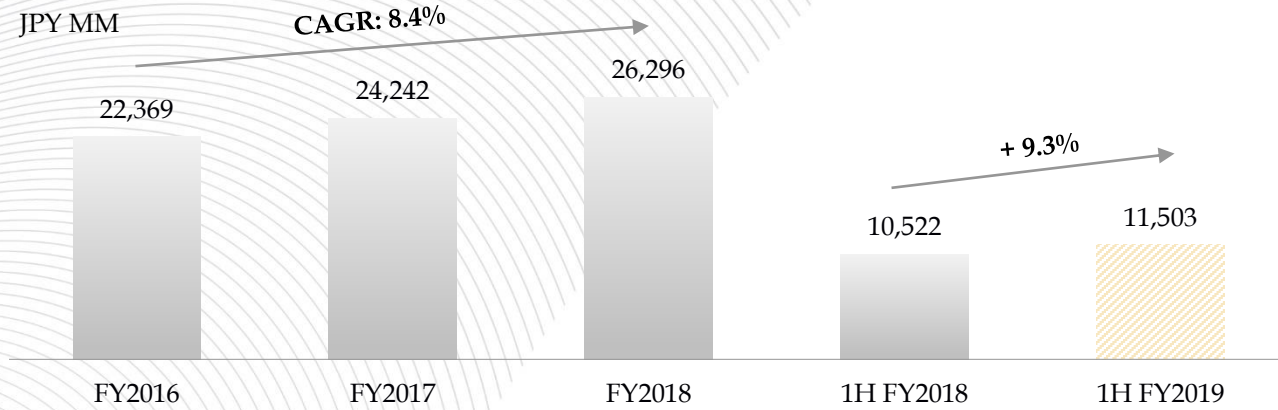


By Channel

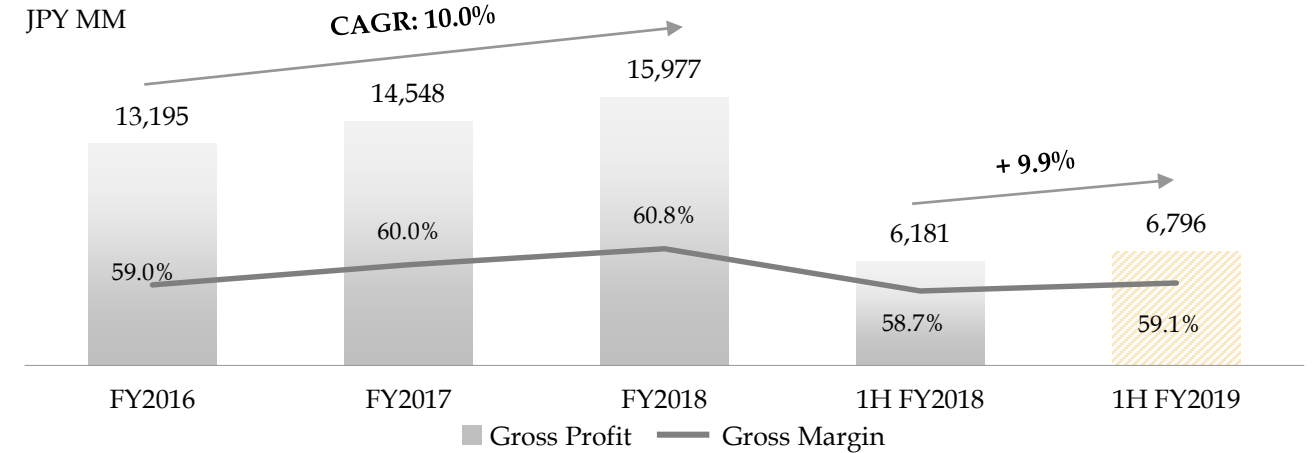


Continue to Drive Profitable Growth

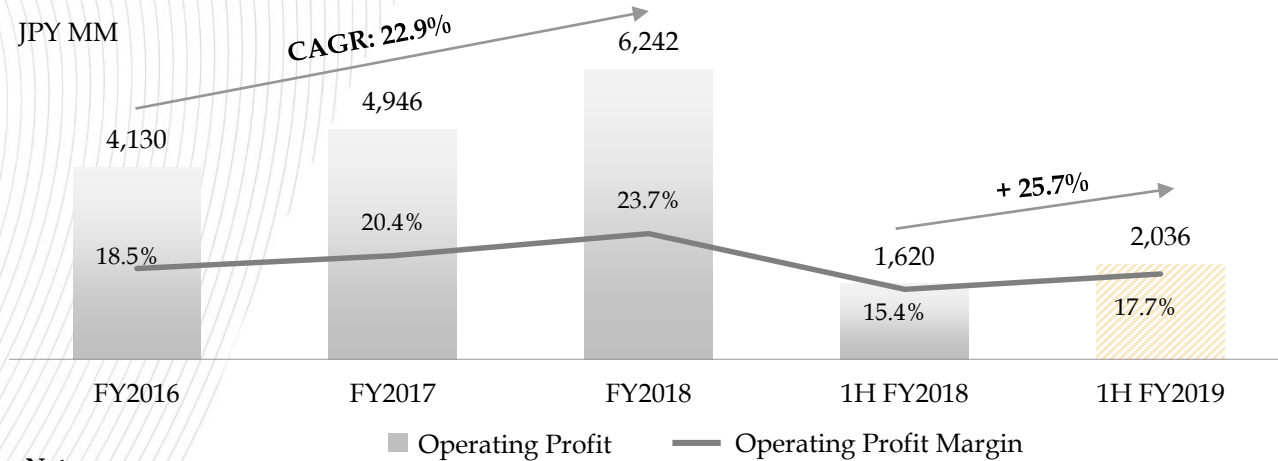
Revenue



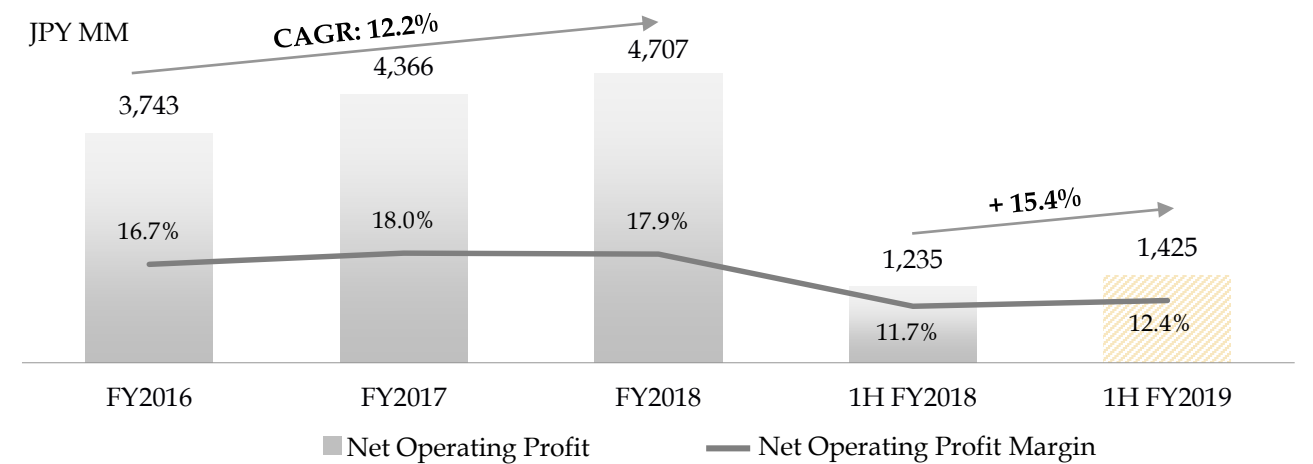
Gross Profit



Operating Profit⁽¹⁾



Net Operating Profit⁽²⁾



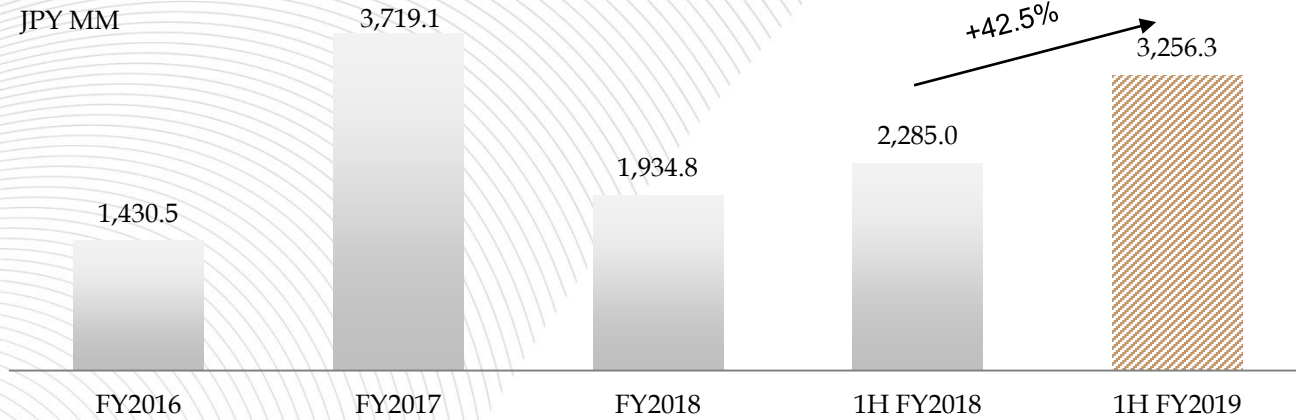
Notes

(1) Operating profit is derived from profit before tax by (i) subtracting other income and gains, (ii) adding other expenses and (iii) adding RSU expenses.

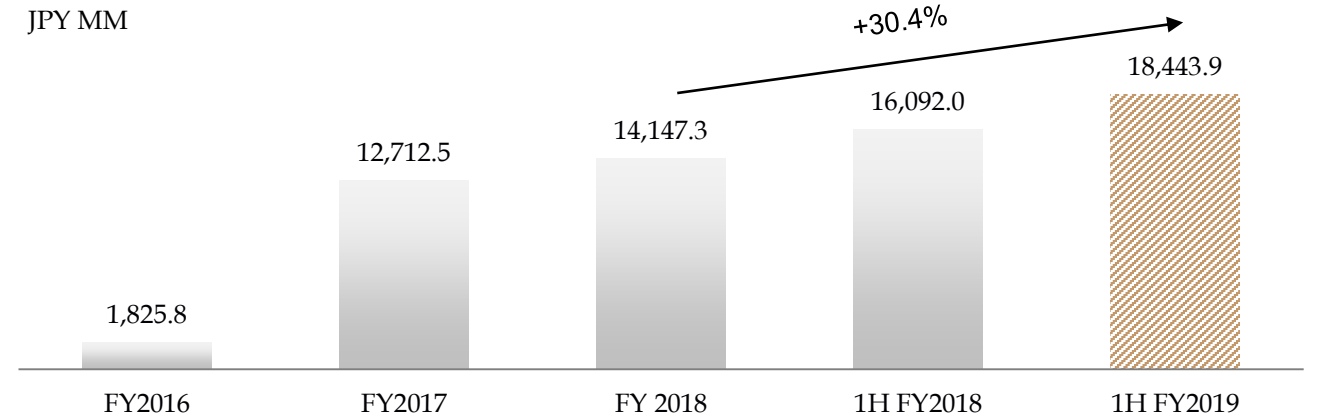
(2) Net operating profit is derived from net profit by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding RSU expenses and (iv) adding impact on tax. The Group referred to such measure as adjusted net profit in the Group's Interim Results Announcement for the Six Months Ended 30 Sept 2018 dated 20 Nov 2018

Strong Operating Cash Flow and Robust Capital Structure

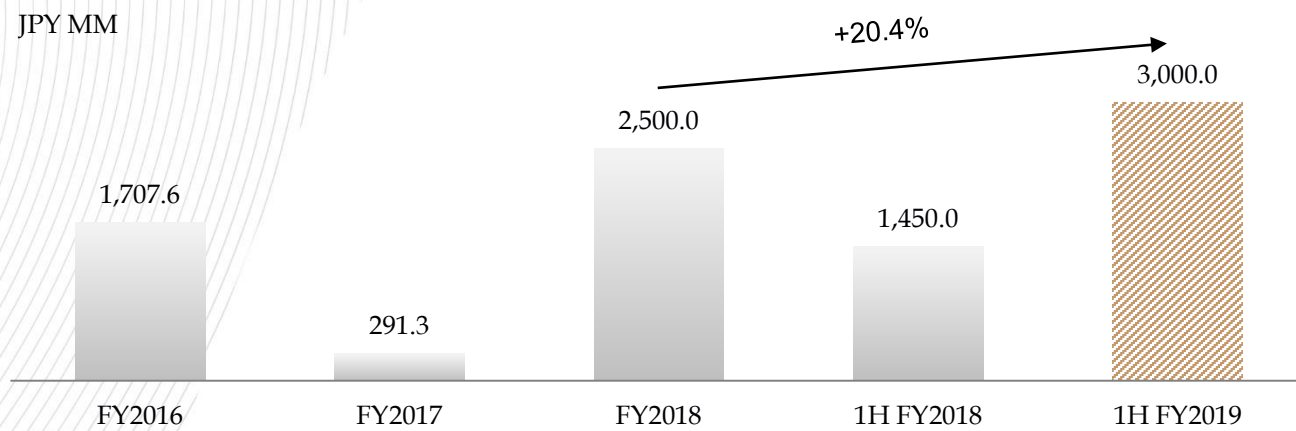
Net Operating Cash Flow



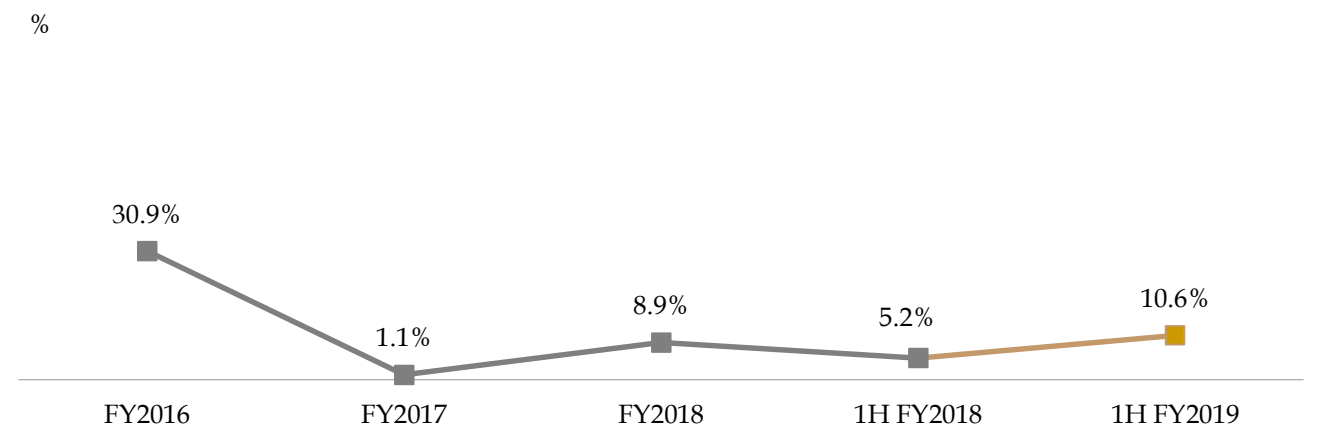
Cash on Hand



Interest-bearing Liabilities

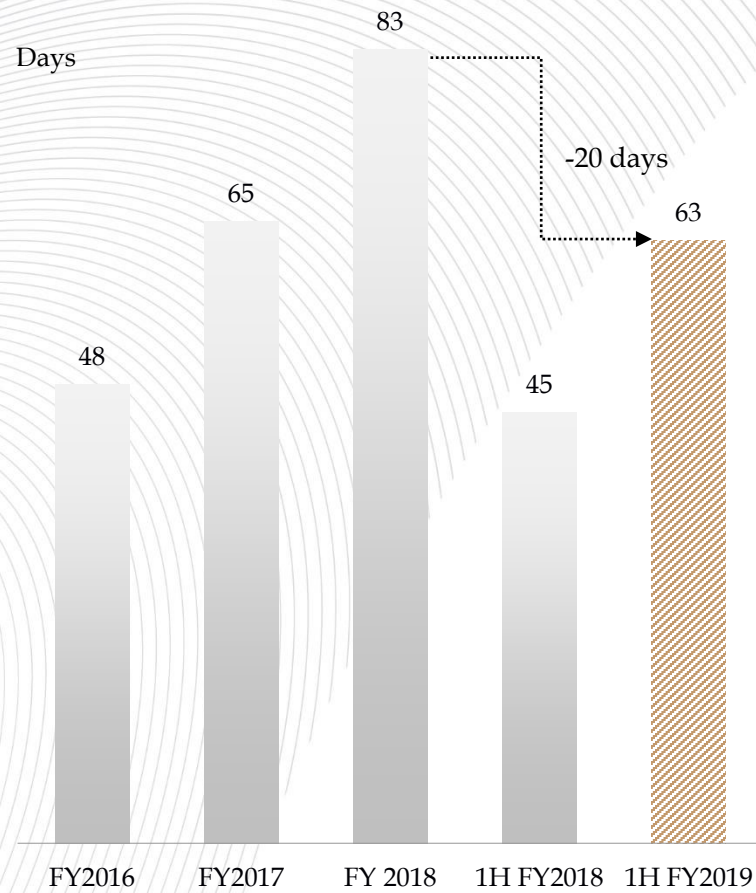


Interest-bearing Liabilities/Total Equity

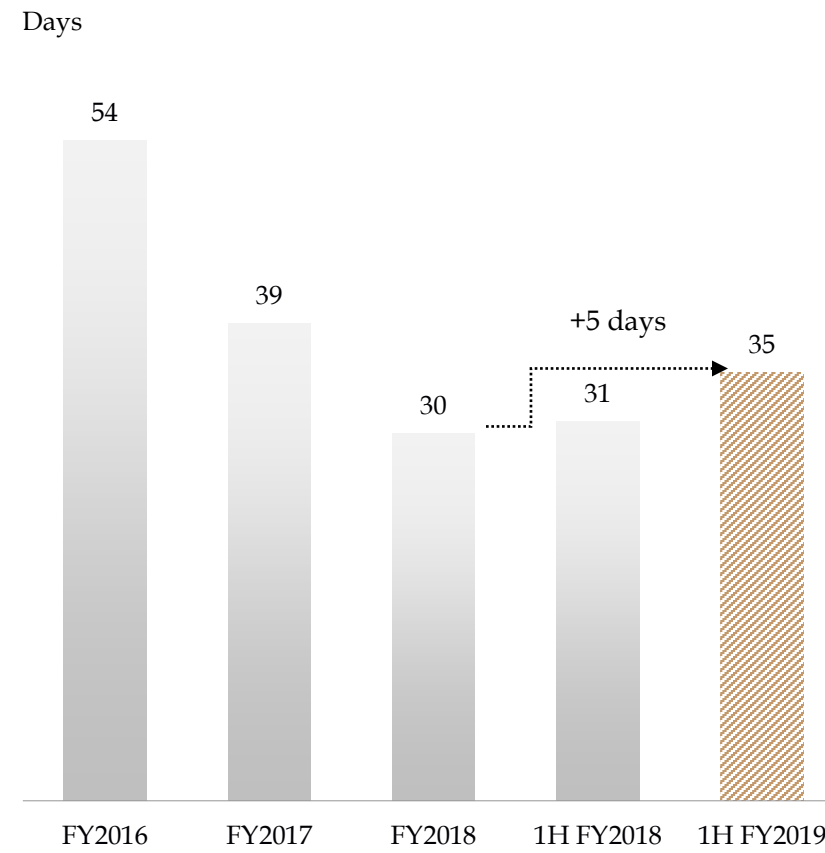


Continued Improvement in Working Capital Efficiency

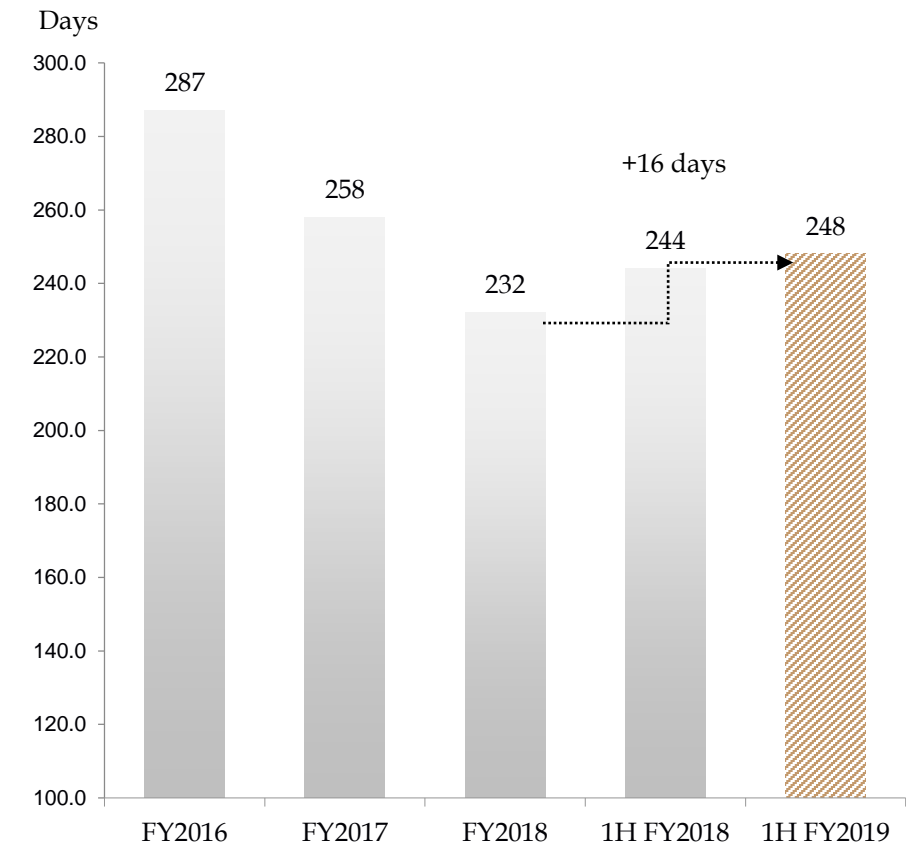
Receivables Turnover Days⁽¹⁾



Payables Turnover Days⁽¹⁾



Inventory Turnover Days⁽¹⁾



Notes

(1) Turnover days are calculated using the average of the opening and closing balance for a twelve-month period and six-month period.

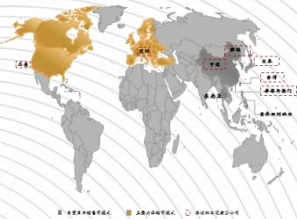


2 / *Business Review*

1H2019 Business Highlights



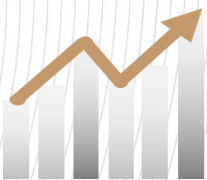
- ✓ **Net sales increased by 9.3%:** (1) continued sales growth across all markets following new launch of Beres 06 (+22.9%) and BeZeal 535 (+18.1%); (2) US and Europe showed steady upward trajectory.



- ✓ **Third party retail sales grew by 27.3%:** revenue contribution increased to 74.6%, up from 64.6% for the 12 months period ended Mar 31, 2018.



- ✓ **Non-club categories being re-created** to monetize untapped market opportunity: **golf ball** portfolio and sales team redesign drove up sales by 48.2%; **SS19 apparel** ready to launch in Q4 FY2019.



- ✓ **Operating profit increased by 25.7%**, thanks to stable gross margin and continued reprioritization of SG&A investments; **Net profit grew tremendously by 92.2%**, thanks to favorable JPY/USD exchange rate movements.

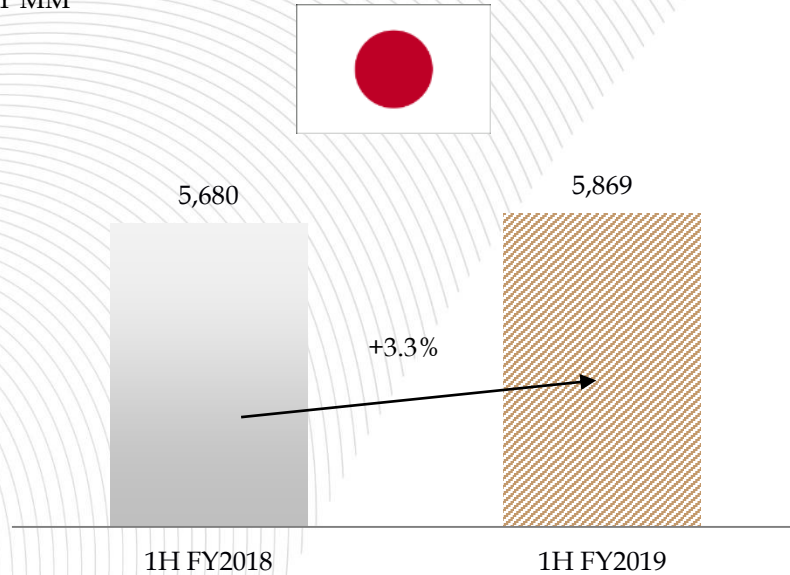


- ✓ **Redefining and reintroducing HONMA Brand:** retaining 60 years' heritage and high-end positioning while being vibrant and relevant to millennials, featuring (1) top PGA player sponsorship; (2) Global website re-launch; (3) 360 degree customizable brand experience based on upgraded retail space and digital platform.

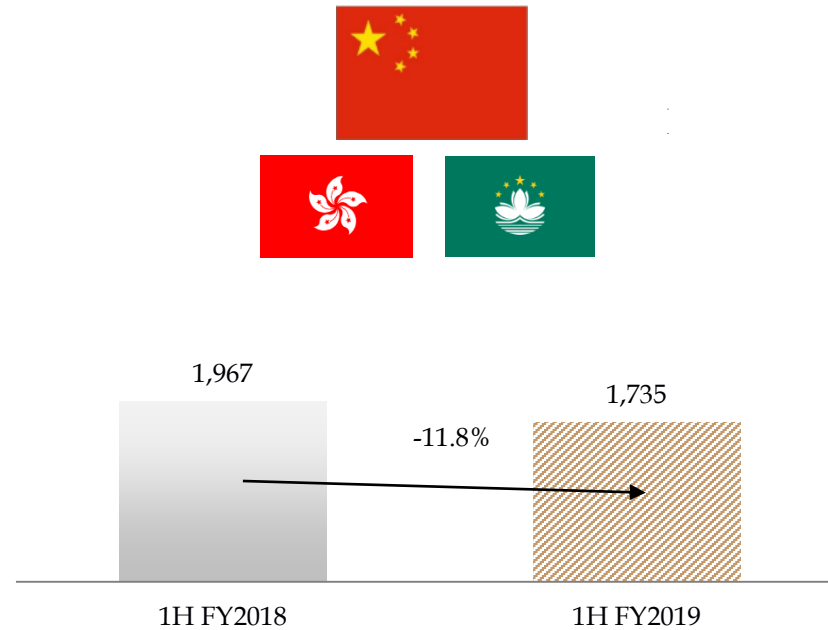
A. Meaningful growth in major markets

A.1 Continued penetrating deeper into home markets in Asia

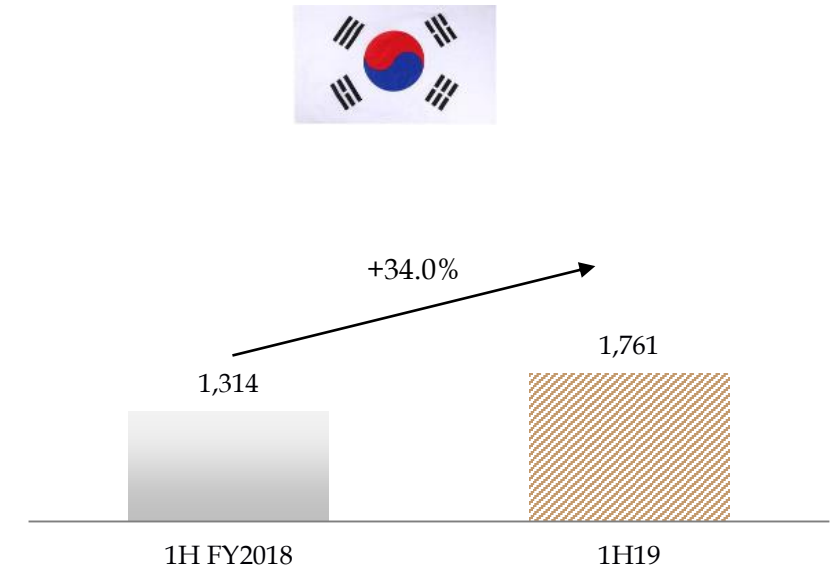
Net Sales
JPY MM



- Sales growth mainly fueled by third-party retail and wholesale channels, which together grew by 17.3%
- Golf ball sales grew by 21.7% thanks to streamlined product portfolio and implementation of dedicated sales and marketing strategy.



- Sales from Mainland China was down by 3.9% albeit apparel retail footprint adjustment ahead of SS19 launch. # of self-owned store was decreased by 16 to 30 during the period.
- Sales dropped in Hong Kong following closure of 1 self-owned store in FY2018. However, sales through third party retailer & wholesalers grew by 12.8%.

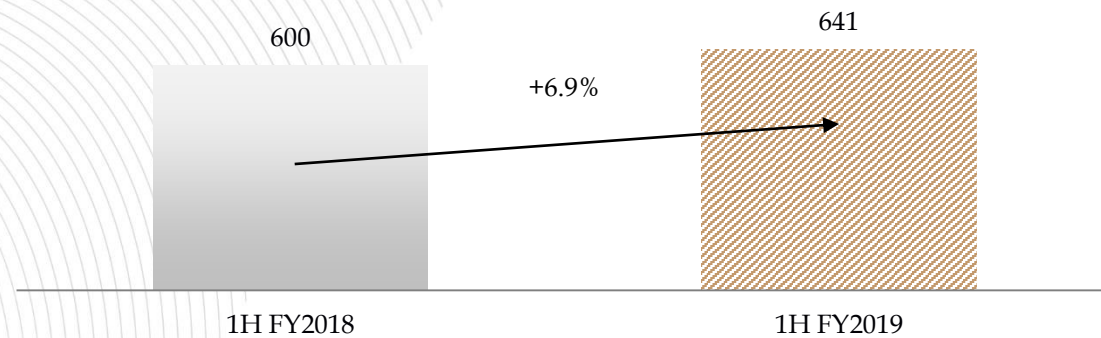


- Continuously gaining share in a fragmented market, thanks to the strong and effective partnership with exclusive distributor.
- Successful TV campaigns to drive sales of new Beres and Bezeal launch.

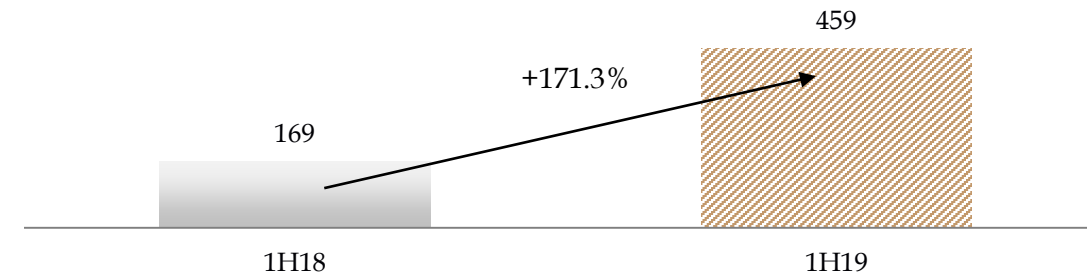
A. Meaningful growth achieved in major markets (continued)

A.2 US and EU growth strategies started to take off

Net Sales
JPY MM



- Sales growth on constant currency base: +7.6%
- **Phase II growth strategy** on the basis of initial success achieved:
 - retention of industry veteran to drive US strategy
 - re-visit current distribution network to capture super premium and premium performance segment through implementation of self-owned store (brand hub) + green grass & shop-in-shop (as spoke) model
- major launch planned for TW747, featured by HONMA's new Top PGA brand ambassador

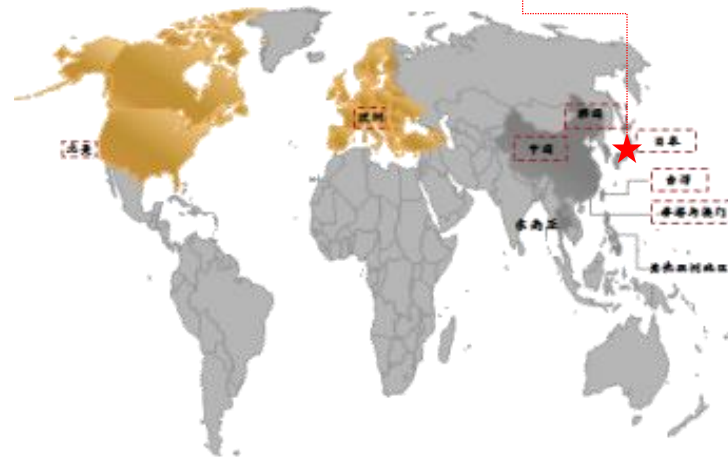


- Sales growth on constant currency base: + 175.9%
- Robust growth generated by deeper distribution channel penetration with quality third-party distributors;
- Vibrant marketing activities to promote brand and product awareness.
- POS was up by 45 to reach 438 during 1H2019.

B. New 360 degree brand experience built-in-one distribution model



Global Pilot Store Coming Soon!



■ 直营零售零售模式 ■ 直营零售零售模式 ○ 直营零售零售模式

Self-owned stores: to upgrade as brand experience hubs across all markets

- Total # of stores decreased by 16 to 68, mainly in the Mainland China as part of the apparel channel re-design
- New retail space under design to offer ultimate brand experience and customizable consumer journey
- Pilot store in Tokyo under construction and will be opened in 2H2019; other markets to follow, including U.S..

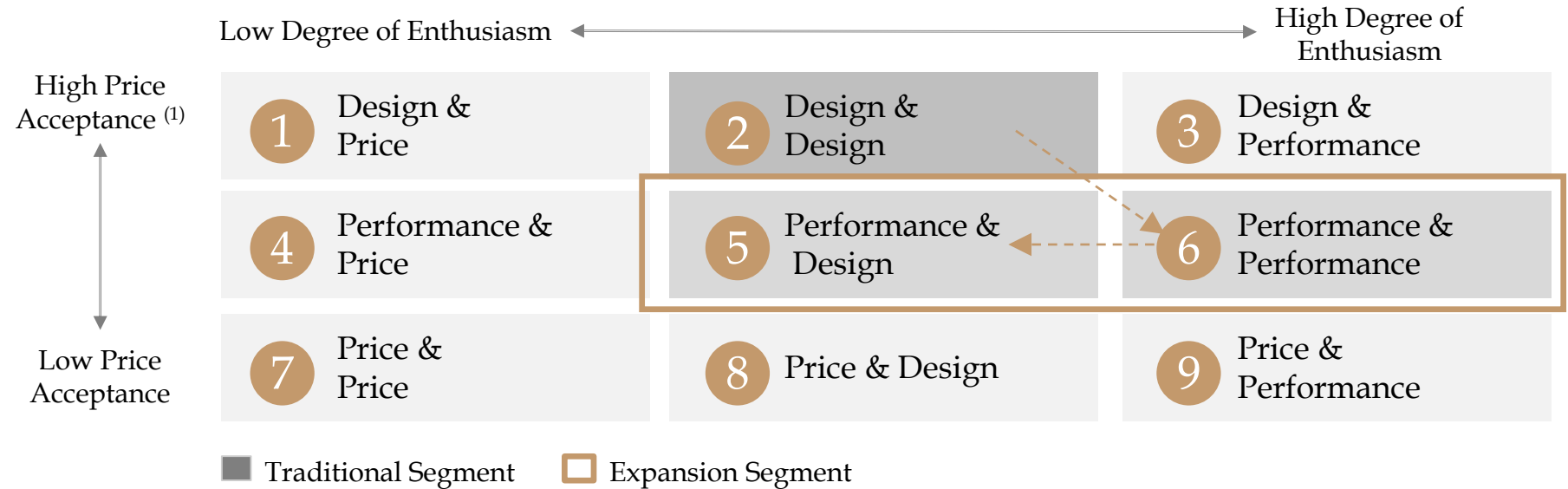
Third-party retailers and wholesalers: continued to drive penetration and gain share of voice

- Adopted in all of the Group's existing market
- # of doors increased to 3,615, from 3,317 at the beginning of the period
- YOY sales jumped by **27.5%**

C. Product strategy that pivots growth from high growth segments dominated by younger & avid golfers

Club sales grew by 8.1% in spite of negative channel impact

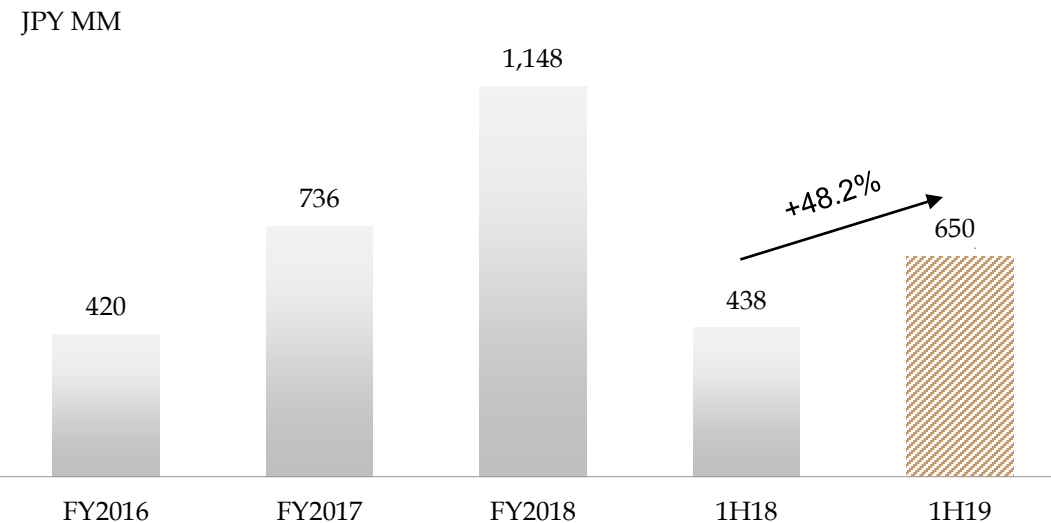
- **Beres:** for affluent golfers
 - Latest version Beres 06 was launched in 4Q2018
 - YOY sales up by 22.9%
- **TourWorld:** for avid golfers
 - Latest version TW747 to be launched between Nov 2018 and Jan 2019
 - Overwhelming reception from retailer during pro-book
- **BeZeal:** for young and beginner golfers
 - Latest version BeZeal 535 was launched in 4Q2018
 - YOY Sales up by 18.1%



D. Nurturing non-club product categories in home markets

Golf ball sales grew significantly by 48.2%

3 Year Golf Ball Sales CAGR = 65.3%

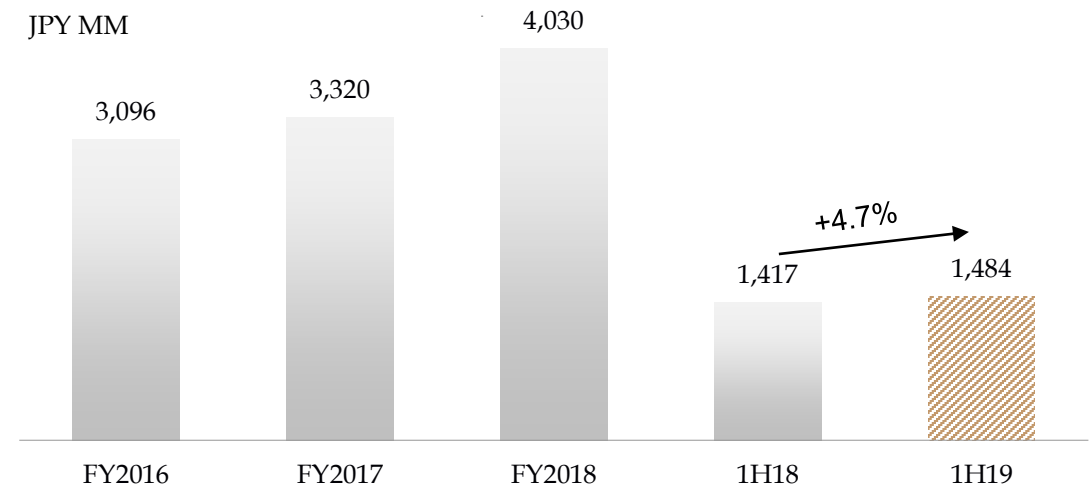


- Product portfolio redesign: redesigned product portfolio to resonate positioning of club lines and performance characters
- Dedicated sales force and go-to-market in Japan and China



Apparel & Accessories sales grew by 4.7%

3 Year Apparel and Accessories Sales CAGR = 14.3%

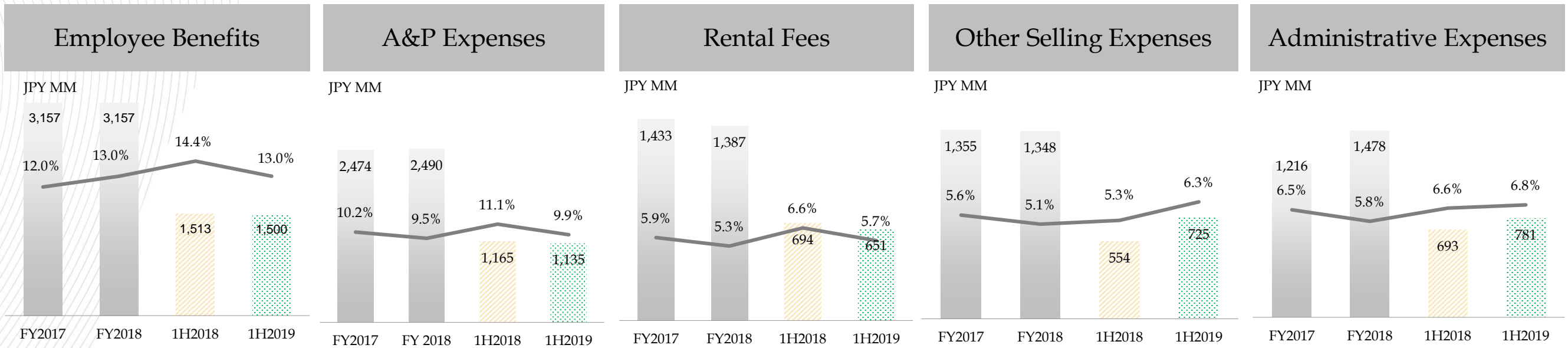
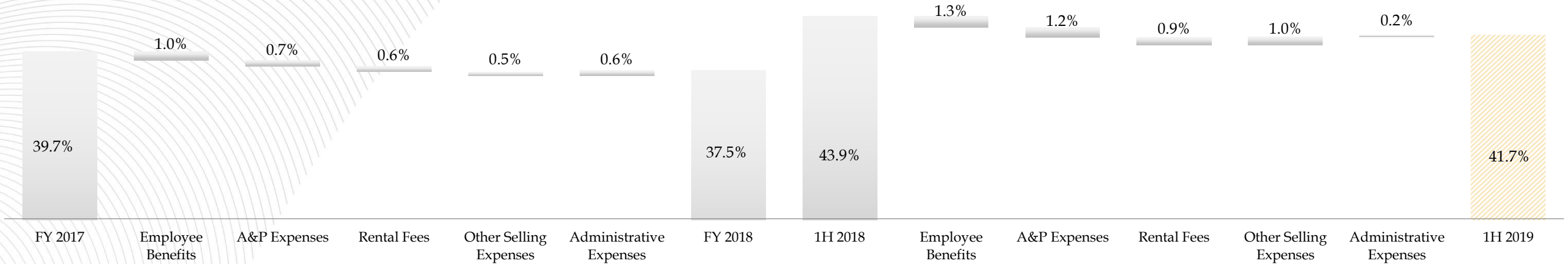


- Entered into a strategic partnership with Itochu in Jan 2018 to revamp HONMA's apparel businesses
- New apparel line to debut in Jan 2019
- SS19 was presented in July 2018 and saw pre-book quantity doubled the average in most recent seasons.



E. Resource to win: continued optimization of day-to-day operations

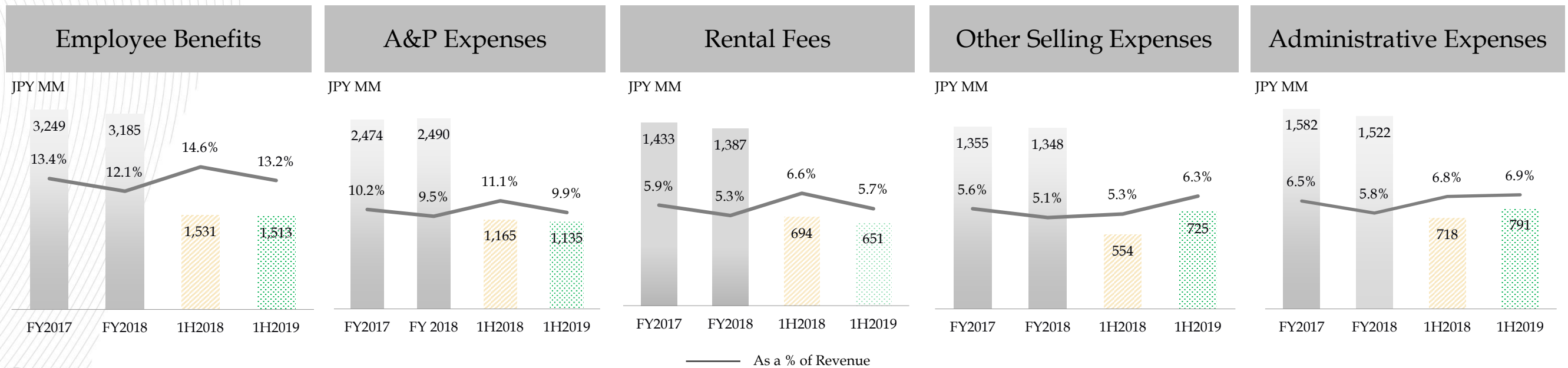
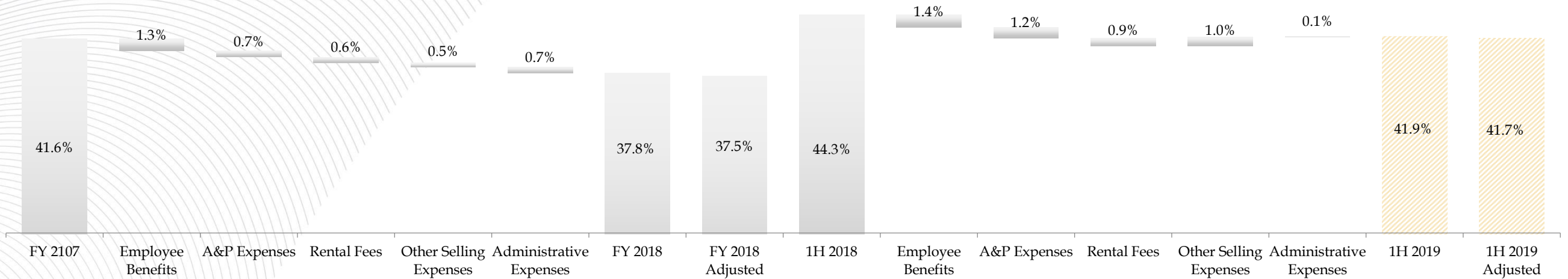
Selling and Administrative Expenses Analysis (adjusted)



— As a % of Revenue

E. Resource to win: continued optimization of day-to-day operations (continued)

Selling and Administrative Expenses Analysis (reported)



— As a % of Revenue



3

Company Outlook

Outlook for FY2019



- 1 **Continue re-introducing the new HONMA brand** to create a consistent brand image across all markets
- 2 **Update and upgrade the Group's marketing strategy, platform and assets** to drive HONMA brand and product awareness across the globe
- 3 **Relaunch retail store** to provide customers with premium consumer experience and to own consumer data through digital platforms
- 4 Accelerate penetration into **high growth segments** with pivoting product strategy while sustaining leadership in **premium segment**
- 5 Further **increase market share in home markets** and **fuel growth in North America and Europe**
- 6 **Growing non-club product lines** to provide customers with a complete golf lifestyle experience
- 7 Explore **adjacent business opportunities** through commercial partnership and acquisition



Coming in 2H2019...

Title sponsor of 2018 HONMA Hong Kong Open

- November 22 – 25, 2018
- One of Asia's most prestigious golf tournament
- Local event with global exposure
- Unique opportunity to enhance brand and product awareness within target consumer group
- To re-build a brand image focusing on craftsmanship and outstanding performance while being vibrant and relevant.



Launch of TourWorld 747

- Between November 2018 and Jan 2019
- The next generation of the TOUR WORLD product family designed for avid golfer
- Visible improvement in the cosmetics, technology and performance
- Received overwhelming reception from retailers during pre-book.



Top PGA player as Global brand ambassador

- Starting from 1 Jan, 2019
- The key athlete for Honma in both premium and premium performance segments
- Multiple marketing assets are being created and activated to re-introduce HONMA brand



4

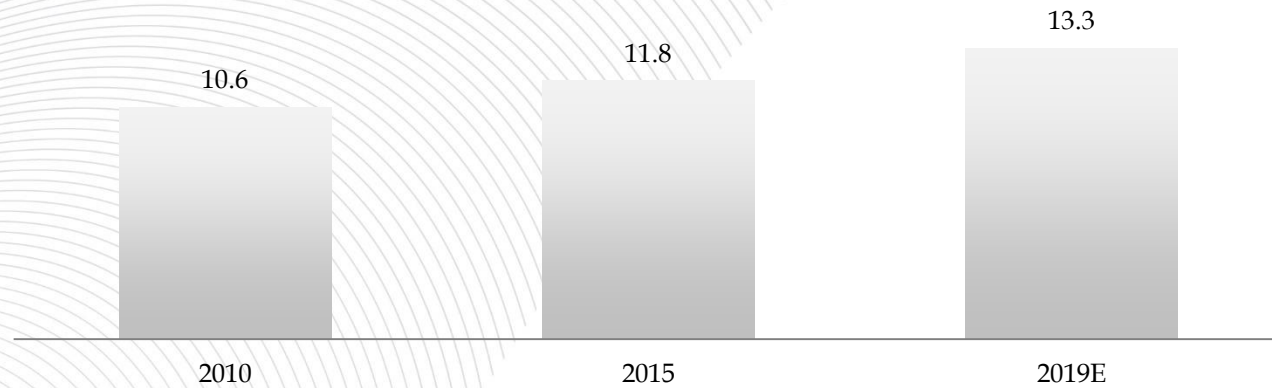
Appendix



Golf is still one of the most popular sports globally

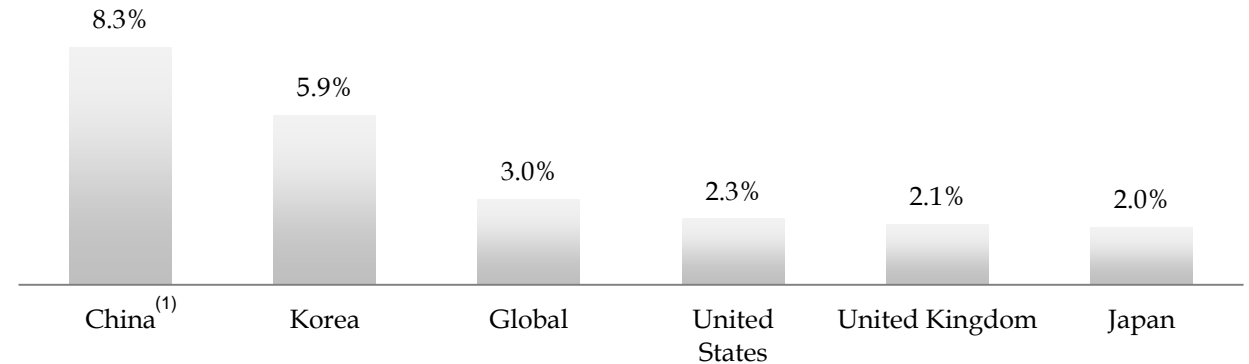
Global Retail Sales Value

USD Billion

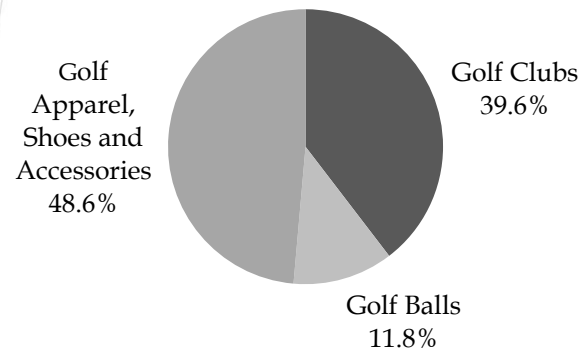


Growth Comparison by Region

2015-2019E CAGR of Retail Sales Value



2015 Retail Sales Value Breakdown by Product Type

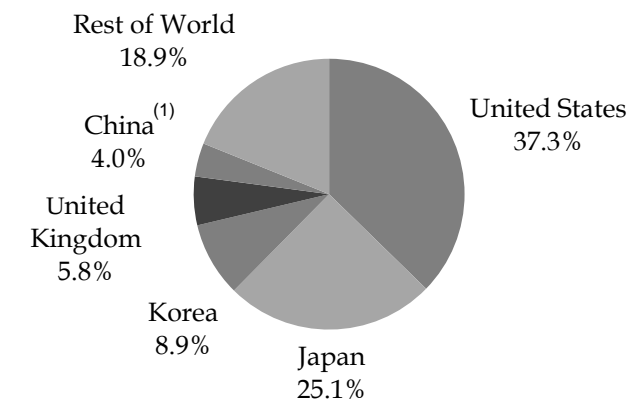


Notes

(1) Including Hong Kong and Macau

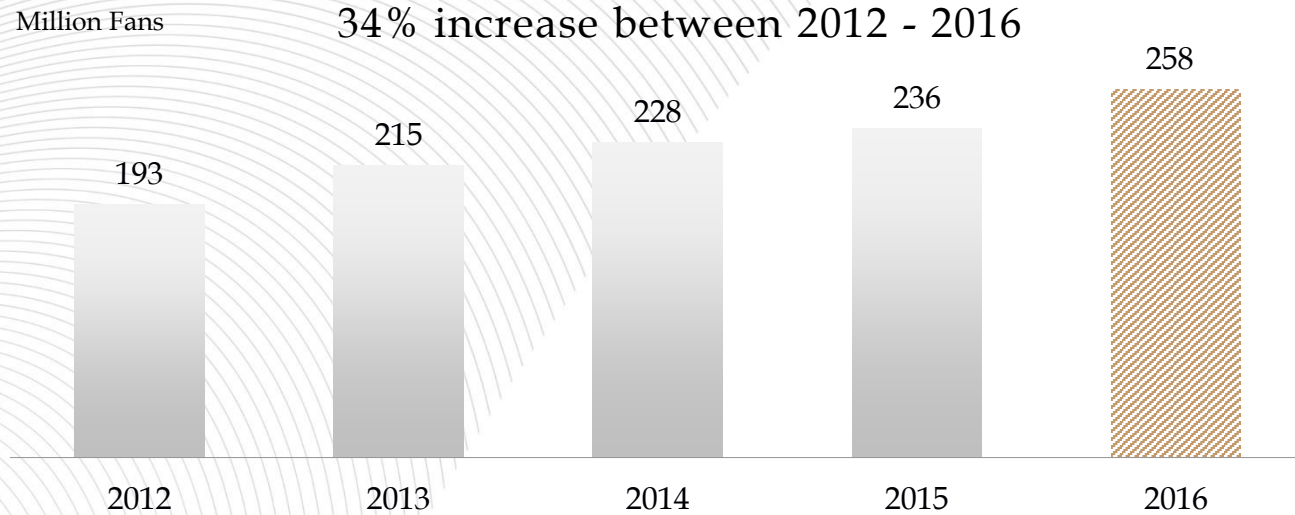
Source: Frost & Sullivan Report

2015 Retail Sales Value Breakdown by Region

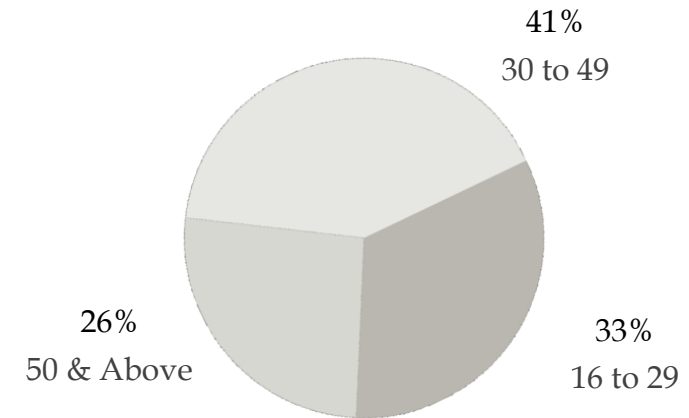


Golf as a sport has large & growing followings in Asia

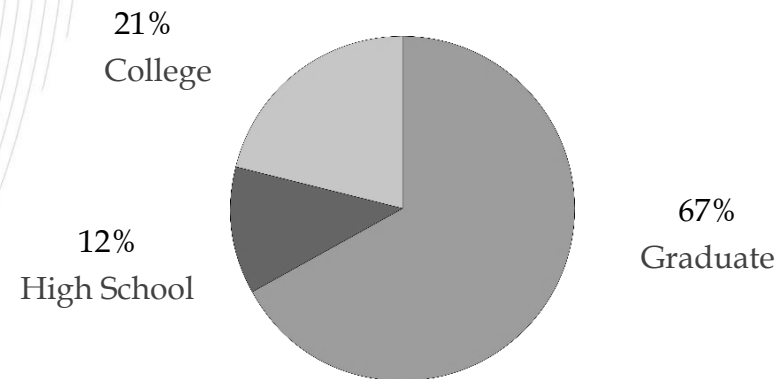
Golf Fans Growth in Asia



Age Breakdown



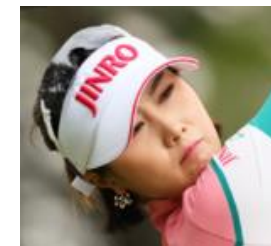
Education Level Breakdown



Gender Breakdown



Male: 58%



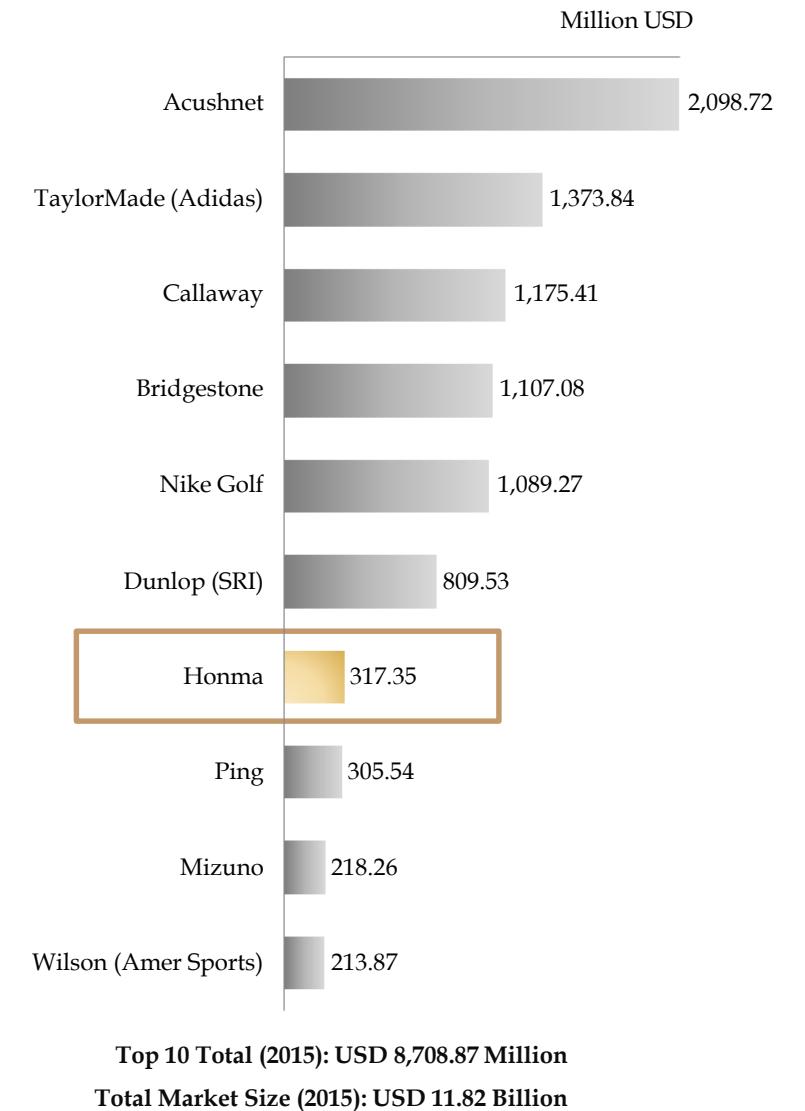
Female: 42%

Source: Nielsen Sports, DNA 2017



Top 10 brands accounts for 74% of the market but with different product and price strategy

Ranking	Company	2015 Retail Sales (Million USD)	Market Share	2014 Retail Sales (Million USD)	Market Share	Year-on-year Growth
1	Titleist (Acushnet)	2,098.72	17.76%	2,006.55	17.40%	4.59%
2	TaylorMade (Adidas)	1,373.84	11.62%	1,450.71	12.58%	-5.30%
3	Callaway	1,175.41	9.94%	1,150.45	9.98%	2.17%
4	Bridgestone	1,107.08	9.37%	1,076.04	9.33%	2.88%
5	Nike Golf	1,089.27	9.22%	1,050.63	9.11%	3.68%
6	Dunlop (SRI)	809.53	6.85%	774.95	6.72%	4.46%
7	HONMA	317.35	2.68%	262.31	2.28%	20.98%
8	Ping	305.54	2.58%	295.28	2.56%	3.47%
9	Mizuno	218.26	1.85%	210.81	1.83%	3.53%
10	Wilson (Amer Sports)	213.87	1.81%	211.62	1.81%	1.06%
Top 10 Total		8,708.87	73.68%	8,489.35	73.60%	2.59%



Source: Frost & Sullivan Report

Overall Golf Clubs market transiting from volume to value and value segments experiencing high growth

Golf Product Market Size by Region



- Mature and professional golf players
- Favored higher priced, premium brands



- Participation skewed towards the upper class
- Usually members of private clubs



- Average skill levels of golf players gradually improve
- Expected to witness shift in segment market representation



- Mature market with participation across different income groups
- Mass market and accessible nature

	Japan	Korea	China	United States
Total Market Size ⁽¹⁾	USD 2,968MM	USD 1,049MM	USD 470MM	USD 4,409MM
Addressable Market Size ⁽²⁾	USD 2,139MM	USD 855MM	USD 315MM	USD 3,049MM
FY 2018 Sales ⁽²⁾	USD 123MM	USD 38MM	USD 42MM	USD 11MM

Notes

(1) Based on 2015 retail value.

(2) Exchange rate: 1USD = 110.70 JPY

Consolidated P&L

	For the six months ended 30 September				Year-on-Year Change
	2018.9.30 JPY	%	2018.9.30 JPY	%	
<i>(In thousands, except for percentages and per share data)</i>					
Consolidated Statement of Profit or Loss					
Revenue	11,503,203.0	100.0	10,521,806.0	100.0	9.3
Cost of sales	-4,707,098.0	-44.7	-4,340,410.0	-41.3	8.4
Gross profit	6,796,105.0	64.6	6,181,396.0	58.7	9.9
Other income and gains	762,586.0	7.2	140,354.0	1.3	443.3
Selling and distribution expenses	-4,024,775.0	-38.3	-3,943,688.0	-37.5	2.1
Administrative expenses	-791,420.0	-7.5	-717,730.0	-6.8	10.3
Other (expenses)/income, net	-8,732.0	-0.1	-253,431.0	-2.4	-96.6
Finance costs	-5,422.0	-0.1	-18,061.0	-0.2	-70.0
Finance income	36,600.0	0.3	72,707.0	0.7	-49.7
Profit before tax	2,764,942	26.3	1,461,547	13.9	89.2
Income tax expense	-630,464	-6.0	-351,219	-3.3	79.5
Net profit	2,134,478	20.3	1,110,328	10.6	92.2
Earnings per share attributable to ordinary equity holders of the parent:					
Basic and diluted - For profit for the year (JPY)	3.50		1.82		92.3
Non-IFRS Financial Measures					
Operating profit ⁽¹⁾	1,405,992	12.2	1,268,912	12.1	10.8
Net operating profit ⁽²⁾	1,425,084	12.4	1,234,989	11.7	15.4

Notes:

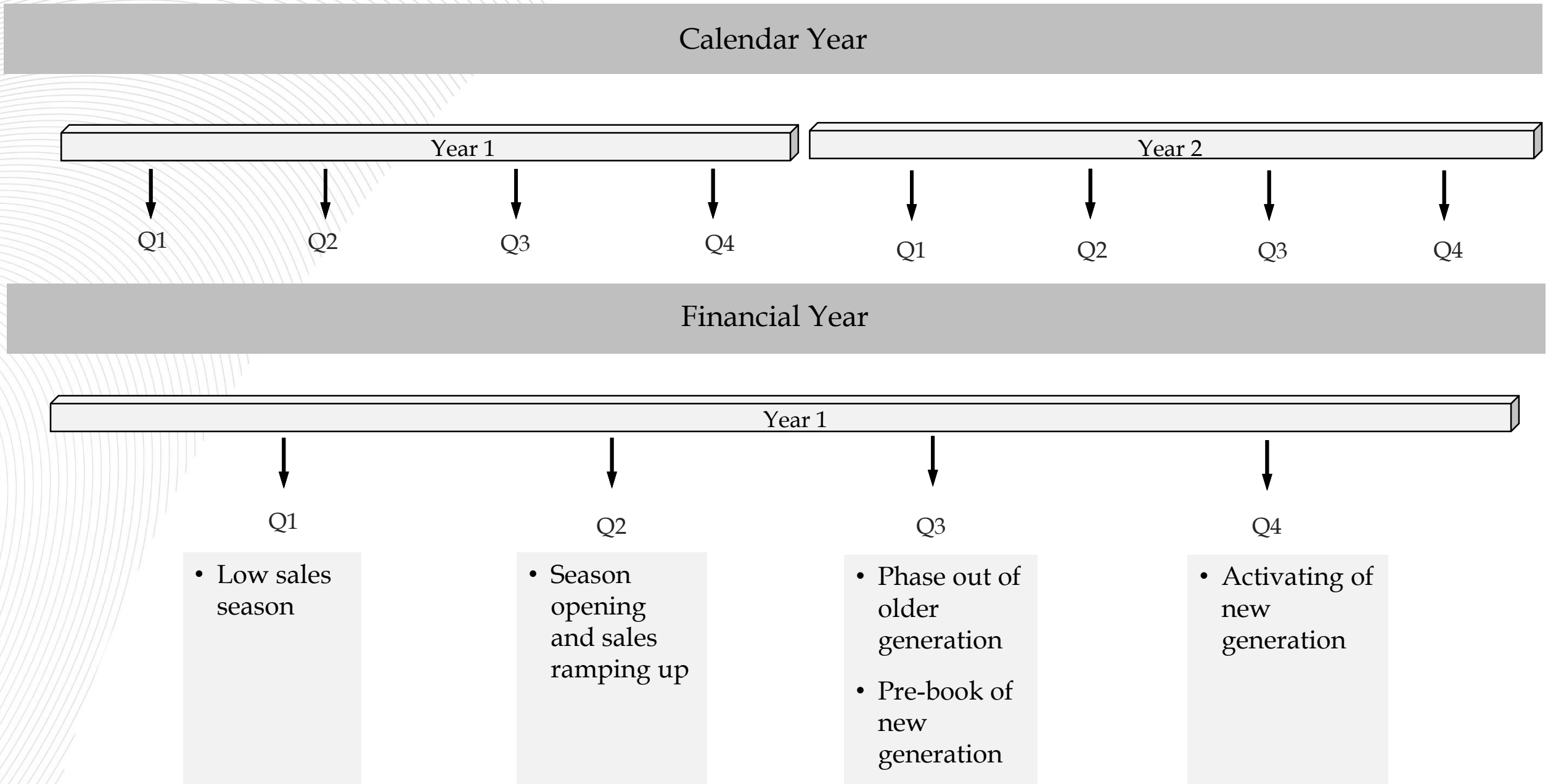
(1) Operating profit is derived from profit before tax by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding listing expenses and (iv) adding RSU expenses.

(2) Net operating profit is derived from net profit by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding listing expenses, (iv) adding RSU expenses and (v) adding impact on tax. The Group referred to such measure as adjusted net profit in the Group's Interim Results Announcement for the Six Months Ended 30 September 2017 dated 16 November 2016

Consolidated Balance Sheet

	For the six months ended 30 September	
	2018.9.30	2018.3.31
	<i>JPY</i>	
	<i>(In thousands, except for percentages and per share data)</i>	
Consolidated Statement of Financial Position		
Assets		
Non-current assets	5,511,423	5,838,480
Current assets	24,310,635	30,354,928
Total Assets	29,822,058	36,193,408
Liabilities		
Non-current Liabilities	1,532,798	1,825,221
Current Liabilities	9,128,220	6,363,274
Total Liabilities	10,661,018	8,188,495
Net current assets	24,310,635	23,991,654
Total assets less current liabilities	29,822,058	29,830,134
Net Assets	28,289,260	28,004,913
Total Equity	28,289,260	28,004,913

Business Cycle and Seasonality





THANKS!

For more inquires, please contact:
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