

Right-on.

Right-on Report

RIGHT ON Co., Ltd.
1-11-1 Azuma, Tsukuba-shi, Ibaraki 305-8503, Japan
Tel: +81-29-858-0321 Fax: +81-29-858-0331
URL: <http://right-on.co.jp/>

Right-on® **The 34th Business Report**
(August 21, 2012–August 20, 2013)

Stock Code: 7445



Tatsuharu Yokouchi
President and Representative Director

MISSION

To give people more fun and choice in life by delivering jeans with lasting appeal that transcends the generations.

POLICY

1. We aim to be a company that makes customers happy by taking a Customer First approach.
2. We aim to be a company that is trusted by the public for its honesty and fairness.
3. We aim to be a company where staff can grow, use their skills to the full, and feel motivated in their work.

To Our Shareholders

First of all, I would like to thank our shareholders for the support we received from you throughout the year. It is my pleasure to present the Right-on Report for the 34th fiscal term (August 21, 2012–August 20, 2013).

Review of Operations for the 34th Fiscal Term

● Business environment

During the fiscal term under review, a number of policies implemented by the government following last year's transfer of power started to produce effects, with the Japanese economy shifting toward gradual recovery. Some signs of improvement were seen in corporate earnings and a pickup in consumer spending.

● Review of operations

Against this backdrop, we worked to offer a rich range of bottomwear items centered on jeans to meet our customers' expectations of us as a jeans shop.

In addition to enhancing our national brand products, we sought to develop trendy products

with superb functionality for our private brands, including "LUSH COLOR" leggings (tight-fitting, stretchable women's pants in a rich range of color variations such as neon colors and flower patterns), "WASHI DENIM" (light, sweat-absorbing, quick-drying denim made by weaving Japanese paper yarn into the fabric on the loom), and "RELAXY DENIM" (comfortable denim with a new feeling like sweatpants). In the topwear sector, we assembled a range of products for a range of tastes.

On the sales front, we strove to establish customer service with a good reputation, to boost customer satisfaction even further. We worked to raise the level of staff members' abilities as sales personnel by participating actively in outside customer service role-playing contests and implementing in-house role-playing competitions. We also sought to create appealing sales floors that are always fresh.

In our sales promotion activities, we strove to expand our base of fans by publishing the free fashion magazine *REAL* and opening local Right-on Town websites to spread information tailored to the community in cooperation with local RIGHT ON stores. We also launched sales appeals through conventional media such as television commercials and magazines.

With regard to store openings and closings, we opened nine stores, including the Kobe Harborland umie store, while closing 12 stores to raise efficiency. As a result, the number of stores at the end of the 34th fiscal term stood at 478. We also proactively renovated existing stores to rejuvenate them.

● Financial results for the 34th term

As an overview of the fiscal term under review, autumn products struggled as a result of high temperatures that lasted until mid-October in the first half of the fiscal term under review. Although some winter products such as heat-retaining and heat-generating bottoms and warm outerwear performed well as temperatures fell, sales were sluggish overall. In the second half of the fiscal term under review, movement of spring products was slow due to low temperatures until mid-May, but sales of summer products were strong, in part due to the prolongation of warmer-than-normal days from June onward. As a result, net sales for the fiscal term under review decreased by 2.2% year on year to 83,492 million yen.

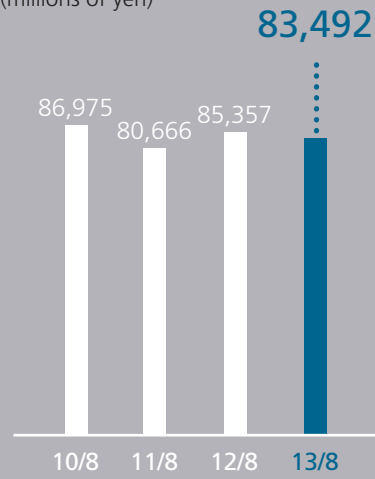
By product sector, net sales declined by 3.3% to 27,976 million yen for bottomwear, decreased by 7.8% to 21,466 million yen for cut-and-sewn and knit wear, and increased by 6.0% to 16,662 million yen for shirts and outerwear.

Although markdown losses were halted, boosting the gross profit margin, an increase in selling, general and administrative expenses to establish new branding—including the enhancement of store sales systems, strengthening of sales promotion activities, and renovation of stores—resulted in a decline in operating income of 11.4% to 3,533 million yen and a drop in ordinary income of 14.8% to 3,417 million yen.

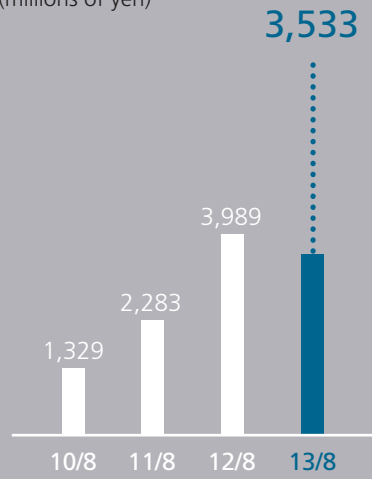
After recording extraordinary losses including losses on retirement of fixed assets due to store renovation work, losses on store closures, and impairment losses, we posted net income of 1,682 million yen, down 10.8% from the previous fiscal term.

Financial Highlights

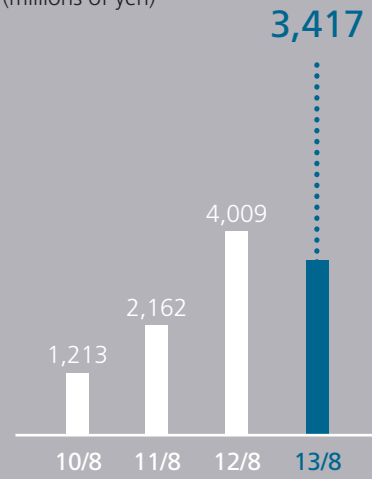
Net Sales
(millions of yen)



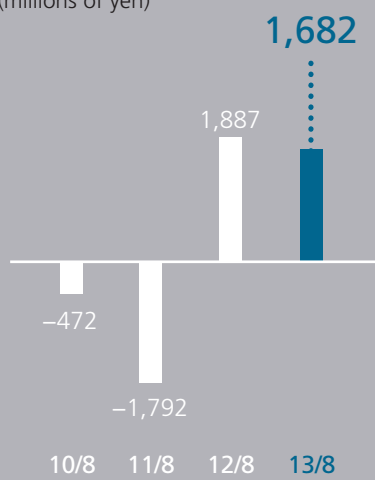
Operating Income
(millions of yen)



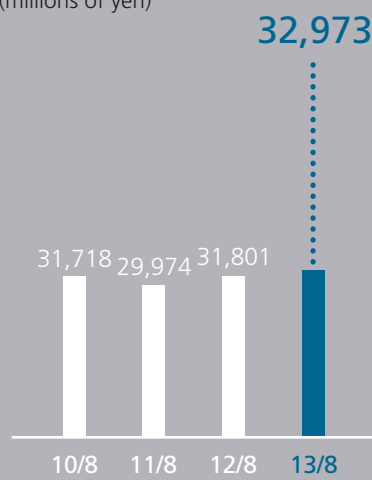
Ordinary Income
(millions of yen)



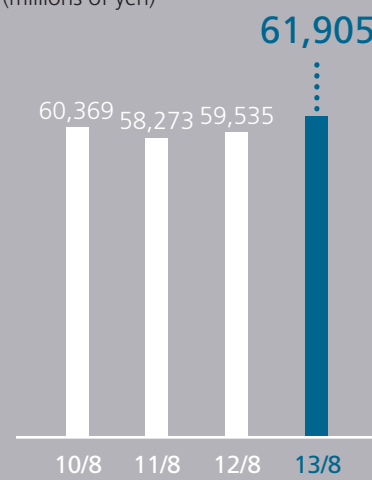
Net Income (Loss)
(millions of yen)



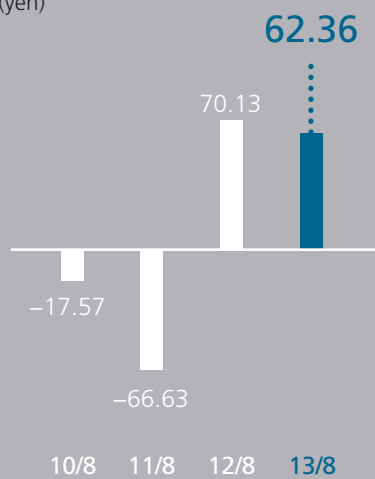
Net Assets
(millions of yen)



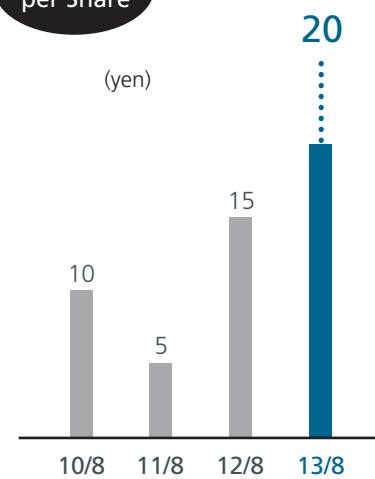
Total Assets
(millions of yen)



Net Income (Loss) per Share
(yen)



Dividends per Share



We provided a year-end dividend for the 34th fiscal term of 10 yen per share. This resulted in a full-year dividend of 20 yen per share (an interim dividend of 10 yen and a year-end dividend of 10 yen), as planned at the beginning of the term.



Medium-Term Business Strategy

1. Evolve into cool, stylish stores.
2. Nail down a distinctive, characteristic, RIGHT ON feel.
3. Establish a system of accelerated rollout and early closeout, characteristic of RIGHT ON.
4. Establish cool, stylish advertising.
5. Establish cool, stylish visual merchandising and store spaces.
6. Establish customer service with a good reputation.

We are committed to establishing branding by carrying out initiatives aimed at achieving the above themes, based on the concept that customer satisfaction is the essence of branding, and to establishing a business model aimed at future growth.

Outlook for the 35th Fiscal Term

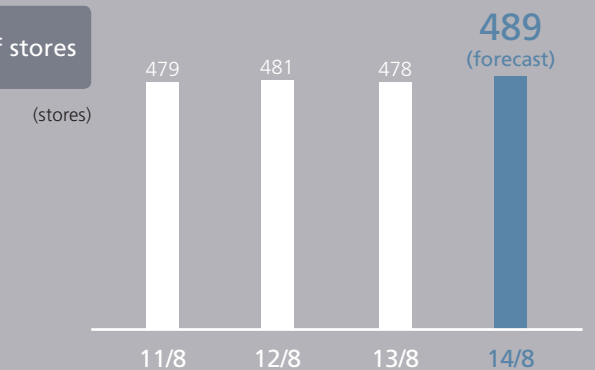
Looking ahead to the 35th fiscal term, it is expected that the economy will continue to improve, but the future remains uncertain, owing to factors such as the downside risk of a downturn in overseas economies.

In this situation, we will aim to maximize sales and profits by implementing a range of measures and meeting customer expectations, based on the concept that customer satisfaction is the essence of branding. As for our forecast for business performance in the next fiscal term, we forecast net sales of 85,000 million yen, operating income of 4,100 million yen, ordinary income of 4,000 million yen, and net income of 2,000 million yen.

Forecast for the 35th term

	Amount	Y-o-y change
Net sales	85,000 million yen	+1.8%
Operating income	4,100 million yen	+16.0%
Ordinary income	4,000 million yen	+17.0%
Net income	2,000 million yen	+18.9%

Number of stores





Merchandise Strategy

In our merchandise strategy, we will plan and develop valuable products for both bottomwear and topwear, centered on jeans, which are our core product. In the area of national brand products, we will boost the competitiveness of our stores by strengthening partnerships with suppliers and assembling a range of products through careful selection of popular standard items and new products. In the area of private brand products, we will release seasonal products for each type of clothing as “power items.” Power items are our leading products in each season, products for which we maintain large inventories and strive to expand sales through focused sales promotion. In addition, we will seek to continually maintain a fresh product mix by moving up the season start.

NEW ITEM

WORLD JEANS (photos 1–4)

We launched WORLD JEANS—inspired by the image of selected cities around the world—from the private brand BACK NUMBER. The jeans, based on an innovative concept, were planned and developed with the image of cities that win the world’s attention by turning out popular new fashions one after the other. This time we picked New York, London, Paris, and Milan, expressing details, colors, and silhouettes that fit the image of each city. (The Milan model is limited to women’s wear.)

RIGHT ON Warm Bottoms

FUYU-DAN (Winter Warm) bottoms (photos 5 and 6) Our FUYU-DAN bottoms are an essential item in the cold season. They offer high functionality, with material that protects against cold air on the outside and a flocky lining that feels nice and soft.

MOCO MOCO JEAN: WOMEN (photos 7 and 8)

Moco Moco means fluffy in Japanese, so to domestic customers the name suggests fleecy, warm bottoms. The secret is the item’s “AIR IN Structure.” The lining has a blanket-like structure that traps warm air, retaining heat and making the bottoms warm and comfortable even in the cold winter.

Promotion Strategy

In our sales promotion strategy, we will implement measures to convert more customers into RIGHT ON fans. We will strive to make RIGHT ON feel closer to customers, such as by practicing two-way communication with them through our members-only Right-on Town websites. We will also adopt a sales promotion method of proposing fashions that revolve around styling. We will seek to develop new clientele by establishing media, tools, and store spaces that fit the styling-centered image and conveying our worldview to ever-growing numbers of customers.



VIVIAN BLUE.



<http://vivianblue.jp>

TOPICS

New Brand Start of VIVIAN BLUE

This autumn we launched the new brand VIVIAN BLUE based on the concept of a mixed style in which you can find just the thing to express your current mood—be it mode, street, trad, or something else—without being confined by fashion frameworks. We used actress Maika Yamamoto as the poster girl. Going forward, we will offer suggestions for casual coordination that makes use of trends in an effort to boost brand recognition and acquire a broad base of fans.



●Online shop
<http://e.right-on.co.jp/>



●Email magazine
<http://right-on.co.jp/r/>

●Facebook
<http://facebook.com/righton.co.jp>

●Twitter account
RIGHT ON twitter.com/righton_jp
Online shop twitter.com/righton_ec

Store Management Strategy

In our store management strategy, we will continue our commitment to providing “services that make customers happy.” We will work to raise the level of stores’ collective strength by robustly upgrading overall store management capabilities in addition to improving customer service skills.



VOICE OF STAFF

Committed to providing “services that make customers happy”

Emi Matsuda

Area Manager

Umeda Area, Hanshin Block

(Flagship store: RIGHT ON Yodobashi Umeda Store)

I have practiced three measures/actions to realize our commitment to providing services that make customers happy.

First, I improved the store management capabilities of each store. In particular, there must not be any disparity in service when interacting with customers, which accounts for the majority of the day’s activities. The entire staff practices sales role-playing in the stores, and I made sure that all store managers and employees could provide instruction. When store managers and employees offered instruction, it increased the level of their own abilities and enhanced store productivity.

Next, I made sure that the flagship store in the area was a dream store. The flagship store is the store managed by the area manager, and it should be a model for stores in the area. I actively communicated examples of success from the flagship store and implemented staff exchanges with other stores, so that the Yodobashi Umeda Store became known as the place for learning customer service skills.

Finally, I frequently visited the stores in the area and sought to instill best practices at each store and make store improvements. This helped all four stores in the Umeda area to exceed last year’s sales this term. Going forward, we will work to expand the number of RIGHT ON fans and raise sales further by providing services that make even more customers happy.



Store-Opening Strategy

With regard to our store-opening strategy, we will aim to expand our sales share by seeking to improve the accuracy of our market research, by continuing to open stores in locations with good geographical and other conditions, and by seeking to bolster the efficiency of our stores through the continuation of our “scrap and build” program. To keep our sales floors fresh and attractive, we will not only undertake an active program of renovation, but also reorganize sales floors to take advantage of the distinctive features of each store as part of measures to reinvigorate existing stores.

RIGHT ON Business Types

Right-on.



<http://right-on.co.jp/>

FLASH REPORT



<http://flashreport.co.jp/>

Salt & Pepper MENS SHOP



<http://saltandpepper.jp/>

CHIME



<http://chime.jpn.com/>

BACK NUMBER KIDS



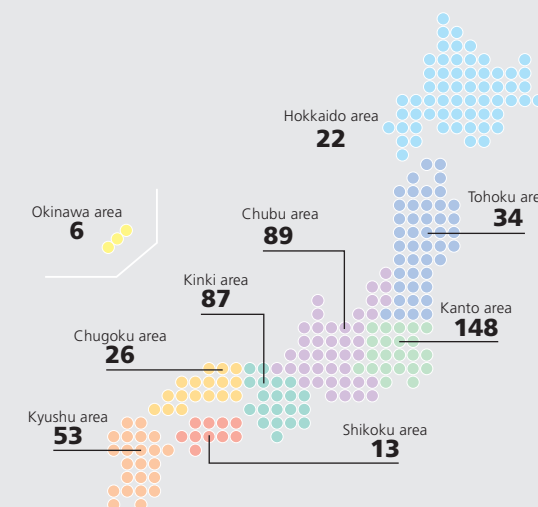
National total: **478** stores

(as of August 20, 2013)

Number of stores according to business type

	(as of the end of the term)
Right-on	447
FLASH REPORT	11
CHIME	17
Salt & Pepper	2
BACK NUMBER KIDS	1
Total	478

Number of stores by area at the end of the term



Balance Sheets (Summary)

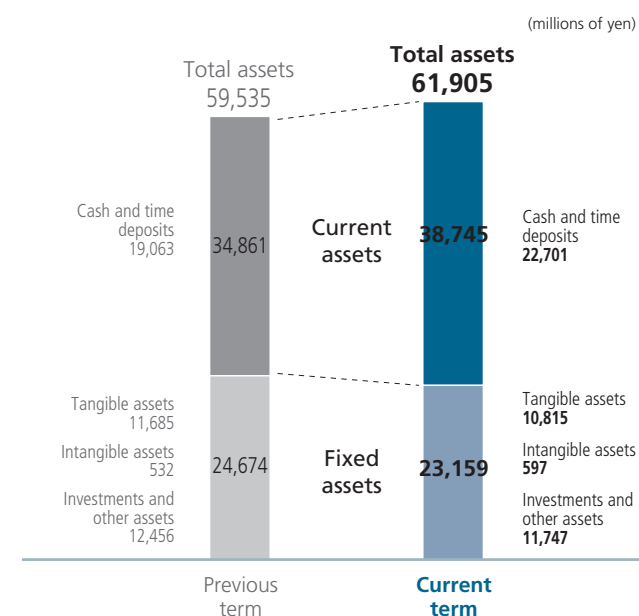
(millions of yen)

Item	Previous term (as of August 20, 2012)	Current term (as of August 20, 2013)
Assets		
Current assets	34,861	38,745
Cash and time deposits	19,063	22,701
Accounts receivable—trade	1,337	1,201
Merchandise	12,424	11,969
Advance payments—trade	163	601
Prepaid expenses	123	164
Deferred tax assets	462	496
Accrued income	1,282	1,594
Other	3	16
Fixed assets	24,674	23,159
Tangible assets	11,685	10,815
Buildings	8,012	7,526
Structures	199	172
Tools, furniture and fixtures	1,491	1,155
Land	1,952	1,903
Lease assets	23	18
Construction in progress	5	38
Intangible assets	532	597
Investments and other assets	12,456	11,747
Investment securities	180	255
Investments in capital	0	0
Long-term prepaid expenses	38	37
Prepaid pension cost	102	78
Deferred tax assets	585	491
Guarantee and rental deposits	11,676	10,988
Other	36	40
Allowance for doubtful accounts	(163)	(145)
Total assets	59,535	61,905

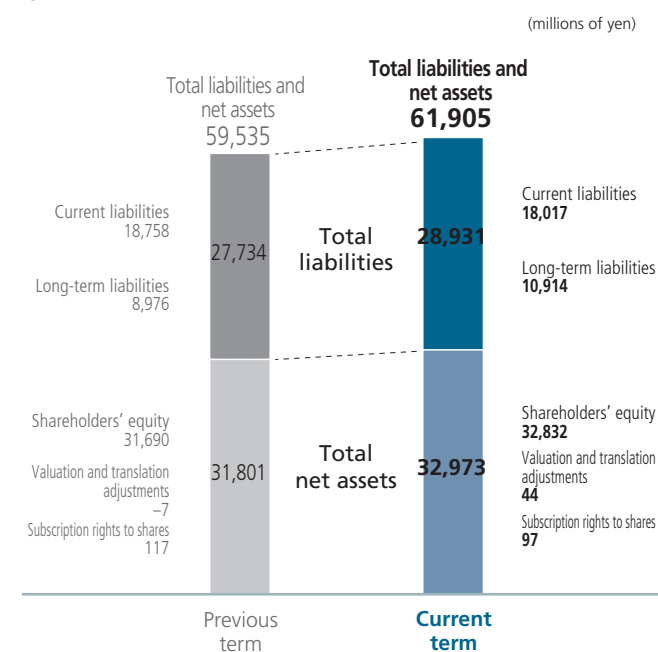
(millions of yen)

Item	Previous term (as of August 20, 2012)	Current term (as of August 20, 2013)
Liabilities		
Current liabilities	18,758	18,017
Trust payable	8,614	9,094
Accounts payable—trade	1,788	1,722
Current portion of long-term loans payable	3,324	3,070
Current portion of bonds	700	700
Lease obligations	3	3
Accounts payable—other	1,157	1,100
Accrued expenses	984	970
Income taxes payable	1,242	535
Accrued consumption taxes	301	132
Advances received	3	3
Deposits received	196	204
Reserve for bonuses	401	438
Asset retirement obligations	39	26
Other	0	14
Long-term liabilities	8,976	10,914
Bonds payable	1,050	350
Long-term debt	5,260	7,955
Lease obligations	20	15
Asset retirement obligations	2,463	2,422
Other	182	171
Total liabilities	27,734	28,931
Net assets		
Shareholders' equity	31,690	32,832
Capital stock	6,195	6,195
Capital surplus	6,481	6,481
Capital reserve	6,481	6,481
Retained earnings	22,498	23,328
Legal reserve	78	78
Other retained earnings	22,420	23,250
Special reserve	4,000	4,000
Retained earnings carried forward	18,420	19,250
Treasury stock	(3,485)	(3,173)
Valuation and translation adjustments	(7)	44
Unrealized gains or losses on marketable securities	(8)	43
Deferred gains or losses on hedges	1	1
Subscription rights to shares	117	97
Total net assets	31,801	32,973
Total liabilities and net assets	59,535	61,905

● Status of assets



● Status of liabilities and net assets



Assets

Total assets as of the end of the term came to 61,905 million yen, an increase of 2,370 million yen year on year.

Current assets rose by 3,884 million yen compared to the end of the previous term to 38,745 million yen. This mainly reflected an increase in cash and time deposits (up 3,637 million yen year on year) and accrued income (up 312 million yen).

Fixed assets decreased by 1,514 million yen compared to the end of the previous term to 23,159 million yen. This was mainly due to declines in tangible assets (down 870 million yen) and guarantee and rental deposits (down 688 million yen).

Liabilities

Total liabilities as of the end of the term came to 28,931 million yen, an increase of 1,197 million yen compared to the end of the previous term.

Current liabilities decreased by 740 million yen compared to the end of the previous term to 18,017 million yen. This was mainly due to an increase in trust payables (up 480 million yen year on year) combined with a decline in income taxes payable (down 707 million yen) and the current portion of long-term loans payable (down 254 million yen).

Long-term liabilities increased by 1,938 million yen compared to the end of the previous term to 10,914 million yen. This was mainly because of an increase in long-term debt (up 2,695 million yen year on year) combined with a decrease in bonds payable (down 700 million yen).

Net assets

Total net assets as of the end of the term came to 32,973 million yen, an increase of 1,172 million yen compared to the end of the previous term. This was mainly due to an increase in retained earnings (up 829 million yen year on year) combined with a decrease in treasury stock of 311 million yen. The equity ratio as a percentage of total assets stood at 53.1%.

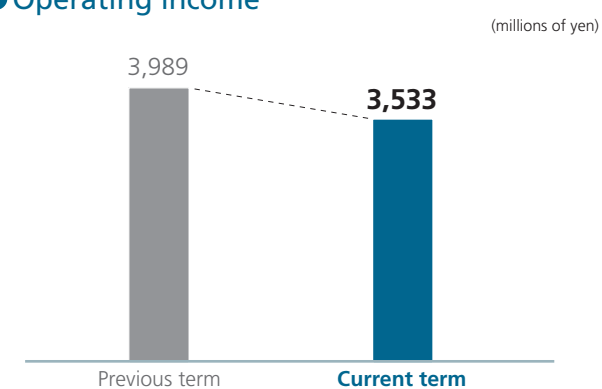
Statements of Income (Summary)

Item	(millions of yen)				
	Previous term (year ended August 20, 2012)		Current term (year ended August 20, 2013)		Y-o-y change
		% of total		% of total	
Net sales	85,357	100.0%	83,492	100.0%	97.8%
Cost of sales	45,730	53.6%	43,582	52.2%	95.3%
Gross profit on sales	39,626	46.4%	39,910	47.8%	100.7%
Selling, general and administrative expenses	35,636	41.7%	36,376	43.6%	102.1%
Operating income	3,989	4.7%	3,533	4.2%	88.6%
Non-operating income	318		227		
Non-operating expenses	298		343		
Ordinary income	4,009	4.7%	3,417	4.1%	85.2%
Extraordinary income	—		29		
Extraordinary losses	517		456		
Income before income taxes	3,491	4.1%	2,990	3.6%	85.6%
Income taxes					
Current:	1,578		1,271		
Deferred:	26		36		
Net income	1,887	2.2%	1,682	2.0%	89.2%

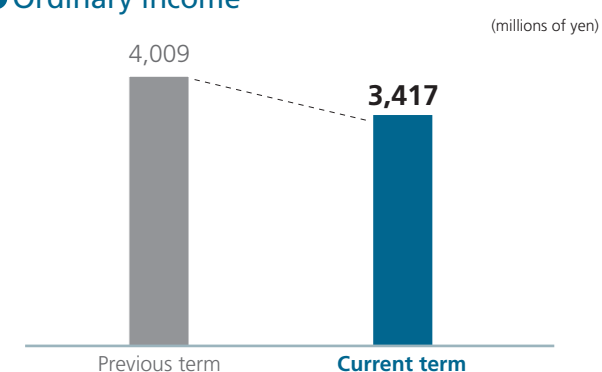
Statements of Cash Flows (Summary)

Item	(millions of yen)	
	Previous term (year ended August 20, 2012)	Current term (year ended August 20, 2013)
Cash flows from operating activities	8,225	3,263
Cash flows from investing activities	(345)	(789)
Cash flows from financing activities	(2,147)	1,162
Net increase in cash and cash equivalents	5,732	3,637
Cash and cash equivalents at beginning of the term	13,322	19,063
Increase in cash and cash equivalents resulting from merger	8	—
Cash and cash equivalents at end of the term	19,063	22,701

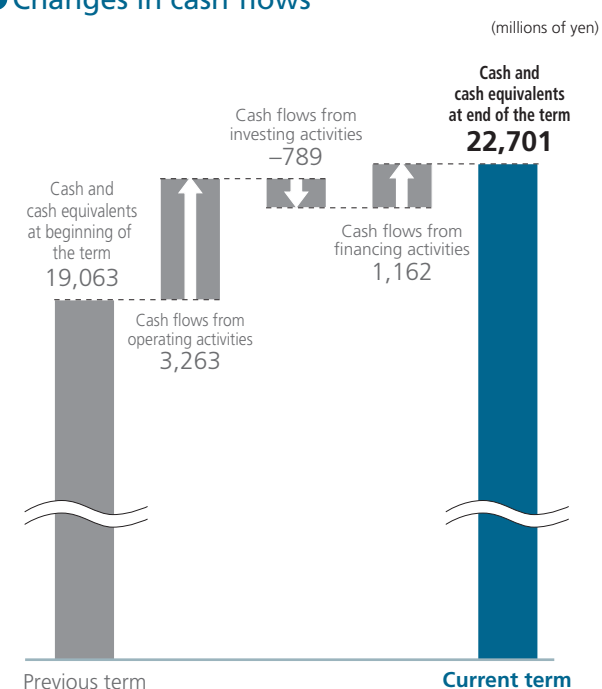
Operating income



Ordinary income



Changes in cash flows



Income

During the first half of the fiscal term under review, fall products struggled due to high temperatures until mid-October. Although some winter products such as heat-retaining and heat-generating bottoms and warm outerwear performed well as the temperature fell, sales were sluggish overall. In the second half of the fiscal term under review, movement of spring products was slow due to low temperatures until mid-May, but sales of summer products were strong, in part due to the prolongation of warmer-than-normal days from June onward. As a result, net sales for the fiscal term under review decreased by 2.2% year on year to 83,492 million yen.

Although markdown losses were halted, increasing the gross profit margin, a rise in selling, general and administrative expenses to construct new branding resulted in a decline in operating income of 11.4% to 3,533 million yen, a drop in ordinary income of 14.8% to 3,417 million yen, and a decline in net income of 10.8% to 1,682 million yen.

Cash flows

Cash and cash equivalents at the end of the fiscal term under review totaled 22,701 million yen, 3,637 million yen higher than at the end of the previous fiscal term, a rise of 19.1%. The factors influencing this result included 2,990 million yen in income before income taxes, 1,564 million yen in depreciation, and 6,100 million yen in proceeds from long-term debt. This was offset by 873 million yen in payment for the purchase of tangible assets as part of new store openings and store renovation, 220 million yen in payment for the purchase of intangible assets, 3,659 million yen for the repayment of long-term debt, and other factors.

Corporate Data (as of August 20, 2013)

Company name:	RIGHT ON Co., Ltd.
Headquarters:	1-11-1 Azuma, Tsukuba-shi, Ibaraki 305-8503, Japan Tel: +81-29-858-0321
Corporate website:	http://right-on.co.jp/
Establishment:	April 1, 1980
Capital stock:	6,195 million yen
Representative:	Tatsuharu Yokouchi, President and Representative Director
Number of employees:	906
Business contents:	<ul style="list-style-type: none"> ● A casualwear specialty store with jeans as the mainstay item ● A nationwide chain store operation with different types of stores for different locations, such as shops located in shopping centers, power centers and station buildings, urban street stores and suburban roadside stores

Directors and Corporate Auditors (as of November 18, 2013)

Masahiro Fujiwara	Chairman and Representative Director
Tatsuharu Yokouchi	President and Representative Director
Yusuke Fujiwara	Director
Noriyuki Miura	Director
Satoshi Nakano	Director
Junichi Ishida	Director
Hatsuo Nishikawa	Standing Corporate Auditor
Kazushi Orita	Standing Corporate Auditor
Toshihiro Nagai	Corporate Auditor
Shinichi Hiraide	Corporate Auditor

Note:
Corporate Auditors Toshihiro Nagai and Shinichi Hiraide are both outside corporate auditors.

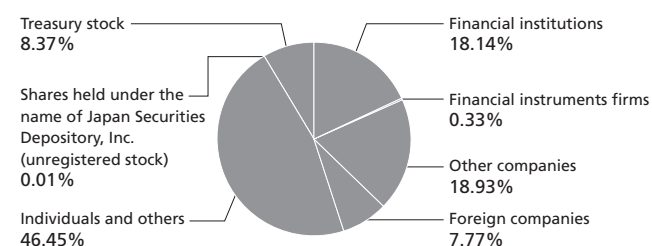
Stock Information (as of August 20, 2013)

Total number of shares authorized	60,000,000
Total number of shares issued and outstanding	29,631,500
Number of shareholders	19,820

Major shareholders

Name	Number of shares held (thousands of shares)	Ratio of shares held (%)
Masahiro Fujiwara	5,220	17.61
Fujiwara Kosan Inc.	4,873	16.44
RIGHT ON Co., Ltd.	2,479	8.36
Yusuke Fujiwara	1,733	5.85
Japan Trustee Services Bank, Ltd. (Trust Account)	969	3.27
Eiko Fujiwara	674	2.27
The Master Trust Bank of Japan, Ltd. (Trust Account)	654	2.20
Nippon Life Insurance Company	635	2.14
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	627	2.11
Joyo Bank, Ltd.	528	1.78

Status of Stock by Type of Shareholder



Sharing Profits with Our Shareholders

Dividends

Our dividend policy is to sustain a stable payment of dividends and distribute profits to shareholders backed by our business performance, while building the internal reserves necessary to strengthen our financial profile and enable us to operate our business in the future.

Based on this policy, we plan to pay an annual dividend of 20 yen per share (an interim dividend of 10 yen and a year-end dividend of 10 yen) for the 35th fiscal term.

Special Benefit Plan for Shareholders

We present discount coupons available at all of our stores (excluding our online shop) as a gift to shareholders recorded or registered on the final list of shareholders on August 20.

The gift is as follows:

Number of Shares Held	Value of Discount Coupon
100-499	3,000 yen (1,000 yen coupon × 3)
500-999	5,000 yen (1,000 yen coupon × 5)
1,000-	7,000 yen (1,000 yen coupon × 7)

The expiration date of the discount coupons is August 20 of the year after the coupons are presented.

Website Information

Information about RIGHT ON is available at the following URLs:

● IR site:

<http://right-on.co.jp/ir/>

Note: On the IR site, settlement information is available, including data on monthly sales with year-on-year changes and financial results.

● Corporate site:

<http://right-on.co.jp/>

<http://right-on.co.jp/english/>



IR Information

Business Year: August 21 to August 20 of the following year

Date of General Meeting of Shareholders:
November

Record Date for Dividend Payments:

Year-end Dividend: August 20

Interim Dividend: February 20

Handling Office of Administrator of Shareholders' Register:

Mitsubishi UFJ Trust and Banking Corporation

Contact Details: Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation

7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081, Japan

Tel: 0120-232-711 (toll free)

Account Managing Agency for Special Accounts:

Mizuho Trust & Banking Co., Ltd.

Address: Stock Transfer Agency Department, Mizuho Trust & Banking Co., Ltd.

8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-8507, Japan

Tel: 0120-288-324 (toll free)

Listing: Tokyo Stock Exchange

Public Notice: The Company makes public notices electronically. URL for the website where the notices will be published: <http://www.right-on.co.jp/biz>. However, if the Company is unable to give an electronic public notice because of an unavoidable reason, public notices may be given in the *Nihon Keizai Shimbun*.

(Notes)

- As part of the dematerialization of stock certificates, in principle administrative operations such as changes of registered address and requests to purchase shares shall be handled by the account managing agencies (securities companies) with whom the shareholder has an account. Make inquiries with the securities company where you have an account. Note that these administrative operations cannot be handled by the Handling Office of Administrator of Shareholders' Register.
- For administrative operations relating to shares recorded in special accounts, the account managing agency is Mizuho Trust & Banking Co., Ltd. Note that these administrative operations cannot be handled by the Handling Office of Administrator of Shareholders' Register (Mitsubishi UFJ Trust and Banking Corporation).
- Dividends receivable are paid by the main and branch offices of Mitsubishi UFJ Trust and Banking Corporation.