

Consolidated Financial Results

For the Fiscal Year Ended March 31, 2019 [JGAAP]

April 25, 2019

Company Name: ZOZO, Inc.
 Stock Listing: Tokyo Stock Exchange – First Section
 Code: 3092
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 Ordinary general shareholders' meeting: June 25, 2019
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 Earnings supplementary explanatory materials: Yes
 Results briefing: Yes (For institutional investors and analysts)

(Rounded down to million yen)

1. Consolidated Business Results for the Fiscal Year Ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(1) Consolidated Business Performance (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended March 2019	118,405	20.3	25,654	-21.5	25,717	-21.4	15,985	-20.7
Fiscal year ended March 2018	98,432	28.8	32,669	24.3	32,740	23.8	20,156	18.3

(Note) Comprehensive Income: Fiscal year ended March 2019: 16,082 million yen (-20.2%)
 Fiscal year ended March 2018: 20,161 million yen (19.1%)

	Net profit per share	Net profit per share after adjusting dilutive shares	ROE	ROA	Operating profit margin to total sales
	Yen	Yen	%	%	%
Fiscal year ended March 2019	52.20	—	50.5	34.4	21.7
Fiscal year ended March 2018	64.68	—	57.4	51.8	33.2

(Note) Net profit per share after adjusting dilutive shares are not filled in since there are no dilutive shares in the fiscal year ended March 2018, and there are no common stock equivalents that have a dilutive effect for the fiscal year ended March 2019.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net asset per share
	million yen	million yen	%	yen
Fiscal year ended March 2019	78,961	22,656	28.6	73.85
Fiscal year ended March 2018	70,712	40,810	57.7	130.95

(Reference) Shareholder's Equity: As at March 31, 2019: 22,546 million yen
 As at March 31, 2018: 40,810 million yen

(Note) "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No.28 February 16, 2018) has been applied from the beginning of the consolidated fiscal year. Deferred tax assets are presented in investment and other assets, and deferred tax liabilities are presented in non-current liabilities respectively. This amendment is applied retroactively to the accounting standards for the previous fiscal year as well.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Ending balance of cash and cash equivalents
	million yen	million yen	million yen	million yen
Fiscal year ended March 2019	14,807	-6,125	-12,059	21,560
Fiscal year ended March 2018	19,882	-8,219	-9,215	24,571

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended March 2018	—	12.00	—	17.00	29.00	9,037	44.8	25.7
Fiscal year ended March 2019	—	14.00	—	10.00	24.00	7,327	46.0	23.4
Fiscal Year ending March 2020 (forecast)	—	12.00	—	18.00	30.00		40.7	

3. Forecast of Consolidated Business Results for Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal Year ending March 2020	136,000	14.9	32,000	24.7	32,000	24.4	22,500	40.8	73.70

*Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Change in accounting policies, accounting estimates and restatement

- ① Changes in accounting policies associated with revision of accounting standards: None
- ② Changes in accounting policies other than ①: None
- ③ Changes in accounting estimates: None
- ④ Restatement: None

(3) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)

Fiscal year ended March 2019: 311,644,285

Fiscal year ended March 2018: 311,644,285

② Treasury stock at the end of period

Fiscal year ended March 2019: 6,349,103

Fiscal year ended March 2018: -

③ Average number of stocks during period

Fiscal year ended March 2019: 306,214,590

Fiscal year ended March 2018: 311,644,285

(Reference) Overview of non-consolidated financial results

1. Non-consolidated Business Results for the Fiscal Year Ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(1) Non-consolidated Business Performance

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended March 2019	103,523	23.1	24,110	-21.8	24,265	-21.7	13,830	-26.4
Fiscal year ended March 2018	85,520	32.2	30,829	18.9	31,003	18.4	18,782	14.0

	Net profit per share	Net profit per share after adjusting dilutive shares
	yen	yen
Fiscal year ended March 2019	45.17	—
Fiscal year ended March 2018	60.27	—

(Note) Net profit per share after adjusting dilutive shares are not filled in since there are no dilutive shares in the fiscal year ended March 2018, and there are no common stock equivalents that have a dilutive effect for the fiscal year ended March 2019.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net asset per share
	million yen	million yen	%	yen
Fiscal year ended March 2019	73,452	18,321	24.9	60.01
Fiscal year ended March 2018	69,190	40,354	58.3	129.49

(Reference) Shareholders' Equity: As at March 31, 2019: 18,321 million yen

As at March 31, 2018: 40,354 million yen

(Note) "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No.28 February 16, 2018) has been applied from the beginning of the consolidated fiscal year. Deferred tax assets are presented in investment and other assets, and deferred tax liabilities are presented in non-current liabilities respectively. This amendment is applied retroactively to the accounting standards for the previous fiscal year as well.

* Consolidated financial results is not subject to the review procedures by certified public accountants or auditing firms.

* Explanation regarding appropriate use of business forecasts and other special instructions

- Forecasts regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors. Please refer "Future Prospects" on page 9 for the suppositions that form the assumptions for business forecasts and cautions concerning the use of business forecasts.

- On April 25, 2019, the company will hold a financial result briefing for the institutional investors and analysts. Its detail as well as presentation materials will be posted on the company's IR website immediately after the commencement of the financial result briefing.

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1. Overview of Business Results

(1) Overview of Business Results for the Current Fiscal Year

[Table 1] Previous Year Comparison

(Unit: million yen)

	Previous Fiscal Year (April 1, 2017 to March 31, 2018)		Current Fiscal Year (April 1, 2018 to March 31, 2019)		YoY
Gross Merchandise Value	270,543	(100.0%)	323,129	(100.0%)	19.4%
Net sales	98,432	(36.4%)	118,405	(36.6%)	20.3%
Gross profit	90,464	(33.4%)	104,962	(32.5%)	16.0%
Operating profit	32,669	(12.1%)	25,654	(7.9%)	-21.5%
Ordinary Profit	32,740	(12.1%)	25,717	(8.0%)	-21.4%
Profit attributable to owners of parent	20,156	(7.5%)	15,985	(4.9%)	-20.7%

Numbers inside parentheses are compositions toward the gross merchandise value

Under the corporate philosophy of “Make the World a better place, bring smiles to the World”, ZOZO, Inc. (hereinafter, referred to as the “Company”) group mainly operates the following businesses; operation of a fashion e-commerce site ZOTOTOWN, sales of the private brand ZOZO (hereinafter, referred to as the “PB”) and operation of a fashion media WEAR.

In this consolidated fiscal year, the group put efforts for configuring ZOTOTOWN more attractive for both users and brands to increase the number of unique users and the conversion rate (purchase rate of unique users). Specifically, the Company continued to open new shops of variety of genres actively to satisfy users’ diversified needs and implemented sales events “ZOWEER” in spring (May 17 to 23) and in fall (November 6 to 13 and 20 to 27) of 2018. Also, to acquire new users and increase the annual purchase amount of existing members, the Company has started a new paid-membership “ZOZOARIGATO Membership” from December 25, 2018. Users can register to the service by paying either 500 yen per month (excluding tax) or 3,000 yen per annum (excluding tax). Detail of registered member benefit is that, with the Company to bear, equivalent to 10% of item purchase price but the limitation of 50,000 yen (including tax) per month, users can choose usage of that 10% amount from the followings in their sole discretion: 1) discount to their purchases, 2) donation to the designated institutions selected by the Company such as JAPAN RED CROSS SOCIETY and 3) give back to the shops where the items were purchased. From February 26, 2019, reflecting requests from some shops on the platform, the Company rolled out a function enables shops to choose patterns of how prices are displayed to users who are not registered to “ZOZOARIGATO Membership” at their own discretion. In addition, “Personal Styling Subscription Service” (The service which the Company delivers styling from head to toe for users on a regular basis) which had been operating from February 15, 2018 on a trial basis to verify user needs however, the Company deemed that this service would not scale in the future and decided to cease taking any new registration as at the end of March 2019.

As for the PB, the Company started to offer formal line items such as business suits from July 2018, in addition to casual line items such as crew-neck T-shirt and slim tapered denim which had been available since the inception. In this 4th quarter consolidated accounting period, total of 20 item line-ups such as zipped parka and chino pant were launched. Furthermore, previously, for users to purchase items of the PB, they must complete measurement using ZOZOSUIT. However, with the body size calculation algorithm which utilizes voluminous body measurement data, the Company introduced a new measurement method from September 7, 2018, enabling users to purchase certain item line-ups in his/her best size without requiring measurement by ZOZOSUIT. To apply this technology and make all the items purchasable except for some formal items such as business suits, the Company will continue to work on its implementation.

As a result, the gross merchandise value for this consolidated fiscal year stood at 323,129 million yen (+19.4% YoY), net sales stood at 118,405 million yen (+20.3% YoY) and gross profit stood at 104,962 million yen (+16.0% YoY). From this 3rd quarter consolidated accounting period, the amount of gross merchandise value is

represented in the amount before deduction of discount attributable to the paid-membership. On the other hand, since the amount of net sales is the amount after the said deduction, consequently the consignment sales commission rate declined on calculation basis. Gross profit margin (towards the gross merchandise value) was 32.5% (-0.9 p YoY) because impacts from decrease in abovementioned consignment sales commission and recording of valuation loss of PB items inventory exceeded positive impact of increases in shipping revenue and sales generated from the advertisement business.

SG&A stood at 79,308 million yen (+37.2% YoY), the ratio towards the gross merchandise value rose by 3.1p YoY to 24.5%. Factors of the rise are increases in 1) advertisement expenses from free of charge distribution of ZOZOSUIT, 2) shipping cost derived from the delivery fee hike of the carrier, 3) payroll and staff costs such as active hiring of PB staffs and engineers, and 4) other expenses: development cost of marker method ZOZOSUIT, communication expenses for the system replacement, supplies expense from logistics bases expansion etc.

Accordingly, operating profit for this consolidated fiscal year stood at 25,654 million yen (-21.5% YoY) and the operating profit margin towards the gross merchandise value was 7.9% which was -4.2p YoY. Ordinary profit stood at 25,717 million yen (-21.4% YoY) and profit attributable to owners of parent stood at 15,985 million yen (-20.7% YoY).

In this 4th quarter consolidated accounting period, the Company recorded extraordinary loss of 2,108 million yen. Breakdown is as follows: 1. From revisiting the business direction of the PB global operation, the Company decided to withdraw overseas business operation based in ZOZO Germany GmbH and ZOZO APPAREL USA, Inc. Due to this decision, 98 million yen of impairment loss of non-current assets, 691 million yen of valuation loss on inventory and 822 million yen of loss on liquidation of business were recorded. 2. Pertain to ZOZOSUIT, for the machinery and components the Company procured to manufacture the old version model of sensor-method, it is expected that a portion of those are unable to divert to other operations or usages in the future. Due to this, 131 million yen of impairment loss of non-current assets and 184 million yen of valuation loss on inventory were recorded. 3. At StretchSense Limited, an affiliated company of the Company, since actual value of the shares the Company holds declined significantly due to deterioration of business performance and financial position. Thus, the Company recorded 178 million yen of loss on valuation of investment securities.

[Table 2] Comparison with the Revised Consolidated Business Forecast Disclosed on January 31, 2019

(Unit: million yen)

	Current Consolidated Fiscal Year (Revised Business Forecast)		Current Consolidated Fiscal Year (Results)		Comparison to Revised Business Forecast
Gross Merchandise Value	327,000	(100.0%)	323,129	(100.0%)	-1.2%
Net sales	118,000	(36.1%)	118,405	(36.6%)	0.3%
Operating profit	26,500	(8.1%)	25,654	(7.9%)	-3.2%
Ordinary Profit	26,500	(8.1%)	25,717	(8.0%)	-3.0%
Profit attributable to owners of parent	17,800	(5.4%)	15,985	(4.9%)	-10.2%

Compared to the revised business forecast which was disclosed on January 31, 2019, the gross merchandise value fell below by 1.2%. On the other hand, net sales exceeded by 0.3% due to the amount of deduction derived from the paid-membership service was lower than the Company expected. Operating profit and ordinary profit fell by 3.2% and 3.0% respectively. Profit attributable to owners of parent fell below by 10.2% due to the aforementioned extraordinary loss.

Since the group operates in a single segment of e-commerce business, description of each segment is omitted.

Business performance of each of the business units within the single segment are described below:

[Table 3] Previous Year Comparison by Business Unit

Business Unit	Previous Fiscal Year (April 1, 2017 to March 31, 2018)			Current Fiscal Year (April 1, 2018 to March 31, 2019)			Merchandise Value YoY (%)	Net Sales YoY (%)
	Merchandise Value (million yen)	Ratio (%)	Net Sales (million yen)	Merchandise Value (million yen)	Ratio (%)	Net Sales (million yen)		
ZOZOTOWN								
(Consignment)	246,803	91.2	71,192	294,230	91.0	82,670	19.2	16.1
(Purchased Stock)	166	0.1	166	149	0.0	148	-10.2	-10.7
(ZOZOUSED)	15,951	5.9	15,931	16,971	5.3	16,372	6.4	2.8
Subtotal	262,920	97.2	87,290	311,351	96.3	99,191	18.4	13.6
Private Brand	—	—	—	2,763	0.9	2,746	—	—
BtoB	7,536	2.8	1,642	9,014	2.8	2,056	19.6	25.2
ZOZOFURIMA	86	0.0	—	—	—	—	-100.0	—
Advertisement	—	—	—	—	—	1,426	—	—
Others	—	—	9,498	—	—	12,984	—	36.7
Total	270,543	100.0	98,432	323,129	100.0	118,405	19.4	20.3

① ZOZOTOWN Business

ZOZOTOWN business consists of 3 business forms: consignment shop, purchased stock shop and ZOZOUSED. The consignment shop is a business form where each brand's products are stocked in the Company's logistics bases as consigned inventory and sell them at ZOZOTOWN in consignment basis. The purchased stock shop is a business form where the Company purchases fashion products from multiple brands as own inventory and sell them at shops at ZOZOTOWN. ZOZOUSED is a business form purchases second-hand fashion products mainly from individual users and a subsidiary of the Company sells the products at ZOZOTOWN. The Company recognizes that "increasing the number of buyers" and "raising usage ratio of ZOZOTOWN in fashion related consumption" are significant factors to grow ZOZOTOWN business continuously. For this reason, the Company is working on to make ZOZOTOWN more attractive e-commerce site for both users and brands.

KPI performances of ZOZOTOWN Business are as follows:

[Table 4] Number of Shops and Brands

	Previous Fiscal Year				Current Fiscal Year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of Shops on ZOZOTOWN (*1)	987	1,016	1,094	1,111	1,139	1,183	1,255	1,245
Purchased Stock Shop	8	7	6	6	5	5	5	5
Consignment Shop	979	1,009	1,088	1,105	1,134	1,178	1,250	1,240
Number of Brands (*1,2)	5,859	6,032	6,346	6,443	6,820	6,957	7,115	7,056

(Note)

1 Numbers are as at the end of each quarter period

2 Private brand "ZOZO" is not included

The number of newly opened shop in this consolidated fiscal year was 213 (net increase of 134). When it comes to this 4th quarter consolidated accounting period, the number was 42 (net decrease of 10). Noteworthy shops opened are "CA4LA" a hat/cap brand, "artemis by DIANA" a lady's shoes and bag brand and "LAZY SUSAN" a fashion accessories select shop. The number of shops slightly decreased from the previous quarter mainly because in addition to termination of brands, integration or withdrawal from poor sales performance, there were closures of some shops due to the initiation of "ZOZOARIGATO Membership".

[Table 5] Transition of Total Annual Buyers

	Previous Fiscal Year				Current Fiscal Year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of total buyers	6,734,740	6,963,986	7,205,777	7,223,227	7,392,126	7,769,546	8,073,672	8,126,524
YoY difference	1,902,182	1,711,445	1,422,396	899,194	657,386	805,560	867,895	903,297
QoQ difference	410,707	229,246	241,791	17,450	168,899	377,420	304,126	52,852
Active member	4,181,873	4,591,017	4,957,861	5,112,861	5,458,643	5,782,227	6,156,837	6,450,686
YoY difference	1,337,702	1,531,026	1,536,421	1,219,705	1,276,770	1,191,210	1,198,976	1,337,825
QoQ difference	288,717	409,144	366,844	155,000	345,782	323,584	374,610	293,849
Guest Buyer	2,552,867	2,372,969	2,247,916	2,110,366	1,933,483	1,987,319	1,916,835	1,675,838
YoY difference	564,480	180,419	-114,025	-320,511	-619,384	-385,650	-331,081	-434,528
QoQ difference	121,990	-179,898	-125,053	-137,550	-176,883	53,836	-70,484	-240,997

(Note)

Data is based on 12 months period prior to the quarter end

In this 4th quarter consolidated accounting period, on top of the impact of enrichment of services for registered members from October 2018 (changing the function of how brand coupons work, where an individual shop can issue their original coupon), the Company initiated “ZOZOARIGATO Membership” from December of the same year, and the number of active members increased from the previous quarter. Inversely, the number of guest buyers decreased from the abovementioned impact.

[Table 6] Transition of Annual Purchase Amount and Annual Purchase Pieces

	Previous Fiscal Year				Current Fiscal Year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual purchase amount (all members) (*1, 2, 3)	47,119	46,818	46,707	47,661	46,870	46,120	46,009	46,315
YoY %	-3.1%	-3.6%	-3.2%	2.7%	-0.5%	-1.5%	-1.5%	-2.8%
QoQ %	1.5%	-0.6%	-0.2%	2.0%	-1.7%	-1.6%	-0.2%	0.7%
Annual purchase pieces (*1, 2)	10.7	10.9	11.0	11.4	11.3	11.2	11.1	11.1
YoY %	8.2%	4.5%	4.9%	10.8%	5.8%	3.0%	1.4%	-2.9%
QoQ %	4.1%	1.7%	0.9%	3.7%	-0.5%	-1.0%	-0.7%	-0.6%
Annual purchase amount (existing active members) (*1, 2, 3)	63,004	64,290	62,761	61,098	59,569	57,563	56,304	55,792
YoY %	6.9%	7.0%	3.0%	-1.1%	-5.5%	-10.5%	-10.3%	-8.7%
QoQ %	2.0%	2.0%	-2.4%	-2.7%	-2.5%	-3.4%	-2.2%	-0.9%
Annual purchase pieces (*1, 2)	14.1	14.6	14.5	14.4	14.2	13.8	13.6	13.4
YoY %	19.2%	15.7%	10.5%	6.1%	0.6%	-5.5%	-6.2%	-6.8%
QoQ %	4.0%	3.2%	-0.7%	-0.4%	-1.4%	-3.0%	-1.5%	-1.1%

(Note)

*1 Data is based on 12 months period prior to the quarter end

*2 Indicators are per active user basis

*3 Japanese yen basis

In this 4th quarter consolidated accounting period, the main reason behind the decrease in the annual purchase amount (all members) compared to the previous fiscal year, was an increase in the ratio of light users. On the other hand, annual purchase amount slightly increased from the previous quarter of the same fiscal year. This was mainly because those new active members joined during the 3rd quarter consolidated accounting period of the previous fiscal year due to “Zozosuit” delivery, have turned into existing active members from this 4th quarter consolidated accounting period, resulting an increase in the ratio of the existing active members to the total active members. The annual purchase amount for active members are decreasing in both YoY and QoQ comparison, due to an increase in the proportion of short-term registered existing members (there is a trend that annual purchase amount of a registered member gets higher as the period after the registration gets longer).

[Table 7] Transition of Average Retail Price, Average Purchase Amount per Shipment and Number of Shipment

	Previous Fiscal Year				Current Fiscal Year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Average Retail Price (*1, 2)	4,099	3,664	4,858	4,203	3,953	3,655	4,759	4,364
YoY %	-8.3%	-5.0%	-7.2%	-6.1%	-3.6%	-0.2%	-2.0%	3.8%
Average Purchase Amount per Shipment (*1, 2)	8,530	8,186	9,043	8,611	8,122	7,777	9,560	9,454
YoY %	-1.7%	3.1%	-10.9%	-3.8%	-4.8%	-5.0%	5.7%	9.8%
Average Purchase Pieces per Order (*1)	2.08	2.23	1.86	2.05	2.05	2.13	2.01	2.17
YoY %	7.1%	8.5%	-3.9%	2.4%	-1.3%	-4.8%	7.9%	5.7%
Number of Shipment (*1)	6,787,599	7,148,647	8,303,595	8,293,761	8,425,033	8,865,330	9,512,052	9,065,816
YoY %	45.9%	32.6%	41.1%	19.7%	24.1%	24.0%	14.6%	9.3%

(Note)

*1 Using data of quarterly accounting period

*2 Japanese yen basis

The average retail price increased from the previous fiscal year. This was because since new users and the existing members could enjoy benefits of discounts by registering to “ZOZOARIGATO Membership”, there was a purchasing behavior of users buying products from shops with higher price range. In the same manner, the average purchase amount per shipment also increased. This was because in addition to the increase in the average retail price, the average purchases pieces per order also increased from the impact of “ZOZOARIGATO Membership”.

Business results of consignment shop, purchased stock shop and ZOZOUSED are as follows:

a. Consignment Shop

Merchandise value of consignment shop for this consolidated fiscal year stood at 294,230 million yen (+19.2% YoY), constituting 91.0% of the gross merchandise value (91.2% for the previous fiscal year). Net Sales (consignment sale commission) stood at 82,670 million yen (+16.1% YoY). The number of consignment shop at the end of March 2019 was 1,240 (1,250 at the end of December 2018).

b. Purchased Stock Shop

Merchandise value of purchased stock shop for this consolidated fiscal year stood at 149 million yen (-10.2% YoY), constituting 0.0% of the gross merchandise value (0.1% for the previous fiscal year). Net sales stood at 148 million yen (-10.7% YoY). The number of purchased stock shop at the end of March 2019 was 5 (5 at the end of December 2018).

c. ZOZOUSED

Merchandise value of ZOZOUSED for this consolidated fiscal year stood at 16,971 million yen (+6.4% YoY), constituting 5.3% (5.9% for the previous fiscal year). Net sales stood at 16,372 million yen (+2.8% YoY).

② Private Brand Business

The PB sells in-house designed apparel items which are manufactured based on individual user’s body measurement. By delivering the body measurement suit “ZOZOSUIT” the Company developed to users who are willing to measure, the PB realizes to offer best-fit sized items for individual based on measurement results provided from the users. Merchandise value of this consolidated fiscal year stood at 2,763 million yen, constituting 0.9% of the gross merchandise value. Net sales stood at 2,746 million yen.

③ BtoB Business

BtoB is a business form where the Company is entrusted from brands for configuration and operation of their own e-commerce websites. Merchandise value of this consolidated fiscal year was 9,014 million yen (+19.6% YoY), constituting 2.8% of the gross merchandise value (2.8% for the previous fiscal year). Net sales

(consignment sales commission) stood at 2,056 million yen (+25.2% YoY). At the end of March 2019, the number of consigned e-commerce websites was 23 (18 at the end of December 2018).

④ Advertisement Business

Utilizing strong user reach basis of ZOZOTOWN and WEAR, the Company generates advertisement income by providing spaces on the platforms for partnering brands and ad agencies. Net sales of this current fiscal year stood at 1,426 million yen. As for WEAR, it continues to aim for monetization from advertisement in addition to expand its user base and to make contents more interesting. At the end of March 2019, the number of cumulative app downloads exceeded 13 million and the number of monthly active users are showing healthy growth as well.

⑤ Others

Within the others segment, net sales generated from businesses related to ZOZOTOWN (shipping income, settlement commission, paid-membership program etc.), other revenues from wholly-owned subsidiaries etc. are recorded. Net sales of this consolidated fiscal year stood at 12,984 million yen (+36.7% YoY).

(2) Overview of Financial Position

Overview of Total Assets, Liabilities and Net Assets

(Unit: million yen)

	Previous Fiscal Year (As at March 31, 2018)	Current Fiscal Year (As at March 31, 2019)	Increase/ decrease rate
Total Assets	70,712	78,961	11.7 %
Liabilities	29,902	56,304	88.3 %
Net Assets	40,810	22,656	-44.5 %

(Total Assets)

The balance of total assets was 78,961 million yen, increased by 8,248 million yen (+11.7% from the previous fiscal year end). The balance of current assets was 57,904 million yen, increased by 4,330 million yen (+8.1% from the previous fiscal year end). This was mainly due to a decrease of 3,010 million yen in cash and deposits, and increases of 2,338 million yen of merchandise and finished products, 1,157 million yen of raw materials and supplies and 2,021 million yen in accounts receivable. The balance of non-current assets was 21,056 million yen, increased by 3,918 million yen (+22.9% from the previous fiscal year end). This was mainly due to an increase of 2,024 million yen in deferred tax assets etc.

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No.28 February 16, 2018) has been applied from the beginning of the consolidated fiscal year. Deferred tax assets are presented in investment and other assets, and deferred tax liabilities are presented in non-current liabilities respectively. This amendment is applied retroactively to the accounting standards for the previous fiscal year as well.

(Liabilities)

The balance of liabilities was 56,304 million yen, increased by 26,401 million yen (+88.3% from the previous fiscal year end). The balance of current liabilities was 52,245 million yen, increased by 25,001 million yen (+91.8% from the previous fiscal year end). This was mainly due to increases of 22,000 million yen in short-term borrowings and 2,638 million yen of deposits received for consignment sales. The balance of non-current liabilities was 4,059 million yen, increased by 1,400 million yen (+52.7% from the previous fiscal year end). This was mainly due to increases of 812 million yen of provision for loss on business liquidation and 424 million yen in asset retirement obligations.

(Net Assets)

The balance of the net assets was 22,656 million yen, decreased by 18,153 million yen (-44.5% from the previous fiscal year end). This was mainly due to increases of 24,412 million yen from the acquisition of treasury stock, 15,985 million yen of profit attributable to owners of parent and a decrease of 9,572 million yen in dividend of surplus.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter, referred to as the “Net Cash”) at the end of this consolidated fiscal year was 21,560 million yen, 3,010 million yen decrease from the end of the previous fiscal year. Descriptions of each cash flows are as follows:

(Unit: million yen)

	Previous Fiscal Year (April 1, 2017 to March 31, 2018)	Current Fiscal Year (April 1, 2018 to March 31, 2019)	Increase/ decrease rate
Cash Flows from Operating Activities	19,882	14,807	-25.5%
Cash Flows from Investing Activities	-8,219	-6,125	-25.5%
Cash Flows from Financing Activities	-9,215	-12,059	30.9%

(Cash Flows from Operating Activities)

The Net Cash provided by operating activities was 14,807 million yen. The major increasing factors are 22,501 million yen of profit before income taxes etc. On the other hand, the major decreasing factors are an increase of 4,365 million yen inventories and an increase of 11,327 million yen of income tax paid etc.

(Cash Flows from Investing Activities)

The Net Cash used in investing activities was 6,125 million yen. This was due to an expenditure of 3,031 million yen for purchase of property, plant and equipment, and an expenditure of 1,146 million yen of purchase of investment securities etc.

(Cash Flows from Financing Activities)

The Net Cash used in financing activities was 12,059 million yen. This was due to 24,000 million yen of increase in short-term loans payable, 24,412 million yen in purchase of treasury stock and 9,566 million yen of cash dividends paid.

(4) Future Prospects

(Prospect for the next fiscal year)

[Table 8] Consolidated Business Results Forecast

(Unit: million yen)

	Current Consolidated Fiscal Year (April 1, 2018 to March 31, 2019)		Next Consolidated Fiscal Year (April 1, 2019 to March 31, 2020)		Comparison to Current Fiscal Year
Gross Merchandise Value	323,129	(100.0%)	367,000	(100.0%)	13.6%
Net sales	118,405	(36.6%)	136,000	(37.1%)	14.9%
Operating profit	25,654	(7.9%)	32,000	(8.7%)	24.7%
Ordinary Profit	25,717	(8.0%)	32,000	(8.7%)	24.4%
Profit attributable to owners of parent	15,985	(4.9%)	22,500	(6.1%)	40.8%

Number inside parentheses are compositions toward the gross merchandise value

The Japanese domestic fashion e-commerce market where the Company group has its axis, the fashion e-commerce penetration is still low when it is compared to the Western countries and China. From here onwards, in combination with brands' movement of enhancement of own e-commerce sites, the market is likely to continue its expansion trend. Under this circumstance, in addition to put efforts for configuring ZOZOTOWN more attractive for both users and brands, the Company will start ZOZOCARD (credit card) and try to get widely used by customers, as a replacing initiative of “ZOZOARIGATO Membership” (Slated to end its service on May 30, 2019) to acquire prime members from the next consolidated fiscal year.

Furthermore, the Company will be starting and working on the following initiatives:

1) Multi Size Platform business (MSP business): by combining product designing of brands on ZOZOTOWN and knowhow and sales capability which the Company acquired through multi-sized items production of the PB

business, produce under the names of brands which users want in multi sizes and sell them on ZOZOTOWN.

2) Cross-border e-commerce model in China

3) Fulfillment by ZOZO: a fulfillment support service for own e-commerce sites operation of brands on ZOZOTOWN.

The SG&A ratio towards the gross merchandise value is expected to rise mainly due to increases in expenses from the expansion of logistics centers (expenses related to logistics, rent and supplies expense) and promotion expenses of hosting the golf tour tournament “ZOZO CHAMPIONSHIP”. As a result, operating profit margin toward the gross merchandise value is expected to be 8.7%, +0.7p from the previous fiscal year.

Merchandise value forecast of each of the business units for the next consolidated fiscal year are described below:

[Table 9] Merchandise value forecast by business units

(Unit: million yen)

Business unit	Current Consolidated Fiscal Year (April 1, 2018 to March 31, 2019)		Next Consolidated Fiscal Year (April 1, 2019 to March 31, 2020)		Comparison to Current Consolidated Fiscal Year (%)
	Merchandise Value (million yen)	Ratio (%)	Merchandise Value (million yen)	Ratio (%)	
ZOZOTOWN					
(Consignment)	294,230	91.0	338,500	92.2	15.0
(Purchased Stock)	149	0.0	—	—	—
(ZOZOUSED)	16,971	5.3	16,900	4.6	-0.4
Subtotal	311,351	96.3	355,400	96.8	14.1
Private Brand	2,763	0.9	1,700	0.5	-38.5
BtoB	9,014	2.8	8,900	2.4	-1.3
MSP	—	—	1,000	0.3	—
Total	323,129	100.0	367,000	100.0	13.6

Within ZOZOTOWN business, as for consignment shop, the Company will aim for growth of the gross merchandise value by continuing to work on “increasing the number of buyers” and “raising usage ratio of ZOZOTOWN in fashion related consumption”. Specifically, the Company will continue to open new shops of variety of genres actively to satisfy users’ diversified needs and drive forward the penetration of ZOZOCARD. As for ZOZOUSED, the Company will continue to improve its usability as a value-added service for ZOZOTOWN users.

In terms of the PB business, the Company will concentrate its business operation steadily within the Japanese market, without seeking its business size expansion. For the BtoB business, in addition to support the existing consigned sites operation, the Company will enhance sales for new consignment of “Fulfillment by ZOZO”. Lastly for the MSP business, to satisfy users’ diversified needs the Company will work on the establishment of a structure which enables to produce products designed by brands on ZOZOTOWN in multi sizes to match users’ body sizes, by utilizing more than a million body measurement data collected from “ZOZOSUIT”.

2. Basic Principle of Accounting Standards Selection

At the moment, the Company group’s policy is to prepare consolidated financial statements on the Japanese basis by taking comparability of periods and in between companies into consideration. With regard to the application of IFRS, the Company’s policy is to respond appropriately after contemplating various domestic and international situations.

3. Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

	(Unit: million yen)	
	Previous Fiscal Year (As at March 31, 2018)	Current Fiscal Year (As at March 31, 2019)
Assets		
Current assets		
Cash and deposits	24,571	21,560
Accounts receivable - trade	25,382	27,404
Merchandise and finished products	2,194	4,533
Raw materials and supplies	195	1,352
Other	1,230	3,053
Total current assets	53,574	57,904
Non-current assets		
Property, plant and equipment		
Buildings	2,554	3,663
Accumulated depreciation	-992	-1,236
Buildings, net	1,561	2,426
Vehicles	20	25
Accumulated depreciation	-14	-17
Vehicles, net	6	7
Tools, furniture and fixtures	5,797	7,392
Accumulated depreciation	-2,818	-3,794
Tools, furniture and fixtures, net	2,979	3,598
Construction in progress	1,120	285
Total property, plant and equipment	5,668	6,318
Intangible assets		
Goodwill	2,769	2,291
Software	254	448
Other	198	371
Total intangible assets	3,222	3,112
Investments and other assets		
Investment securities	1,841	2,339
Deferred tax assets	4,385	6,409
Other	2,020	2,877
Total investments and other assets	8,247	11,626
Total non-current assets	17,138	21,056
Total assets	70,712	78,961

(Unit: million yen)

	Previous Fiscal Year (As at March 31, 2018)	Current Fiscal Year (As at March 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	25	1,693
Deposits received for consignment sales	13,671	16,310
Accounts payable - other	3,626	4,480
Short-term borrowings	—	22,000
Income taxes payable	6,479	3,671
Provision for bonuses	25	395
Provision for bonuses for directors	10	—
Provision for point certificates	1,123	1,343
Provision for sales returns	106	92
Other	2,174	2,258
Total current liabilities	27,243	52,245
Non-current liabilities		
Retirement benefit liability	1,566	1,730
Asset retirement obligations	603	1,028
Provision for loss on business liquidation	—	812
Other	488	488
Total non-current liabilities	2,659	4,059
Total liabilities	29,902	56,304
Net assets		
Shareholders' equity		
Capital stock	1,359	1,359
Capital surplus	1,328	1,328
Retained earnings	38,204	44,252
Treasury stocks	—	-24,412
Total shareholders' equity	40,892	22,528
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	91	77
Foreign currency translation adjustment	—	18
Remeasurements of defined benefit plans	-173	-77
Total accumulated other comprehensive income	-81	17
Share acquisition rights	—	110
Total net assets	40,810	22,656
Total liabilities and net assets	70,712	78,961

(2) Consolidated Statements of Income and Statements of Comprehensive Income
Consolidated Statements of Income

(Unit: million yen)

	Previous Fiscal Year (April 1, 2017 to March 31, 2018)	Current Fiscal Year (April 1, 2018 to March 31, 2019)
Net sales	98,432	118,405
Cost of sales	7,946	13,457
Gross profit	90,485	104,948
Reversal of provision for sales returns	85	106
Provision for sales returns	106	92
Gross profit - net	90,464	104,962
Selling, general and administrative expenses		
Point promotion expenses	2,794	2,665
Outsourcing expenses	7,565	9,252
Packing and transportation expenses	14,172	20,463
Payment collection commission	8,521	9,077
Advertising expenses	1,552	6,065
Payroll and allowances	6,236	8,283
Provision for bonuses	25	395
Provision for bonuses for directors	10	—
Retirement benefit expenses	233	339
Stock compensation expenses	—	110
Depreciation	989	1,518
Amortization of goodwill	312	477
Other	15,379	20,659
Total selling, general and administrative expenses	57,794	79,308
Operating profit	32,669	25,654
Non-operating income		
Interest income	0	0
Receipt rent	5	5
Operations support fee	—	90
Income from recycling	32	59
Subsidy income	43	58
Gain on unused point	41	48
Other	32	18
Total non-operating income	155	283
Non-operating expenses		
Interest expenses	9	71
Rent expense	5	5
Commission expenses	—	80
Foreign exchange losses	35	26
Loss on investments in partnership	35	34
Total non-operating expenses	85	219
Ordinary profit	32,740	25,717

	(Unit: million yen)	
	Previous Fiscal Year (April 1, 2017 to March 31, 2018)	Current Fiscal Year (April 1, 2018 to March 31, 2019)
Extraordinary income		
Gain on sale of businesses	—	169
Gain on sales of non-current assets	4	8
Total extraordinary income	4	178
Extraordinary losses		
Loss on sales and retirement of non-current assets	6	23
Loss on valuation of investment securities	1,848	264
Impairment loss	1,486	1,407
Loss on valuation of inventories	263	876
Loss on valuation of advance payments trade	663	—
Loss on reversal of foreign currency translation adjustments	56	—
Loss on business liquidation	—	822
Total extraordinary losses	4,323	3,394
Profit before income taxes	28,420	22,501
Income taxes - current	10,381	8,579
Income taxes - deferred	-2,117	-2,062
Total income taxes	8,264	6,516
Net Profit	20,156	15,985
Profit attributable to non-controlling interests	0	—
Profit attributable to owners of parent	20,156	15,985

Consolidated Statements of Comprehensive Income

(Unit: million yen)

	Previous Fiscal Year (April 1, 2017 to March 31, 2018)	Current Fiscal Year (April 1, 2018 to March 31, 2019)
Net Income	20,156	15,985
Other comprehensive income		
Valuation difference on available-for-sale securities	25	-14
Foreign currency translation adjustment	73	15
Remeasurements of defined benefit plans, net of tax	-94	95
Total other comprehensive income	4	97
Comprehensive income	20,161	16,082
(Breakdown)		
Comprehensive income attributable to owners of parent	20,120	16,082
Comprehensive income attributable to non-controlling interests	41	—

(3) Consolidated Statement of Change in Net Assets

Previous fiscal year from April 1, 2017 to March 31, 2018

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2017	1,359	1,328	38,532	-11,758	29,461
Changes of items during the current fiscal year					
Cash dividends			-8,726		-8,726
Profit attributable to owners of parent			20,156		20,156
Repurchase of Treasury stock					-
Disposal of treasury shares		-11,758		11,758	-
Transfer to capital surplus from retained earnings		11,758	-11,758		-
Change in retained earnings from newly consolidated subsidiary					-
Net changes of items other than shareholders' equity					-
Total changes of items during the current fiscal year	-	-	-328	11,758	11,430
Balance as of March 31, 2018	1,359	1,328	38,204	-	40,892

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of March 31, 2017	65	-32	-79	-45	-	452	29,868
Changes of items during the current fiscal year							
Cash dividends							-8,726
Profit attributable to owners of parent							20,156
Repurchase of Treasury stock							-
Disposal of treasury shares							-
Transfer to capital surplus from retained earnings							-
Change in retained earnings from newly consolidated subsidiary							-
Net changes of items other than shareholders' equity	25	32	-94	-36	-	-452	-488
Total changes of items during the current fiscal year	25	32	-94	-36	-	-452	10,941
Balance as of March 31, 2018	91	-	-173	-81	-	-	40,810

Current fiscal year from April 1, 2018 to March 31, 2019

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2018	1,359	1,328	38,204	-	40,892
Changes of items during the current fiscal year					
Cash dividends			-9,572		-9,572
Profit attributable to owners of parent			15,985		15,985
Repurchase of Treasury stock				-24,412	-24,412
Disposal of treasury shares					-
Transfer to capital surplus from retained earnings					-
Change in retained earnings from newly consolidated subsidiary			-364		-364
Net changes of items other than shareholders' equity					-
Total changes of items during the current fiscal year	-	-	6,048	-24,412	-18,363
Balance as of March 31, 2019	1,359	1,328	44,252	-24,412	22,528

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of March 31, 2018	91	-	-173	-81	-	-	40,810
Changes of items during the current fiscal year							
Cash dividends							-9,572
Profit attributable to owners of parent							15,985
Repurchase of Treasury stock							-24,412
Disposal of treasury shares							-
Transfer to capital surplus from retained earnings							-
Change in retained earnings from newly consolidated subsidiary							-364
Net changes of items other than shareholders' equity	-14	18	95	99	110	-	210
Total changes of items during the current fiscal year	-14	18	95	99	110	-	-18,153
Balance as of March 31, 2019	77	18	-77	17	110	-	22,656

(4) Consolidated Statement of Cash Flows

(Unit: million yen)

	Previous Fiscal Year (April 1, 2017 to March 31, 2018)	Current Fiscal Year (April 1, 2018 to March 31, 2019)
Cash flows from operating activities		
Profit before income taxes	28,420	22,501
Depreciation	989	1,534
Amortization of goodwill	312	477
Share-based compensation expenses	—	110
Loss on reversal of foreign currency translation adjustments	56	—
Loss on valuation of inventories	263	876
Loss on business liquidation	—	822
Loss on valuation of advance payments	663	—
Impairment loss	1,486	1,407
Loss on valuation of investment securities	1,848	264
Gain on business transfer	—	-169
Loss (gain) on investments in partnership	35	34
Loss (gain) on sales and retirement of non-current assets	2	14
Increase (decrease) in provision for bonuses	2	369
Increase (decrease) in provision for bonuses for directors	-7	-10
Increase (decrease) in provision for point certificates	290	219
Increase (decrease) in provision for sales returns	21	-14
Increase (decrease) in provision for loss on order received	-163	—
Increase (decrease) in retirement benefit liability	180	301
Interest and dividend income	0	-1
Interest expenses	9	71
Commission expenses	—	80
Foreign exchange losses (gains)	27	-2
Decrease (increase) in notes and accounts receivable - trade	-4,473	-2,021
Decrease (increase) in inventories	-1,205	-4,365
Decrease (increase) in prepaid expenses	-500	-1,506
Increase (decrease) in notes and accounts payable - trade	0	1,672
Increase (decrease) in deposits received for consignment sales	2,134	2,638
Increase (decrease) in accounts payable - other	275	784
Increase (decrease) in accrued expenses	27	170
Increase (decrease) in accrued consumption taxes	-93	-989
Other, net	-1,014	945
Subtotal	29,586	26,214
Interest and dividend income received	0	0
Interest expenses paid	-9	-80
Income taxes paid	-9,696	-11,327
Net cash provided by (used in) operating activities	19,882	14,807

(Unit: million yen)

	Previous Fiscal Year (April 1, 2017 to March 31, 2018)	Current Fiscal Year (April 1, 2018 to March 31, 2019)
Cash flows from investing activities		
Purchase of property, plant and equipment	-4,514	-3,031
Purchase of intangible assets	-50	-603
Proceeds from sales of property, plant and equipment	1	12
Proceeds from sales of intangible assets	3	—
Purchase of investment securities	—	-1,146
Payment for establishment of subsidiary	-653	-130
Proceeds from sale of businesses	—	150
Payments for leasehold and guarantee deposits	-427	-903
Payments for investments in capital of subsidiaries and associates	-251	-188
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-2,123	—
Payments of loans receivable	-216	-290
Collection of loans receivable	3	2
Other, net	11	2
Net cash provided by (used in) investing activities	-8,219	-6,125
Cash flows from financing activities		
Increase in short-term loans payable	15,000	24,000
Decrease in short-term loans payable	-15,000	-2,000
Repayments of long-term loans payable	-48	0
Commission expenses paid	—	-80
Liquidation dividends paid to non-controlling interests	-443	—
Purchase of treasury stocks	—	-24,412
Cash dividends paid	-8,723	-9,566
Net cash provided by (used in) financing activities	-9,215	-12,059
Effect of exchange rate change on cash and cash equivalents	-28	18
Net increase (decrease) in cash and cash equivalents	2,419	-3,358
Cash and cash equivalents at beginning of period	22,151	24,571
Increase in cash and cash equivalents from newly consolidated subsidiary	—	348
Cash and cash equivalents at end of period	24,571	21,560

(5) Notes on Consolidated Financial Statements

(Notes on going concern assumptions)

None

(Segment Information and other)

[Segment Information]

I. Previous fiscal year (April 1, 2017 to March 31, 2018)

The Company group operates in a single segment of e-commerce business, descriptions are omitted.

II. Current fiscal year (April 1, 2018 to March 31, 2019)

The Company group operates in a single segment of e-commerce business, descriptions are omitted.

(Per share information)

	Previous Fiscal Year (April 1, 2017 to March 31, 2018)	Current Fiscal Year (April 1, 2018 to March 31, 2019)
Net assets per share	130.95 yen	73.85 yen
Net income per share	64.68 yen	52.20 yen

(Notes)

1. Net profit per share after adjusting dilutive shares are not filled in since there are no dilutive shares in the fiscal year ended March 2018.
2. There are no common stock equivalents that have a dilutive effect for the fiscal year ended March 2019.
3. The basis for computation of net assets per share is as follows:

	Previous Fiscal Year (April 1, 2017 to March 31, 2018)	Current Fiscal Year (April 1, 2018 to March 31, 2019)
Profit attributable to owners of the parent(million yen)	20,156	15,985
Amount not allocated to common stock (million yen)	—	—
Profit attributable to owners of the parent allocated to common stock (million yen)	20,156	15,985
Average number of shares of common stock outstanding during the fiscal year (shares)	311,644,285	306,214,590
Summary of potential shares that were not included in the calculation of diluted net income per share because they had no dilutive effect, but had significant changes since the end of the previous consolidated fiscal year	—	Share acquisition rights resolved at the Board of Directors on June 26, 2018 1st Allocation of Stock Acquisition Right 150,108 unit (15,010,800 Ordinary shares) 2st Allocation of Stock Acquisition Right 90,064 unit (9,006,400 Ordinary shares) 3rd Allocation of Stock Acquisition Right 60,043 unit (6,004,300 Ordinary shares)

(Significant subsequent events)

None