

Consolidated Financial Results

For the Second Quarter for the Fiscal Year Ending March 31, 2020 [JGAAP]

October 31, 2019

Company Name: ZOZO, Inc. Listed stock exchange: Tokyo-First Section
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 Representative: Representative Director, President & CEO Kotaro Sawada
 Contact Person: Director, Executive Vice President & CFO Koji Yanagisawa (TEL) 043(213)5171
 Scheduled date to file November 14, 2019 Scheduled date of dividend payment: December 2, 2019
 quarterly securities report
 Supplementary materials for quarterly financial results : Yes
 Quarterly results briefing : Yes (For analysts and institutional investors)

(Rounded down to million yen)

1. Consolidated Results for the Second Quarter for March 31, 2020 (April 1, 2019 to September 30, 2019)

(1) Consolidated Business Results (Cumulative)

(Percentages indicate YoY changes)

	Net Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Second quarter of fiscal year ending March 31, 2020	57,242	6.5	13,254	31.8	13,052	30.4	7,919	25.9
Second quarter of fiscal year ended March 31, 2019	53,764	25.9	10,053	-27.3	10,007	-27.7	6,291	-34.1

(NOTE) Comprehensive income Second Quarter of Fiscal Year Ending March 31, 2020 7,882 Million yen (24.4%)
 Second Quarter of Fiscal Year Ended March 31, 2019 6,338 Million yen (-34.7%)

	Net profit per share	Fully diluted net profit per share
	Yen	Yen
Second quarter of fiscal year ending March 31, 2020	25.94	-
Second quarter of fiscal year ended March 31, 2019	20.48	-

(NOTE) Fully diluted net profit per share is not presented as there are no potential shares with dilutive effect.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Second quarter of fiscal year ending March 31, 2020	82,197	27,382	33.3
Fiscal year ended March 31, 2019	78,961	22,656	28.6

(Reference) Equity Second quarter of fiscal year ending March 31, 2020 27,372 Million yen
 Fiscal year ended March 31, 2019 22,546 Million yen

2. Dividend payment

	Annual dividends				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	-	14.00	-	10.00	24.00
Fiscal year ending March 31, 2020	-	12.00	-	-	-
Fiscal year ending March 31, 2020 (forecast)	-	-	-	18.00	30.00

(NOTE) Revisions to the most recently announced dividend forecast : None

3. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(Percentages indicate YoY changes)

	Net Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	136,000	14.9	32,000	24.7	32,000	24.4	22,500	40.8	73.70

(NOTE) Revisions to the consolidated financial forecasts most recently announced : None

* Notes

(1) Changes of important subsidiaries during the period : Yes

(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

New: 1 ZOZO NEW ZEALAND LIMITED , Exclusion: —

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements : None

(3) Changes in accounting policies and changes or restatement of accounting estimates

① Changes in accounting policies caused by revision of accounting standards : None

② Changes in accounting policies other than ① : None

③ Changes in accounting estimates : None

④ Restatements : None

(4) Number of Shares Outstanding (common stock)

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

Q2 for fiscal year ending March 31, 2020	311,644,285 Share	Fiscal year ended March 31, 2019	311,644,285 Share
Q2 for fiscal year ending March 31, 2020	6,349,103 Share	Fiscal year ended March 31, 2019	6,349,103 Share
Q2 for fiscal year ending March 31, 2020	305,295,182 Share	Q2 for fiscal year ending March 31, 2020	307,124,002 Share

② Treasury stock at the end of period

③ Average number of shares during the period (quarterly cumulative period)

* Quarterly financial report is not subject to quarterly review by a certified public accountant or an auditing firm.

* Explanation and other special notes concerning the appropriate use of financial forecasts

- The financial forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may differ materially from these forecasts due to various factors. Please refer to "Explanation of Consolidated Financial Forecasts and Other Forward-Looking Statements" on page 11 for the assumptions underlying the financial forecasts and notes for using the financial forecasts.
- The Company is scheduling to hold a financial result briefing for institutional investors and analysts on October 31, 2019. The Company plans to post the content of the briefing and the briefing materials used on the day on its website promptly after the briefing.

Table of Contents of Appendix

1. Qualitative Information on Results for the Second Quarter Ended September 30, 2019.....	5
(1) Explanation of Business Results.....	5
(2) Explanation of Financial Position.....	10
(3) Explanation of Consolidated Financial Forecasts and Other Forward-Looking Statements.....	11
2. Quarterly Consolidated Financial Statements and Major Notes	12
(1) Quarterly Consolidated Balance Sheets	12
(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income	14
(3) Quarterly Consolidated Statements of Cash Flows	16
(4) Notes to Quarterly Consolidated Financial Statements.....	18
(Notes on the Going Concern Assumption)	18
(Notes on Substantial Changes in the Amount of Shareholders' Equity).....	18

1. Qualitative Information on Results for the Second Quarter Ended September 30, 2019

(1) Explanation of Business Results

(Business Results for this Fiscal Year)

[Table 1] YoY Comparison

(Million yen)

	Consolidated cumulative second quarter of previous fiscal year (April 1 to September 30, 2018)		Consolidated cumulative second quarter of current fiscal year (April 1 to September 30, 2019)		YoY
Gross merchandise value	141,221	(100.0%)	157,915	(100.0%)	11.8%
Net Sales	53,764	(38.1%)	57,242	(36.2%)	6.5%
Gross profit	48,989	(34.7%)	52,421	(33.2%)	7.0%
Operating profit	10,053	(7.1%)	13,254	(8.4%)	31.8%
Ordinary profit	10,007	(7.1%)	13,052	(8.3%)	30.4%
Profit attributable to owners of parent	6,291	(4.5%)	7,919	(5.0%)	25.9%

Figures in () are the percentage of product sales.

Under the corporate philosophy of “Make the World a better place, bring smiles to the World. Be unique. Be equal.”, ZOZO, Inc. (hereinafter, referred to as the “Company”) group mainly operates the following businesses: Japan’s largest fashion e-commerce website ZOZOTOWN and a fashion media WEAR.

In the consolidated cumulative second quarter of the current fiscal year, the Company group focused on creating ZOZOTOWN more attractive to both users and brands, in order to increase the number of unique users and improve the conversion rate (purchasing rate of unique users). Specifically, to meet the diversifying needs of users, the Company proactively welcomed new brands in a wide range of genre and held sales events before the consumption tax hike. In addition, from the second quarter consolidated accounting period of the current fiscal year, with aim of revitalizing existing members, the Company actively implemented personalized discounts and reward points measures based on information such as purchasing history of each member.

Furthermore, regarding the MSP (Multi-Size Platform) business, which the Company had been preparing for its launch in this autumn, the Company started to take orders on ZOZOTOWN from September 6, 2019 as originally planned. However, full-scale shipments will begin from the consolidated cumulative third quarter of the current fiscal year.

On June 24, 2019, the Company began accepting prior reservations for ZOZOMAT (scheduled to be shipped in sequence from this winter), which enables the measurement of a plurality of parts required for shoe selection by converting the foot shape into 3D data. In addition to aiming to expand the gross merchandise value of shoe categories in ZOZOTOWN, the Company will strive to provide new purchasing experiences that will enable users to select shoes that are comfortable and convenient.

As a result of the above, the gross merchandise value in the consolidated cumulative second quarter of the current fiscal year stood at 157,915 million yen (up 11.8% YoY), net sales were 57,242 million yen (up 6.5% YoY), and gross profit was 52,421 million yen (up 7.0% YoY). Effective from the third quarter consolidated accounting period of the previous fiscal year, the gross merchandise value is represented in the amount before the deduction of the discount attributable to the paid-membership service “ZOZOARIGATO” (For other discount measures bore by the Company in which were not attributable to the said paid-membership service, such discount amount is deducted from the gross merchandise value). On the other hand, in either case, since the amount of net sales are the amount after the said deduction, consequently the consignment sales commission rate declined on calculation basis. The gross profit margin (towards the gross merchandise value) was 33.2% (down 1.5% points YoY). This was because more than the rising factors from sales increase from the advertisement business and shipping revenue in other segment sales, impacts from discounts derived from measures bore by the Company and the valuation loss on merchandise and raw materials in the PB business affected negatively.

Selling, general and administrative expenses stood at 39,167 million yen (up 0.6% YoY) and its ratio to the gross merchandise value was 24.8%, down 2.8% points YoY. The main reasons for the decline in the SG&A-to-GMV ratio in YoY are as follows:

- Worsening factors

- ① Point-related expenses (towards the gross merchandise value) rose 0.5% points due to aggressive personalized reward point measures.

- ② Rent (towards the gross merchandise value) rose 0.3% points due to increases in the number of logistics bases.
- Improving factors
- ① Advertising expenses (towards the gross merchandise value) decreased by 2.5% points due to a decrease in the number of ZOZOSUIT distributed and significant promotional measures not being implemented.
- ② Other expenses (towards the gross merchandise value) decreased by 0.4% points due to the absence of the impact of expensive spot costs incurred in the consolidated cumulative second quarter of the previous fiscal year (settlement costs related to the older sensor-based ZOZOSUIT and contingency fees attributable to improvement researches of the new ZOZOSUIT of the marker-based method).
- ③ Payroll costs for employees (towards the gross merchandise value) decreased by 0.4% points due to the impact of the change in the bonus payment policy implemented in the previous fiscal year has normalized in the consolidated cumulative second quarter of the current fiscal year.
- ④ Packing and transportation expenses (towards the gross merchandise value) decreased by 0.2% points due to a decline in the number of ZOZOSUIT distributed.

As a result of the above, operating profit for the consolidated cumulative second quarter of the current fiscal year stood at 13,254 million yen (up 31.8% YoY) and the operating profit margin was 8.4% towards the gross merchandise value, up 1.3% points YoY. Ordinary profit stood at 13,052 million yen (up 30.4% YoY), profit attributable to owners of parent stood at 7,919 million yen (up 25.9% YoY).

In the consolidated cumulative second quarter of the current fiscal year, the Company recorded 1,700 million yen as extraordinary loss. This was mainly due to the following reasons: 1) At Bespokify Pte. Ltd., the Company's unconsolidated subsidiary, taking into account that cost reduction effects in the Company's PB business by leveraging Bespokify's automatic clothing pattern-generating technologies, it is unlikely to realize the effects as initially expected, and 2) taking into account that the impact of deterioration in business operation and financial position in a company where the Company possesses minority interests. Due to the above, the Company recorded loss on valuation of investment securities of 1,150 million yen for the former and 546 million yen for the latter.

Since the Company group is a single segment of the EC business, information by segment is omitted. However, the performance of each business segment within the single segment is shown below.

Results by business segment are as follows.

[Table 2] YoY Comparison by Business Segment

Business segment	Consolidated cumulative second quarter of previous fiscal year (April 1 to September 30, 2018)			Consolidated cumulative second quarter of current fiscal year (April 1 to September 30, 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 business (Consignment shop)	129,012	91.3	38,249	145,558	92.2	40,729	12.8	6.5
(Purchased stock shop)	94	0.1	94	142	0.1	138	50.8	46.5
(ZOZOUSUED)	7,612	5.4	7,507	7,070	4.5	6,648	-7.1	-11.4
Sub-total	136,719	96.8	45,851	152,770	96.8	47,516	11.7	3.6
PB business	658	0.5	658	698	0.4	689	6.0	4.6
MSP business	-	-	-	35	0.0	35	-	-
BtoB business	3,843	2.7	898	4,411	2.8	976	14.8	8.7
Advertisement business	-	-	236	-	-	1,131	-	378.0
Other	-	-	6,119	-	-	6,894	-	12.7
Total	141,221	100.0	53,764	157,915	100.0	57,242	11.8	6.5

① ZOZOTOWN Business

ZOZOTOWN Business consists of three business forms: consignment shop, purchased stock shop, and ZOZOUSUED. "Consignment Shop" handles consignment inventory of merchandise from each brand and sell them on a consignment basis.

"Purchased stock shop" purchases fashion merchandise from each brand and sell them as in-house inventory. "ZOZOUSED" mainly buys and sells used fashion-related merchandise from individual users.

The Company recognizes that increasing the number of buyers and increasing the rate of ZOZOTOWN use in fashion consumption are key factors in achieving sustainable growth. To this end, the Company is working to create websites that are attractive to both users and brands.

The transition of major KPIs for ZOZOTOWN business are as follows.

(Number of Shops, etc.)

[Table 3] Transition of Number of Shops and Brands

	Previous consolidated fiscal year				Current consolidated fiscal year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Shops on ZOZOTOWN (Note) 1	1,139	1,183	1,255	1,245	1,297	1,312	-	-
Purchased stock shop	5	5	5	5	5	5	-	-
Consignment shop	1,134	1,178	1,250	1,240	1,292	1,307	-	-
Number of brands (Note) 1, 2	6,820	6,957	7,115	7,056	7,349	7,305	-	-

(NOTE)

1. Figures as of the end of quarter accounting period are used.
2. Private brand "ZOZO" is not included.

The number of new stores opened in the second quarter consolidated accounting period of the current fiscal year totaled 48 (a net increase of 15). Major new stores include "MACKINTOSH" an outerwear brand originating in the U.K., "BURTON" a well-known snowboard brand and "Shoe Plaza" a large specialty shoe store operated by Chiyoda Co., Ltd.

(Annual Number of Buyers)

[Table 4] Transition of Annual Number of Buyers

	Previous consolidated fiscal year				Current consolidated fiscal year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of annual buyers	7,392,126	7,769,546	8,073,672	8,126,524	8,121,663	8,226,388	-	-
(YoY)	657,386	805,560	867,895	903,297	729,537	456,842	-	-
(QoQ)	168,899	377,420	304,126	52,852	-4,861	104,725	-	-
Number of active members	5,458,643	5,782,227	6,156,837	6,450,686	6,557,144	6,749,012	-	-
(YoY)	1,276,770	1,191,210	1,198,976	1,337,825	1,098,501	966,785	-	-
(QoQ)	345,782	323,584	374,610	293,849	106,458	191,868	-	-
Number of guest buyers	1,933,483	1,987,319	1,916,835	1,675,838	1,564,519	1,477,376	-	-
(YoY)	-619,384	-385,650	-331,081	-434,528	-368,964	-509,943	-	-
(QoQ)	-176,883	53,836	-70,484	-240,997	-111,319	-87,143	-	-

(NOTE) The calculating period is the most recent one-year period prior to the end of the accounting periods.

In the second quarter consolidated accounting period of the current fiscal year, with aim to revitalize the existing members, the Company proactively implemented personalized discounts and reward point initiatives based on the purchasing history of each member. Consequently, the number of annual buyers increased in both QoQ and YoY basis. While the number of active members continued to grow in YoY, the number of guest buyers continued to decline due to the impact of measures including the aforementioned measures to strengthen services for members.

(Annual Purchase Amount and Annual Purchase Pieces)

[Table 5] Transition of Annual Purchase Amount and Annual Purchase Pieces

	Previous consolidated fiscal year				Current consolidated fiscal year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual purchase amount (Total) (NOTE) 1, 2, 3	46,870	46,120	46,009	46,315	46,934	47,506	-	-
(YoY)	-0.5%	-1.5%	-1.5%	-2.8%	0.1%	3.0%	-	-
(QoQ)	-1.7%	-1.6%	-0.2%	0.7%	1.3%	1.2%	-	-
Annual purchase pieces (Note) 1, 2	11.3	11.2	11.1	11.1	11.3	11.6	-	-
(YoY)	5.8%	3.0%	1.4%	-2.9%	-0.4%	3.5%	-	-
(QoQ)	-0.5%	-1.0%	-0.7%	-0.6%	2.0%	2.9%	-	-
Annual purchase amount (Existing members) (Note) 1, 2, 3	59,569	57,563	56,304	55,792	55,048	54,750	-	-
(YoY)	-5.5%	-10.5%	-10.3%	-8.7%	-7.6%	-4.9%	-	-
(QoQ)	-2.5%	-3.4%	-2.2%	-0.9%	-1.3%	-0.5%	-	-
Annual purchase pieces (Note) 1 and 2)	14.2	13.8	13.6	13.4	13.3	13.4	-	-
(YoY)	0.6%	-5.5%	-6.2%	-6.8%	-6.2%	0.6%	-	-
(QoQ)	-1.4%	-3.0%	-1.5%	-1.1%	-0.8%	-2.7%	-	-

(NOTE)

1. The calculating period is the most recent one-year before the end of the accounting periods.
2. This is an index for each active member.
3. The amount is in yen.

During the second quarter consolidated accounting period of the current fiscal year, the total annual purchase amount increased both in YoY and QoQ basis, however, this was due to an increase in the composition of existing members to the whole, as a result of the slowdown in the pace of acquiring new members. YoY and QoQ decreases in the purchase amounts of existing members were reflecting an increase in the percentage of existing active members with short membership history (due to the conversion of new members acquired in the second quarter consolidated accounting period of the previous fiscal year, to existing members as a result of the large-scale distribution of the marker-type "Zozosuit". The annual purchase amount tends to increase according to the length of membership).

(Average Retail Price, etc.)

[Table 6] Transition of Average Retail Price, Average Order Value, and Number of Shipments

	Previous consolidated fiscal year				Current consolidated fiscal year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Average retail price (Note) 1, 2	3,953	3,655	4,759	4,364	3,877	3,463	-	-
(YoY)	-3.6%	-0.2%	-2.0%	3.8%	-1.9%	-5.2%	-	-
Average order value (Note) 1, 2	8,122	7,777	9,560	9,454	8,335	7,416	-	-
(YoY)	-4.8%	-5.0%	5.7%	9.8%	2.6%	-4.6%	-	-
Average purchase pieces per order (Note) 1	2.05	2.13	2.01	2.17	2.15	2.14	-	-
(YoY)	-1.3%	-4.8%	7.9%	5.7%	4.6%	0.6%	-	-
Number of shipments (Note) 1	8,425,033	8,865,330	9,512,052	9,065,816	9,209,344	10,347,938	-	-
(YoY)	24.1%	24.0%	14.6%	9.3%	9.3%	16.7%	-	-

(NOTE)

1. Figures for quarter accounting period are used.
2. The amount is in yen.

The average retail price decreased in YoY basis. This was mainly attributable to an increase in the discount sales ratio due to sales events etc. prior to the consumption tax hike. Similarly, average order value declined as well due to the impact of the decline in average retail price.

Results of ZOZOTOWN Business (consignment shop, purchased stock shop and ZOZOUSED) are as follows.

a. Consignment shop

In the consolidated cumulative second quarter of the current fiscal year, the merchandise value stood at 145,558 million yen (up 12.8% YoY), accounting for 92.2% of the gross merchandise value (91.2% in the same period of the previous fiscal year). Net sales (consignment sales commission) were 40,729 million yen (up 6.5% YoY). As of the end of September 2019, the number of consignment shop was 1,307 (1,292 at the end of June 2019).

b. Purchased stock shop

In the consolidated cumulative second quarter of the current fiscal year, the merchandise value stood at 142 million yen (up 50.8% YoY), accounting for 0.1% of the gross merchandise value (0.1% in the same period of the previous fiscal year). Net sales were 138 million yen (up 46.5% YoY). As of the end of September 2019, the number of purchased stock shop was 5 (5 at the end of June 2019).

c. ZOZOUSED

In the consolidated cumulative second quarter of the current fiscal year, the merchandise value stood at 7,070 million yen (down 7.1% YoY), accounting for 4.5% of the gross merchandise value (5.4% in the same period of the previous fiscal year). Net sales were 6,648 million yen (down 11.4% YoY).

② PB business

In the PB business, the Company sells in-house designed apparel products tailored to the individual bodies of users. In the consolidated cumulative second quarter of the current fiscal year, the merchandise value stood 698 million yen (up 6.0% YoY), accounting for 0.4% of the gross merchandise value (0.5% in the same period of the previous fiscal year). Net sales were 689 million yen (up 4.6% YoY).

③ MSP business

The MSP business manufactures a portion of items from shops with strong user demands and sell them on ZOZOTOWN, by combining the know-how of manufacturing clothes in a variety of sizes which accumulated from the Company's PB business, sales capability and planning ability of shops on ZOZOTOWN. The Company offers recommending optimal size products by height and weight data provided from users. In the consolidated cumulative second quarter of the current fiscal year, the merchandise value stood at 35 million yen and net sales were 35 million yen.

④ BtoB business

In the BtoB business, the Company is commissioned to build and operate brands' own e-commerce sites. In the consolidated cumulative second quarter of the current fiscal year, merchandise value stood at 4,411 million yen (up 14.8% YoY) and its ratio to the gross merchandise value was 2.8% (2.7% in the same period of the previous year). Net sales (consignment sales commission) were 976 million yen (up 8.7% YoY). As of the end of September 2019, the number of consigned sites was 28 (25 as of the end of June 2019).

⑤ Advertisement business

The advertisement business is a business model that generates advertising revenue by providing advertising space to client brands and advertising agencies by utilizing the user reach platform of ZOZOTOWN and WEAR. In the consolidated cumulative second quarter of the current fiscal year, net sales were 1,131 million yen (up YoY 378.0%). As for WEAR, the Company group will continue to expand the number of users and content, while working to make it profitable through

advertising. As of the end of September 2019, the number of app downloads exceeded 13 million, and the number of monthly active users is growing steadily.

⑥ Other

Within the others segment, net sales generated from businesses related to ZOZOTOWN (shipping income, settlement commission, paid-membership program etc.), and other revenues of consolidated subsidiaries are included. Net sales of the other segment in the consolidated cumulative second quarter of the current fiscal year were 6,894 million yen (up 12.7% YoY).

As announced in the press release of "Announcement of Opinion Regarding the Tender Offer for the Company's Shares by Yahoo Japan Corporation" dated September 27, 2019, a tender offer for the Company's shares from Yahoo Japan Corporation ("Z Holdings Corporation" from October 1, 2019, hereinafter referred to as the "Offeror") has been in effect since September 30, 2019. In addition, the Company and the Offeror entered into a capital and business alliance on September 12, 2019. Going forward, the Company and the Offeror together will promote various alliance measures such as: ① ZOZOTOWN store opening in the PayPay Mall operated by the Offeror; ② introduction of PayPay, a settlement method operated by the Offeror, to ZOZOTOWN; and ③ referrals of customers to ZOZOTOWN from media and other sources owned by the Offeror Group.

(2) Explanation of Financial Position

① Overview of Assets, Liabilities and Net Assets

(Million yen)

	Consolidated cumulative second quarter of previous fiscal year	Consolidated cumulative second quarter of current fiscal year	Increase/ decrease rate
Total assets	78,961	82,197	4.1%
Liabilities	56,304	54,814	-2.6%
Net assets	22,656	27,382	20.9%

(Total Assets)

Total assets amounted to 82,197 million yen, an increase of 3,235 million yen (up 4.1% from the previous fiscal year end). Current assets increased by 2,412 million yen, or 4.2%, amounted to 60,317 million yen compared with the previous fiscal year end. Major components included an increase of 836 million yen of cash and deposits, an increase of 904 million yen in accounts receivable, a decrease of 96 million yen in merchandise and finished products, a decrease of 978 million yen in raw materials and supplies, and an increase of 1,568 million yen in prepaid expenses. Non-current assets increased by 823 million yen, or 3.9%, amounted to 21,879 million yen compared with the previous fiscal year end. Major components include an increase of 1,869 million yen in property, plant and equipment and a decrease of 1,079 million yen in investments in others assets.

(Liability)

Liabilities amounted to 54,814 million yen, a decrease of 1,489 million yen (down 2.6% from the previous fiscal year end). Current liabilities decreased 1,090 million yen, or 2.1%, to 51,154 million yen compared to the previous fiscal year end. Major components include a decrease of 1,367 million yen in accounts payable. Non-current liabilities decreased 399 million yen, or 9.8%, to 3,660 million yen compared to the previous fiscal year end. Major components include a decrease of 652 million yen in provision of loss on business liquidation and an increase of 217 million yen in asset retirement obligations.

(Net assets)

Net assets amounted to 27,382 million yen, an increase of 4,725 million yen (up 20.9% from the previous fiscal year end). Major components include an increase of 7,919 million yen in the recording of profit attributable to owners of parent and a decrease of 3,052 million yen in dividends of surplus.

② Cash Flows

Cash and cash equivalents at the end of the current consolidated fiscal year increased by 840 million yen from the previous fiscal year end to 22,400 million yen.

Descriptions of each cash flows are as follows:

(Million yen)

	Consolidated cumulative second quarter of previous fiscal year	Consolidated cumulative second quarter of current fiscal year	Increase/ decrease rate
Cash flows from operating activities	2,588	6,947	168.5%
Cash flows from investing activities	-2,642	-3,055	15.6%
Cash flows from financing activities	-5,707	-3,053	-46.5%

(Cash flows from operating activities)

Net cash provided by operating activities was 6,947 million yen. The main increasing factors include the recording of profit before income taxes 11,351 million yen etc. On the other hand, the main decreasing factors include an increase of 1,570 million yen in prepaid expenses, 3,403 million yen in income taxes paid etc.

(Cash flows from investing activities)

Net cash used in investing activities was 3,055 million yen. This was mainly due to the recording of 2,315 million yen in purchase of property, plant and equipment and 492 million yen in guarantee deposit and payments for lease deposits.

(Cash flows from financing activities)

Net cash used in financing activities was 3,053 million yen. This was mainly due to 3,050 million yen in cash dividends paid.

(3) Explanation of Consolidated Financial Forecasts and Other Forward-Looking Statements

There is no change in the consolidated financial forecast announced on April 25, 2019.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated cumulative second quarter of current fiscal year (September 30, 2019)
Assets		
Current assets		
Cash and deposits	21,560	22,396
Accounts receivable	27,404	28,309
Merchandise and finished products	4,533	4,437
Raw materials and supplies	1,352	374
Other	3,053	4,799
Total current assets	57,904	60,317
Noncurrent assets		
Property, plant and equipment	6,318	8,188
Intangible assets		
Goodwill	2,291	2,322
Other	820	822
Total intangible assets	3,112	3,144
Investments and other assets	11,626	10,547
Total noncurrent assets	21,056	21,879
Total assets	78,961	82,197
Liabilities		
Current liabilities		
Accounts payable	1,693	326
Deposits received for consignment sales	16,310	16,340
Short-term borrowings	22,000	22,000
Income taxes payable	3,671	4,279
Provision for bonuses	395	371
Provision for point certificates	1,343	1,360
Reserve for sales returns	92	133
Other	6,739	6,342
Total current liabilities	52,245	51,154
Noncurrent liabilities		
Retirement benefit liability	1,730	1,865
Asset retirement obligations	1,028	1,245
Provision for loss on business liquidation	812	159
Other	488	389
Total noncurrent liabilities	4,059	3,660
Total liabilities	56,304	54,814

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated cumulative second quarter of current fiscal year (September 30, 2019)
Net assets		
Shareholders' equity		
Share Capital	1,359	1,359
Capital surplus	1,328	1,328
Retained earnings	44,252	49,118
Treasury stock	-24,412	-24,412
Total shareholders' equity	22,528	27,394
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	77	57
Foreign currency translation adjustment	18	-10
Remeasurements of defined benefit plans	-77	-68
Total other accumulated comprehensive income	17	-21
Stock acquisition rights	110	10
Total net assets	22,656	27,382
Total liabilities and net assets	78,961	82,197

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

Quarterly Consolidated Income Statement

Consolidated Cumulative Second Quarter

(Million yen)

	Consolidated cumulative second quarter of previous fiscal year (April 1 to September 30, 2018)	Consolidated cumulative second quarter of current fiscal year (April 1 to September 30, 2019)
Net sales	53,764	57,242
Cost of sales	4,788	4,780
Gross profit	48,976	52,461
Reversal of provision for sales returns	106	92
Provision for sales returns	93	133
Gross profit - net	48,989	52,421
Selling, general and administrative expenses	38,936	39,167
Operating profit	10,053	13,254
Non-operating income		
Interest income	0	0
Rent income	2	-
Business support fee	22	45
Income from recycling	16	17
Gain on unused points	24	24
Others	12	22
Total non-operating income	79	109
Non-operating expenses		
Interest expenses	30	46
Rent expense	2	-
Commission expenses	-	3
Foreign exchange losses	61	59
Loss on investments in partnerships	30	28
Provision for allowance for doubtful accounts	-	172
Total non-operating expenses	125	310
Ordinary profit	10,007	13,052
Extraordinary income		
Gain on sales of non-current assets	0	-
Gain on sale of businesses	169	-
Total extraordinary income	169	-
Extraordinary losses		
Loss on sales and retirement of non-current assets	1	3
Loss on valuation of investment securities	85	1,697
Impairment loss	1,176	-
Total extraordinary losses	1,263	1,700
Profit before income taxes	8,913	11,351
Income taxes - current	3,282	4,014
Income taxes - deferred	-659	-581
Total income taxes	2,622	3,432
Net Profit	6,291	7,919
Profit attributable to owners of parent	6,291	7,919

Quarterly Consolidated Statements of Comprehensive Income
Consolidated Cumulative Second Quarter

(Million yen)

	Consolidated cumulative second quarter of previous fiscal year (April 1 to September 30, 2018)	Consolidated cumulative second quarter of current fiscal year (April 1 to September 30, 2019)
Profit	6,291	7,919
Other comprehensive income		
Valuation difference on available-for-sale securities	16	-19
Foreign currency translation adjustment	21	-26
Remeasurements of defined benefit plans, net of tax	9	9
Other comprehensive income	47	-37
Comprehensive income	6,338	7,882
(Breakdown)		
Comprehensive income attributable to owners of parent	6,338	7,882

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	Consolidated cumulative second quarter of previous fiscal year (April 1 to September 30, 2018)	Consolidated cumulative second quarter of current fiscal year (April 1 to September 30, 2019)
Cash flows from operating activities		
Profit before income taxes	8,913	11,351
Depreciation	624	854
Amortization of goodwill	238	279
Share-based compensation expenses	179	-100
Impairment loss	1,176	-
Loss on valuation of investment securities	85	1,697
Gain on sale of businesses	-169	-
Provision for allowance for doubtful accounts	-	172
Loss (gain) on investments in partnership	30	28
Loss (gain) on sales and retirement of non-current assets	0	3
Increase (decrease) in provision for bonuses	374	-23
Increase (decrease) in provision for bonuses for directors	-10	-
Increase (decrease) in provision for point certificates	105	17
Increase (decrease) in provision for sales returns	-13	40
Increase (decrease) in retirement benefit liability	152	148
Interest and dividend income	-0	-0
Interest expenses	30	46
Commission expenses	-	3
Foreign exchange losses (gains)	-7	19
Decrease (increase) in notes and accounts receivable - trade	-709	-906
Decrease (increase) in inventories	-1,419	1,058
Decrease (increase) in prepaid expenses	-1,709	-1,570
Increase (decrease) in notes and accounts payable - trade	1,607	-1,357
Increase (decrease) in deposits received for consignment sales	-420	30
Increase (decrease) in accounts payable - other	332	-86
Increase (decrease) in accrued consumption taxes	-999	467
Others	377	-1,778
Subtotal	8,772	10,394
Interest and dividend income received	0	0
Interest expenses paid	-52	-44
Income taxes paid	-6,132	-3,403
Net cash provided by (used in) operating activities	2,588	6,947
Cash flows from investing activities		
Purchase of property, plant and equipment	-802	-2,315
Proceeds from sales of property, plant and equipment	0	-
Purchase of intangible assets	-322	-120
Purchase of investment securities	-1,146	-50
Payments for leasehold and guarantee deposits	-472	-492
Proceeds from sale of businesses	150	-
Payments for investments in capital of subsidiaries and associates	-51	-76
Payments of loans receivable	-1	-1
Collection of loans receivable	1	0
Others	1	-
Net cash provided by (used in) investing activities	-2,642	-3,055

(Million yen)

	Consolidated cumulative second quarter of previous fiscal year (April 1 to September 30, 2018)	Consolidated cumulative second quarter of current fiscal year (April 1 to September 30, 2019)
Cash flows from financing activities		
Increase in short-term loans payable	24,000	-
Repayments of long-term loans payable	-0	-
Commission expenses paid	-	-3
Purchase of treasury stocks	-24,412	-
Cash dividends paid	-5,295	-3,050
Net cash provided by (used in) financing activities	-5,707	-3,053
Effect of exchange rate change on cash and cash equivalents	30	-20
Net increase (decrease) in cash and cash equivalents	-5,731	817
Cash and cash equivalents at beginning of period	24,571	21,560
Increase in cash and cash equivalents from newly consolidated subsidiary	348	22
Period-end balance of cash and cash equivalents	19,188	22,400

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

Not applicable.

DISCLAIMER:

This document is summary translation of Japanese version. All readers are recommended to refer the original Japanese version for complete information. In the event of any discrepancy, errors and/or omissions, the Japanese version shall prevail.