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Consolidated Financial Results For the Second Quarter Ended September 30, 2018 [JGAAP]

October 31, 2018

Company Name:	ZOZO, Inc.
Stock Listing:	Tokyo Stock Exchange – First Section
Code:	3092
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Scheduled date to submit quarterly report:	November 14, 2018
Scheduled date to commence dividend payment:	December 3, 2018
Quarterly supplementary financial document:	Yes
Quarterly results briefing:	Yes (For institutional investors and analysts)

(Rounded down to million yen)

1. Consolidated Business Results for the Second Quarter Ended September 30, 2018 (April 1, 2018 to September 30, 2018)

(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	%
Six months ended September 2018	53,764	25.9	10,053	-27.3	10,007	-27.7	6,291	-34.1
Six months ended September 2017	42,694	35.3	13,831	30.6	13,837	30.2	9,551	18.5

(Note) Comprehensive Income: Six months ended September 2018: 6,338 million yen (-34.7%)
Six months ended September 2017: 9,705 million yen (22.5%)

	Profit per share	Fully diluted profit per share
	Yen	Yen
Six months ended September 2018	20.48	—
Six months ended September 2017	30.65	—

(Note) Fully diluted profit per share are not filled in since there are no dilutive shares

(2) Consolidated Financial Position

	Total assets	Net Assets	Equity Ratio
	million yen	million yen	%
As at September 30, 2018	69,995	17,256	24.4
As at March 31, 2018	70,712	40,810	57.7

(Reference) Shareholder's Equity: As at September 30, 2018: 17,076 million yen
As at March 31, 2018: 40,810 million yen

2. Dividends

	Annual dividend				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	12.00	—	17.00	29.00
Year ending March 31, 2019	—	14.00			
Year ending March 31, 2019 (forecast)			—	22.00	36.00

(Note) Revisions to the latest dividend forecast: None

3. Forecast of Consolidated Business Results for Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Year ending March 31, 2019	147,000	49.3	40,000	22.4	40,000	22.2	28,000	38.9	91.44

(Note) Revisions during this quarter of consolidated business results forecast for year ending March 31, 2019: None

*Notes

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

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: None

(3) 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 |

(4) Shares outstanding (common stock)

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

As at September 30, 2018: 311,644,285 shares

As at March 31, 2018: 311,644,285 shares

② Treasury stock at the end of period

As at September 30, 2018: 6,349,100 shares

As at March 31, 2018: -

③ Average number of stock during period (quarterly cumulative period)

Six months ended September 30, 2018: 307,124,002 shares

Six months ended September 30, 2017: 311,644,285 shares

* Quarterly financial summary is not subject to the quarterly 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 "(3) Future Prospects such as Consolidated Business Results" on page 7 for the suppositions that form the assumptions for business forecasts and cautions concerning the use of business forecasts.

- On October 31, 2018, the company will hold a financial result briefing for the institutional investors and analysts. Its detail as well as presentation materials used will be posted on the company's IR website immediately after the commencement of the financial result briefing.

Table of Contents of the Appendix

1. Overview of Business Results	2
(1) Overview of Business Results for the Current Quarter	2
(2) Overview of Financial Position for the Current Quarter	6
(3) Future Prospects such as Consolidated Business Forecast	7
2. Quarterly Consolidated Financial Statements and Major Notes	8
(1) Quarterly Consolidated Balance Sheets	8
(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income	10
(3) Quarterly Consolidated Statement of Cash Flows	12
(4) Notes on Quarterly Consolidated Financial Statements	13
(Notes on going concern assumptions)	13
(Notes on significant changes in shareholders' equity)	13

1. Overview of Business Results

(1) Overview of Business Results for the Current Quarter

[Table 1] Previous Year Comparison

(Unit: million yen)

	Previous Second Quarter (April 1, 2017 to September 30, 2017)		Current Second Quarter (April 1, 2018 to September 30, 2018)		YoY
Gross Merchandise Value	119,656	(100.0%)	141,221	(100.0%)	18.0%
Net sales	42,694	(35.7%)	53,764	(38.1%)	25.9%
Gross profit	39,378	(32.9%)	48,989	(34.7%)	24.4%
Operating profit	13,831	(11.6%)	10,053	(7.1%)	-27.3%
Ordinary Profit	13,837	(11.6%)	10,007	(7.1%)	-27.7%
Profit attributable to owners of parent	9,551	(8.0%)	6,291	(4.5%)	-34.1%

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”, the ZOZO group mainly develops following businesses; 1) operation of one of the largest fashion e-commerce sites in Japan “ZOZOTOWN”, 2) sales of the private brand “ZOZO” and 3) operation of a fashion media “WEAR”.

In the consolidated cumulative second quarter of the current fiscal year, the group puts efforts for configuring “ZOZOTOWN” 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 the company have implemented a new sales event “ZOWEEK” in the middle of May 2018.

Also, the company have shifted the measurement method of the “ZOZOSUIT”, the original body measurement suit, to marker method from the previous stretchable sensor system, and started its mass distribution from April 27, 2018. With expansion of manufacturing capability, the company realized an instant delivery after placing an order from September 10, 2018. As for the private brand “ZOZO”, the company started to offer formal line items such as business suits from July 2018, in addition to casual line items such as U-neck T-shirt and slim tapered denim which have been offered since the inception. Furthermore, previously for a user to purchase items of “ZOZO”, the user must complete measurement using the “ZOZOSUIT”; however, with the body size calculation algorithm which utilizes voluminous amount of measured body data, the company introduced a function so that users can purchase certain items without measurement by the “ZOZOSUIT” from September 7, 2018.

As a result, the gross merchandise value for the consolidated cumulative second quarter stood at 141,221 million yen (+18.0% YoY), net sales stood at 53,764 million yen (+25.9% YoY) and gross profit stood at 48,989 million yen (+24.4% YoY). Gross profit margin (towards the gross merchandise value) rose up by 1.8p YoY to 34.7% mainly due to an increase in the other revenue segment (shipping income, settlement commission etc.), an increase in consignment sales commission rate.

SG&A stood at 38,936 million yen (+52.4% YoY) and SG&A ratio (towards the gross merchandise value) rose by 6.2p YoY to 27.6%. Factors of the rise are an increase in advertising expenses from free distribution of the “ZOZOSUIT”, an increase in shipping cost derived from the delivery fee hike of the carrier, and an increase in other expenses (Occurrence of temporary costs such as development cost of the marker method “ZOZOSUIT” and donation of the torrential rain and floods in western Japan).

Consequently, operating profit for the consolidated cumulative second quarter period stood at 10,053 million yen (-27.3% YoY), operating profit margin (towards the gross merchandise value) was 7.1% which was 4.5p lower than the same period of the previous fiscal year. Ordinary profit stood at 10,007 million yen (-27.7% YoY) and profit attributable to owners of parent stood at 6,291 million yen (-34.1% YoY).

Since the group operates a single segment of e-commerce business, description by segments is omitted. Business performance of each of the business units within the single segment are described as follows:

[Table 2] Previous Year Comparison by Business Unit

Business Unit	Previous Second Quarter (April 1, 2017 to September 30, 2017)			Current Second Quarter (April 1, 2018 to September 30, 2018)			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)	109,766	91.7	31,549	129,012	91.3	38,249	17.5	21.2
(Purchased Stock)	91	0.1	91	94	0.1	94	2.7	2.7
(ZOZOUSED)	6,558	5.5	6,558	7,612	5.4	7,507	16.1	14.5
Subtotal	116,417	97.3	38,199	136,719	96.8	45,851	17.4	20.0
Private Brand	—	—	—	658	0.5	658	—	—
BtoB	3,152	2.6	667	3,843	2.7	898	21.9	34.7
ZOZOFURIMA	86	0.1	—	—	—	—	-100.0	—
Advertisement	—	—	—	—	—	236	—	—
Others	—	—	3,827	—	—	6,119	—	59.9
Total	119,656	100.0	42,694	141,221	100.0	53,764	18	25.9

① ZOZOTOWN Business

The 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 brands sold their products at "ZOZOTOWN" as tenant form. The purchased stock shop is a business form where the company purchases products from multiple brands and sells the products at shops at "ZOZOTOWN" operated by the company. "ZOZOUSED" is a business form purchases second-hand fashion goods from individual users and others as its own inventory and a subsidiary of the company sells products at the shop in "ZOZOTOWN".

The company recognizes that "increasing the number of buyers" and "raise usage ratio of ZOZOTOWN in fashion related consumption" are significant factors to grow the ZOZOTOWN business continuously. In order to maximize these factors, the company is working to make "ZOZOTOWN" more attractive e-commerce site for both users and brands.

KPI performances of ZOZOTOWN Business are as follows:

[Table 3] 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	—	—
Purchased Stock Shop	8	7	6	6	5	5	—	—
Consignment Shop	979	1,009	1,088	1,105	1,134	1,178	—	—
Number of Brands (*)1, 2	5,859	6,032	6,346	6,443	6,820	6,957	—	—

(*)

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 the consolidated cumulative second quarter period was 53 (net increase of 44). Noteworthy shops are "Shimamura" a major apparel chain store in Japan, "MARY QUANT" a brand emanated from England, "PUBLIC TOKYO" a new casual brand produced by TOKYO BASE CO., LTD., "THRASHER by RIFFLEPAGE" a street brand etc. By the end of September, the total number of shops and brands are 1,183 (1,139 shops at the end of June 2018) and 6,957 respectively.

Transitions of total annual buyers are as follows:

[Table 4] 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	—	—
YoY difference	1,902,182	1,711,445	1,422,396	899,194	657,386	805,560	—	—
QoQ difference	410,707	229,246	241,791	17,450	168,899	377,420	—	—
Active member	4,181,873	4,591,017	4,957,861	5,112,861	5,458,643	5,782,227	—	—
YoY difference	1,337,702	1,531,026	1,536,421	1,219,705	1,276,770	1,191,210	—	—
QoQ difference	288,717	409,144	366,844	155,000	345,782	323,584	—	—
Guest Buyer	2,552,867	2,372,969	2,247,916	2,110,366	1,933,483	1,987,319	—	—
YoY difference	564,480	180,419	-114,025	-320,511	-619,384	-385,650	—	—
QoQ difference	121,990	-179,898	-125,053	-137,550	-176,883	53,836	—	—

(Note)

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

In the consolidated cumulative second quarter period, the number of active member increased compared to its previous quarter from influx of users through various media exposure. The downward trend of the number of guest buyers turned around and increased from the previous quarter as well.

Transitions of annual purchase amount and annual purchase pieces are as follows:

[Table 5] 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	—	—
YoY %	-3.1%	-3.6%	-3.2%	2.7%	-0.5%	-1.5%	—	—
QoQ %	1.5%	-0.6%	-0.2%	2.0%	-1.7%	-1.6%	—	—
Annual purchase pieces (*) 1, 2	10.7	10.9	11.0	11.4	11.3	11.2	—	—
YoY %	8.2%	4.5%	4.9%	10.8%	5.8%	3.0%	—	—
QoQ %	4.1%	1.7%	0.9%	3.7%	-0.5%	-1.0%	—	—
Annual purchase amount (existing active members) (*) 1, 2, 3	63,004	64,290	62,761	61,098	59,569	57,563	—	—
YoY %	6.9%	7.0%	3.0%	-1.1%	-5.5%	-10.5%	—	—
QoQ %	2.0%	2.0%	-2.4%	-2.7%	-2.5%	-3.4%	—	—
Annual purchase pieces (*) 1, 2	14.1	14.6	14.5	14.4	14.2	13.8	—	—
YoY %	19.2%	15.7%	10.5%	6.1%	0.6%	-5.2%	—	—
QoQ %	4.0%	3.2%	-0.7%	-0.4%	-1.4%	-2.8%	—	—

(*)

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 the consolidated cumulative second quarter period, the main reason behind the decrease of the annual purchase amount (all members) compared to its previous quarter and the same quarter of the previous fiscal year, is an increase in light users. Also, the annual purchase amount for active members is also decreasing as well, due to an increase in the proportion of short-term registered existing members (as the registered period gets longer, the annual purchase amount becomes higher in parallel).

[Table 6] 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	—	—
YoY %	-8.3%	-5.0%	-7.2%	-6.1%	-3.6%	-0.2%	—	—
Average Purchase Amount per Shipment (*)1, 2	8,530	8,186	9,043	8,611	8,122	7,777	—	—
YoY %	-1.7%	3.1%	-10.9%	-3.8%	-4.8%	-5.0%	—	—
Average Purchase Pieces per Order (*)1	2.08	2.23	1.86	2.05	2.05	2.13	—	—
YoY %	7.1%	8.5%	-3.9%	2.4%	-1.3%	-4.7%	—	—
Number of Shipment (*)1	6,787,599	7,148,647	8,303,595	8,293,761	8,425,033	8,865,330	—	—
YoY %	45.9%	32.6%	41.1%	19.7%	24.1%	24.0%	—	—

(*)

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

2 Japanese yen basis

The average retail price decreased slightly compared to the same quarter of the previous fiscal year. The downward trend from an increase in the proportion of gross merchandise value of new shops with relatively low price point to the total, is now showing signs of having bottomed out at certain level. When compared with the decreasing amount of the average purchase amount per shipment is larger than that of the average retail price; the major factor for this was a decrease in the number of average purchase pieces per order, due to users purchase behavior of putting additional items into an order aiming to avoid the shipping fee burden is no longer visible, and an increase in the number of shipping with a single item from the expansion of the proportion of reserved items in orders placed.

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

a. Consignment Shop

The merchandise value of consignment shop for the consolidated cumulative second quarter period stood at 129,012 million yen (+17.5% YoY), constituting 91.3% of the gross merchandise value (91.7% for the same quarter of the previous fiscal year). Net sales (consignment sales commission) stood at 38,249 million yen (+21.2% YoY). The number of consignment shop at the end of September 2018 was 1,178 (1,134 at the end of June 2018).

b. Purchased Stock Shop

The merchandise value of purchased stock shop for the consolidated cumulative second quarter period stood at 94 million yen (+2.7% YoY), constituting 0.1% of the gross merchandise value (0.1 % for the same quarter of the previous fiscal year). The amount of net sales is equivalent to that of merchandise value (+2.7% YoY). The number of purchased stock shop at the end of September 2018 was 5 (5 at the end of June 2018).

c. ZOZOUSED

The merchandise value of ZOZOUSED for the consolidated cumulative second quarter period stood at 7,612 million yen (+16.1% YoY), constituting 5.4% of the gross merchandise value (5.5% for the same quarter of the previous fiscal year). Net sales stood at 7,507 million yen (+14.5% YoY).

② Private Brand (PB) Business

The private brand “ZOZO” sells in-house designed apparel items which are manufactured based on individual user’s body measurement. PB realizes to offer the best-fit sized items for any individual based on measurement results provided from users, who received the body measurement suit “ZOSUIT” the company developed. The mass distribution of the “ZOSUIT” has started from April 27, 2018. The merchandise value for the consolidated cumulative second quarter period stood at 658 million yen,

constituting 0.5% of the gross merchandise value. The amount of net sales is equivalent to that of the merchandise value.

③ BtoB Business

BtoB is a business form where the company is entrusted various fulfillment related services from brands for their own e-commerce websites operation. The merchandising value for the consolidated cumulative second quarter period stood at 3,843 million yen (+21.9% YoY), constituting 2.7% of the gross merchandising value (2.6% for the same quarter of the previous fiscal year). The net sales (consignment sales commission) stood at 898 million yen (+34.7% YoY). At the end of September 2018, the number of consigned e-commerce sites was 12 (9 at the end of June 2018).

④ Advertisement Business

Utilizing firm users reach basis of ZOZOTOWN and WEAR, the company gain advertisement income by providing spaces on the platforms for partnering brands and ad agencies. The net sales of the consolidated cumulative second quarter period stood at 236 million yen.

⑤ Others

Within others segment, net sales generated from businesses related to the ZOZOTOWN business such as shipping income and settlement commission, and other revenues of wholly-owned subsidiaries are recorded. Net sales of the consolidated cumulative second quarter period stood at 6,119 million yen (+59.9% YoY).

As for WEAR, it aims to monetize from advertisement in addition to continuous operation to increase the number of users and expand contents volume. As at the end of September 2018, the accumulated download exceeded 12 million and the number of monthly active users are also showing healthy growth.

(2) Overview of Financial Position for the Current Quarter

① Overview of Total Assets, Liabilities and Net Assets

(Unit: million yen)

	Previous Fiscal Year (As at March 31, 2018)	Current Fiscal Year (As at September 30, 2018)	Increase/ decrease rate
Total Assets	70,712	69,995	-1.0%
Liabilities	29,902	52,739	76.4%
Net Assets	40,810	17,256	-57.7%

(Total Assets)

The balance of total assets at the end of the second quarter was 69,995 million yen, decreased by 717 million yen (-1.0%) from the end of the previous fiscal year. The balance of current assets at the end of the second quarter was 52,002 million yen, decreased by 1,572 million yen (-2.9%) from the end of the previous fiscal year. This was mainly due to a decrease of 5,383 million yen in cash and deposit. The balance of non-current assets at the end of the second quarter was 17,993 million yen, increased by 854 million yen (+5.0%) from the end of the previous fiscal year. This was mainly due to an increase in investment and other assets of 1,571 million yen.

“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No.28 February 17, 2018) has been applied from the beginning of the consolidated cumulative first quarter of the fiscal year ending March 31, 2019. 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 at the end of second quarter was 52,739 million yen, increased by 22,836 million yen (+76.4%) from the end of the previous fiscal year. The balance of current liabilities at the end of the second quarter was 49,921 million yen, increased by 22,677 million yen (+83.2%) from the end of the previous fiscal year. This was mainly due to an increase in short-term borrowings of 24,000 million yen. The balance of non-current liabilities at the end of the second quarter was 2,817 million yen, increased by 158 million yen (+6.0%) from the end of the previous fiscal year. This was mainly due to an increase in liabilities for retirement benefit of 138 million yen.

(Net Assets)

The balance of the net assets at the end of the second quarter was 17,256 million yen, decreased by 23,553 million yen (-57.7%) from the end of previous fiscal year. This was mainly due to an increase by 24,412 million yen from the acquisition of treasury stock.

② Overview of Cash Flows

Cash and cash equivalents (hereinafter, "net cash") at the end of the consolidated second quarter period was 19,188 million yen, 5,383 million yen decrease from the end of previous fiscal year. Descriptions of each cash flows are as follows:

(Unit: million yen)

	Previous Second Quarter (April 1, 2017 to September 30, 2017)	Current Second Quarter (April 1, 2018 to September 30, 2018)	Increase/ decrease rate
Cash Flows from Operating Activities	6,548	2,588	-60.5%
Cash Flows from Investing Activities	-1,989	2,642	32.9%
Cash Flows from Financing Activities	-5,428	-5,707	5.1%

(Cash Flows from Operating Activities)

Net cash provided by operating activities was 2,588 million yen. Major increasing factors are 8,913 million yen of "profit before income taxes" and 1,176 million yen of "impairment loss". On the other hand, major decreasing factors are 1,255 million yen "increase in inventories" and 6,132 million yen of "income taxes paid".

(Cash Flows from Investing Activities)

Net cash used in investing activities was 2,642 million yen. This was mainly due to an expenditure of 802 million yen for "purchase of property, plant and equipment", and 1,146 million yen of "purchase of investment securities".

(Cash flows from Financing Activities)

Net cash used in financing activities was 5,707 million yen. This was mainly due to 5,295 million yen of "Cash dividends paid".

(3) Future Prospects such as Consolidated Business Forecast

No revisions have been made to the consolidated business forecast for the year ending March 31, 2019 which was announced on April 27, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: million yen)

	Previous Fiscal Year (As at March 31, 2018)	Current Second Quarter (As at September 30, 2018)
Assets		
Current assets		
Cash and deposits	24,571	19,188
Accounts receivable	25,382	26,092
Merchandise	2,194	3,188
Other	1,425	3,532
Total current assets	53,574	52,002
Non-current assets		
Property, plant and equipment	5,668	4,856
Intangible non-current assets		
Goodwill	2,769	2,530
Other	453	786
Total Intangible non-current assets	3,222	3,317
Investments and other assets	8,247	9,819
Total non-current assets	17,138	17,993
Total assets	70,712	69,995
Liabilities		
Current liabilities		
Accounts payable	25	1,632
Deposits received for consignment sales	13,671	13,250
Short-term borrowings	—	24,000
Accrued income taxes	6,479	3,512
Provision for bonuses	25	400
Provision for directors' bonuses	10	—
Provision for point certificates	1,123	1,228
Provision for sales returns	106	93
Other	5,800	5,802
Total current liabilities	27,243	49,921
Non-current liabilities		
Liabilities for retirement benefit	1,566	1,704
Asset retirement obligations	603	623
Other	488	488
Total non-current liabilities	2,659	2,817
Total liabilities	29,902	52,739

(Unit: million yen)

	Previous Fiscal Year (As at March 31, 2018)	Current Second Quarter (As at September 30, 2018)
Net Assets		
Shareholders' equity		
Capital stock	1,359	1,359
Capital surplus	1,328	1,328
Retained earnings	38,204	38,832
Treasury Stocks	—	-24,412
Total shareholders' equity	40,892	17,108
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	91	107
Foreign currency translation adjustment	—	23
Remeasurements of defined benefit plans	-173	-163
Total accumulated other comprehensive income	-81	-32
Share acquisition rights	—	179
Total net assets	40,810	17,256
Total liabilities and net assets	70,712	69,995

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
Consolidated Cumulative Second Quarter

(Unit: million yen)

	Previous Second Quarter (April 1, 2017 to September 30, 2017)	Current Second Quarter (April 1, 2018 to September 30, 2018)
Net sales	42,694	53,764
Cost of sales	3,305	4,788
Gross profit	39,389	48,976
Reversal of provision for sales returns	85	106
Provision for sales returns	96	93
Gross profit - net	39,378	48,989
Selling, general and administrative expenses	25,547	38,936
Operating profit	13,831	10,053
Non-operating income		
Interest income	0	0
Receipt rent	2	2
Income from recycling	14	16
Operations support fee	—	22
Gain on unused point	18	24
Other	13	12
Total non-operating income	50	79
Non-operating expenses		
Interest expenses	—	30
Rent expense	2	2
Foreign exchange losses	5	61
Loss on investments in partnership	35	30
Total non-operating expenses	43	125
Ordinary profit	13,837	10,007
Extraordinary income		
Gain on sales of non-current assets	—	0
Gain on transfer of business	—	169
Total extraordinary income	—	169
Extraordinary losses		
Loss on sales and retirement of non-current assets	0	1
Loss on valuation of investment securities	—	85
Loss on reversal of foreign currency translation adjustments	56	—
Impairment loss	—	1,176
Total extraordinary losses	56	1,263
Profit before income taxes	13,780	8,913
Income taxes - current	4,316	3,282
Income taxes - deferred	-86	-659
Total income taxes	4,229	2,622
Net Income	9,551	6,291
Net Income attributable to non-controlling interests	0	—
Net Income attributable to owners of parent	9,551	6,291

Quarterly Consolidated Statements of Comprehensive Income
 Consolidated Cumulative Second Quarter

(Unit: million yen)

	Previous Second Quarter (April 1, 2017 to September 30, 2017)	Current Second Quarter (April 1, 2018 to September 30, 2018)
Net Income	9,551	6,291
Other comprehensive income		
Valuation difference on available-for-sale securities	76	16
Foreign currency translation adjustment	73	21
Remeasurements of defined benefit plans, net of tax	4	9
Total other comprehensive income	154	47
Comprehensive income	9,705	6,338
(Breakdown)		
Comprehensive income attributable to owners of parent	9,664	6,338
Comprehensive income attributable to non-controlling interests	41	—

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: million yen)

	Previous Second Quarter (April 1, 2017 to September 30, 2017)	Current Second Quarter (April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Profit before income taxes	13,780	8,913
Depreciation	408	624
Amortization of goodwill	113	238
Share compensation expenses	—	179
Impairment loss	—	1,176
Loss on reversal of foreign currency translation adjustments	56	—
Loss on investments in partnership	35	30
Gain on business transfer	—	-169
Loss (gain) on valuation of investment securities	—	85
Loss (gain) on sales and retirement of non-current assets	0	0
Increase (decrease) in provision for bonuses	235	374
Increase (decrease) in provision for directors' bonuses	-9	-10
Increase (decrease) in provision for point certificates	155	105
Increase (decrease) in provision for sales returns	11	-13
Increase (decrease) in provision for loss on order received	-163	—
Increase (decrease) in net defined benefit liability	89	152
Interest and dividend income	-0	-0
Interest expenses	—	30
Foreign exchange losses (gains)	-0	-7
Decrease (increase) in notes and accounts receivable	-463	-709
Decrease (increase) in inventories	-163	-1,419
Increase (decrease) in notes and accounts payable	-8	1,607
Increase (decrease) in deposits received for consignment sales	162	-420
Increase (decrease) in accrued payable	-461	332
Increase (decrease) in accrued consumption taxes	-687	-999
Other	-1,110	-1,331
Subtotal	11,981	8,772
Interest and dividend income received	0	0
Interest expenses paid	—	-52
Income taxes paid	-5,432	-6,132
Cash flows from operating activities	6,548	2,588
Cash flows from investing activities		
Purchase of property, plant and equipment	-1,030	-802
Purchase of intangible assets	-38	-322
Proceeds from transfer of business	—	150
Payment for establishment of subsidiary	-236	—
Payments for investments in capital of subsidiaries and associates	-83	-51
Purchase of investment securities	—	-1,146
Payments for lease deposits	-394	-472
Other	-206	2
Cash flows from investing activities	-1,989	-2,642

(Unit: million yen)

	Previous Second Quarter (April 1, 2017 to September 30, 2017)	Current Second Quarter (April 1, 2018 to September 30, 2018)
Cash flows from financing activities		
Increase in short-term borrowings payable	—	24,000
Repayments of long-term borrowings payable	—	0
Liquidation dividends paid to non-controlling interests	-443	—
Purchase of treasury stocks	—	-24,412
Cash dividends paid	-4,984	-5,295
Cash flows from financing activities	-5,428	-5,707
Effect of exchange rate change on cash and cash equivalents	-19	30
Net increase (decrease) in cash and cash equivalents	-887	-5,731
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	21,263	19,188

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on going concern assumptions)

None

(Notes on significant changes in shareholders' equity)

The company acquired 6,349,100 shares of common stock of the company through ToSTNeT-2 Off-Hours Trading System on May 23, 2018. Consequently, treasury stock increased by 24,412 million yen in the consolidated cumulative second quarter period.