August 13, 2020

Summary of Consolidated Financial Results for the Fiscal Year Ended June 30, 2020

[Japanese GAAP]

Company name: istyle Inc. Stock exchange listings: TSE First Section
Securities code: 3660 URL: http://www.istyle.co.jp/en
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Scheduled date of Annual General Meeting of Shareholders: September 25, 2020
Scheduled date of filing Annual Securities Report: September 28, 2020
Scheduled date of dividend payment: -
Preparation of supplementary materials for financial results: Yes
Holding of financial results briefing: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended June 30, 2020 (July 1, 2019 – June 30, 2020)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended June 30, 2020	30,564	(5.1)	(2,325)	-	(2,438)	-	(5,020)	-
Fiscal year ended June 30, 2019	32,193	13.1	476	(77.6)	380	(82.3)	(519)	-

Note: Comprehensive income (million yen) Fiscal year ended June 30, 2020: (5,210) (-%)
Fiscal year ended June 30, 2019: (780) (-%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended June 30, 2020	(76.94)	-	(64.6)	(10.6)	(7.6)
Fiscal year ended June 30, 2019	(8.05)	-	(4.7)	1.7	1.5

Reference: Equity in earnings of affiliates: Fiscal year ended June 30, 2020: (74) million yen
Fiscal year ended June 30, 2019: (39) million yen

Note: Diluted net incomes per share for fiscal year ended June 2019 and June 2020 are not disclosed even though dilutive shares exist because the Company recorded net income losses.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2020	24,157	5,413	21.5	79.44
As of June 30, 2019	22,003	10,761	47.1	159.76

Reference: Total equity As of June 30, 2020: 5,192 million yen
As of June 30, 2019: 10,353 million yen

Total equity = Shareholders' equity + total accumulated other comprehensive income

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended June 30, 2020	(202)	(2,399)	6,026	6,584
Fiscal year ended June 30, 2019	154	(4,096)	1,176	3,184

2. Dividends

	Dividend per share					Total dividends	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended June 30, 2019	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended June 30, 2020	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending June 30, 2021 (forecasts)	-	0.00	-	0.00	0.00		-	

3. Consolidated Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 – June 30, 2021)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	37,200	21.7	50	-	(70)	-	(200)	-	(3.06)

* Notes

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

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(3) Number of shares outstanding (common shares)

1) Number of shares issued (including treasury shares) at end of period

As of June 30, 2020: 68,043,800 shares As of June 30, 2019: 67,497,200 shares

2) Number of treasury shares at end of period

As of June 30, 2020: 2,693,533 shares As of June 30, 2019: 2,693,533 shares

3) Average number of shares outstanding during the period

Fiscal year ended June 30, 2020: 65,241,280 shares Fiscal year ended June 30, 2019: 64,554,959 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2020 (July 1, 2019 – June 30, 2020)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended June 30, 2020	6,973	4.4	(1,036)	-	(1,659)	-	(4,579)	-
Fiscal year ended June 30, 2019	6,682	7.0	(420)	-	(449)	-	(858)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended June 30, 2020	(70.18)	-
Fiscal year ended June 30, 2019	(13.29)	-

Note: Diluted net incomes per share for fiscal year ended June 2019 and June 2020 are not disclosed even though dilutive shares exist because the Company recorded net income losses.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2020	20,477	4,310	20.6	64.47
As of June 30, 2019	18,520	8,825	46.9	134.08

Reference: Total equity As of June 30, 2020 4,213 million yen As of June 30, 2019 8,689 million yen

* The current quarterly summary report is not subject to the quarterly review procedures by certified public accountants or auditing corporations.

* Cautionary statement with respect to forecasts and other matters

Earnings forecasts and other forward-looking statements in this report are based on assumptions judged to be valid and information available to the Company at the time of this report's preparation. Actual performance may differ significantly from these forecasts for a number of reasons. For the assumptions underlying the forecasts herein and other notice on the use of earnings forecasts, please refer to "1. Operating Results and Financial Position (4) Consolidated Operating Results Forecast and Information about Future Predictions" on page 6 in the accompanying material.

The Company is scheduled to hold a briefing for analysts and institutional investors on August 13, 2020.

** This financial report is solely a translation of "Kessan Tanshin" (in Japanese), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*

Accompanying Materials – Contents

1. Operating Results and Financial Position 2
 (1) Analysis of Operating Results 2
 (2) Consolidated Financial Position 4
 (3) Status of Cash Flows 5
 (4) Consolidated Operating Results Forecast and Information about Future Predictions 6
2. Basic Rationale Regarding the Selection of Accounting Standards 7
3. Consolidated Financial Statements and Relevant Notes 8
 (1) Consolidated Balance Sheets 8
 (2) Consolidated Statements of Income and Comprehensive Income 10
 (3) Consolidated Statements of Changes in Net Assets 12
 (4) Consolidated Statements of Cash Flows 14
 (5) Notes on Consolidated Financial Statements 16
  (Notes on the Going-concern Assumption) 16
  (Changes in Accounting Policies) 16
  (Additional Information) 16
  (Segment Information) 16
  (Per Share Information) 19
  (Significant Subsequent Events) 19

1. Operating Results and Financial Position

(1) Analysis of Operating Results

Based on our extended Medium-Term Management Plan announced on August 7, 2019, we invested human and financial resources in priority businesses.

Sales in the current fiscal year fell short of our initial forecast despite the contribution from *@cosme TOKYO* (hereinafter "large flagship store"), which opened on January 10, 2020, and an increase in the number of contracts for our marketing support service *Brand Official*. Reasons include not attaining our target for our special E-Commerce event "@cosme Beauty Day" (hereinafter "E-Commerce special event"), the changing competitive environment in Asia, and the impact of the protests in Hong Kong.

We had expected to post an operating loss in the current fiscal year due to upfront expenses such as rent payments for our large flagship store. However, the operating loss exceeded our expectation due to weak performance in the Global segment and an increase in depreciation and amortization of software assets, and others, accompanying IT system redevelopment.

In addition to the above, the global spread of the novel coronavirus (hereinafter "coronavirus") starting in January 2020 has had a significant impact on the global economy and our earnings performance. Sales declined year-on-year and our operating loss increased. That being said, due in part to consumers refraining from outings, E-Commerce sales grew sharply by 185% year-on-year, contributing to both sales and profits.

In addition, although we recorded an extraordinary income of 864 million yen from sales of investment securities in the current fiscal year, we recorded as an extraordinary loss: an impairment loss of goodwill on two overseas subsidiaries*[1] totaling 2,355 million yen, an impairment loss on assets owned by some overseas retail stores*[2] totaling 630 million yen, and an impairment loss on software assets, and others,of 142 million yen. We also recorded as a nonrecurring loss 340 million yen largely for rent payments for stores closed temporarily in response to coronavirus. Mainly for these reasons, we recorded an extraordinary loss of 3,598 million yen.

As a result, the consolidated operating performance for the fiscal year ended June 30, 2020, was as follows:

Net Sales:	30,564 million yen (net sales of 32,193 million yen in the previous fiscal year; 5.1% year-on-year decrease)
Operating Loss:	2,325 million yen (operating income of 476 million yen in the previous fiscal year)
Ordinary Loss:	2,438 million yen (ordinary income of 380 million yen in the previous fiscal year)
Loss before corporate taxes etc:	5,000 million yen (income before corporate taxes etc. of 166 million yen in the previous fiscal year)
Net Loss attributable to owners of the parent company:	5,020 million yen (net loss of 519 million yen in the previous fiscal year)

Notes

*[1] The two companies (whose income statements were consolidated from the first quarter of the fiscal year ended June 30, 2018) are as follows:

- Hermo Creative (M) Sdn. Bhd., which operates cosmetics E-Commerce site *Hermo* in Malaysia
- MUA Inc., which operates beauty portal site *MakeupAlley* in the U.S.

*[2] Second, third, fourth stores in Hong Kong, and all two stores in Thailand.

1) On Platform segment

The On Platform segment comprises services based on the beauty portal site *@cosme*, including B-to-B services and B-to-C services.

Sales grew slightly in the current fiscal year. Although the majority of clients reduced their budgets and extended internal approval in response to the coronavirus crisis, this was offset by a steady increase in the number of contracts for *Brand Official* (a service positioned as the next earnings pillar after advertising) in the first nine months of the current fiscal year and strong sales including sales of store advertising at the large flagship store.

Profits declined year on year due to upfront IT system investment and an increase in depreciation and amortization.

As a result, the consolidated operating performance for the fiscal year ended June 30, 2020, was as follows:

Net Sales:	7,720 million yen (1.1% year-on-year increase)
Segment Profit:	1,194 million yen (47.0% year-on-year decrease)

2) Beauty Service segment

The Beauty Service segment comprises retail services in Japan, such as the operation of the domestic cosmetics E-Commerce site @*cosme SHOPPING*, and the operation of the cosmetics specialty shop @*cosme STORE*, including the large flagship store.

As in the previous fiscal year, the special 24-hour E-Commerce event produced a number of virtuous circles (by, for example, attracting many new customers who then went on to make repeat purchases), and thereby contributed to the maintenance of strong E-Commerce sales. There was an increase in use of E-Commerce due to customers staying home to prevent the spread of the coronavirus. In addition, there was a success in selling brands not usually sold online which resulted a sharp growth of 185% year on year.

Sales at domestic retail stores declined year on year despite the contribution of the new large flagship store, which opened in the third quarter of the current fiscal year due to a decline in demand from overseas visitors to Japan associated with the impact of China's new E-Commerce Law, which was enacted in the previous fiscal year, and temporary closures lasting almost two months due to a state of emergency declared in response to the impact of the coronavirus outbreak.

We posted a segment loss due to upfront expenses associated with the large flagship store and promotional expenses associated with the special E-Commerce special event held in the second quarter. Although these promotional expenses were recorded under corporate expenses in the previous fiscal year, since the promotion contributes to raise the value of the overall platform, they are being recorded as a segment cost from the current fiscal year, because the primary objective changed to sales promotion.

As a result, the consolidated operating performance for the fiscal year ended June 30, 2020 was as follows:

Net Sales:	15,300 million yen (7.2% year-on-year increase)
Segment Loss:	685 million yen (segment profit of 559 million yen in the previous fiscal year)

3) Global segment

The Global segment comprises oversea business operations, such as E-Commerce & Wholesale, retail stores, and media and other services.

In E-Commerce & Wholesale, sales declined due to intensified competition in official markets under China's new E-Commerce Law and a temporary slowdown in local distribution due to the coronavirus outbreak. Distribution in China recovered in this fourth quarter, but earnings remained weak due to continuing intense competition.

We closed all four retail stores in Taiwan between January and March 2020, because the number of visitors to Taiwan decreased for geopolitical reasons and the short-term outlook for earnings improvement is expected to be difficult. We shortened opening hours at all retail stores in Hong Kong almost a whole fiscal year in response to the protests and the spread of the coronavirus. In the second quarter, we opened as scheduled two stores in Hong Kong for which contracts had been concluded prior to the intensification of the protests. This increased the total number of stores in Hong Kong to six, but sales declined year on year due to the abovementioned reasons. We also reduced opening hours at both of our two stores in Thailand and temporarily closed both stores for almost two months in response to the coronavirus outbreak.

The booking of impairment loss, during the second quarter of the fiscal year ended June 30, 2020, on all of the goodwill of two of the three overseas companies*[3] whose income statements were consolidated from the first quarter of the fiscal year ended June 30, 2018, resulted in goodwill amortization of 207 million yen in the current fiscal year, down from 371 million yen in the previous fiscal year.

As a result, the consolidated operating performance for the fiscal year ended June 30, 2020 was as follows:

Net Sales:	6,168 million yen (32.5% year-on-year decrease)
Segment Loss:	789 million yen (segment loss of 27 million yen in the previous fiscal year)

Notes

*3 The three companies are the two companies stated above in Note *1, and i-TRUE Communications Inc., which operates beauty portal site UrCosme in Taiwan.

4) Others

The Others segment consists of a temporary staffing agency for beauty consultants, and investment and consulting projects for companies in various stages of development, including new startups.

In the current fiscal year, the temporary staffing agency recorded a year-on-year sales decline despite sustained solid performance in the first three quarters, because some commercial facilities to which we dispatch temporary staff suspended operations for a period from the fourth quarter onward to help prevent the spread of the coronavirus.

The Investment and Consultation business recorded sales growth due to recording capital gains from the sale of operational investment securities in the second quarter. However, the segment posted a loss due to an impairment charge of 163 million yen in the second quarter on operational investment securities whose real value was significantly lower than the purchase price, and an impairment loss of 218 million yen in the fourth quarter due to the impact of the coronavirus outbreak.

As a result, the consolidated operating performance for the fiscal year ended June 30, 2020 was as follows:

Net Sales:	1,376 million yen (20.5% year-on-year increase)
Segment Loss:	213 million yen (segment profit of 76 million yen in the previous fiscal year)

(2) Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

(Assets)

Total assets as of June 30, 2020, were 24,157 million yen, an increase of 2,154 million yen from June 30, 2019.

Current assets as of June 30, 2020, were 14,069 million yen, an increase of 3,149 million yen from June 30, 2019. This was mainly due to increases of 3,344 million yen in cash and deposits and 197 million yen in merchandise, which offset a 453 million yen decrease in operational investment securities, and other factors.

Fixed assets as of June 30, 2020 were 10,088 million yen, a decrease of 995 million yen from June 30, 2019. This was mainly due to decreases of 2,476 million yen in goodwill and 351 million yen in investment securities, which offset increases of 1,616 million yen in tangible assets and 511 million yen in lease and guarantee deposits due to factors including the opening of the large flagship store and the application of IFRS 16 *Leases* at overseas consolidated subsidiaries where financial statements are prepared based on International Financial Reporting Standards (IFRS).

(Liabilities)

Total liabilities as of June 30, 2020, were 18,745 million yen, an increase of 7,502 million yen from June 30, 2019.

Current liabilities increased by 802 million yen from June 30, 2019 to 9,153 million yen. The main factors included the application of IFRS 16 *Leases* at overseas consolidated subsidiaries where financial statements are prepared based on International Financial Reporting Standards (IFRS), which resulted in a 549 million yen increase in lease obligations under current liabilities, an increase of 300 million yen in short-term debt, and other factors.

Fixed liabilities as of June 30, 2020 were 9,592 million yen, an increase of 6,700 million yen from June 30, 2019. This was mainly due to an increase in long-term debt of 6,340 million yen, an increase of 351 million yen in long-term lease obligations under fixed liabilities resulting from the application of IFRS 16 *Leases* at overseas consolidated subsidiaries where financial statements are prepared based on International Financial Reporting Standards (IFRS), and other factors.

(Net Assets)

Total net assets as of June 30, 2020, were 5,413 million yen, a decrease of 5,348 million yen from June 30, 2019. This was primarily due to decreases of 5,040 million yen in retained earnings and 147 million yen in non-controlling interests, and other factors.

(3) Status of Cash Flows

As of June 30, 2020, cash and cash equivalents (hereinafter referred to as "capital") totaled 6,584 million yen, an increase of 3,401 million yen versus June 30, 2019.

The status of cash flows as of June 30, 2020 and the main factors are discussed below.

(Cash flows from operating activities)

In the fiscal year ended June 30, 2020, funds used in operating activities totalled 202 million yen (154 million yen provided in the previous fiscal year).

This mainly reflects a 5,000 million yen loss before corporate taxes etc. , 238 million yen decrease in notes and accounts payable-trade, 213 million yen increase in inventory offset against 2,183 million yen in depreciation and amortization (a non-fund transaction), the booking of a 3,097 million yen impairment loss, and other factors.

(Cash flows from investing activities)

In the fiscal year ended June 30, 2020, capital used in investing activities totaled 2,399 million yen (4,096 million yen used in the previous fiscal year).

This mainly reflects payments of 1,503 million yen for the purchase of intangible assets, 1,479 million yen for the purchase of tangible assets, 602 million yen for payments for guarantee deposits, and other factors, offset against 1,093 million yen provided by the sale of investment securities.

(Cash flows from financing activities)

In the fiscal year ended June 30, 2020, funds provided by financing activities totaled 6,026 million yen (1,176 million yen provided in the previous fiscal year). This mainly reflects cash outflows of 1,801 million yen for the repayment of long-term debt and 435 million yen for the repayment of lease obligations, offset against inflows of 8,000 million yen in proceeds from long-term debt and 300 million yen from a net increase in short-term debt, and other factors.

(Reference) Cash Flows Indicators

	Fiscal year ended June 30, 2016	Fiscal year ended June 30, 2017	Fiscal year ended June 30, 2018	Fiscal year ended June 30, 2019	Fiscal year ended June 30, 2020
Equity ratio (%)	58.4	59.4	53.0	47.1	21.5
Equity ratio based on market price (%)	436.2	309.1	356.8	220.0	72.5

Cash flows / Interest-bearing debt ratio (%)	205.1	615.0	321.1	4,754.4	—
Interest coverage ratio(multiples)	252.3	95.3	158.2	29.1	—

Notes:

1. All figures have been calculated using consolidated financial figures.
2. The market capitalization has been calculated by multiplying the closing stock price at the end of the fiscal year by the number of outstanding shares at the end of the fiscal year (excluding treasury shares).
3. Cash flows are cash flows from operating activities.
4. Interest-bearing debt refers to all debt posted in the Consolidated Balance Sheets for which interest is being paid.
5. The interest-bearing debt ratio and interest coverage ratio are not provided for the fiscal year ended June 30, 2020, because cash flow from operating activities was negative.

(4) Consolidated Operating Results Forecast and Information about Future Predictions

The fiscal year ended June 30, 2020 was positioned as the final fiscal year of our Medium-Term Management Plan, but we extended the plan period by one year, mainly due to delays in implementing initiatives, and defined the fiscal year ended June 30, 2020 as a phase for expanded investment of human and financial resources in priority businesses. However, starting with the weak performance of the Global segment due to changes in the external environment and not attaining our targets for the special E-Commerce event earlier in the fiscal year, earnings deteriorated in all segments in this fourth quarter due to the spread of the coronavirus outbreak. SG&A expenses have become excessive in comparison with net sales as a result of the worsening business environment coinciding with upfront investment for aggressive hiring aimed at medium- to long-term growth.

In light of these circumstances, we will focus on withdrawal and disposal of unprofitable businesses and strengthening our earnings capabilities in the fiscal year ending June 30, 2021, to change course from business expansion and diversification in pursuit of medium- to long-term growth, to selection and focus of businesses and maximizing the effects of invested management resources. The measures planned for the fiscal year ending June 30, 2021 are as follows.

In the On Platform segment, we decided to withdraw from the salon business because its outlook is uncertain amid the coronavirus outbreak. We will also carry out comprehensive reorganization so that we can focus on providing quality services that solve customer issues. The reorganization will include structural reinforcement through, for example, deploying personnel into profitable businesses; increasing the head count of our sales force so that they can approach more prospective customers; and establishing a dedicated team to work with each client cosmetics brand in accordance with each brand’s scale and their respective attributes. By implementing these measures, we aim to increase the number of contracts for *Brand Official* to grow it into a second earnings pillar and expand revenue from advertisement and solution services to improve profitability.

The plan for the next fiscal year is predicated on the assumption that curtailed sales activities in this fourth quarter (April–June 2020) due to the impact of the coronavirus outbreak will be reflected in a slow start to earnings in the first quarter of the fiscal year ending June 30, 2021, but that we will achieve sales and profit growth amid improving business conditions for the whole industry from the second quarter onward as a result of the above measures.

In the Beauty Service segment, we will strengthen coordination between our Group’s media, E-Commerce, and retail stores to enhance the experiential value that we provide to cosmetics brands and users, because we predict that E-Commerce will continue to grow in importance. We expect this measure to help maintain the robust growth of E-Commerce to drive earnings for the segment.

The plan for the next fiscal year is predicated on the abovementioned assumption that strong E-Commerce earnings growth will continue. Retail stores have reopened after suspending operations for two months and their earnings are expected to gradually improve over time. We also expect sharp sales growth from the full-year contribution of the flagship store whose contribution to earnings in the fiscal year ended June 30, 2020 was effectively only four months in total.

In the Global segment, we plan to pursue overall scaling down and withdrawal from businesses depending on the growth potential of each market and business with the aim of returning to profit. We intend to continue implementing agileand flexible measures to improve earnings.

The plan for the next fiscal year is predicated on the assumptions that while earnings improvement in the short term will be difficult for the cross-border E-Commerce and wholesale business in China where competition is intensifying due to the impact of the coronavirus outbreak and other factors, an earnings recovery from the second quarter onward is expected for stores in Hong Kong (whose performance has been depressed by the impact of the coronavirus outbreak). We therefore target a return to profitability through earnings improvement and cost reduction.

In light of the above, our consolidated operating results forecast for the fiscal year ending June 30, 2021 is as follows:

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<Full-year consolidated operating results forecast for fiscal year ending June 30, 2021>

Net Sales:	37,200 million yen (net sales of 30,564 million yen in the previous fiscal year; 21.7% year-on-year increase)
Operating Profit:	50 million yen (operating loss of 2,325 million yen in the previous fiscal year)
Ordinary Loss:	70 million yen (ordinary loss of 2,438 million yen in the previous fiscal year)
Net Loss attributable to owners of the parent company:	200 million yen (net loss of 5,020 million yen in the previous fiscal year)

In the short term, we will concentrate on selection and focus of businesses to turn around earnings performance that deteriorated due to changes in the operating environment and upfront investment but in the longer term, we will continue to work on building a beauty platform that uses IT to provide information and systems to all people involved in the beauty field.

2. Basic Rationale Regarding the Selection of Accounting Standards

The istyle Group will prepare consolidated financial statements based on Japanese accounting standards in the near term, in order to ensure that viewers can compare financial statements among different periods as well as among companies.

Going forward, the Company will continue to study the possible adoption of international accounting standards, basing its considerations on factors such as the ratio of foreign shareholders and trends regarding the adoption of IFRS (International Financial Reporting Standards) by other Japanese companies in the same business.

3. Consolidated Financial Statements and Relevant Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2019	As of June 30, 2020
	Amount	Amount
Assets		
Current assets		
Cash and deposits	3,303	6,647
Notes and accounts receivable - trade	2,700	2,615
Merchandise	2,881	3,078
Operational investment securities	1,367	914
Other	689	884
Allowance for doubtful receivables	(8)	(5)
Allowance for investment loss	(12)	(65)
Total current assets	10,920	14,069
Fixed assets		
Tangible assets		
Buildings	1,164	2,181
Accumulated depreciation	(360)	(689)
Buildings, net	804	1,492
Leased assets	53	1,278
Accumulated depreciation	(16)	(638)
Leased assets, net	37	639
Other	473	832
Accumulated depreciation	(300)	(333)
Other, net	174	499
Total tangible assets	1,015	2,631
Intangible assets		
Goodwill	2,944	468
Software	2,677	2,598
Other	343	162
Total intangible assets	5,965	3, 228
Investments and other assets		
Investment securities	2,186	1,834
Lease and guarantee deposits	1,476	1,986
Deferred tax assets	120	144
Other	322	265
Total investments and other assets	4,103	4,229
Total fixed assets	11,083	10,088
Total assets	22,003	24,157

(Millions of yen)

	As of June 30, 2019	As of June 30, 2020
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable – trade	1,677	1,437
Short-term debt	2,700	3,000
Current portion of long-term debt	1,793	1,652
Accounts payable – other	672	855
Lease obligations	10	560
Corporate taxes payable	211	145
Provision for bonuses	288	230
Provision for loss on store closings	-	35
Provision for business structure improvement	-	24
Other	1,001	1,217
Total current liabilities	8,351	9,153
Fixed liabilities		
Long-term debt	2,782	9,122
Lease obligations	36	386
Deferred tax liabilities	64	38
Other	10	46
Total fixed liabilities	2,892	9,592
Total liabilities	11,242	18,745
Net assets		
Shareholders' equity		
Capital stock	3,647	3,703
Capital surplus	2,971	2,882
Retained earnings	4,218	(822)
Treasury stock	(280)	(280)
Total shareholders' equity	10,556	5,484
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	(28)	(76)
Foreign currency translation adjustments	(176)	(216)
Total accumulated other comprehensive income	(204)	(292)
Subscription rights to shares	136	97
Non-controlling interests	272	125
Total net assets	10,761	5,413
Total liabilities and net assets	22,003	24,157

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Year ended June 30, 2019	Year ended June 30, 2020
	Amount	Amount
Net sales	32,193	30,564
Cost of sales	17,018	16,571
Gross profit	15,175	13,993
Selling, general and administrative expenses	14,699	16,318
Operating income (loss)	476	(2,325)
Non-operating income		
Interest income	4	4
Dividend income	5	9
Gain on investments in partnership	-	9
Penalty income	7	6
Refund for value added tax	2	5
Other	15	17
Total non-operating income	33	50
Non-operating expenses		
Interest expenses	16	53
Foreign exchange losses	60	21
Equity in losses of affiliates	39	74
Loss on investments in partnership	2	4
Other	12	11
Total non-operating expenses	129	163
Ordinary income (loss)	380	(2,438)
Extraordinary income		
Gain on sales of investment securities	30	864
Gain on reversal of share acquisition rights	-	78
Subsidy income	-	94
Total extraordinary income	30	1,036
Extraordinary loss		
Impairment loss	201	3,097
Loss on closing of stores	42	39
Provision for loss on store closings	-	35
Loss on temporary closure of stores etc.	-	340
Loss on valuation of investment securities	-	50
Provision for business structure improvement	-	24
Other	-	13
Total extraordinary loss	243	3,598
Income (loss) before corporate taxes	166	(5,000)
Corporate taxes-current	480	155
Corporate taxes-deferred	217	(26)
Total corporate taxes	697	129
Net income (loss)	(531)	(5,129)
Net income attributable to non-controlling interests	(11)	(109)
Net income attributable to owners of the parent company	(519)	(5,020)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Year ended June 30, 2019	Year ended June 30, 2020
	Amount	Amount
Net income (loss)	(531)	(5,129)
Other comprehensive income (loss)		
Net unrealized gain (loss) on available-for-sale securities	(66)	(48)
Foreign currency translation adjustments	(184)	(33)
Total other comprehensive income (loss)	(250)	(81)
Comprehensive income	(780)	(5,210)
Comprehensive income (loss) attributable to		
Owners of the parent	(767)	(5,108)
Non-controlling interests	(13)	(102)

(3) Consolidated Statements of Changes in Net Assets

Year ended June 30, 2019 (July 1, 2018 to June 30, 2019)

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at beginning of term	3,556	3,513	4,770	(280)	11,559	38	7	44	74	330	12,008
Cumulative effects from new accounting policies					-						-
Balance at beginning of term reflecting change in accounting policies	3,556	3,513	4,770	(280)	11,559	38	7	44	74	330	12,008
Changes during term											
Issuance of new shares	91	91			182						182
Dividends from surplus			(32)		(32)						(32)
Net income attributable to owners of the parent company			(519)		(519)						(519)
Purchase of treasury shares				(0)	(0)						(0)
Purchase of shares of consolidated subsidiaries		(633)			(633)						(633)
Sales of shares of consolidated subsidiaries					-						-
Net changes in items other than shareholders' equity					-	(66)	(183)	(248)	62	(58)	(244)
Total changes during term	91	(542)	(552)	(0)	(1,003)	(66)	(183)	(248)	62	(58)	(1,247)
Balance at end of term	3,647	2,971	4,218	(280)	10,556	(28)	(176)	(204)	136	272	10,761

Year ended June 30, 2020 (July 1, 2019 to June 30, 2020)

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at beginning of term	3,647	2,971	4,218	(280)	10,556	(28)	(176)	(204)	136	272	10,761
Cumulative effects from new accounting policies			(21)		(21)						(21)
Balance at beginning of term reflecting change in accounting policies	3,647	2,971	4,198	(280)	10,536	(28)	(176)	(204)	136	272	10,740
Changes during term											
Issuance of new shares	56	56			112						112
Dividends from surplus					-						-
Net income attributable to owners of the parent company			(5,020)		(5,020)						(5,020)
Purchase of treasury shares					-						-
Purchase of shares of consolidated subsidiaries		(144)			(144)						(144)
Sales of shares of consolidated subsidiaries		0			0						0
Net changes in items other than shareholders' equity					-	(48)	(40)	(89)	(39)	(147)	(275)
Total changes during term	56	(88)	(5,020)	-	(5,052)	(48)	(40)	(89)	(39)	(147)	(5,327)
Balance at end of term	3,703	2,882	(822)	(280)	5,484	(76)	(216)	(292)	97	125	5,413

(4) Consolidated Statements of Cash flows

		(Millions of yen)
	Year ended June 30, 2019	Year ended June 30, 2020
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	166	(5,000)
Depreciation and amortization	957	2,183
Amortization of goodwill	402	230
Impairment loss	201	3,097
Increase (decrease) in allowance for doubtful receivables	(4)	(3)
Increase (decrease) in allowance for investment loss	(0)	53
Increase (decrease) in provision for bonuses	53	(59)
Increase (decrease) in provision for loss on store closings	-	35
Increase (decrease) in provision for business structure improvement	-	24
Equity in losses (gains) of affiliates	39	74
Interest income	(9)	(13)
Interest expenses	16	53
Foreign exchange losses (gains)	26	10
Loss (gain) on investments in partnership	(1)	4
Loss (gain) on valuation of investment securities	-	50
Loss (gain) on sales of investment securities	(30)	(864)
Gain on reversal of share acquisition rights	-	(78)
Loss on closing of stores	42	39
Loss on temporary closure of stores etc.	-	340
Subsidy income	-	(94)
Decrease (increase) in notes and accounts receivable – trade	(12)	87
Decrease (increase) in operational investment securities	(463)	372
Decrease (increase) in inventories	(626)	(213)
Increase (decrease) in notes and accounts payable – trade	80	(238)
Increase (decrease) in accounts payable – other	41	92
Decrease (increase) in deposits paid	469	21
Other- net	(79)	(104)
Sub total	1,269	98
Interest and dividends received	9	13
Interest paid	(17)	(56)
Subsidy receivings	-	19
Payment on loss of temporary closure of stores	-	(206)
Corporate tax etc.	(1,107)	(70)
Net cash provided by (used in) operating activities	154	(202)
Cash flows from investing activities		
Purchase of investment securities	(1,251)	(30)
Purchase of tangible assets	(375)	(1,479)
Purchase of intangible assets	(1,648)	(1,503)
Payments for guarantee deposits	(758)	(602)
Payments into time deposits	(311)	(173)

Proceeds from withdrawal of time deposits	253	335
Proceeds from sales of investment securities	30	1,093
Other- net	(35)	(39)
Net cash provided by (used in) investing activities	(4,096)	(2,399)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	900	300
Proceeds from long-term debt	2,500	8,000
Repayment of long-term debt	(1,743)	(1,801)
Repayments of lease obligations	(10)	(435)
Proceeds from issuance of shares	169	108
Dividends paid	(32)	(0)
Proceeds from issuance of share acquisition rights	77	44
Purchase of shares in subsidiaries not resulting in change in scope of consolidation	(678)	(192)
Purchase of treasury stocks	(0)	-
Other – net	(7)	3
Net cash provided by (used in) financing activities	1,176	6,026
Foreign currency translation adjustments on cash and cash equivalents	(35)	(24)
Net increase (decrease) in cash and cash equivalents	(2,801)	3,401
Cash and cash equivalents, beginning of period	5,985	3,184
Cash and cash equivalents, end of period	3,184	6,584

(5) Notes on Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Changes in Accounting Policies)

Application of IFRS 16 *Leases*

Effective from the first quarter of this fiscal year, the Company's overseas subsidiaries that apply IFRS (International Financial Reporting Standards) have applied IFRS 16 *Leases*. As a result, the lessees have recognized, in principle, assets and liabilities for all leases.

In applying IFRS 16, the cumulative effects of its application are to be recognized effective from the date of initial application, in accordance with the transitional provisions of IFRS 16.

Consequently, as of the beginning of the first quarter, "Lease assets, net" under tangible fixed assets increased by 921 million yen, "Lease obligations" under current liabilities rose by 388 million yen, and "Lease obligations" under fixed liabilities increased by 553 million yen.

The impact of this change on the Consolidated Statements of Income during the first half of this fiscal year is immaterial.

It should also be noted that the outstanding balance of retained earnings as of the beginning of the current fiscal year decreased by 21 million yen.

(Additional Information)

(Accounting estimate of impact of the coronavirus outbreak)

The coronavirus outbreak is an event that broadly impacts on economic and corporate activity. In response, the Company has prepared accounting estimates of the recoverability of deferred tax assets and decisions on impairment of fixed assets of each business and regional segment based on certain assumptions.

In the On Platform segment, companies have refrained from or postponed advertising placements due to the slump in cosmetics demand from foreign visitors to Japan and consumers losing interest in buying products and services due to government requests for people to stay home following the declaration of a state of emergency. We expect this to have a negative effect on operating results through the first quarter of the fiscal year ending June 30, 2021, but forecast a gradual recovery starting in the second quarter.

In the Beauty Service segment, the coronavirus outbreak led to domestic retail stores reducing their opening hours and a sharp decline in consumption by foreign visitors to Japan and domestic consumption. Although the impact of the outbreak varies from store to store, we expect the significant negative impact on consumption by foreign visitors to Japan to continue through the fiscal year ending June 30, 2021. We also expect the significant negative impact on domestic consumption to continue through the first quarter of the fiscal year ending June 30, 2021, with a gradual recovery starting in the second quarter.

In the Global segment, the coronavirus outbreak led to overseas retail stores reducing their opening hours and a sharp decline in consumption by foreign visitors. Although the impact of the outbreak varies from store to store, we expect the significant negative impact on consumption by foreign visitors to continue through the first quarter of the fiscal year ending June 30, 2021, with a gradual recovery starting in the second quarter.

There are many uncertainties regarding the impact of the coronavirus outbreak on our business overall. If factors included in our assumptions concerning the timing of the end of the pandemic and the extent of business performance recovery change, the Company's financial position and operating results for the fiscal year ending June 30, 2021 may be impacted.

(Segment Information)

(Segment Information)

1. Overview of Reportable Segments

The Group's reportable segments comprise those business units for which separate financial statements can be obtained, and for which the Board of Directors regularly considers the allocation of management resources and evaluates operating performance.

The Group's primary businesses are related to cosmetics, and include a cosmetics-related community site, as well as On Platform, Beauty Service, Global, and Other, all stemming from this community site. Accordingly, the Group has four reportable segments based on the services provided and products handled. These four segments are the On Platform segment, the Beauty Service segment, the Global segment and the Other segment. The On Platform segment comprises the domestic and overseas marketing business, services for premium members, and other initiatives.

The Beauty Service segment comprises the operation of the domestic cosmetics E-Commerce site and the operation of the cosmetics specialty shop.

The Global segment comprises business operations outside Japan.

The Other business comprises temporary staffing agency business to send beauty consultants and investment and consulting projects primarily for companies at their growth phase including those immediately after founding.

2. Calculation methods for net sales, income/loss, assets, liabilities, and other items by reportable segment

Calculation methods by reportable segment are generally the same as the description in “Significant basis of preparation of Consolidated Financial Statements.”

3. Net sales, income/loss, assets, liabilities, and other items by reportable segment

Year ended June 30, 2019 (July 1, 2018 through June 30, 2019)

(Millions of yen)

	Reportable segment				Total	Adjustments	Amounts on the consolidated statements of income
	On Platform	*Beauty Service*	*Global*	*Other*			
Net sales							
Sales to outside customers	7,635	14,274	9,141	1,142	32,193	-	32,193
Inter-segment sales and transfers	17	143	27	8	194	(194)	-
Total	7,652	14,417	9,168	1,150	32,387	(194)	32,193
Segment profit (loss)	2,254	559	(27)	76	2,862	(2,386)	476
Segment assets	4,541	4,414	8,240	1,754	18,950	3,053	22,003
Other items							
Depreciation/amortization	641	126	131	-	897	60	957
Increase(decrease) in tangible/intangible assets	1,530	78	305	-	1,912	84	1,996

Notes: 1. Adjustments in Segment profit (loss) in the amount of (2,386) million yen include 12 million yen elimination of inter-segment transactions and (2,397) million yen corporate expense not allocated to any reportable segment.

2. The segment asset adjustment of 3,053 million yen refers to (3,506) million yen elimination of inter-segment transactions and corporate assets not allocated to reportable segments in the amount of 6,559 million yen.

3. The adjustment of 60 million yen for depreciation and amortization is related to the administrative functions of the Company that have not been attributed to a reportable segment.

4. The increase in tangible and intangible assets adjustment of 84 million yen represents the corporate assets that are not allocated to reportable segments.

5. Segment profit (loss) is adjusted to correspond with operating income reported on the consolidated statements of income for the corresponding period.

Year ended June 30, 2020 (July 1, 2019 through June 30, 2020)

(Millions of yen)

	Reportable segment				Total	Adjustments	Amounts on the consolidated statements of income
	On Platform	*Beauty Service*	*Global*	*Other*			
Net sales							
Sales to outside customers	7,720	15,300	6,168	1,376	30,564	-	30,564
Inter-segment sales and transfers	17	17	10	5	49	(49)	-
Total	7,738	15,317	6,178	1,381	30,613	(49)	30,564
Segment profit (loss)	1,194	(685)	(789)	(213)	(493)	(1,832)	(2,325)
Segment assets	4,551	6,758	6,193	1,335	18,838	5,319	24,157
Other items							
Depreciation/amortization	1,496	189	437	0	2,123	61	2,183
Increase(decrease) in tangible/intangible assets	1,554	1,331	151	-	3,016	51	3,066

Notes: 1. Adjustments in Segment profit (loss) in the amount of (1,832) million yen include 2 million yen elimination of inter-segment transactions and (1,834) million yen corporate expense not allocated to any reportable segment

2. The segment asset adjustment of 5,319 million yen refers to (5,835) million yen elimination of inter-segment transactions and corporate assets not allocated to reportable segments in the amount of 11,154 million yen.
3. The adjustment of 61 million yen for depreciation and amortization is related to the administrative functions of the Company that have not been attributed to a reportable segment.
4. The increase in tangible and intangible assets adjustment of 51 million yen represents the corporate assets that are not allocated to reportable segments.
5. Segment profit (loss) is adjusted to correspond with operating income reported on the consolidated statements of income for the corresponding period.

4. Differences between the total amounts of reportable segments and the amounts stated in consolidated statements of income, and main details of such differences (items relating to reconciliation)

(Significant impairment losses related to fixed assets)

For the On Platform segment, having continued to post losses generated from sales activities, and with the expectation that this will to continue to happen, the assets of the business have been devalued to their recoverable amounts, resulting in an impairment loss of 128 million yen.

For goodwill related to the On Platform segment, suspension of certain parts of the business resulted in an impairment loss of 4 million yen.

For the Beauty Service segment, the assets of the shops that have continued to post operating losses and their book value have been devalued to their recoverable amounts, resulting in an impairment loss of 24 million yen.

For the Global segment, having continued to post losses generated from sales activities, and with the expectation that this will to continue to happen, the assets of the business have been devalued to their recoverable amounts, resulting in an impairment loss of 77 million yen.

For the Global segment, the assets of the shops having continued posting sales impairment have been devalued to their recoverable amounts, resulting in an impairment loss of 567 million yen.

For goodwill related to the Global segment, having continued to post losses generated from sales activities, and with the expectation that this will to continue to happen, the assets of the business have been devalued to their recoverable amounts, resulting in an impairment loss of 2,283 million yen.

For corporate assets not allocated to any reportable segment, due to suspension of certain businesses, assets have been devalued to their recoverable amounts, resulting in an impairment loss of 14 million yen.

(Significant changes in goodwill amounts)

In the Global segment, the Company conducted a review based on progress with the business plans of its consolidated subsidiaries, Hermo Creative (M) Sdn. Bhd. and MUA Inc., as well as their earnings forecasts. As a result, the full unamortized balance of the goodwill recorded at the time of the Company's acquisition of the shares of these subsidiaries (2,283 million yen in total), has been recorded as an impairment loss under extraordinary loss during this fiscal year.

(Significant gain on negative goodwill)

Not applicable

(Per Share Information)

	Year ended June 30, 2019 (or as of June 30, 2019)	Year ended June 30, 2020 (or as of June 30, 2020)
Net assets per share	159.76 yen	79.44 yen
Net income (loss) per share	(8.05) yen	(76.94) yen
Diluted net income per share	-	-

(Note) 1. Diluted net income per share has not been disclosed for the fiscal year ended June 30, 2020 because of diluted net loss per share for this fiscal year.

2. Calculation base for net income (loss) per share and diluted net income per share are as follows.

	Year ended June 30, 2019	Year ended June 30, 2020
Net income per share		
Net income (loss) attributable to owners of the parent company (millions of yen)	(519)	(5,020)
Amount not attributable to common stockholders (millions of yen)	-	-
Net income (loss) available to common shareholders attributable to owners of parent company (millions of yen)	(519)	(5,020)
Average number of shares outstanding during term (shares)	64,554,959	65,241,280
Diluted net income per share		
Adjustments to Net income attributable to owners of the parent company (millions of yen)	-	-
Increase in the number of shares in common stock (shares)	-	-
(Of which, subscription rights to shares) (shares)	-	-
Residual securities that are not dilutive and not included in the calculation for diluted net income per share	Four issues of subscription rights to shares Residual securities: 6,101,000 shares	Five issues of subscription rights to shares Residual securities: 1,351,000 shares

(Significant Subsequent Events)

Not applicable