

# Summary of Financial Results for the First Quarter of Fiscal Year 2018 (Three Months Ended March 31, 2018)

[Japanese GAAP]

April 27, 2018

Company name: **SENSHUKAI CO.,LTD.**

Stock exchange: Tokyo Stock Exchange, First Section

Stock code: 8165

URL: <https://www.senshukai.co.jp>

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Scheduled date of filing of Quarterly Report: May 14, 2018

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest millions of yen)

## 1. Consolidated Financial Results for the 1st Quarter of 2018 (January 1, 2018 – March 31, 2018)

### (1) Consolidated operating results (cumulative)

(Percentages represent changes from the same period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q 2018	26,673	(8.0)	(1,454)	-	(1,393)	-	(1,565)	-
1Q 2017	28,992	(5.3)	(1,343)	-	(901)	-	(570)	-

Note: Comprehensive income (millions of yen) 1Q 2018: (1,975) (-%) 1Q 2017: (798) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
1Q 2018	(30.11)	-
1Q 2017	(10.97)	-

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
1Q 2018	91,332	46,572	50.9	759.16
Fiscal Year 2017	90,441	41,548	45.9	797.13

Reference: Shareholders' equity (millions of yen) 1Q 2018: 46,499 Fiscal Year 2017: 41,473

## 2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2017	-	0.00	-	0.00	0.00
Fiscal Year 2018	-	-	-	-	-
Fiscal Year 2018 (forecasts)	-	0.00	-	-	-

Notes: 1. Revision to the most recently announced dividend forecast: None

2. Dividend forecast for the Fiscal Year 2018 has not been determined at this time.

3. The dividend figures above show dividends for common shares. Please refer to "Dividends of classified stock" (after-mentioned) for information on dividends for shares whose rights are different from those of the Senshukai common shares.

## 3. Consolidated Outlook for Fiscal Year 2018 (January 1, 2018 – December 31, 2018)

(Percentages represent changes from the same period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year 2018	124,000	(1.6)	1,600	-	1,900	-	1,400	-	23.99

Note: Revision to the most recently announced consolidated outlook: None

**\* Notes**

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

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)” on page 8 for further information.

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

1) Changes in accounting policies due to revisions in accounting standards, others: None

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

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

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

1Q 2018:	52,230,393 shares	Fiscal Year 2017:	52,230,393 shares
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2) Number of treasury shares at the end of the period

1Q 2018:	201,724 shares	Fiscal Year 2017:	201,588 shares
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3) Average number of shares outstanding during the period

1Q 2018:	52,028,735 shares	1Q 2017:	52,026,773 shares
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Note: The Senshukai shares held by the trust that is recorded as treasury shares under shareholders' equity is included in the number of treasury shares, and is deducted from the number of shares that is used to calculate the average number of shares outstanding.

\* This quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

\* Cautionary statement with respect to forward-looking statements

The above projections are based on information available at the time of release of this report. Actual results could differ significantly from these projections due to a variety of factors. For further details regarding the projections, please refer to page 3, “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements.”

(Reference) Dividends of classified stock

Breakdown of dividend per share for classified stock whose rights are different from those of common shares are shown below.

Class A preferred stock	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2017	-	-	-	-	-
Fiscal Year 2018	-				
Fiscal Year 2018 (forecasts)		-	-	30,356,166.00	30,356,166.00

Note: Five shares of the Class A preferred stock were issued on March 30, 2018.

Class B preferred stock	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2017	-	-	-	-	-
Fiscal Year 2018	-				
Fiscal Year 2018 (forecasts)		-	-	-	-

Notes: 1. Nine shares of Class B preferred stock were issued on March 30, 2018.

2. There are no dividends for Class B preferred stock even when there is a dividend of surplus.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

In the first quarter (January 1 to March 31) of 2018, the Japanese economy recovered slowly with the support of higher corporate earnings and an improvement in the employment situation due to the government's economic and monetary policies. In Japan's retail industry, consumers remained budget-minded and price conscious, taking a defensive stance toward spending. In addition, there is heated competition with other retailers as well as companies in other industries. There is also a risk of higher prices for raw materials and distribution. As a result, the operating environment remained challenging.

Net sales in the first quarter decreased 8.0% year-over-year to 26,673 million yen because sales in the mail-order business have been sluggish.

Operating loss was 1,454 million yen compared with operating loss of 1,343 million yen in the same period of 2017 despite measures to reduce all categories of selling, general and administrative expenses.

There was an ordinary loss of 1,393 million yen compared with ordinary loss of 901 million yen in the same period of 2017. The loss attributable to owners of parent was 1,565 million yen compared with a loss of 570 million yen in the same period of 2017.

#### Overview by segment

##### (Mail-order Business)

Consolidated sales in the mail-order business, centered on the catalog and the Internet businesses, decreased 12.0% year-over-year to 21,303 million yen in the first quarter. There was an operating loss of 1,318 million yen compared with a loss of 1,275 million yen in the same period of 2017.

##### (Bridal Business)

Consolidated sales in the bridal business, centered on the house wedding business, increased 4.2% year-over-year to 3,680 million yen. There was an operating loss of 247 million yen compared with a loss of 178 million yen in the same period of 2017.

##### (Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, increased 11.9% year-over-year to 1,142 million yen, and operating income decreased 44.9 % to 73 million yen.

##### (Others)

Consolidated sales in other businesses, which consist of services (primarily childcare support, insurance and credit card services), increased 126.9% year-over-year to 546 million yen because of the July 2017 acquisition of Huit Laboratories, Inc. which manufactures and sells cosmetics. There was an operating profit of 37 million yen compared with a loss of 22 million yen in the same period of 2017.

**(2) Explanation of Financial Position**

(Balance sheet position)

Assets totaled 91,332 million yen at the end of the first quarter of 2018, an increase of 891 million yen from the end of 2017.

Current assets increased 1,033 million yen to 49,888 million yen. The main factors were increases of 1,866 million yen in cash and deposits and 370 million yen in merchandise and finished goods, while there was a decrease of 1,189 million yen in accounts receivable-other. Non-current assets decreased 142 million yen to 41,444 million yen. The factors include decreases of 95 million yen in property, plant and equipment, 4 million yen in intangible assets, and 42 million yen in investments and other assets.

Current liabilities decreased 3,577 million yen to 26,489 million yen. The main factors were decreases of 2,342 million yen in other and 1,276 million yen in electronically recorded obligations-operating. Non-current liabilities decreased 555 million yen to 18,270 million yen. The main factor was a decrease of 413 million yen in long-term loans payable.

Net assets increased 5,024 million yen to 46,572 million yen. While there was a decrease of 1,565 million yen in retained earnings because of the loss attributable to owners of parent, main factors include an increase of 3,500 million yen each in capital stock and capital surplus because of the March 2018 sale of newly issued preferred stock through a third-party allotment to Regional Economy Vitalization Corporation of Japan, which is managed by REVIC Partners Co., Ltd. as the unlimited liability partner. In accordance with the provisions of Article 452 of the Companies Act, to offset negative retained earnings, the capital surplus decreased by 7,071 million yen and retained earnings were increased by the same amount. As a result, the equity ratio was 50.9% at the end of the first quarter.

**(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements**

Senshukai currently maintains its consolidated forecasts for 2018 that was released on February 8, 2018.

**2. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

(Millions of yen)

	Fiscal Year 2017 (As of Dec. 31, 2017)	1Q 2018 (As of Mar. 31, 2018)
Assets		
Current assets		
Cash and deposits	17,328	19,194
Notes and accounts receivable-trade	5,481	5,141
Merchandise and finished goods	16,561	16,931
Accounts receivable-other	7,216	6,026
Other	2,413	2,733
Allowance for doubtful accounts	(147)	(139)
Total current assets	48,854	49,888
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,716	13,496
Land	10,451	10,338
Other, net	848	1,086
Total property, plant and equipment	25,016	24,921
Intangible assets		
Goodwill	1,992	1,928
Other	715	775
Total intangible assets	2,708	2,703
Investments and other assets		
Investment securities	7,630	7,678
Other	6,497	6,406
Allowance for doubtful accounts	(265)	(265)
Total investments and other assets	13,861	13,819
Total non-current assets	41,586	41,444
Total assets	90,441	91,332

	(Millions of yen)	
	Fiscal Year 2017 (As of Dec. 31, 2017)	1Q 2018 (As of Mar. 31, 2018)
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	9,406	8,129
Accounts payable-trade	6,123	5,987
Short-term loans payable	1,416	1,577
Income taxes payable	222	104
Provision for sales promotion expenses	408	369
Provision for bonuses	581	756
Other	11,907	9,565
Total current liabilities	30,066	26,489
Non-current liabilities		
Bonds with subscription rights to shares	5,000	5,000
Long-term loans payable	10,613	10,199
Net defined benefit liability	81	85
Provision for management board incentive plan trust	7	7
Other	3,124	2,978
Total non-current liabilities	18,826	18,270
Total liabilities	48,892	44,760
Net assets		
Shareholders' equity		
Capital stock	22,304	25,804
Capital surplus	23,860	20,288
Retained earnings	(4,859)	724
Treasury shares	(149)	(150)
Total shareholders' equity	41,155	46,667
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,216	1,024
Deferred gains or losses on hedges	219	7
Revaluation reserve for land	(1,056)	(1,134)
Foreign currency translation adjustment	(40)	(46)
Remeasurements of defined benefit plans	(19)	(19)
Total accumulated other comprehensive income	318	(168)
Non-controlling interests	74	73
Total net assets	41,548	46,572
Total liabilities and net assets	90,441	91,332



**(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income****(Quarterly Consolidated Statement of Income)****(For the Three-month Period)**

(Millions of yen)

	1Q 2017 (Jan. 1, 2017 – Mar. 31, 2017)	1Q 2018 (Jan. 1, 2018 – Mar. 31, 2018)
Net sales	28,992	26,673
Cost of sales	15,922	15,083
Gross profit	13,070	11,589
Selling, general and administrative expenses	14,413	13,044
Operating loss	(1,343)	(1,454)
Non-operating income		
Interest income	6	8
Dividend income	5	4
Share of profit of entities accounted for using equity method	428	263
Gain on adjustment of account payable	65	46
Other	28	70
Total non-operating income	534	393
Non-operating expenses		
Interest expenses	38	39
Commission fee	25	254
Other	28	38
Total non-operating expenses	92	332
Ordinary loss	(901)	(1,393)
Extraordinary income		
Gain on sales of non-current assets	-	0
Gain on sales of investment securities	-	21
Subsidy income	18	-
Total extraordinary income	18	21
Extraordinary losses		
Loss on sales and retirement of non-current assets	3	0
Loss on reduction of non-current assets	18	-
Impairment loss	10	115
Other	-	19
Total extraordinary losses	32	134
Loss before income taxes	(915)	(1,506)
Income taxes	(336)	60
Loss	(578)	(1,566)
Loss attributable to non-controlling interests	(7)	(0)
Loss attributable to owners of parent	(570)	(1,565)

**(Quarterly Consolidated Statement of Comprehensive Income)**  
**(For the Three-month Period)**

	(Millions of yen)	
	1Q 2017	1Q 2018
	(Jan. 1, 2017 – Mar. 31, 2017)	(Jan. 1, 2018 – Mar. 31, 2018)
Loss	(578)	(1,566)
Other comprehensive income		
Valuation difference on available-for-sale securities	(96)	(192)
Deferred gains or losses on hedges	(304)	(212)
Foreign currency translation adjustment	(9)	(5)
Share of other comprehensive income of entities accounted for using equity method	190	1
Total other comprehensive income	(220)	(409)
Comprehensive income	(798)	(1,975)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(790)	(1,974)
Comprehensive income attributable to non-controlling interests	(7)	(0)

**(3) Notes to Quarterly Consolidated Financial Statements****(Going Concern Assumption)**

Not applicable.

**(Significant Changes in Shareholders' Equity)**

At the annual general meeting of shareholders on March 29, 2018, shareholders approved a resolution to eliminate the retained earnings deficit. This was accomplished by first reducing the legal capital surplus by 14,809 million yen and transferring this amount to other capital surplus, in accordance with Article 448, Clause 1 of the Companies Act. Next, in accordance with Article 452 of the Companies Act, other capital surplus was decreased by 7,071 million yen and this amount was transferred to retained earnings brought forward. This process decreased the capital surplus by 7,071 million yen in the first quarter of 2018.

At the same meeting, shareholders approved a resolution to issue preferred stock (Class A and Class B) for sale through a third-party allotment. Senshukai subsequently issued five shares of Class A preferred stock and nine shares of Class B preferred stock with a payment date of March 30, 2018. The issuance of this preferred stock resulted in increases of 3,500 million yen each in capital stock and capital surplus.

The result of all these measures was capital stock of 25,804 million yen and legal capital surplus of 20,288 million yen at the end of the first quarter of 2018.

**(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)**

(Calculation of tax expense)

The tax expenses are calculated by first reasonably estimating the effective tax rate after the application of tax effect accounting with respect to profit before income taxes for the fiscal year in which the quarter under review falls, and multiplying that rate by the profit before income taxes for the quarter under review. However, Senshukai uses legally stipulated effective tax rates to calculate tax expenses for cases in which using estimated tax rates gives a noticeably irrational result.

**(Segment Information)**

I 1Q 2017 (Jan. 1, 2017 – Mar. 31, 2017)

## 1. Information related to sales and profit or loss for each reportable segment

(Millions of yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Mail-order business	Bridal business	Corporates business	Sub-total				
Net sales								
Sales to customers	24,196	3,533	1,021	28,751	240	28,992	-	28,992
Inter-segment sales or transfers	217	0	37	254	0	254	(254)	-
Total	24,413	3,533	1,058	29,006	240	29,247	(254)	28,992
Segment profit (loss)	(1,275)	(178)	133	(1,320)	(22)	(1,343)	0	(1,343)

Notes: 1. Others represent the businesses which are not included in any of the three reportable segments and consist of the services business primarily offering insurance and credit card services, and childcare business.

2. The 0 million yen adjustment to segment profit (loss) comprises elimination for inter-segment transactions.

3. Segment profit (loss) is adjusted to be consistent with operating loss shown on the quarterly consolidated statement of income.

## 2. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

No major events or changes occurred.

II 1Q 2018 (Jan. 1, 2018 – Mar. 31, 2018)

## 1. Information related to sales and profit or loss for each reportable segment

(Millions of yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Mail-order business	Bridal business	Corporates business	Sub-total				
Net sales								
Sales to customers	21,303	3,680	1,142	26,126	546	26,673	-	26,673
Inter-segment sales or transfers	209	-	45	255	1	256	(256)	-
Total	21,513	3,680	1,188	26,381	547	26,929	(256)	26,673
Segment profit (loss)	(1,318)	(247)	73	(1,492)	37	(1,454)	0	(1,454)

Notes: 1. Others represent the businesses which are not included in any of the three reportable segments and consist of the childcare support business, services business and manufacturing and sales of cosmetics.

2. The 0 million yen adjustment to segment profit (loss) is an elimination for inter-segment transactions.

3. Segment profit (loss) is adjusted to be consistent with the operating loss on the quarterly consolidated statement of income.

## 2. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

No major events or changes occurred.

**3. Other**

## Important Information about Going Concern Assumption

In 2017, the Senshukai Group had an operating loss of 4,287 million yen and a loss attributable to owners of parent of 11,090 million yen. This performance creates significant doubts about the going concern assumption. To eliminate these doubts and quickly improve results of operations, Senshukai has implemented a medium-term management plan for 2018 to 2020, which was announced on October 27, 2017. In addition, there were structural reforms during 2017 that included a voluntary retirement program and adjusting the size of core subsidiaries in order to streamline business operations. There will be even more activities in 2018 to restore profitability and build a stronger foundation for business operations. One goal is improving mail-order business profitability by downsizing unprofitable product categories. We are also reexamining the procurement strategy, implementing timely discounts and taking other steps to increase the gross profit margin. In addition, we are working on lowering catalog and sales promotion expenses and using these expenditures more efficiently. To do this, we are

conducting a complete reexamination of our strategies for distributing catalogs and for price discounts and points awarded for purchases.

The Senshukai Group recorded an operating loss of 1,454 million yen and a loss attributable to owners of parent of 1,565 million yen in the first quarter. However, due to the seasonal nature of business activities, sales and earnings are usually lower in the first quarter of every year than in the other quarters. There are no significant concerns at this time about cash flows because cash and deposits were 19,194 million yen at the end of the first quarter and working capital is sufficient to support business operations for the time being.

For these reasons, we believe there are no significant uncertainties regarding the going concern assumption.

*\* This financial report is solely a translation of summary of “Kessan Tanshin” (in Japanese, including attachments), 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.*