

February 8, 2019

**Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending June 30, 2019
(Six Months Ended December 31, 2018)**

[Japanese GAAP]

Company name: istyle Inc.	Stock exchange listings: TSE First Section
Securities code: 3660	URL: https://www.istyle.co.jp/en/
Representative: Tetsuro Yoshimatsu, Representative Director, CEO	
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Scheduled date of filing of Quarterly Report:	February 8, 2019
Scheduled date of dividend payment:	-
Preparation of supplementary materials for financial results:	Yes
Holding of financial results briefing:	Yes (for analysts and institutional investors)

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

1. Consolidated Financial Results for the Six Months Ended December 31, 2018 (July 1, 2018 – December 31, 2018)

(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	%
Six months ended December 31, 2018	16,225	17.1	242	(80.0)	228	(81.8)	59	(91.6)
Six months ended December 31, 2017	13,851	64.4	1,213	65.9	1,249	76.0	699	47.3

Note: Comprehensive income (million yen) Six months ended December 31, 2018: (21) (-%)
Six months ended December 31, 2017: 467 (down 15.5%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended December 31, 2018	0.91	0.85
Six months ended December 31, 2017	11.05	10.81

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2018	22,685	11,681	49.5
As of June 30, 2018	21,911	12,008	53.0

Reference: Total equity As of December 31, 2018: 11,224 million yen
As of June 30, 2018: 11,604 million yen

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

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2018	-	0.00	-	0.50	0.50
Fiscal year ending June 30, 2019	-	0.00	-	-	-
Fiscal year ending June 30, 2019 (forecasts)	-	-	-	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending June 30, 2019 (July 1, 2018 – June 30, 2019)

(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	33,000	15.9	250 ~600	(88.2) ~(71.8)	180 ~500	(91.6) ~(76.7)	0 ~100	(100.0) ~(91.6)	0.00 ~1.55

Note: Revisions to the most recently announced earnings forecast: Yes

* Notes

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

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(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 issued (including treasury shares) at end of period

As of December 31, 2018: 67,350,600 shares

As of June 30, 2018: 66,927,600 shares

2) Number of treasury shares at end of period

As of December 31, 2018: 2,693,508 shares

As of June 30, 2018: 2,693,452 shares

3) Average number of shares outstanding during the period

Six months ended December 31, 2018: 64,403,722 shares

Six months ended December 31, 2017: 63,207,459 shares

* 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

(Note concerning forward-looking statements)

- 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 "Consolidated Operating Results Forecast and Information about Future Predictions" on page 5 in the accompanying material.

* This financial report is solely a translation of the original Japanese "Kessan Tanshin"), 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.

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1. Operating Results and Financial Position

(1) Analysis of Operating Results

Based on our Medium-Term Business Plan announced on August 3, 2016, we defined the current fiscal year as a phase of expanding investment. Accordingly, we are aggressively investing human and financial resources with the goal of accelerating the turn to profitability of services in the next fiscal year, which is the final year of the Medium-Term Business Plan.

In this first half, we invested 460 million yen in a major promotion to advertise *@cosme Beauty Day*, a special E-Commerce event held on December 3, 2018. Although this resulted in a sharp one-time profit decline, it increased the value of the platform as a whole by raising the profile of the *@cosme* brand and attracting new users.

In the Others segment, although capital gains from the sales of operational investment securities were recorded in the first half of the previous fiscal year, no sales of operational investment securities were recorded in this first half. As a result, the segment recorded a sharp year-on-year profit decline.

As a result, the consolidated operating performance for the first half ended December 31, 2018, was as follows:

Net Sales:	16,225 million yen (17.1% year-on-year increase)
Operating Income:	242 million yen (80.0% year-on-year decrease)
Ordinary Income:	228 million yen (81.8% year-on-year decrease)
Income before income taxes:	239 million yen (80.6% year-on-year decrease)
Net Income attributable to owners of the parent company:	59 million yen (91.6% year-on-year decrease)

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.

In this first half, we strategically allocated human resources to sales of *Brand Official*, a new service positioned as the next earnings pillar. Although the startup of new services has been delayed, sales of advertising and other existing services in the On Platform segment increased, and as a result, sales growth was solid year on year. However, profits were down year on year due to an increase in personnel-related expenses stemming from work force reinforcement and system-related expenses associated with new service releases.

As a result, the consolidated operating performance for this first half was as follows:

Net Sales:	3,873million yen (6.3% year-on-year increase)
Segment Profit:	1,237 million yen (11.7% year-on-year decrease)

2) Beauty Service segment

The Beauty Service segment comprises mainly retail services in Japan, such as the operation of the domestic cosmetics E-Commerce site *@cosme shopping*, the operation of the cosmetics specialty shop *@cosme store*, and the planning, development, and marketing of private brands.

E-Commerce sales were brisk, posting a record high^{*1} daily total—more than 40 times higher than usual—on

December 3, 2018, when we held a special 24-hour E-Commerce event.

Sales also grew at retail stores in Japan as a result of the special event and solid growth of individual stores.

Although profits were limited by the redemption of loyalty points due to the special event, we seek growth in the longer term by encouraging new users attracted by the sale to continue using *@cosme shopping* and further cultivating new users.

As a result, the consolidated operating performance for this first half was as follows:

Net Sales:	7,032 million yen (23.7% year-on-year increase)
Segment Profit:	286 million yen (9.5% year-on-year increase)

Note

*1 Total E-Commerce sales minus the total value of issued loyalty points are recorded as sales.

3) Global segment

The Global segment comprises business operations outside Japan, such as E-Commerce, retail stores, and media and other services.

Despite the positive seasonal factor *Double 11*^{*2}, cross-border E-Commerce sales growth in China was slow as a result of price competition and a change in Chinese government regulations making wholesale customers cut back on purchases.

Overseas retail stores recorded robust sales and profit growth, with the Star House Flagship store in Hong Kong continuing its strong performance to make a substantial contribution to both sales and profits.

Goodwill amortization of three overseas companies^{*3} whose income statements were consolidated from the first quarter of the previous fiscal year totaled 187 million yen in this first half. However, the segment absorbed this expense to post a profit.

As a result, the consolidated operating performance for this first half was as follows:

Net Sales:	4,723 million yen (23.1% year-on-year increase)
Segment Profit:	68 million yen (27.1% year-on-year increase)

Notes:

*2 Major E-Commerce sale held in China

*3 The three companies are as follows.

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

4) Others

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

In this first half, the temporary staffing agency recorded solid growth, but profit declined in the Investment and Consultation business because capital gains from the sale of operational investment securities were recorded in the first half of the previous fiscal year, but there were no such sales of operational investment securities during this first half.

As a result, the consolidated operating performance for this first half was as follows:

Net Sales:	596 million yen (12.7% year-on-year decrease)
Segment Profit:	63 million yen (77.0% year-on-year decrease)

(2) Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

(Assets)

Total assets as of December 31, 2018, were 22,685 million yen, an increase of 773 million yen from June 30, 2018.

Current assets as of December 31, 2018, were 13,044 million yen, a decrease of 8 million yen from June 30, 2018. This was mainly due to increases of 256 million yen in notes and accounts receivable – trade and 610 million yen in merchandise, and a decrease of 871 million yen in cash and deposits, and other factors.

Fixed assets as of December 31, 2018 were 9,640 million yen, an increase of 782 million yen from June 30, 2018. This was mainly due to an increase in “other intangible assets” of 744 million yen, and other factors.

(Liabilities)

Total liabilities as of December 31, 2018, were 11,004 million yen, an increase of 1,100 million yen from June 30, 2018.

Current liabilities decreased by 84 million yen from June 30, 2018 to 7,267 million yen. This was largely due to a 600 million yen decrease in short-term debt offsetting a 521 million yen increase in the current portion of long-term debt.

Fixed liabilities as of December 31, 2018 were 3,736 million yen, an increase of 1,184 million yen from June 30, 2018. This was mainly due to a 1,170 million yen increase in long-term debt.

(Net Assets)

Total net assets as of December 31, 2018, were 11,681 million yen, a decrease of 327 million yen from June 30, 2018.

This was mainly due to a 69 million yen increase in capital stock and 394 million yen decrease in capital surplus.

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

Promotion-related expenses for *@cosme Beauty Day*, a 24-hour special E-Commerce event on December 3, 2018, were 260 million yen higher than our initial budget. We had planned to absorb the additional spending with higher earnings in the first quarter and the expected growth of each business segment, but we have lowered our initial earnings forecast due to slower-than-planned progress with orders for the new service *Brand Official*.

Furthermore, the outlook for the Global segment remains unclear at this stage because of the change in Chinese government regulations. As stated in our February 8, 2019 “Notice of revision of consolidated operating results forecast for the fiscal year ending June 30, 2019,” we have decided to revise our consolidated operating results forecast for the current fiscal year to a range format for these reasons.

Our revised consolidated operating results forecast for the fiscal year ending June 30, 2019 are as follows:

Net Sales:	33,000 million yen
Operating Income:	250~600 million yen
Ordinary Income:	180~500 million yen
Net Income attributable to owners of the parent company:	0~100 million yen

2. Consolidated Financial Statements and Relevant Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2018	As of Dec. 31, 2018
	Amount	Amount
Assets		
Current assets		
Cash and deposits	6,183	5,312
Notes and accounts receivable - trade	2,707	2,963
Merchandise	2,286	2,896
Operational investment securities	999	1,469
Other	901	429
Allowance for doubtful receivables	(12)	(12)
Allowance for investment loss	(12)	(13)
Total current assets	13,053	13,044
Fixed assets		
Tangible assets	988	1,150
Intangible assets		
Goodwill	3,462	3,233
Software	1,977	1,728
Other	190	935
Total intangible assets	5,630	5,896
Investments and other assets		
Investment securities	979	1,078
Other	1,262	1,516
Total investments and other assets	2,240	2,594
Total fixed assets	8,859	9,640
Total assets	21,911	22,685

(Millions of yen)

	As of June 30, 2018	As of Dec. 31, 2018
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,617	1,811
Short-term debt	1,800	1,200
Current portion of long-term debt	1,312	1,833
Income taxes payable	662	239
Provision for bonuses	236	204
Other	1,724	1,980
Total current liabilities	7,351	7,267
Fixed liabilities		
Long-term debt	2,505	3,675
Other	47	61
Total fixed liabilities	2,552	3,736
Total liabilities	9,904	11,004
Net assets		
Shareholders' equity		
Capital stock	3,556	3,625
Capital surplus	3,513	3,119
Retained earnings	4,770	4,797
Treasury stock	(280)	(280)
Total shareholders' equity	11,559	11,261
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	38	29
Foreign currency translation adjustments	7	(66)
Total accumulated other comprehensive income	44	(37)
Subscription rights to shares	74	149
Non-controlling interests	330	308
Total net assets	12,008	11,681
Total liabilities and net assets	21,911	22,685

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Six months ended Dec. 31, 2017	Six months ended Dec. 31, 2018
	Amount	Amount
Net sales	13,851	16,225
Cost of sales	7,097	8,568
Gross profit	6,754	7,657
Selling, general and administrative expenses	5,541	7,415
Operating income	1,213	242
Non-operating income		
Interest income	1	2
Foreign exchange gains	22	-
Gain on investments in partnership	5	-
Equity in gains of affiliates	3	-
Other	12	11
Total non-operating income	43	12
Non-operating expenses		
Interest expenses	7	8
Foreign exchange losses	-	13
Loss on investments in partnership	-	2
Equity in losses of affiliates	-	2
Other	0	2
Total non-operating expenses	7	27
Ordinary income	1,249	228
Extraordinary income		
Gain on sales of investment securities	-	30
Total extraordinary income	-	30
Extraordinary loss		
Impairment loss	14	-
Loss on closing of stores	-	19
Other	2	-
Total extraordinary loss	16	19
Income before income taxes	1,233	239
Total income taxes	508	180
Net income	726	59
Net income attributable to non-controlling interests	27	(0)
Net income attributable to owners of the parent company	699	59

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended Dec. 31, 2017	Six months ended Dec. 31, 2018
	Amount	Amount
Net income	726	59
Other comprehensive income		
Net unrealized gain on available-for-sale securities	(306)	(9)
Foreign currency translation adjustments	120	(71)
Share of other comprehensive income of associates accounted for using equity method	(71)	-
Total other comprehensive income	(258)	(80)
Comprehensive income	467	(21)
Comprehensive income attributable to		
Owners of the parent	434	(22)
Non-controlling interests	33	1

(3) Notes on Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

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

Not applicable

(Additional information)

The company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) from the beginning of this quarter. As a result, deferred tax assets are indicated under "investments and other assets", and deferred tax liabilities are indicated under "fixed liabilities".

(Segment Information)

Six months ended December 31, 2017 (July 1, 2017 through December 31, 2017)

1. Net sales and income/loss by reportable segment

(Millions of yen)

	Reportable segment					Adjustments (note 1)	Amounts on the consolidated statements of income (note 2)
	<i>On Platform</i>	<i>Beauty Service</i>	<i>Global</i>	<i>Others</i>	Total		
Net sales							
Sales to outside customers	3,645	5,686	3,837	684	13,851	-	13,851
Inter-segment sales and transfers	11	28	18	4	60	(60)	-
Total	3,655	5,714	3,855	688	13,912	(60)	13,851
Segment profit (loss)	1,401	261	53	274	1,989	(776)	1,213

Notes: 1. Adjustments in segment profit (loss) in the amount of (776) million yen include 5 million yen elimination of inter-segment transactions and (781) million yen corporate expense not allocated to any reportable segment.

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

2. Information about impairment loss on fixed assets, goodwill, etc.

(Significant impairment losses related to fixed assets)

For the Beauty Service segment, impairment losses are recorded in relation with one store that is scheduled to close. The amount of the above impairment losses is 14 million yen for this first half.

(Significant changes in goodwill amounts)

Goodwill in the Global segment has increased by 1,692 million yen as a result of the acquisition of shares of MUA, Inc. as a new consolidated subsidiary in the first quarter of the current fiscal year.

(Significant gain on negative goodwill)

Not applicable

Six months ended December 31, 2018 (July 1, 2018 through December 31, 2018)

1. Net sales and income/loss by reportable segment

(Millions of yen)

	Reportable segment					Adjustments (note 1)	Amounts on the consolidated statements of income (note 2)
	<i>On Platform</i>	<i>Beauty Service</i>	<i>Global</i>	<i>Others</i>	Total		
Net sales							
Sales to outside customers	3,873	7,032	4,723	596	16,225	-	16,225
Inter-segment sales and transfers	9	64	22	4	98	(98)	-
Total	3,882	7,097	4,745	600	16,324	(98)	16,225
Segment profit (loss)	1,237	286	68	63	1,654	(1,412)	242

Notes: 1. Adjustments in Segment profit (loss) in the amount of (1,412) million yen include 4 million yen elimination of inter-segment transactions and (1,416) million yen corporate expense not allocated to any reportable segment.

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

2. Information about impairment loss on fixed assets, goodwill, etc.

(Significant impairment losses related to fixed assets)

Not applicable

(Significant changes in goodwill amounts)

Not applicable

(Significant gain on negative goodwill)

Not applicable

(Significant subsequent events)

Not applicable