

May 10, 2019

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending June 30, 2019
(Nine Months Ended March 31, 2019)

[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:	May 10, 2019		
Scheduled date of dividend payment:	-		
Preparation of supplementary materials for financial results:	Yes		
Holding of financial results briefing:	None		

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

1. Consolidated Financial Results for the Nine Months Ended March 31, 2019 (July 1, 2018 – March 31, 2019)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

(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	%
Nine months ended March 31, 2019	24,019	16.0	377	(77.4)	327	(80.5)	44	(95.2)
Nine months ended March 31, 2018	20,711	56.1	1,669	47.1	1,677	62.9	923	8.4

Note: Comprehensive income (million yen)	Nine months ended March 31, 2019:	68 (down 84.1%)
	Nine months ended March 31, 2018:	429 (down 61.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended March 31, 2019	0.69	0.64
Nine months ended March 31, 2018	14.56	14.26

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2019	23,305	11,773	48.6
As of June 30, 2018	21,911	12,008	53.0

Reference: Total equity	As of March 31, 2019:	11,318 million yen
	As of June 30, 2018:	11,604 million yen

$$\text{Total equity} = \text{Shareholders' equity} + \text{total accumulated other comprehensive income}$$

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 (Jul. 1, 2018 – Jun. 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: None

* 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 March 31, 2019:	67,360,600 shares	As of June 30, 2018:	66,927,600 shares
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2) Number of treasury shares at end of period

As of March 31, 2019:	2,693,508 shares	As of June 30, 2018:	2,693,452 shares
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3) Average number of shares outstanding during the period

Nine months ended March 31, 2019:	64,489,354 shares	Nine months ended March 31, 2018:	63,367,682 shares
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* The current quarterly summary report is not subject to the quarterly review procedures by certified public accountants or auditing firms.

* 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 "(3) Consolidated Operating Results Forecast and Information about Future Predictions" on page 5 in the accompanying material.

* *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) Consolidated Operating Results Forecast and Information about Future Predictions	5
2. Consolidated Financial Statements and Relevant Notes	6
(1) Consolidated Balance Sheets	6
(2) Consolidated Statements of Income and Comprehensive Income	8
(3) Notes on Consolidated Financial Statements	10
(Notes on the Going-concern Assumption)	10
(Notes on Significant Changes in the Amount of Shareholders' Equity)	10
(Additional Information)	10
(Segment Information)	11
(Significant Subsequent Events)	12

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. We are considering a revision of the Medium-Term Business Plan, which is under review taking into account the progress of each segment.

In this nine months we invested 463 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 sales of operational investment securities (355 million yen in gross profit) was recorded in the first nine months of the previous fiscal year, no such capital gains were recorded in this nine months. As a result, the segment recorded a sharp year-on-year profit decline.

As a result, the consolidated operating performance for this nine months was as follows:

Net Sales:	24,019 million yen (16.0% year-on-year increase)
Operating Income:	377 million yen (77.4% year-on-year decrease)
Ordinary Income:	327 million yen (80.5% year-on-year decrease)
Income before income taxes:	340 million yen (79.5% year-on-year decrease)
Net Income attributable to owners of the parent company:	44 million yen (95.2% 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.

B-to-B services continued to perform strongly in this nine months. We strategically allocated human resources to *Brand Official*, a new service positioned as the next earnings pillar after advertising. This included the establishment of a specialist sales team for *Brand Official*. Although the startup and expansion of this new service is taking some time, we are making solid progress toward our year-end targets. Although profits were down year on year due to an increase in upfront investment such as personnel-related expenses and system-related expenses, we expect an improvement in profitability by encouraging more clients to adopt *Brand Official*.

As a result, the consolidated operating performance for this nine months was as follows:

Net Sales:	5,798 million yen (7.8% year-on-year increase)
Segment Profit:	1,800 million yen (9.4% 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.

A special 24-hour E-Commerce event held on December 3, 2018 contributed to the increase in E-Commerce sales. In this third quarter, sales remained strong, centered on repeat sales to existing customers.

In Japan, in this third quarter we closed two small stores that were unable to harness the strengths of *@cosme store* and increased floor space of the favorably performing *Lumine Omiya* and *Amu Est Hakata* stores. Going forward, we plan to concentrate on opening new, large stores that can carry a diverse product range.

We have also decided to aim to open our first large street-level store “*@cosme TOKYO*” by the end of the year, on a site located in front of *Harajuku* Station, an area that will see significant changes between now and 2020. We plan to operate the new flagship store in a manner that fully harnesses the strengths of a large format store with a 1,300m² sales floor area. By selling an extensive range of popular items at *@cosme*, from luxury brands to budget brands, including those not sold at our other stores, we will offer users the opportunity to discover cosmetics that meet their needs.

Since the store is to open next fiscal year, the impact the store opening will have on earnings in the current fiscal year will be minimal. We are currently examining the expected impact of the store opening on earnings in the next fiscal year.

As a result, the consolidated operating performance for this nine months was as follows:

Net Sales:	10,629 million yen (20.3% year-on-year increase)
Segment Profit:	421 million yen (1.1% year-on-year decrease)

3) Global segment

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

E-Commerce cosmetics sales declined in China due to the impact of a change in Chinese government regulations making wholesale customers cut back on purchases, as well as a reactionary slump after *Singles' Day*^{*1}.

We opened a second store in Thailand in February 2019, bringing the total number of overseas retail stores to 10. The first Hong Kong store continues to drive earnings growth. Since many of our overseas stores are relatively new we will consider how to take the business forward by analyzing which types of store are most successful.

Goodwill amortization of the three overseas companies^{*2} whose income statements were consolidated from the first quarter of the previous fiscal year totaled 280 million yen in this nine months.

As a result, the consolidated operating performance for this nine months was as follows:

Net Sales:	6,734 million yen (23.5% year-on-year increase)
Segment Loss:	16 million yen (7 million yen segment loss in the same period of the previous fiscal year)

Notes

*1 Major E-Commerce sale held in China

*2 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 nine months, the temporary staffing agency recorded steady growth. We intend to revamp the business by specializing in beauty, which is our area of strength, because, although demand is high, competition is also intense. The Investment and Consultation business posted lower sales and profits, because it recorded capital gains from the sale of operational investment securities (gross profit of 355 million yen) in the same period of the previous fiscal year, but conducted no such sell off during this nine months.

As a result, the consolidated operating performance for this nine months was as follows:

Net Sales:	858 million yen (17.6% year-on-year decrease)
Segment Profit:	62 million yen (84.8% year-on-year decrease)

(2) Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

(Assets)

Total assets as of March 31, 2019, were 23,305 million yen, an increase of 1,393 million yen from June 30, 2018.

Current assets as of March 31, 2019, were 11,728 million yen, a decrease of 1,324 million yen from June 30, 2018. This was mainly due to increases of 287 million yen in notes and accounts receivable – trade, 447 million yen in operational investment securities, and 636 million yen in merchandise, a decrease of 2,387 million yen in cash and deposits, and other factors.

Fixed assets as of March 31, 2019 were 11,576 million yen, an increase of 2,718 million yen from June 30, 2018. This was mainly due to increases in “other intangible assets” of 1,139 million yen, 1,246 million yen in investment securities, and other factors.

(Liabilities)

Total liabilities as of March 31, 2019, were 11,532 million yen, an increase of 1,629 million yen from June 30, 2018.

Current liabilities increased by 903 million yen from June 30, 2018 to 8,254 million yen. The main factors included a 575 million yen decrease in income taxes payable, 437 million yen increase in notes and accounts

payable – trade, 533 million increase in the current portion of long-term debt, and a 600 million yen increase in short-term debt, and other factors.

Fixed liabilities as of March 31, 2019 were 3,278 million yen, an increase of 726 million yen from June 30, 2018. This was mainly due to an increase in long-term debt of 691 million yen, and other factors.

(Net Assets)

Total net assets as of March 31, 2019, were 11,773 million yen, a decrease of 235 million yen from June 30, 2018.

This was primarily due to increases of 70 million yen increase in capital stock and 76 million yen in subscription rights to shares, and a 393 million yen decrease in capital surplus, and other factors.

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

Regarding our consolidated operating results forecast for the current fiscal year, no changes have been made to our full-year forecast as announced with our operating results on February 8, 2019.

2. Consolidated Financial Statements and Relevant Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2018	As of Mar. 31, 2019
	Amount	Amount
Assets		
Current assets		
Cash and deposits	6,183	3,796
Notes and accounts receivable - trade	2,707	2,994
Merchandise	2,286	2,922
Operational investment securities	999	1,446
Other	901	593
Allowance for doubtful receivables	(12)	(9)
Allowance for investment loss	(12)	(13)
Total current assets	13,053	11,728
Fixed assets		
Tangible assets	988	1,174
Intangible assets		
Goodwill	3,462	3,156
Software	1,977	1,592
Other	190	1,329
Total intangible assets	5,630	6,078
Investments and other assets		
Investment securities	979	2,225
Other	1,262	2,100
Total investments and other assets	2,240	4,325
Total fixed assets	8,859	11,576
Total assets	21,911	23,305

(Millions of yen)

	As of June 30, 2018	As of Mar. 31, 2019
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable – trade	1,617	2,053
Short-term debt	1,800	2,400
Current portion of long-term debt	1,312	1,845
Income taxes payable	662	87
Provision for bonuses	236	165
Other	1,724	1,704
Total current liabilities	7,351	8,254
Fixed liabilities		
Long-term debt	2,505	3,196
Other	47	82
Total fixed liabilities	2,552	3,278
Total liabilities	9,904	11,532
Net assets		
Shareholders' equity		
Capital stock	3,556	3,626
Capital surplus	3,513	3,119
Retained earnings	4,770	4,782
Treasury stock	(280)	(280)
Total shareholders' equity	11,559	11,248
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	38	55
Foreign currency translation adjustments	7	15
Total accumulated other comprehensive income	44	71
Subscription rights to shares	74	150
Non-controlling interests	330	304
Total net assets	12,008	11,773
Total liabilities and net assets	21,911	23,305

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Nine months ended Mar. 31, 2018	Nine months ended Mar. 31, 2019
	Amount	Amount
Net sales	20,711	24,019
Cost of sales	10,636	12,671
Gross profit	10,075	11,348
Selling, general and administrative expenses	8,406	10,971
Operating income	1,669	377
Non-operating income		
Interest income	1	3
Foreign exchange gains	9	-
Gain on investments in partnership	4	3
Other	13	15
Total non-operating income	27	21
Non-operating expenses		
Interest expenses	10	12
Foreign exchange losses	-	24
Loss on investments in partnership	-	2
Equity in losses of affiliates	6	26
Other	4	7
Total non-operating expenses	19	70
Ordinary income	1,677	327
Extraordinary income		
Gain on sales of investment securities	-	30
Total extraordinary income	-	30
Extraordinary loss		
Impairment loss	14	-
Loss on closing of stores	-	16
Other	5	-
Total extraordinary loss	19	16
Income before income taxes	1,658	340
Total income taxes	697	302
Net income	961	38
Net income attributable to non-controlling interests	38	(6)
Net income attributable to owners of the parent company	923	44

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended Mar. 31, 2018	Nine months ended Mar. 31, 2019
	Amount	Amount
Net income	961	38
Other comprehensive income		
Net unrealized gain (loss) on available-for-sale securities	(362)	18
Foreign currency translation adjustments	(99)	12
Share of other comprehensive income of associates accounted for using equity method	(71)	-
Total other comprehensive income	(532)	30
Comprehensive income	429	68
Comprehensive income attributable to		
Owners of the parent	390	71
Non-controlling interests	39	(3)

(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 the first quarter of this fiscal year. As a result, deferred tax assets are indicated under "investments and other assets," and deferred tax liabilities are indicated under "fixed liabilities."

(Segment Information)

Nine months ended March 31, 2018 (July 1, 2017 through March 31, 2018)

1. Net sales and profit/loss by reportable segment

	Reportable segment					Adjustments (note 1)	(Millions of yen) 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	5,379	8,839	5,451	1,042	20,711	-	20,711
Inter-segment sales and transfers	14	44	26	9	94	(94)	-
Total	5,393	8,883	5,478	1,051	20,804	(94)	20,711
Segment profit (loss)	1,986	426	(7)	407	2,812	(1,143)	1,669

- Notes: 1. Adjustments in segment profit (loss) in the amount of (1,143) million yen include 10 million yen elimination of inter-segment transactions and (1,153) 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)

The Beauty Service segment recorded an impairment loss on a scheduled store closure.

The amount of the impairment loss for this nine months is 14 million yen.

(Significant changes in goodwill amounts)

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

(Significant gain on negative goodwill)

Not applicable

Nine months ended March 31, 2019 (July 1, 2018 through March 31, 2019)

1. Net sales and profit/loss by reportable segment

	Reportable segment					(Millions of yen)	
	<i>On Platform</i>	<i>Beauty Service</i>	<i>Global</i>	<i>Others</i>	Total	Adjustments (note 1)	Amounts on the consolidated statements of income (note 2)
Net sales							
Sales to outside customers	5,798	10,629	6,734	858	24,019	-	24,019
Inter-segment sales and transfers	13	81	25	7	126	(126)	-
Total	5,811	10,710	6,758	865	24,144	(126)	24,019
Segment profit (loss)	1,800	421	(16)	62	2,267	(1,890)	377

Notes: 1. Adjustments in segment profit (loss) in the amount of (1,890) million yen include 9 million yen elimination of inter-segment transactions and (1,899) 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