

Consolidated Financial Results for the Nine Months Ended May 31, 2019 [Japanese GAAP]



July 10, 2019

Company name: ANAP INC.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 3189
 URL: <http://www.anap.co.jp/>
 Representative: Toshiyasu Yataka, President & Representative Director
 Contact: Masayuki Ohya, Executive Officer, General Manager of Corporate Planning Department
 Phone: +81-3-5772-2717
 Scheduled date of filing quarterly securities report: July 12, 2019
 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on quarterly financial results: None
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Nine Months Ended May 31, 2019 (September 1, 2018 to May 31, 2019)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
May 31, 2019	4,492	(5.0)	47	(76.6)	48	(75.7)	28	(84.4)
May 31, 2018	4,726	-	203	-	199	-	184	-

Note: Comprehensive income: Nine months ended May 31, 2019: ¥23 million [(87.0%)]

Nine months ended May 31, 2018: ¥184 million [- %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
May 31, 2019	6.63	6.48
May 31, 2018	42.42	40.27

Note: As the Company began preparing quarterly consolidated financial statements from the nine months ended May 31, 2018, changes from the previous corresponding period for the nine months ended May 31, 2018 are not stated.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of May 31, 2019	2,800	1,638	58.3
As of August 31, 2018	2,903	1,848	63.3

Reference: Equity: As of May 31, 2019 : ¥1,631 million

As of August 31, 2018: ¥1,836 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended August 31, 2018	Yen -	Yen 0.00	Yen -	Yen 6.00	Yen 6.00
Fiscal year ending August 31, 2019	-	0.00	-		
Fiscal year ending August 31, 2019 (Forecast)				6.00	6.00

Note: Revision to the most recently announced dividend forecast: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2019 (September 1, 2018 to August 31, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary profit		Profit attributable to owners of parent	Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
Full year	6,272	(5.4)	130	(62.8)	130	(61.6)	90 (64.5)	20.94

Note: Revision to the most recently announced financial results forecast: Yes

See “Notice of Revision to the Full Year Consolidated Financial Results Forecast” released today (July 10, 2019) for details of the revision to the financial results forecast.

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Accounting policies adopted specially for the preparation of the quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of shares issued (common shares)
 - 1) Total number of shares issued at the end of the period (including treasury shares):
 - May 31, 2019: 4,760,000 shares
 - August 31, 2018: 4,760,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - May 31, 2019: 469,339 shares
 - August 31, 2018: 219,339 shares
 - 3) Average number of shares during the period:
 - Nine months ended May 31, 2019: 4,335,708 shares
 - Nine months ended May 31, 2018: 4,337,742 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation on the proper use of the financial results forecast and other notes

Note on forward-looking statements, etc.

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document. The Company makes no warranty as to the achievability of these forecasts. Actual results may differ significantly from these forecasts due to various factors. Please refer to P. 3 “1. Qualitative Information on Quarterly Financial Results for the Period under Review (3) Explanation on Consolidated Financial Results Forecast and Other Forward-looking Information” of the Appendix.

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review	2
(1) Explanation on Business Results	2
(2) Explanation on Financial Position	3
(3) Explanation on Consolidated Financial Results Forecast and Other Forward-looking Information	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	5
Quarterly Consolidated Statements of Income	
Nine Months Ended May 31	5
Quarterly Consolidated Statements of Comprehensive Income	
Nine Months Ended May 31	6
(3) Notes to the Quarterly Consolidated Financial Statements	7
Notes on going concern assumption	7
Notes in the case of significant changes in shareholders' equity	7
Segment information	8

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation on Business Results

The Japanese economy during the nine months ended May 31, 2019 followed a moderate recovery trend as corporate earnings and the employment environment continued to improve. Meanwhile, a sense of uncertainty about the economic outlook persisted amid unease in the global economy including rising concerns about prolongation of trade friction between the U.S. and China and other unpredictable economic trends and policies.

In the casual fashion industry where the Company operates, the operating environment continued to be severe due to labor shortages and soaring logistics costs, in addition to intensifying competition with excessive provision of services by other companies.

Under these circumstances, the revitalization project launched in April 2016 has largely been completed in the previous fiscal year, and the Company is steering toward a growth strategy for further business expansion in the fiscal year under review.

Specifically, the Company has been implementing measures such as system development and continuous verification to improve the Company's website, which started in the previous fiscal year, enhancement of promotion activities to maximize brand value and the AI business, and expansion of the e-commerce support business operated by consolidated subsidiary ATLAB. Internalizing the app production process in May 2019, which was previously outsourced, led to improvements in the user interface and user experience of the Company's website, resulting in higher sales per customer and purchase rates. Meanwhile, although actions have been taken to step up promotion activities to maximize brand value, it is taking time to spread their effects. As a result, the numbers of visitors to both the Company's website and competitors' websites are growing at a slower pace than expected. The Company is also strengthening its personnel system for acceleration of business growth in the future. In particular, the Company is aggressively recruiting individuals with IT and system-related skills. Regarding consolidated subsidiary ATLAB, although its impact on the entire Group is not significant, its business expansion has been progressing as generally anticipated and is likely to further accelerate going forward.

As a result, for the nine months ended March 31, 2019, net sales decreased by 5.0% from the previous corresponding period to ¥4,492 million, operating profit decreased by 76.6% to ¥47 million, ordinary profit decreased by 75.7% to ¥48 million, and profit attributable to owners of parent decreased by 84.4% to ¥28 million.

Operating results by business segment are as follows.

Internet Retailing Business

In the Internet Retailing Business, as a result of a systematic reconstruction of the Company's website using cutting-edge technology so as to keep competitors' services at bay, sales per customer and purchase rates improved. However, as stated above, slow growth in the number of website visitors resulted in a decrease in net sales. Meanwhile, forward investments for future innovative business expansion are still ongoing.

As a result, net sales decreased by 4.9% from the previous corresponding period to ¥2,492 million and segment profit decreased by 48.7% to ¥155 million.

Store Retailing Business

In the Store Retailing Business, with the closing of three stores since the end of the previous fiscal year, the Company's store count was 29 at the end of the third quarter. Although the store closing conducted in and before the previous year still had an impact on sales, existing stores are performing well ever since the previous fiscal year, creating a steady profit trend supported also by the cost reduction effect from store closing.

As a result, net sales decreased by 7.2% from the previous corresponding period to ¥1,781 million and segment profit increased by 11.4% to ¥167 million.

Wholesale Distribution Business

In the Wholesale Distribution Business, sales have been steady with increased sales to new major customers.

As a result, net sales increased by 21.2% from the previous corresponding period to ¥176 million and segment loss was ¥9 million, while segment loss for the previous corresponding period was ¥10 million.

(2) Explanation on Financial Position

Current assets

Current assets as of the end of the third quarter decreased by ¥238 million from the end of the previous fiscal year to ¥2,162 million. This is mainly attributable to decreases in cash and deposits and notes and accounts receivable – trade by ¥645 million and ¥70 million, respectively, in spite of increases in merchandise and finished goods and other current assets by ¥428 million and ¥47 million, respectively.

Non-current assets

Non-current assets as of the end of the third quarter increased by ¥136 million from the end of the previous fiscal year to ¥637 million. This is mainly attributable to increases in property, plant and equipment, intangible assets, and lease and guarantee deposits by ¥55 million, ¥25 million, and ¥66 million, respectively.

Deferred assets

Deferred assets as of the end of the third quarter decreased by ¥0 million from the end of the previous fiscal year to ¥0 million.

Current liabilities

Current liabilities as of the end of the third quarter increased by ¥107 million from the end of the previous fiscal year to ¥858 million. This is mainly attributable to decreases in income taxes payable and other current liabilities by ¥42 million and ¥167 million, respectively, in spite of increases in accounts payable – trade, short-term loans payable, and provision for bonuses by ¥179 million, ¥110 million, and ¥30 million, respectively.

Non-current liabilities

Non-current liabilities as of the end of the third quarter decreased by ¥0 million from the end of the previous fiscal year to ¥303 million. This is mainly attributable to decreases in net defined benefit liability and other non-current liabilities by ¥16 million and ¥5 million, respectively, in spite of an increase in asset retirement obligations by ¥20 million.

Net assets

Net assets as of the end of the third quarter decreased by ¥209 million from the end of the previous fiscal year to ¥1,638 million. This is mainly attributable to decreases in retained earnings from cash dividends paid and purchase of treasury shares of ¥27 million and ¥206 million, respectively, in spite of an increase in retained earnings from profit attributable to owners of parent of ¥28 million.

(3) Explanation on Consolidated Financial Results Forecast and Other Forward-looking Information

In light of financial results up to the end of the nine months ended May 31, 2019, the full year consolidated financial results forecast released on October 10, 2018 was revised. See “Notice of Revision to the Full Year Consolidated Financial Results Forecast” released today (July 10, 2019) for details.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of August 31, 2018	As of May 31, 2019
Assets		
Current assets		
Cash and deposits	1,368,115	722,207
Notes and accounts receivable - trade	428,691	358,662
Merchandise and finished goods	563,614	991,635
Work in process	1,248	685
Raw materials and supplies	3,769	5,421
Other	40,655	88,404
Allowance for doubtful accounts	(4,663)	(4,289)
Total current assets	2,401,431	2,162,727
Non-current assets		
Property, plant and equipment	108,661	164,127
Intangible assets	59,442	84,894
Investments and other assets		
Lease and guarantee deposits	209,391	275,720
Other	124,014	112,932
Total investments and other assets	333,406	388,652
Total non-current assets	501,510	637,675
Deferred assets	250	203
Total assets	2,903,192	2,800,606
Liabilities		
Current liabilities		
Accounts payable - trade	197,736	376,901
Short-term loans payable	140,000	250,000
Income taxes payable	42,263	135
Provision for bonuses	35,000	65,000
Provision for sales returns	300	–
Asset retirement obligations	6,990	5,773
Other	328,161	160,386
Total current liabilities	750,452	858,196
Non-current liabilities		
Net defined benefit liability	191,756	175,679
Asset retirement obligations	85,639	106,270
Other	27,203	21,912
Total non-current liabilities	304,599	303,862
Total liabilities	1,055,052	1,162,058
Net assets		
Shareholders' equity		
Capital stock	393,188	393,188
Capital surplus	716,654	716,654
Retained earnings	795,154	796,676
Treasury shares	(68,678)	(275,013)
Total shareholders' equity	1,836,318	1,631,505
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	620	248
Total accumulated other comprehensive income	620	248
Non-controlling interests	11,200	6,793
Total net assets	1,848,140	1,638,548
Total liabilities and net assets	2,903,192	2,800,606

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended May 31

(Thousand yen)

	For the nine months ended May 31, 2018	For the nine months ended May 31, 2019
Net sales	4,726,528	4,492,339
Cost of sales	1,875,944	1,800,413
Gross profit	2,850,584	2,691,926
Selling, general and administrative expenses	2,647,481	2,644,404
Operating profit	203,102	47,522
Non-operating income		
Interest income	69	20
Interest on securities	84	–
Dividend income	31	33
Compensation income	4,097	9,772
Foreign exchange gains	2,248	72
Other	3,676	1,401
Total non-operating income	10,208	11,300
Non-operating expenses		
Interest expenses	2,531	1,443
Commission fee	650	7,691
Provision of allowance for doubtful accounts	10,000	–
Other	1,127	1,286
Total non-operating expenses	14,308	10,420
Ordinary profit	199,001	48,402
Extraordinary losses		
Impairment loss	–	4,097
Contractual termination penalties	12,838	–
Total extraordinary losses	12,838	4,097
Profit before income taxes	186,162	44,305
Income taxes – current	27,658	8,606
Income taxes – deferred	(25,514)	11,339
Total income taxes	2,143	19,946
Profit	184,019	24,358
Loss attributable to non-controlling interests	–	(4,407)
Profit attributable to owners of parent	184,019	28,765

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended May 31

(Thousand yen)

	For the nine months ended May 31, 2018	For the nine months ended May 31, 2019
Profit	184,019	24,358
Other comprehensive income		
Valuation difference on available-for-sale securities	127	(372)
Total other comprehensive income	127	(372)
Comprehensive income	184,146	23,986
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	184,146	28,393
Comprehensive income attributable to non-controlling interests	—	(4,407)

(3) Notes to the Quarterly Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Notes in the case of significant changes in shareholders' equity

Based on a Board of Directors' resolution made on October 10, 2018, the Company repurchased 250,000 treasury shares. As a result, treasury shares increased by ¥206 million during the nine months ended May 31, 2019 to ¥275 million as of May 31, 2019.

Segment information

I. For the nine months ended May 31, 2018

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Other (Note 1)	Adjustment (Note 2)	Quarterly Consolidated Financial Statements (Note 3)
	Internet Retailing Business	Store Retailing Business	Wholesale Distribution Business	Total			
Net sales							
Net sales to outside customers	2,620,177	1,919,181	145,972	4,685,332	41,196	—	4,726,528
Inter-segment net sales or transfers	—	—	—	—	—	—	—
Total	2,620,177	1,919,181	145,972	4,685,332	41,196	—	4,726,528
Segment profit (loss)	303,098	150,165	(10,459)	442,804	24,433	(264,135)	203,102

- Notes:
1. “Other” is a segment for businesses that do not fall under any reportable segments such as the license business.
 2. The adjustment for segment profit (loss) includes corporate expenses of ¥264,135 thousand not allocated to reportable segments. These corporate expenses are mainly general and administrative expenses at the Company’s administrative departments, etc. which do not belong to any reportable segments.
 3. Segment profit (loss) is reconciled with operating profit in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets or goodwill, etc. by reportable segment

Not applicable.

II. For the nine months ended May 31, 2019

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Other (Note 1)	Adjustment (Note 2)	Quarterly Consolidated Financial Statements (Note 3)
	Internet Retailing Business	Store Retailing Business	Wholesale Distribution Business	Total			
Net sales							
Net sales to outside customers	2,492,920	1,781,839	176,879	4,451,639	40,700	—	4,492,339
Inter-segment net sales or transfers	—	—	—	—	—	—	—
Total	2,492,920	1,781,839	176,879	4,451,639	40,700	—	4,492,339
Segment profit (loss)	155,396	167,282	(9,630)	313,048	13,808	(279,334)	47,522

- Notes:
1. “Other” is a segment for businesses that do not fall under any reportable segments such as the license business.
 2. The adjustment for segment profit (loss) includes corporate expenses of ¥279,334 thousand not allocated to reportable segments. These corporate expenses are mainly general and administrative expenses at the Company’s administrative departments, etc. which do not belong to any reportable segments.
 3. Segment profit (loss) is reconciled with operating profit in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets or goodwill, etc. by reportable segment

Information is omitted due to lack of materiality.