

November 8, 2019

**Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending June 30, 2020
(Three Months Ended September 30, 2019)**

[Japanese GAAP]

Company name: istyle Inc.	Stock exchange listings: TSE First Section
Securities code: 3660	URL: http://www.istyle.co.jp/
Representative: Tetsuro Yoshimatsu, Representative Director, CEO	
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Scheduled date of filing of Quarterly Report:	November 8, 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 Three Months Ended September 30, 2019 (July 1, 2019 – September 30, 2019)

(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	%
Three months ended September 30, 2019	7,901	2.3	(205)	-	(228)	-	(232)	-
Three months ended September 30, 2018	7,722	16.4	304	(50.1)	318	(49.7)	183	(45.0)

Note: Comprehensive income (million yen) Three months ended September 30, 2019: (278)(-%)

Three months ended September 30, 2018: 377 (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended September 30, 2019	(3.57)	-
Three months ended September 30, 2018	2.84	2.61

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	23,830	10,477	42.6
As of June 30, 2019	22,003	10,761	47.1

Reference: Total equity As of September 30, 2019: 10,150 million yen

As of June 30, 2019: 10,353 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, 2019	-	0.00	-	0.00	0.00
Fiscal year ending June 30, 2020	-				
Fiscal year ending June 30, 2020 (forecasts)		0.00	-	0.00	0.00

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

3. Consolidated Forecast for the Fiscal Year Ending June 30, 2020 (Jul. 1, 2019 – Jun. 30, 2020)

(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	39,000	21.1	(1,240)	-	(1,390)	-	(1,720)	-	(26.37)

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: Yes
- 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 September 30, 2019: 68,007,400 shares As of June 30, 2019: 67,497,200 shares

2) Number of treasury shares at end of period

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

3) Average number of shares outstanding during the period

Three months ended Sept. 30, 2019: 64,935,552 shares Three months ended Sept. 30, 2018: 64,258,884 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" document, 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 extended Medium-Term Business Plan announced on August 7, 2019, we defined the current fiscal year as a phase of investing human and financial resources in priority businesses.

We posted a loss in this first quarter because of upfront expenses associated with our new large flagship store @cosme Tokyo, which is scheduled to open this fiscal year, and the geopolitical impacts of recent events in Asia.

Progress toward our plan for the first quarter varied from segment to segment, but consolidated results came in ahead of forecast as a result of expense reductions.

As a result, the consolidated operating performance for this first quarter ended September 30, 2019, was as follows:

Net Sales:	7,901 million yen (2.3% year-on-year increase)
Operating Loss:	205 million yen (operating income of 304 million yen in the previous fiscal year)
Ordinary Loss:	228 million yen (ordinary income of 318 million yen in the previous fiscal year)
Loss before income taxes:	163 million yen (income before income taxes of 348 million yen in the previous fiscal year)
Net Loss attributable to owners of the parent company:	232 million yen (net income attributable to owners of the parent company of 183 million yen in the previous fiscal year)

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 quarter, we focused on *Brand Official*, a service positioned as the next earnings pillar. As a result, B-to-B pay services and advertising services recorded solid growth, with the number of *Brand Official* contracts increasing strongly at a faster pace than expected.

Although profits were down due to upfront investment, including IT system investment, we expect an improvement driven by future growth of *Brand Official*.

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

Net Sales:	1,953 million yen (6.9% year-on-year increase)
Segment Profit:	426 million yen (19.9% 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 recorded steady growth due to new customers and an increase in repeat purchases by existing customers. Revenue rose sharply at a record rate, partly because of last-minute demand before the consumption tax hike.

Retail stores in Japan recorded revenue growth despite the effect of closing the Shibuya Store and closing some stores temporarily for remodeling, because of last-minute demand before the consumption tax hike and other factors.

Although we posted a segment loss due to upfront investment in the new large flagship store *@cosme Tokyo* scheduled to open this fiscal year, performance was in line with our forecast.

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

Net Sales:	3,850 million yen (14.6% year-on-year increase)
Segment Loss:	19 million yen (segment profit of 138 million yen in the previous fiscal year)

3) Global segment

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

In E-Commerce & Wholesale, sales declined in China amid a change in the competitive environment in response to the new E-Commerce Law^{*1}. We plan to take a medium- to long-term approach to sales strategies that are not price-dependent, such as enhancing our product range and concluding exclusive sales agreements.

With regard to overseas retail stores, sales of the four stores in Hong Kong fell sharply due to the impact of the recent protests.

Although certain temporary geopolitical factors are having an impact on the Global segment, we will consider future business expansion based on close monitoring of the operating environment.

Goodwill amortization of the three overseas companies^{*2} whose income statements were consolidated from the first quarter of the fiscal year ended June 30, 2018, totaled 89 million yen in this first quarter.

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

Net Sales:	1,792 million yen (19.9% year-on-year decrease)
Segment Loss:	126 million yen (46 million yen segment profit in the previous fiscal year)

Notes

*1 A law passed by the Chinese government to tighten regulations on individuals acting as import agents in China. The law went into effect on January 1, 2019, and the government announced that it would tighten regulations further in June.

*2 The three companies are as follows.

- Hermo Creative (M) Sdn. Bhd., which operates 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 quarter ended September 30, 2019, the temporary staffing agency posted lower sales amid intensifying competition, but maintained a solid performance. The Investment and Consultation business posted capital gains from investment securities (gross profit of 30 million yen) as forecast. This led to overall segment revenue and profit increases.

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

Net Sales:	306 million yen (2.8% year-on-year increase)
Segment Profit:	41 million yen (15.8% year-on-year increase)

(2) Consolidated Financial Position

1) Assets, Liabilities and Net Assets

(Assets)

Total assets as of September 30, 2019, were 23,830 million yen, an increase of 1,827 million yen from June 30, 2019.

Current assets as of September 30, 2019, totaled 11,264 million yen, an increase of 344 million yen from June 30, 2019. This was mainly due to a 309 million yen increase in notes and accounts receivable – trade, and other factors.

Fixed assets as of September 30, 2019, were 12,566 million yen, an increase of 1,483 million yen from June 30, 2019. This was mainly due to an increase in tangible assets of 964 million yen as a result of applying IFRS 16 *Leases* to overseas consolidated subsidiaries whose balance sheets are consolidated in compliance with International Financial Reporting Standards (IFRS), and an increase of 487 million yen in lease and guarantee deposits under investments and other assets, and other factors.

(Liabilities)

Total liabilities as of September 30, 2019, were 13,353 million yen, an increase of 2,111 million yen from June 30, 2019.

Current liabilities increased by 2,071 million yen from June 30, 2019 to 10,422 million yen, mainly due to a 1,800 million yen increase in short-term debt and other factors.

Fixed liabilities as of September 30, 2019 were 2,931 million yen, an increase of 39 million yen from June 30, 2019. This was mainly due to a decrease in long-term debt of 415 million yen and an increase of 454 million yen in “other” under fixed liabilities as a result of applying IFRS 16 *Leases* to overseas consolidated subsidiaries whose balance sheets are consolidated in compliance with International Financial Reporting Standards (IFRS), and other factors.

(Net Assets)

Total net assets as of September 30, 2019, were 10,477 million yen, a decrease of 284 million yen from June 30, 2019.

This was primarily due to decreases of 252 million yen in retained earnings and 52 million yen in foreign currency translation adjustments, and other factors.

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

We have made no changes to our consolidated operating results forecast for the fiscal year ending June 30, 2020, released on August 7, 2019, in the Summary of Consolidated Financial Results for the Fiscal Year Ended June 30, 2019.

2. Consolidated Financial Statements and Relevant Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2019	As of Sept. 30, 2019
	Amount	Amount
Assets		
Current assets		
Cash and deposits	3,303	3,134
Notes and accounts receivable - trade	2,700	3,009
Merchandise	2,881	3,034
Operational investment securities	1,367	1,366
Other	689	742
Allowance for doubtful receivables	(8)	(10)
Allowance for investment loss	(12)	(12)
Total current assets	10,920	11,264
Fixed assets		
Tangible assets	1,015	1,979
Intangible assets		
Goodwill	2,944	2,869
Software	2,677	2,449
Other	343	722
Total intangible assets	5,965	6,041
Investments and other assets		
Investment securities	2,186	2,137
Lease and guarantee deposits	1,476	1,963
Other	442	446
Total investments and other assets	4,103	4,546
Total fixed assets	11,083	12,566
Total assets	22,003	23,830

	(Millions of yen)	
	As of June 30, 2019	As of Sept. 30, 2019
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable – trade	1,677	1,734
Short-term debt	2,700	4,500
Current portion of long-term debt	1,793	1,674
Income taxes payable	211	130
Provision for bonuses	288	192
Other	1,683	2,192
Total current liabilities	8,351	10,422
Fixed liabilities		
Long-term debt	2,782	2,367
Other	110	564
Total fixed liabilities	2,892	2,931
Total liabilities	11,242	13,353
Net assets		
Shareholders' equity		
Capital stock	3,647	3,693
Capital surplus	2,971	3,017
Retained earnings	4,218	3,966
Treasury stock	(280)	(280)
Total shareholders' equity	10,556	10,397
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	(28)	(20)
Foreign currency translation adjustments	(176)	(227)
Total accumulated other comprehensive income	(204)	(247)
Subscription rights to shares	136	58
Non-controlling interests	272	269
Total net assets	10,761	10,477
Total liabilities and net assets	22,003	23,830

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Three months ended Sept. 30, 2018	Three months ended Sept. 30, 2019
	Amount	Amount
Net sales	7,722	7,901
Cost of sales	4,074	4,194
Gross profit	3,648	3,707
Selling, general and administrative expenses	3,344	3,911
Operating income (loss)	304	(205)
Non-operating income		
Interest income	1	1
Foreign exchange gains	16	8
Other	6	6
Total non-operating income	22	14
Non-operating expenses		
Interest expenses	5	7
Loss on investments in partnership	2	3
Equity in losses of affiliates	2	26
Other	0	2
Total non-operating expenses	8	38
Ordinary income (loss)	318	(228)
Extraordinary income		
Gain on sales of investment securities	30	-
Gain on reversal of share acquisition rights	-	77
Total extraordinary income	30	77
Extraordinary loss		
Loss on closing of stores	-	3
Relocation expenses	-	8
Total extraordinary loss	-	11
Income (loss) before income taxes	348	(163)
Total income taxes	163	73
Net income (loss)	185	(236)
Net income (loss) attributable to non-controlling interests	2	(4)
Net income (loss) attributable to owners of the parent company	183	(232)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended Sept. 30, 2018	Three months ended Sept. 30, 2019
	Amount	Amount
Net income	185	(236)
Other comprehensive income (loss)		
Net unrealized gain on available-for-sale securities	41	8
Foreign currency translation adjustments	151	(51)
Total other comprehensive income	193	(42)
Comprehensive income (loss)	377	(278)
Comprehensive income (loss) attributable to		
Owners of the parent	367	(275)
Non-controlling interests	11	(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

(Changes in Accounting Policies)

Application of IFRS 16 *Leases*

Effective from this first quarter, 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. IFRS 16 has been applied in accordance with the transitional provisions, and the cumulative effect of the changes in accounting policy has been recognized under retained earnings as of the beginning of this first quarter.

Consequently, as of the end of this first quarter, tangible assets increased by 838 million yen, and "Other" under current liabilities rose by 407 million yen, while "Other" under fixed liabilities increased by 451 million yen.

The impact of this change on the Consolidated Statements of Income during this first quarter is immaterial. It should also be noted that the outstanding balance of retained earnings decreased by 21 million yen, as of the beginning of this first quarter.

(Segment Information)

Three months ended September 30, 2018 (July 1, 2018 through September 30, 2018)

1. Net sales and income/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	1,828	3,361	2,236	297	7,722	-	7,722
Inter-segment sales and transfers	4	42	19	2	67	(67)	-
Total	1,832	3,403	2,254	300	7,789	(67)	7,722
Segment profit (loss)	531	138	46	36	751	(447)	304

Notes: 1. Adjustments in Segment profit (loss) in the amount of (447) million yen include 2 million yen elimination of inter-segment transactions and (449) 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

Three months ended September 30, 2019 (July 1, 2019 through September 30, 2019)

1. Net sales and income/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	1,953	3,850	1,792	306	7,901	-	7,901
Inter-segment sales and transfers	5	9	1	2	17	(17)	-
Total	1,958	3,859	1,793	308	7,918	(17)	7,901
Segment profit (loss)	426	(19)	(126)	41	322	(527)	(205)

- Notes: 1. Adjustments in Segment profit (loss) in the amount of (527) million yen include (19) million yen elimination of inter-segment transactions and (508) 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)

1. Issuance of Stock acquisition rights (stock options involving consideration)

At its Board of Directors' meeting held on August 30, 2019, the Company resolved to issue the 19th series stock acquisition rights for the Company's employees and Directors of a subsidiary, and the 20th series stock acquisition rights for the Company's Directors pursuant to Articles 236, 238, and 240 of the Companies Act. The stock acquisition rights were issued on October 2, 2019.

An overview of the issued stock acquisition rights is provided below:

The 19th series Stock acquisition rights (Board of Directors resolution dated August 30, 2019)

Date of resolution	August 30, 2019
Category and number of persons granted	Seventeen employees of the Company One Director of a subsidiary
Number of Stock acquisition rights	2,810 units
Class and number of shares granted	Common shares: 281,000 shares (Note 1)
Amount to be paid for exercise	64 yen (Note 2)
Exercise period	From October 1, 2021, to March 31, 2023
Issuance price of shares upon exercise and amount of capitalization	Issuance price 64 yen Capitalization 32 yen
Exercise conditions	(Note 3)
Matters related to transfer of Stock acquisition rights	(Note 4)
Matters related to issuance of Stock acquisition rights upon reorganization	(Note 5)

Notes: 1. The number of shares underlying each unit of the Stock acquisition rights ("number of shares granted") shall be 100 common shares of the Company.

If the Company carries out a share split (including gratis allotment of the Company's common shares, the same applies hereinafter) or share consolidation after the allotment date of the Stock acquisition rights, the number of shares to be issued shall be adjusted according to the following formula, provided that it shall only apply to shares underlying Stock acquisition rights unexercised at that point, and fractional shares resulting from the adjustment shall be discarded.

$$\begin{array}{ccccc} \text{Number of shares granted} & & & & \text{Ratio of share split} \\ \text{after adjustment} & = & \text{Number of shares granted} & \times & \text{or share consolidation} \\ & & \text{before adjustment} & & \end{array}$$

If the Company carries out a merger, share split, share consolidation, or capital reduction, or any other similar cases requiring adjustment of the number of shares granted after the allotment date of the Stock acquisition rights, the adjustment shall be made appropriately within a reasonable range.

2. The amount of property to be contributed for the exercise of the Stock acquisition rights shall be the amount per share to be paid for exercise (“exercise price”) multiplied by the number of shares granted.

The exercise price shall be 64 yen, which is 10% of the closing price of the Company’s shares at the Tokyo Stock Exchange on August 29, 2019, i.e, the trading day preceding the date of resolution by the Board of Directors on the issuance of the Stock acquisition rights.

If the Company carries out a share split or share consolidation after the allotment date of the Stock acquisition rights, the exercise price shall be adjusted according to the following formula, and any fractions resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of share split or share consolidation}}$$

If the Company issues new shares or disposes of its treasury shares at a price below fair value after the allotment date of the Stock acquisition rights (excluding issuance of new shares and disposal of treasury shares for the exercise of Stock acquisition rights, or transfer of treasury shares due to share exchange), the exercise price shall be adjusted according to the following formula, and any fractions resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares already issued} + \frac{\text{Number of shares to be issued} \times \text{Amount per share to be paid}}{\text{Per share fair value before issuance}}}{\text{Number of shares already issued} + \text{Number of shares to be issued}}$$

“Number of shares already issued” in the formula above shall be obtained by deducting the number of the Company’s treasury shares from the total number of the Company’s shares outstanding. If the Company disposes of its treasury shares, “Number of shares to be issued” shall be comprehended as “Number of shares to be disposed of.”

In addition to the preceding, if the Company merges with another company or carries out a share split, or any other similar cases requiring adjustment of exercise price after the allotment date of the Stock acquisition rights, the adjustment shall be made appropriately within a reasonable range.

3. Exercise conditions

(1) The holders of stock acquisition rights may exercise them if they satisfy the conditions in the items below for each of the fiscal years ending June 30, 2021 and 2022, for the Stock acquisition rights allotted to them up to the ratio stated in each item. In case fractional units of Stock acquisition rights arise as a result of

calculating the exercisable Stock acquisition rights according to the applicable ratio, such fractional units shall be discarded at exercise.

- A) EBITDA is not less than 4,500 million yen: 25% of total number of Stock acquisition rights allotted to the holder
- B) EBITDA is not less than 5,000 million yen: 25% of total number of Stock acquisition rights allotted to the holder
- C) EBITDA is not less than 5,500 million yen: 50% of total number of Stock acquisition rights allotted to the holder

The EBITDA above shall be obtained by adding depreciation and amortization (including amortization of goodwill) on the Company's consolidated statements of cash flows to operating income on the Company's consolidated statements of income post auditing and stated in the securities report submitted by the Company. In case of significant changes in the concept of reference figures as a result of applying international accounting standards, etc., the Company shall determine a separate indicator to be referred to within a reasonable range at its Board of Directors' meeting.

- (2) If the closing price of the Company's common shares at financial instrument exchanges falls below 50% of the closing price of the trading day preceding the resolution date for the issuance of the Stock acquisition rights for five consecutive trading days during the period from the allotment date of the Stock acquisition rights to the attainment of the conditions in each item in (1) above, the holder may not exercise the ratio of the Stock acquisition rights for which the conditions in each item in (1) above are not attained at that point.
- (3) A holder shall be Director, Auditor, or employee of the Company, its subsidiary, or affiliate (subsidiaries and affiliates stipulated in the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements) at the time of exercise of the Stock acquisition rights, unless there are due reasons such as retirement upon expiry of term of office or mandatory retirement.
- (4) A successor of a holder may not exercise the Stock acquisition rights.
- (5) If the Company's total shares outstanding will exceed the number of shares authorized to be issued as a result of exercise of the Stock acquisition rights, those Stock acquisition rights may not be exercised.
- (6) Fractional units of the Stock acquisition rights may not be exercised.

4. Transfers of the Stock acquisition rights shall be approved by the Company's Board of Directors.

5. Matters related to issuance of Stock acquisition rights upon reorganization

If the Company carries out mergers (when the Company is the merged entity), absorption-type splits,

incorporation-type splits, share exchanges, or share transfers (collectively, “reorganization”), the holders shall be granted Stock acquisition rights of each of the stock companies stipulated in Article 236, Paragraph 1, Item 8, (a) to (e) of the Companies Act (the “reorganized companies”) for each instance in the following conditions on the effective date of reorganization, provided that such issuance of Stock acquisition rights of the reorganized companies under the following conditions is stipulated in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type split agreement, incorporation-type split plan, share exchange agreement, or share transfer plan.

- (1) Number of Stock acquisition rights of the reorganized companies to be issued

The number of Stock acquisition rights equivalent to those held by the holder shall be issued respectively.

- (2) Class of shares of the reorganized companies underlying the Stock acquisition rights

Common shares of the reorganized companies

- (3) Number of shares of the reorganized companies underlying the Stock acquisition rights

To be determined by applying the formula in 1. upon considering the conditions of the reorganization.

- (4) Amount of property to be contributed for the exercise of the Stock acquisition rights

The amount of property to be contributed for the exercise of the Stock acquisition rights to be issued shall be obtained by multiplying the exercise price post-reorganization, which is the result of adjustment of the exercise price in 2. by the number of shares of the reorganized company underlying the Stock acquisition rights to be determined according to 5. (3) above upon considering the conditions of reorganization.

- (5) Exercisable period

The commencement date of the exercisable period of the Stock acquisition rights, or the effective date of reorganization, whichever is later, up to the expiry date of the exercisable period of the preceding Stock acquisition rights.

- (6) Matters related to increases in capital stock and legal capital surplus due to share issuance upon exercise of Stock acquisition rights

To be determined by applying the stipulations of the Stock acquisition rights.

- (7) Restrictions on acquiring Stock acquisition rights through transfer

Restrictions on acquisitions through transfer shall be approved by resolution of the reorganized companies’ boards of directors.

- (8) Other exercise conditions for Stock acquisition rights

To be determined by applying the conditions in 3.

(9) Reasons and conditions for acquiring Stock acquisition rights

To be determined in accordance with the stipulations below.

If, during the period from the subscription right allotment date until fulfillment of any of the exercisability conditions specified in 3.1) above, the Company's common shares' closing price on a financial instrument exchange is below 50% of its August 29, 2019 closing price for five consecutive trading days, the Company may reacquire for no consideration the percentage of subscription rights that, as of that date, have yet to become exercisable through fulfillment of said exercisability conditions.

If a merger agreement in which the Company is the non-surviving company, an agreement or plan under which the Company would be split up, or a share exchange agreement or share transfer plan under which the Company would become a wholly owned subsidiary is approved at a general meeting of shareholders (or by a Board of Directors' resolution if shareholder approval is not required), the Company may reacquire all subscription rights for no consideration on or after a designated date to be separately specified by the Company's Board of Directors.

The Company may reacquire for no consideration any unexercised subscription rights that have been rendered unexercisable by the provisions of 3. above.

(10) Any other conditions shall be determined by applying the conditions of the reorganized companies.

The 20th series Stock acquisition rights (Board of Directors resolution dated August 30, 2019)

Date of resolution	August 30, 2019
Category and number of persons granted	Two Directors of the Company
Number of Stock acquisition rights	10,000 units
Class and number of shares granted	Common shares: 1,000,000 shares (Note 1)
Amount to be paid for exercise	64 yen (Note 2)
Exercise period	From October 1, 2021, to October 31, 2024
Issuance price of shares upon exercise and amount of capitalization	Issuance price 64 yen Capitalization 32 yen
Exercise conditions	(Note 3)
Matters related to transfer of Stock acquisition rights	(Note 4)
Matters related to issuance of Stock acquisition rights upon reorganization	(Note 5)

Notes: 1. The number of shares underlying each unit of the Stock acquisition rights ("number of shares granted") shall be 100 common shares of the Company.

If the Company carries out a share split (including gratis allotment of the Company's common shares, the same applies hereinafter) or share consolidation after the allotment date of the Stock acquisition rights, the number of shares to be issued shall be adjusted according to the following formula, provided that it shall only apply to shares underlying Stock acquisition rights unexercised at that point, and fractional shares resulting from the adjustment shall be discarded.

$$\begin{array}{ccccc} \text{Number of shares granted} & & & & \\ \text{after adjustment} & = & \text{Number of shares granted} & \times & \text{Ratio of share split} \\ & & \text{before adjustment} & & \text{or share consolidation} \end{array}$$

If the Company carries out a merger, share split, share consolidation, or capital reduction, or any other similar cases requiring adjustment of the number of shares granted after the allotment date of the Stock acquisition rights, the adjustment shall be made appropriately within a reasonable range.

2. The amount of property to be contributed for the exercise of the Stock acquisition rights shall be the amount per share to be paid for exercise ("exercise price") multiplied by the number of shares granted.

The exercise price shall be 64 yen, which is 10% of the closing price of the Company's shares at the Tokyo Stock Exchange on August 29, 2019, i.e., the trading day preceding the date of resolution by the Board of Directors on the issuance of the Stock acquisition rights.

If the Company carries out a share split or share consolidation after the allotment date of the Stock acquisition rights, the exercise price shall be adjusted according to the following formula, and any fractions resulting from the adjustment shall be rounded up.

$$\begin{array}{ccccc} \text{Exercise price} & & & & 1 \\ \text{after adjustment} & = & \text{Exercise price} & \times & \frac{\text{Ratio of share split}}{\text{or share consolidation}} \\ & & \text{before adjustment} & & \end{array}$$

If the Company issues new shares or disposes of its treasury shares at a price below fair value after the allotment date of the Stock acquisition rights (excluding issuance of new shares and disposal of treasury shares for the exercise of Stock acquisition rights, or transfer of treasury shares due to share exchange), the exercise price shall be adjusted according to the following formula, and any fractions resulting from the adjustment shall be rounded up.

$$\begin{array}{ccccccc} & & & \text{Number of} & \text{Number of shares} & & \text{Amount per share} \\ & & & \text{shares already} & \text{to be issued} & \times & \text{to be paid} \\ \text{Exercise} & & \text{Exercise price} & & & & \\ \text{price after} & = & \text{before} & & & & \\ \text{adjustment} & & \text{adjustment} & \times & \frac{\text{Per share fair value before issuance}}{\text{Number of shares already issued} + \text{Number of shares to be issued}} & & \end{array}$$

"Number of shares already issued" in the formula above shall be obtained by deducting the number of the Company's treasury shares from the total number of the Company's shares outstanding. If the Company

disposes of its treasury shares, “Number of shares to be issued” shall be comprehended as “Number of shares to be disposed of.”

In addition to the preceding, if the Company merges with another company or carries out a share split, or any other similar cases requiring adjustment of exercise price after the allotment date of the Stock acquisition rights, the adjustment shall be made appropriately within a reasonable range.

3. Exercise conditions

(1) The holders of stock acquisition rights may exercise them if they satisfy the conditions in the items below for each of the fiscal years ending June 30, 2021, 2022, 2023, and 2024, for the Stock acquisition rights allotted to them up to the ratio stated in each item. In case fractional units of Stock acquisition rights arise as a result of calculating the exercisable Stock acquisition rights according to the applicable ratio, such fractional units shall be discarded at exercise.

- A) EBITDA is not less than 5,500 million yen: 25% of total number of Stock acquisition rights allotted to the holder
- B) EBITDA is not less than 6,000 million yen: 25% of total number of Stock acquisition rights allotted to the holder
- C) EBITDA is not less than 7,000 million yen: 50% of total number of Stock acquisition rights allotted to the holder

The EBITDA above shall be obtained by adding depreciation and amortization (including amortization of goodwill) on the Company’s consolidated statements of cash flows to operating income on the Company’s consolidated statements of income post auditing and stated in the securities report submitted by the Company. In case of significant changes in the concept of reference figures as a result of applying international accounting standards, etc., the Company shall determine a separate indicator to be referred to within a reasonable range at its Board of Directors’ meeting.

- (2) If the closing price of the Company’s common shares at financial instrument exchanges falls below 50% of the closing price of the trading day preceding the resolution date for the issuance of the Stock acquisition rights for five consecutive trading days during the period from the allotment date of the Stock acquisition rights to the attainment of the conditions in each item in (1) above, the holder may not exercise the ratio of the Stock acquisition rights for which the conditions in each item in (1) above are not attained at that point.
- (3) A holder shall be Director, Auditor, or employee of the Company, its subsidiary, or affiliate (subsidiaries and affiliates stipulated in the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements) at the time of exercise of the Stock acquisition rights, unless there are due reasons such as retirement upon expiry of term of office or mandatory retirement.
- (4) A successor of a holder may not exercise the Stock acquisition rights.

- (5) If the Company's total shares outstanding will exceed the number of shares authorized to be issued as a result of exercise of the Stock acquisition rights, those Stock acquisition rights may not be exercised.
- (6) Fractional units of the Stock acquisition rights may not be exercised.

4. Transfers of the Stock acquisition rights shall be approved by the Company's Board of Directors.

5. Matters related to issuance of Stock acquisition rights upon reorganization

If the Company carries out mergers (when the Company is the merged entity), absorption-type splits, incorporation-type splits, share exchanges, or share transfers (collectively, "reorganization"), the holders shall be granted Stock acquisition rights of each of the stock companies stipulated in Article 236, Paragraph 1, Item 8, (a) to (e) of the Companies Act (the "reorganized companies") for each instance in the following conditions on the effective date of reorganization, provided that such issuance of Stock acquisition rights of the reorganized companies under the conditions below is stipulated in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type split agreement, incorporation-type split plan, share exchange agreement, or share transfer plan.

(1) Number of Stock acquisition rights of the reorganized companies to be issued

The number of Stock acquisition rights equivalent to those held by the holder shall be issued respectively.

(2) Class of shares of the reorganized companies underlying the Stock acquisition rights

Common shares of the reorganized companies

(3) Number of shares of the reorganized companies underlying the Stock acquisition rights

To be determined by applying the formula in 1. upon considering the conditions of the reorganization.

(4) Amount of property to be contributed for the exercise of the Stock acquisition rights

The amount of property to be contributed for the exercise of the Stock acquisition rights to be issued shall be obtained by multiplying the exercise price post-reorganization, which is the result of adjustment of the exercise price in 2. by the number of shares of the reorganized company underlying the Stock acquisition rights to be determined according to 5. (3) upon considering the conditions of reorganization.

(5) Exercisable period

The commencement date of the exercisable period of the preceding Stock acquisition rights, or the effective date of reorganization, whichever is later, up to the expiry date of the exercisable period of the preceding Stock acquisition rights.

(6) Matters related to increases in capital stock and legal capital surplus due to share issuance upon exercise of Stock acquisition rights

To be determined by applying the stipulations of the Stock acquisition rights.

(7) Restrictions on acquiring Stock acquisition rights through transfer

Restrictions on acquisitions through transfer shall be approved by resolution of the reorganized companies' boards of directors.

(8) Other exercise conditions for Stock acquisition rights

To be determined by applying the conditions in 3.

(9) Grounds for and conditions of reacquisition of subscription rights

To be determined in accordance with the stipulations below.

If, during the period from the subscription right allotment date until fulfillment of any of the exercisability conditions specified in 3.1) above, the Company's common shares' closing price on a financial instrument exchange is below 50% of its August 29, 2019 closing price for five consecutive trading days, the Company may reacquire for no consideration the percentage of subscription rights that, as of that date, have yet to become exercisable through fulfillment of said exercisability conditions.

If a merger agreement in which the Company is the non-surviving company, an agreement or plan under which the Company would be split up, or a share exchange agreement or share transfer plan under which the Company would become a wholly owned subsidiary is approved at a general meeting of shareholders (or by a Board of Directors' resolution if shareholder approval is not required), the Company may reacquire all subscription rights for no consideration on or after a designated date to be separately specified by the Company's Board of Directors.

The Company may reacquire for no consideration any unexercised subscription rights that have been rendered unexercisable by the provisions of 3. above.

(10) Any other conditions shall be determined by applying the conditions of the reorganized companies.

2. The Company's Board of Directors resolved, at a meeting on October 18, 2019, to borrow funds as outlined below:

- (1) Use of funds: To repay debt and procure working capital for future business expansion.
- (2) Lenders: 2 financial institutions
- (3) Amount: 6,000 million yen
- (4) Expected interest rate: 0.31% to 0.32%
- (5) Borrowing date: October 31, 2019
- (6) Repayment date: October 31, 2022
- (7) Repayment method: Lump-sum repayment on repayment date
- (8) Security: Unsecured and unguaranteed