

# Summary of Financial Results for the Fiscal Year 2019 (Ended December 31, 2019)

[Japanese GAAP]

February 13, 2020

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

Stock exchange: Tokyo Stock Exchange, First Section

Stock code: 8165

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

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Scheduled date of annual general meeting of shareholders: March 26, 2020

Scheduled date of payment of dividend: March 27, 2020

Scheduled date of filing of Annual Security Report: March 27, 2020

Preparation of supplementary materials for financial results: Yes

Holding of financial results meeting: Yes (for institutional investors and analysts)

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

## 1. Consolidated Financial Results for the Fiscal Year 2019 (January 1, 2019 – December 31, 2019)

### (1) Consolidated operating results

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year 2019	89,150	(21.3)	772	-	1,418	-	8,182	-
Fiscal Year 2018	113,344	(10.0)	(4,063)	-	(4,277)	-	(6,027)	-

Note: Comprehensive income (millions of yen) Fiscal Year 2019: 7,896 (-%) Fiscal Year 2018: (6,836) (-%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year 2019	201.11	152.54	21.2	1.9	0.9
Fiscal Year 2018	(136.75)	-	(15.8)	(5.1)	(3.6)

Reference: Equity in earnings (losses) of affiliates (millions of yen) Fiscal Year 2019: 421 Fiscal Year 2018: (27)

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal Year 2019	73,664	42,490	57.7	880.56
Fiscal Year 2018	75,949	34,853	45.8	689.05

Reference: Shareholders' equity (millions of yen) Fiscal Year 2019: 42,490 Fiscal Year 2018: 34,768

### (3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year 2019	2,911	8,685	(6,027)	22,713
Fiscal Year 2018	(1,950)	3,196	(1,414)	17,147

## 2. Dividends

	Dividend per share					Total dividends (total)	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal Year 2018	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year 2019	-	0.00	-	2.00	2.00	80	1.0	0.3
Fiscal Year 2020 (forecasts)	-	2.00	-	2.00	4.00		8.0	

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

## 3. Consolidated Outlook for Fiscal Year 2020 (January 1, 2020 – December 31, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year 2020	92,000	3.2	1,800	132.9	2,000	41.0	2,200	(73.1)	49.76

## \* Notes

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

Newly added: -

Excluded: -

(2) 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

(3) Number of shares outstanding (common shares)

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

Fiscal Year 2019: 52,056,993 shares      Fiscal Year 2018: 52,230,393 shares

2) Number of treasury shares at the end of the period

Fiscal Year 2019: 11,865,448 shares      Fiscal Year 2018: 12,040,107 shares

3) Average number of shares outstanding during the period

Fiscal Year 2019: 40,191,068 shares      Fiscal Year 2018: 44,080,710 shares

Note: The Senshukai shares held by the trust that are recorded as treasury shares under shareholders' equity is included in the number of treasury shares, and is deducted from the number of shares that is used to calculate the average number of shares outstanding. On April 19, 2019, the Board of Directors approved a resolution to terminate the stock compensation plan that is linked to results of operations. As a result, 173,400 shares of Senshukai stock that were held by the trust were cancelled on June 21, 2019.

## (Reference) Summary of Non-consolidated Financial Results

### Non-consolidated Financial Results for Fiscal Year 2019 (January 1, 2019 – December 31, 2019)

(1) Non-consolidated operating results

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year 2019	63,972	(14.0)	(382)	-	247	-	7,448	-
Fiscal Year 2018	74,406	(16.5)	(5,211)	-	(4,706)	-	(6,355)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal Year 2019	182.84	138.69
Fiscal Year 2018	(144.18)	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal Year 2019	59,727	39,348	65.9	802.36
Fiscal Year 2018	59,327	32,321	54.5	628.14

Reference: Shareholders' equity (millions of yen)      Fiscal Year 2019: 39,348      Fiscal Year 2018: 32,321

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

\* Cautionary statement with respect to forward-looking statements

Cautionary statement with respect to forecasts

The above projections are based on information available at the time of release of this report. Actual results could differ significantly from these projections due to a variety of factors. For further details regarding the projections, please refer to page 4.

How to view supplementary information at the financial results meeting

Senshukai plans to hold a financial results meeting for institutional investors and analysts on February 14, 2020. Materials to be distributed at the meeting will be disclosed, using the Timely Disclosure network (TDnet), and available on the Senshukai's website.

(Reference) Dividends of classified stock

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

Class A preferred stock	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2018	-	15,178,083.00	-	15,178,083.00	30,356,166.00
Fiscal Year 2019	-	20,000,000.00	-	20,000,000.00	40,000,000.00
Fiscal Year 2020 (forecasts)	-	20,000,000.00	-	20,000,000.00	40,000,000.00

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

Class B preferred stock	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2018	-	-	-	-	-
Fiscal Year 2019	-	-	-	-	-
Fiscal Year 2020 (forecasts)	-	-	-	-	-

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

(Reference) Breakdown of dividends paid from the capital surplus

Of the dividends for the fiscal year 2019, breakdown of dividends paid from the capital surplus are shown below.

Record date	2Q-end
Dividend per share (Yen)	20,000,000.00
Total dividends (Millions of yen)	100

Note: Reduction rate in net assets due to the dividends paid from net assets

2Q-end: 0.003

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## 1. Overview of Results of Operations

### (1) Results of Operations

#### Overview

The Japanese economy recovered slowly in 2019 as the labor market and personal income continued to improve with the support of strong corporate earnings. However, the outlook remains unclear because of tension involving trade issues, Britain's departure from the European Union and other uncertainty about the global economy. There is also uncertainty in Japan about consumer sentiment following the October 2019 consumption tax hike and for other reasons.

In Japan's retail industry, consumers are remaining cautious about purchasing products and services. Furthermore, competition is increasing because of the diversification of purchasing behavior and the growth of platform businesses. As a result, the business climate for the Senshukai Group continues to be challenging.

Net sales in 2019 were down 21.3% from 2018 to 89,150 million yen. This decrease was attributable primarily to measures to optimize the size of the mail-order business and the exclusion from consolidation of Belle Neige Direct Co., Ltd. and Mobacolle Co., Ltd.

There was an operating profit of 772 million yen compared with a 4,063 million yen loss in 2018. The profit was the result of business structural reform measures for lowering expenses, and initiatives in the mail-order business including inventory reductions and the adjustment of personnel expenses to the proper level. Ordinary profit was 1,418 million yen compared with a loss of 4,277 million yen in 2018 due to the booking of share of profit of entities accounted for using equity method. Profit attributable to owners of parent was 8,182 million yen compared with a loss of 6,027 million yen in 2018 mainly due to a gain on sales of non-current assets and a gain on sales of investment securities.

#### Overview by segment

In previous years, the insurance and credit card business was included in Others. Due to its increasing importance, this business became a separate reportable segment from 2019. Prior-year segment information has been revised to reflect the new segment classification to permit comparisons.

#### (Mail-order Business)

Consolidated sales in the mail-order business, centered on the catalog and the Internet businesses, decreased 29.1% year-over-year to 61,300 million yen in 2019. There was an operating loss of 805 million yen compared with a loss of 5,633 million yen in 2018.

There were several activities for the structural reform of this business in 2019. Major activities were an improvement in merchandise ordering in order to reduce inventories, more joint activities with suppliers to increase the gross profit margin, and measures to optimize the operations of overseas subsidiaries.

In 2019, Belle Neige Direct Co., Ltd. and Mobacolle Co., Ltd. were removed from consolidation. In addition, this business reexamined the sales channel strategy and its marketing activities and implemented merchandising reforms. These activities were aimed at achieving a proper scale of operations for this business. To start growing again, Belle Maison unveiled a new slogan: "Love. Then Ideas." This expresses the commitment to creating ideas that originate from love. There were also activities to attract more customers, particularly the use of "#7 second hug" TV and internet commercials. This business will continue to implement structural reforms while retaining and attracting more members and increasing activities for selling highly appealing and innovative merchandise.

#### (Bridal Business)

Consolidated sales in the bridal business, centered on the house wedding business, increased 6.7% year-over-year to 20,676 million yen. Operating profit decreased 3.3% year-over-year to 971 million yen.

In January 2019, this business opened The Baysuite Sakurajima Terrace in Kagoshima prefecture, expanding its operations to 25 guest houses. Although sales increased, earnings were lower mainly because of up-front expenses for the new guest house in Kagoshima and renovations at the Geihinkan guest house in Osaka. The Geihinkan has performed very well following the renovation. This business plans to continue opening guest houses, mainly in

large cities in regions other than Japan's major metropolitan areas, based on the strategy of establishing dominant positions in targeted markets. Expanding activities associated with weddings is another goal.

#### (Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, decreased 7.8% year-over-year to 4,757 million yen. Operating profit increased 5.6% year-over-year to 358 million yen.

Sales decreased because of a reexamination of inefficient business operations. Earnings were higher mainly because structural reforms lowered selling, general and administrative expenses as well as the ratio of these expenses to sales.

#### (Insurance and Credit Card Business)

Consolidated sales in the insurance and credit card business, which provides services primarily to Belle Maison members, decreased 8.5% year-over-year to 574 million yen. Operating profit increased 19.9% year-over-year to 307 million yen.

#### (Others)

Consolidated sales in other businesses, which include childcare support business and manufacturing and sales of cosmetics, increased 7.3% year-over-year to 1,841 million yen. There was an operating loss of 60 million yen compared with a loss of 31 million yen in 2018. The loss was caused mainly by up-front expenses for opening childcare facilities in the childcare support business. In April 2019, operations started at Egao no Mori Nursery School Asakusa (Taito-ku, Tokyo) and Egao no Mori Nursery School Asagaya (Suginami-ku, Tokyo). For the growth of value-added peripheral businesses, the after school care business started operations in the city of Osaka and now operates 11 after school care locations.

### **(2) Financial Position**

Assets totaled 73,664 million yen at the end of 2019, a decrease of 2,285 million yen from the end of 2018.

Current assets increased 1,998 million yen to 42,293 million yen. The main factor was an increase of 5,562 million yen in cash and deposits while there were decreases of 1,677 million yen in notes and accounts receivable-trade and 1,091 million yen in merchandise and finished goods. Non-current assets decreased 4,283 million yen to 31,370 million yen. The factors included decreases of 3,717 million yen in property, plant and equipment, 38 million yen in intangible assets and 527 million yen in investments and other assets.

Current liabilities decreased 8,674 million yen to 20,094 million yen. The main factors were decreases of 4,340 million yen in current portion of bonds with share acquisition rights, 1,624 million yen in accounts payable-other and 1,341 million yen in accounts payable-trade. Non-current liabilities decreased 1,248 million yen to 11,078 million yen. The main factor was a decrease of 1,240 million yen in long-term loans payable.

Net assets increased 7,637 million yen to 42,490 million yen mainly due to booking of profit attributable to owners of parent of 8,182 million yen. As a result, the equity ratio was 57.7%.

Starting with the beginning of 2019, Senshukai has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018), etc. Prior-year figures have been adjusted retroactively in order to facilitate comparisons.

### **(3) Cash Flows**

The balance of cash and cash equivalents at the end of 2019 was 22,713 million yen, an increase of 5,566 million yen from the end of 2018.

Operating activities provided net cash of 2,911 million yen (net cash used of 1,950 million yen in 2018). The main cash inflow was profit before income taxes of 8,011 million yen. The main cash outflows include gain on sales and retirement of non-current assets of 5,532 million yen.

Investing activities provided net cash of 8,685 million yen (net cash provided of 3,196 million yen in 2018). The main cash inflows include proceeds from sales of property, plant and equipment of 8,529 million yen. The main

cash outflows include 1,690 million yen for the purchase of property, plant and equipment.

Financing activities used net cash of 6,027 million yen (net cash used of 1,414 million yen in 2018). The main cash outflows were 4,340 million yen for payment for redemption of bonds with share acquisition rights and 1,398 million yen for the repayments of long-term loans payable.

#### Cash flow indices

	Fiscal Year 2017 (As of Dec. 31, 2017)	Fiscal Year 2018 (As of Dec. 31, 2018)	Fiscal Year 2019 (As of Dec. 31, 2019)
Equity ratio (%)	45.9	45.8	57.7
Equity ratio based on fair value (%)	37.3	13.7	28.6
Ratio of interest-bearing debt to cash flows (years)	9.3	-	3.7
Interest coverage ratio (times)	12.6	-	23.1

Notes: 1. Cash flow indices are calculated, using consolidated financial figures, as follows:

The equity ratio is shareholders' equity divided by total assets.

The equity ratio based on fair value is market capitalization divided by total assets.

The ratio of interest-bearing debt to cash flows is interest-bearing debt divided by the quantity of operating cash flows.

The interest coverage ratio is operating cash flows divided by interest payments.

2. Market capitalization is calculated by multiplying the closing share price at the end of the period by the number of shares issued and outstanding at the end of the period, excluding treasury shares.

3. Interest-bearing debt includes short-term loans payable, long-term loans payable, and lease obligations shown on the consolidated balance sheet.

4. Operating cash flows and interest payments represent net cash provided by (used in) operating activities and interest expenses paid, respectively, on the consolidated statement of cash flows.

5. Ratio of interest-bearing debt to cash flows and interest coverage ratio are not shown for Fiscal Year 2018 because operating cash flows were negative.

#### (4) Basic Policy Regarding Distribution of Earnings and Dividends in the Current and Next Fiscal Years

The Group's basic policy is maintaining stable dividends, taking into consideration the payout ratio, and ensuring a fair distribution of earnings to shareholders that reflects its business performance. There has been no dividend since 2017 because of the decision to place priority on increasing equity from the standpoint of the stability and soundness of business operations.

The Senshukai Group believes that major business structural reforms are needed in order to achieve a quick recovery in sales and earnings and to stabilize business performance. To establish guidelines for these reforms, a medium-term management plan was announced in October 2018 that covers the three-year period ending in 2021. Many activities are under way in accordance with this plan, primarily in the mail-order business.

There was no dividend forecast for 2019 in accordance with this basic policy. After taking into consideration 2019 results of operations, the outlook for the Group's financial condition and other factors, the decision was made to resume dividend payments with a proposed year-end dividend of 2 yen per share.

For 2020, based on the outlook for results of operations, the financial condition and other items, we plan to pay interim and year-end dividends of 2 yen each for a total annual dividend of 4 yen.

#### (5) Outlook

Consolidated

(Millions of yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Fiscal Year 2020 (forecast)	92,000	1,800	2,000	2,200
Fiscal Year 2019 (results)	89,150	772	1,418	8,182
Change (%)	3.2	132.9	41.0	(73.1)

We forecast a 3% increase in net sales. The mail-order business is taking actions for attracting new members and encouraging current members to continue making purchases. This business will also increase activities to sell highly appealing and innovative original merchandise.

We forecast an improvement in earnings despite the outlook for higher cost of logistics and other factors to exert downward pressure on profitability. In the mail-order business, we expect benefits from operational reforms

implemented during 2019, including measures to increase the gross profit margin. We will also continue activities for using selling expenses even more efficiently. In the bridal business and other businesses, we do not anticipate a significant change from 2019 in earnings.

\* The above projections are based on information available at the time of release of this report. Actual results could differ from projections due to a variety of factors.

## **(6) Important Information about Going Concern Assumption**

In 2019, there was an operating profit of 772 million yen and a profit attributable to owners of parent of 8,182 million yen. In 2018, there was an operating loss of 4,063 million yen and a loss attributable to owners of parent of 6,027 million yen. These losses create significant doubts about the going concern assumption. To eliminate these doubts and improve results of operations, business structural reforms centered on the mail-order business are under way in accordance with a medium-term management plan that started in 2019 and will end in 2021.

In 2019, the first year of this plan, activities were focused on operational reforms in the mail-order business. One initiative was the establishment and use of rules for maintaining the proper level of inventories in order to reduce opportunity loss and reduce the occurrence of surplus inventories. These activities structurally reduced the occurrence of valuation losses and improved the gross profit margin. In addition, to reduce fixed expenses, we are streamlining assets and the organization, such as by relocating the Osaka and Tokyo head offices and revising the organizational structure.

To return to growth, we are reconfiguring our catalog-based customer model by shifting the basis of marketing activities from merchandise categories to customer categories. We are using this new structure to start distributing catalogs covering many merchandise categories in order to list merchandise in several categories that can precisely match customers' needs. To reinforce activities to attract more customers, we will use “#7 second hug” TV and internet commercials centered on the new Belle Maison slogan “Love. Then Ideas.” This expresses the commitment to creating ideas that originate from love.

All of these activities resulted in consolidated operating profit in 2019 that was higher than our forecast. We will continue to implement numerous measures to make improvements in order to build a solid base for earnings and return to growth backed by a recovery and stability in the performance of the Senshukai Group.

At the end of 2019, cash and deposits were 22,713 million yen. Senshukai also has a committed credit line with the total amount of 10 billion yen with financial institutions. Consequently, we believe there are no concerns about our liquidity because we have a sufficient amount of working capital.

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

## **2. Basic Approach for the Selection of Accounting Standards**

The Senshukai Group has a policy of preparing its consolidated financial statements using Japanese GAAP for the time being to facilitate comparisons with prior-year performance and the performance of other companies in Japan.

We will take suitable actions with regard to the application of the International Financial Reporting Standards (IFRS) by taking into account trends in our industry peers in Japan and associated factors in Japan and other countries.



### 3. Consolidated Financial Statements and Notes

#### (1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal Year 2018 (As of Dec. 31, 2018)	Fiscal Year 2019 (As of Dec. 31, 2019)
Assets		
Current assets		
Cash and deposits	17,150	22,713
Notes and accounts receivable-trade	5,532	3,854
Merchandise and finished goods	9,732	8,641
Raw materials and supplies	186	197
Accounts receivable-other	6,110	5,285
Other	1,716	1,750
Allowance for doubtful accounts	(133)	(148)
Total current assets	40,295	42,293
Non-current assets		
Property, plant and equipment		
Buildings and structures	37,935	35,004
Accumulated depreciation	(24,329)	(23,300)
Buildings and structures, net	13,606	11,703
Machinery, equipment and vehicles	6,691	6,703
Accumulated depreciation	(6,400)	(6,444)
Machinery, equipment and vehicles, net	290	258
Tools, furniture and fixtures	2,351	2,291
Accumulated depreciation	(2,036)	(1,966)
Tools, furniture and fixtures, net	314	324
Land	8,477	6,809
Leased assets	652	629
Accumulated depreciation	(373)	(386)
Leased assets, net	279	242
Construction in progress	95	7
Total property, plant and equipment	23,063	19,346
Intangible assets		
Goodwill	1,736	1,483
Other	729	944
Total intangible assets	2,466	2,427
Investments and other assets		
Investment securities	6,458	6,046
Long-term loans receivable	692	600
Leasehold and guarantee deposits	1,888	1,614
Deferred tax assets	230	744
Other	1,035	734
Allowance for doubtful accounts	(180)	(143)
Total investments and other assets	10,123	9,596
Total non-current assets	35,653	31,370
Total assets	75,949	73,664

(Millions of yen)

	Fiscal Year 2018 (As of Dec. 31, 2018)	Fiscal Year 2019 (As of Dec. 31, 2019)
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	6,631	6,523
Accounts payable-trade	4,836	3,495
Short-term loans payable	1,468	1,240
Current portion of bonds with share acquisition rights	4,340	-
Lease obligations	112	118
Accounts payable-other	6,708	5,083
Accrued expenses	1,200	1,005
Income taxes payable	318	107
Accrued consumption taxes	66	273
Provision for sales promotion expenses	305	225
Provision for bonuses for directors (and other officers)	-	23
Provision for bonuses	291	233
Other	2,488	1,763
Total current liabilities	28,768	20,094
Non-current liabilities		
Long-term loans payable	9,799	8,558
Lease obligations	918	806
Deferred tax liabilities	530	722
Deferred tax liabilities for land revaluation	74	-
Retirement benefit liability	69	3
Provision for share-based remuneration for directors (and officers)	2	-
Asset retirement obligations	778	851
Other	153	135
Total non-current liabilities	12,327	11,078
Total liabilities	41,096	31,173
Net assets		
Shareholders' equity		
Capital stock	22,304	100
Capital surplus	23,712	39,544
Retained earnings	(3,526)	10,891
Treasury shares	(6,932)	(6,800)
Total shareholders' equity	35,558	43,736
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	605	366
Deferred gains or losses on hedges	60	49
Revaluation reserve for land	(1,346)	(1,516)
Foreign currency translation adjustment	(61)	(120)
Remeasurements of defined benefit plans	(47)	(24)
Total accumulated other comprehensive income	(789)	(1,245)
Non-controlling interests	84	-
Total net assets	34,853	42,490
Total liabilities and net assets	75,949	73,664

## (2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

### (Consolidated Statement of Income)

(Millions of yen)

	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)	Fiscal Year 2019 (Jan. 1, 2019 – Dec. 31, 2019)
Net sales	113,344	89,150
Cost of sales	65,019	43,969
Gross profit	48,325	45,180
Selling, general and administrative expenses		
Freightage and packing expenses	6,179	4,934
Promotion expenses	11,283	9,978
Provision for allowance for sales promotion expenses	305	225
Provision of allowance for doubtful accounts	117	111
Bad debts expenses	-	15
Remuneration for directors (and other officers)	317	190
Salaries and allowances	8,515	6,377
Bonuses	494	1,371
Provision for bonuses for directors (and other officers)	-	23
Provision for bonuses	553	184
Depreciation	1,758	1,806
Other	22,862	19,187
Total selling, general and administrative expenses	52,388	44,408
Operating profit (loss)	(4,063)	772
Non-operating income		
Interest income	29	23
Dividend income	60	35
Share of profit of entities accounted for using equity method	-	421
Gain on adjustment of account payable	271	255
Miscellaneous income	220	183
Total non-operating income	582	919
Non-operating expenses		
Interest expenses	145	126
Share of loss of entities accounted for using equity method	27	-
Commission expenses	518	38
Miscellaneous loss	105	107
Total non-operating expenses	796	273
Ordinary profit (loss)	(4,277)	1,418
Extraordinary income		
Gain on sales of non-current assets	25	5,623
Gain on sales of investment securities	517	936
Gain on sales of shares of subsidiaries and associates	-	336
Subsidy income	46	336
Total extraordinary income	590	7,232
Extraordinary losses		
Loss on sales and retirement of non-current assets	36	90
Loss on reduction of non-current assets	46	311
Impairment loss	489	24
Loss on sales of shares of subsidiaries and associates	-	4
Business structure reform expenses	1,459	165
Loss on liquidation of termination of deposit account	273	-
Other	22	42
Total extraordinary losses	2,329	639
Profit (loss) before income taxes	(6,016)	8,011
Income taxes-current	256	165
Income taxes-deferred	(255)	(336)
Total income taxes	1	(171)
Profit (loss)	(6,018)	8,182
Profit attributable to non-controlling interests	9	-
Profit (loss) attributable to owners of parent	(6,027)	8,182

**(Consolidated Statement of Comprehensive Income)**

(Millions of yen)

	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)	Fiscal Year 2019 (Jan. 1, 2019 – Dec. 31, 2019)
Profit (loss)	(6,018)	8,182
Other comprehensive income		
Valuation difference on available-for-sale securities	(611)	(239)
Deferred gains or losses on hedges	(171)	(7)
Foreign currency translation adjustment	(13)	5
Share of other comprehensive income of entities accounted for using equity method	(22)	(44)
Total other comprehensive income	(818)	(285)
Comprehensive income	(6,836)	7,896
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,846)	7,896
Comprehensive income attributable to non-controlling interests	9	-

### (3) Consolidated Statement of Changes in Equity

Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	22,304	23,860	(4,859)	(149)	41,155
Changes of items during period					
Issuance of new shares	3,500	3,500			7,000
Dividends of surplus-other capital surplus		(75)			(75)
Transfer to other capital surplus from capital stock	(3,500)	3,500			-
Loss attributable to owners of parent			(6,027)		(6,027)
Deficit disposition		(7,071)	7,071		-
Purchase of treasury shares				(6,785)	(6,785)
Disposal of treasury shares		0		2	2
Reversal of revaluation reserve for land			289		289
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(147)	1,333	(6,782)	(5,596)
Balance at end of current period	22,304	23,712	(3,526)	(6,932)	35,558

(Millions of yen)

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,216	219	(1,056)	(40)	(19)	318	74	41,548
Changes of items during period								
Issuance of new shares								7,000
Dividends of surplus-other capital surplus								(75)
Transfer to other capital surplus from capital stock								-
Loss attributable to owners of parent								(6,027)
Deficit disposition								-
Purchase of treasury shares								(6,785)
Disposal of treasury shares								2
Reversal of revaluation reserve for land								289
Net changes of items other than shareholders' equity	(610)	(158)	(289)	(20)	(28)	(1,108)	9	(1,098)
Total changes of items during period	(610)	(158)	(289)	(20)	(28)	(1,108)	9	(6,695)
Balance at end of current period	605	60	(1,346)	(61)	(47)	(789)	84	34,853

Fiscal Year 2019 (Jan. 1, 2019 – Dec. 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	22,304	23,712	(3,526)	(6,932)	35,558
Changes of items during period					
Dividends of surplus-other capital surplus		(175)			(175)
Transfer to other capital surplus from capital stock	(22,204)	22,204			-
Profit attributable to owners of parent			8,182		8,182
Deficit disposition		(6,065)	6,065		-
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		(131)		132	1
Reversal of revaluation reserve for land			169		169
Net changes of items other than shareholders' equity					
Total changes of items during period	(22,204)	15,832	14,418	132	8,177
Balance at end of current period	100	39,544	10,891	(6,800)	43,736

(Millions of yen)

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	605	60	(1,346)	(61)	(47)	(789)	84	34,853
Changes of items during period								
Dividends of surplus-other capital surplus								(175)
Transfer to other capital surplus from capital stock								-
Profit attributable to owners of parent								8,182
Deficit disposition								-
Purchase of treasury shares								(0)
Disposal of treasury shares								1
Reversal of revaluation reserve for land								169
Net changes of items other than shareholders' equity	(238)	(10)	(169)	(59)	22	(455)	(84)	(539)
Total changes of items during period	(238)	(10)	(169)	(59)	22	(455)	(84)	7,637
Balance at end of current period	366	49	(1,516)	(120)	(24)	(1,245)	-	42,490

**(4) Consolidated Statement of Cash Flows**

(Millions of yen)

	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)	Fiscal Year 2019 (Jan. 1, 2019 – Dec. 31, 2019)
Cash flows from operating activities		
Profit (loss) before income taxes	(6,016)	8,011
Depreciation	1,807	1,879
Impairment loss	489	24
Increase (decrease) in allowance for doubtful accounts	(98)	(3)
Increase (decrease) in provision for sales promotion expenses	(102)	(79)
Increase (decrease) in provision for bonuses	(290)	(56)
Interest and dividend income	(90)	(58)
Interest expenses	145	126
Share of (profit) loss of entities accounted for using equity method	27	(421)
Loss (gain) on sales of investment securities	(516)	(918)
Loss (gain) on sales of shares of subsidiaries and associates	-	(331)
Loss (gain) on sales and retirement of non-current assets	10	(5,532)
Loss on reduction of non-current assets	46	311
Subsidy income	(46)	(336)
Business restructuring expenses	1,459	165
Loss on liquidation of termination of deposit account	273	-
Decrease (increase) in notes and accounts receivable-trade	(100)	1,025
Decrease (increase) in inventories	6,778	564
Decrease (increase) in other current assets	1,334	631
Increase (decrease) in notes and accounts payable-trade	(3,588)	(795)
Increase (decrease) in other current liabilities	(1,333)	(439)
Other, net	29	790
Subtotal	219	4,556
Interest and dividend income received	107	89
Interest expenses paid	(145)	(126)
Income taxes (paid) refund	(172)	(196)
Payments for business restructuring expenses	(1,960)	(1,410)
Net cash provided by (used in) operating activities	(1,950)	2,911
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,997)	(1,690)
Proceeds from sales of property, plant and equipment	2,527	8,529
Purchase of intangible assets	(570)	(523)
Proceeds from subsidy income	46	336
Proceeds from withdrawal of time deposits	2,226	-
Purchase of investment securities	(138)	(50)
Proceeds from sales of investment securities	849	1,460
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	-	(186)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	-	398
Other, net	252	411
Net cash provided by (used in) investing activities	3,196	8,685
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	10	-
Proceeds from long-term loans payable	600	-
Repayments of long-term loans payable	(1,371)	(1,398)
Payment for redemption of bonds with share acquisition rights	(653)	(4,340)
Proceeds from issuance of common shares	6,975	-
Purchase of treasury shares	(6,785)	(0)
Cash dividends paid	(77)	(175)
Other, net	(112)	(112)
Net cash provided by (used in) financing activities	(1,414)	(6,027)
Effect of exchange rate change on cash and cash equivalents	(8)	(3)
Net increase (decrease) in cash and cash equivalents	(176)	5,566
Cash and cash equivalents at beginning of period	17,323	17,147
Cash and cash equivalents at end of period	17,147	22,713

## **(5) Notes to Consolidated Financial Statements**

### **Going Concern Assumption**

Not applicable.

### **Additional Information**

#### **Performance-linked Stock Compensation Plan for Directors and Executive Officers**

Senshukai had a stock compensation plan for directors (excluding outside directors) and executive officers that is linked to the company's performance. The plan covered the period of three years from the end of December 2016 to the end of December 2018. On April 19, 2019, the Board of Directors approved a resolution to terminate the stock compensation plan that is linked to results of operations. As a result, 173,400 shares of Senshukai stock that were held by the trust were cancelled on June 21, 2019.

### **Segment Information**

#### **1. Overview of reportable segment**

Segments used for financial reporting are Senshukai's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Senshukai Group primarily operates the mail-order business, bridal business, corporates business and insurance and credit card business, and Senshukai and its group companies manage each of these businesses according to these classifications.

Therefore the Group, comprised of these different business segments, has four reportable segments: the mail-order business, bridal business, corporates business and insurance and credit card business.

The mail-order business is engaged in mail-order sales via a variety of media centered on catalogs and the Internet. The bridal business provides mostly house wedding services. The corporates business uses Senshukai's infrastructure to provide solutions services and promotional services targeting mail-order companies and e-commerce businesses. The insurance and credit card business provides insurance and credit card services primarily to Belle Maison members.

In previous fiscal years, the insurance and credit card business was included in Others. Due to its increasing importance, this business became a separate reportable segment from 2019.

The segment information for 2018 is prepared and disclosed based on the reportable segment classification after the change.

#### **2. Calculation methods for sales, profit or loss, assets, and other items for each reportable segment**

The accounting methods for reportable segments are the same as those used for preparing the consolidated financial statements.

Profits (loss) for reportable segments are generally operating profit (loss) figures.

Inter-segment sales or transfers are based on market prices.



### 3. Information related to sales and profit or loss, assets, and other items for each reportable segment

Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)

(Millions of yen)

	Reportable segment					Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated financial statements (Note 3)
	Mail-order business	Bridal business	Corporates business	Insurance and credit card business	Sub-total				
Net sales									
Sales to customers	86,452	19,386	5,161	627	111,628	1,715	113,344	-	113,344
Inter-segment sales or transfers	1,015	0	168	0	1,184	51	1,236	(1,236)	-
Total	87,468	19,386	5,330	628	112,813	1,767	114,581	(1,236)	113,344
Segment profit (loss)	(5,633)	1,004	339	256	(4,032)	(31)	(4,063)	0	(4,063)
Segment assets	53,006	21,192	872	441	75,512	1,741	77,254	(1,305)	75,949
Other items									
Depreciation	771	966	21	0	1,759	48	1,807	-	1,807
Amortization of goodwill	-	216	-	-	216	40	256	-	256
Investment in equity-method affiliates	610	3,265	-	-	3,876	-	3,876	-	3,876
Increase in property, plant and equipment and intangible assets	916	1,894	10	-	2,821	241	3,062	-	3,062

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

2. Adjustments are as follows.

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

(2) The (1,305) million yen adjustment to segment assets is an elimination for inter-segment transactions.

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

Fiscal Year 2019 (Jan. 1, 2019 – Dec. 31, 2019)

(Millions of yen)

	Reportable segment					Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated financial statements (Note 3)
	Mail-order business	Bridal business	Corporates business	Insurance and credit card business	Sub-total				
Net sales									
Sales to customers	61,300	20,676	4,757	574	87,309	1,841	89,150	-	89,150
Inter-segment sales or transfers	1,137	0	0	-	1,138	0	1,139	(1,139)	-
Total	62,438	20,677	4,758	574	88,448	1,841	90,289	(1,139)	89,150
Segment profit (loss)	(805)	971	358	307	832	(60)	771	0	772
Segment assets	51,226	21,067	801	84	73,180	1,719	74,900	(1,235)	73,664
Other items									
Depreciation	604	1,195	18	0	1,818	60	1,879	-	1,879
Amortization of goodwill	-	212	-	-	212	40	253	-	253
Investment in equity-method affiliates	608	3,717	-	-	4,326	-	4,326	-	4,326
Increase in property, plant and equipment and intangible assets	610	962	33	-	1,606	316	1,922	-	1,922

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

2. Adjustments are as follows.

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

(2) The (1,235) million yen adjustment to segment assets is an elimination for inter-segment transactions.

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

#### 4. Information related to impairment of non-current assets for each reportable segment

Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)

(Millions of yen)

	Mail-order business	Bridal business	Corporates business	Insurance and credit card business	Others	Elimination or corporate	Total
Impairment loss	476	10	-	3	-	-	489

Fiscal Year 2019 (Jan. 1, 2019 – Dec. 31, 2019)

Detailed explanations are omitted due to immateriality of the amount.

## Per Share Information

(Yen)

	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)	Fiscal Year 2019 (Jan. 1, 2019 – Dec. 31, 2019)
Net assets per share	689.05	880.56
Net income (loss) per share	(136.75)	201.11
Diluted net income per share	-	152.54

Notes: 1. Diluted net income per share in Fiscal Year 2018 is not presented since Senshukai has outstanding dilutive securities, though posted a net loss.

2. Senshukai's stock held by the executive stock compensation trust is included in treasury shares, which are deducted from the number of shares outstanding at the end of the period for the calculation of net assets per share in Fiscal Year 2018 (deduction of 174,000 shares in Fiscal Year 2018). In addition, this trust stock is included in treasury shares, which are deducted from the average number of shares outstanding during the period for the calculation of net income (loss) per share and diluted net income per share (deduction of 177,000 shares in Fiscal Year 2018 and 81,000 shares in Fiscal Year 2019).

In addition, on April 19, 2019, the Board of Directors approved a resolution to terminate the stock compensation plan that is linked to results of operations. As a result, 173,400 shares of Senshukai stock that were held by the trust were cancelled on June 21, 2019.

3. Basis for calculation of net income (loss) per share is as follows.

(Millions of yen)

	Fiscal Year 2018 (Jan. 1, 2018 – Dec. 31, 2018)	Fiscal Year 2019 (Jan. 1, 2019 – Dec. 31, 2019)
Net income (loss) per share		
Profit (loss) attributable to owners of parent	(6,027)	8,182
Amounts unavailable to common shareholders	-	100
[Including: dividends for Class A preferred stock]	[ -]	[100]
Profit (loss) attributable to owners of parent related to common stock	(6,027)	8,082
Average number of shares outstanding during the period (thousand shares)	44,080	40,191
Diluted net income per share		
Adjustment to profit attributable to owners of parent	-	-
Increase in number of common stock (thousand shares)	-	12,797
[Including: share acquisition rights (thousand shares)]	[ -]	[ -]
[Including: dividends for Class A preferred stock (thousand shares)]	[ -]	[4,570]
[Including: dividends for Class B preferred stock (thousand shares)]	[ -]	[8,226]
Number of residual securities with no dilution excluded from calculation of diluted net income per share	-	-

## Significant Subsequent Events

Not applicable.

*\* This financial report is solely a translation of summary of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*