Summary of (Consolidated) Financial Statements for the Q3 Term of Fiscal Year Ending December 31, 2018 (Japanese Standards)

November 14, 2018

Listed company: Laox Co., Ltd. Stock exchange: Tokyo Stock Exchange
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Supplementary documents for quarterly results: No
Quarterly results briefing: No

(Rounded down to nearest million yen)

1. Consolidated Results for the Q3 term of FY2018 (January 1, 2018 to September 30 2018)

(1) Consolidated operating results (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q3 of FY2018	80,350	70.4	(1,381)	—	(997)	—	(323)	—
Q3 of FY2017	47,154	(4.6)	(333)	—	(619)	—	(783)	—

(Note) Comprehensive income Q3 of FY2018: (270) million yen (–%) Q3 of FY2017: (749) million yen (–%)

	Profit per share	Diluted profit per share
	Yen	Yen
Q3 of FY2018	(5.02)	—
Q3 of FY2017	(12.16)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Q3 of FY2018	81,482	45,009	54.0
FY2017	63,604	44,604	69.7

(For reference) Shareholders' equity Q3 of FY2018: 44,036 million yen FY2017: 44,295 million yen

(Note) In the second quarter of the consolidated fiscal year ending December 31, 2018, provisional accounting related to business combinations was finalized. The values for the fiscal year ended December 31, 2017 reflect important revisions to the initially allocated amount of the acquisition cost, which resulted from the finalization of the provisional accounting.

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	—	—	0.00	0.00
FY2018	—	—	—		
FY2018 (forecast)				0.00	0.00

(Note) Revision to the forecast publicized most recently: No

3. Results forecast for FY2018 (from January 1, 2018 to December 31, 2018)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Full year	120,000	86.6	(300)	—.	(300)	—.

(Note) Revision to the forecast publicized most recently: Yes

Notes

(1) Important changes in subsidiaries in the third quarter under review: Yes
New: 1 company SHADDY CO., LTD.

(2) Application of accounting specific to the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policy and changes or restatement of accounting estimates

(i)	Changes in accounting policy due to revisions to accounting standards etc.:	No
(ii)	Changes in accounting policy other than those in (i):	No
(iii)	Changes in accounting estimates:	No
(iv)	Restatement of accounting estimates:	No

(4) Number of issued shares (common shares)

(i)	Number of issued shares at the end of period (including treasury stock):	Q3 of FY2018	66,388,103
		FY2017	66,388,103
(ii)	Number of shares of treasury stock at the end of period:	Q3 of FY2018	1,918,200
		FY2017	1,918,108
(iii)	Average number of issued shares during period (from the beginning of fiscal year)	Q3 of FY2018	64,469,966
		Q3 of FY2017	64,470,041

These consolidated financial results are not included in the scope of quarterly audits by certified public accountants or audit corporations.

Explanation on the proper use of results forecasts and other special notes
Forward-looking statements, including results forecasts, in this document are based on information that the Group has obtained and certain assumptions that the Group believes to be reasonable. Actual results may differ significantly due to a variety of factors.

1. Qualitative Information on Consolidated Results for the First Three Quarters of FY2018

(1) Explanation of operating results

The forward-looking statements made in this report were prepared at the Group's discretion based on information available as of the end of this quarterly consolidated fiscal year.

During the first three quarters of the consolidated fiscal year under review, the Japanese economy remained on a moderate recovery trend based on corporate earnings growth, an increase in capital expenditure, and improvement in employment conditions. Meanwhile, economic prospects continued to be uncertain due to concerns over the impact of trade friction caused by the US trade policy, and financial market fluctuations on the Japanese economy, and other factors.

Severe natural disasters struck many parts of Japan, including the record amount of torrential rain that hit western Japan in July, the subsequent Pacific high that caused the highest temperature in eastern Japan since 1946, when statistics began, the string of large typhoons that formed and landed on Japan in August and September, and the earthquake that hit eastern Iburi in Hokkaido in September. A fall in the number of foreign visitors to Japan clearly reflected the impact of the disasters. The year-on-year change in the number of inbound foreign travelers during the first half of this fiscal year was a double-digit increase; however it declined to single-digit growth in July and August and fell to a year-on-year decrease in September for the first time in five years and eight months.

The Company's business was affected by the repeated suspension of store operation and damage to merchandise due to the disasters during the period under review and other factors such as the temporary closure of airports, including Kansai International Airport that was affected by the super typhoon Jebi and New Chitose Airport that was struck by the eastern Iburi earthquake in Hokkaido, which resulted in a loss from a number of cancelled flights and cruise ships. In addition, more than half of the major partner agencies of Shaddy Co., Ltd. ("Shaddy"), a brochure-based mail-order business operator that became the Company's consolidated subsidiary in May, are concentrated in western Japan, and more than half of the store network in the Company's shoe business operates in western Japan, which had a significant impact on the Company's competitiveness during the busy season. Furthermore, delivery delays were caused by the destruction of part of the distribution center owned by Shaddy.

The consolidated business results for the first three quarters of the fiscal year under review are as follows: Net sales stood at 80,350 million yen (up 70.4% from 47,154 million yen in the same period of the previous fiscal year), reflecting the company acquisition aiming for the expansion of business areas that contributed to an increase in business size, and operating loss of 1,381 million yen (compared to operating loss of 333 million yen in the same period of the previous fiscal year) and ordinary loss of 997 million yen (compared to ordinary loss of 619 million yen in the same period of the previous fiscal year) due to prior investment in new businesses, despite the significant growth of profit from the domestic retail business and Shaddy that was consolidated in May.

Meanwhile, the Company has been implementing rationalization, structural reforms, and the expansion of business areas across the Group in line with the plan. The Company has also been organizing and defining the business policies of each segment and developing and securing specialized personnel generally as planned, and its management foundation has been steadily solidified. The Company will strive continuously to follow a growth path without reducing efforts in an attempt to reach the targets in its third medium-term management plan. The Company considers that the fall in profit caused by the natural disasters during the period under review is temporary, and that its impact on the third medium-term management plan ending in 2020 is limited.

The financial results of each business segment are as follows:

The Company has changed business segments presented as reporting segments starting from the first quarter. Accordingly, the year-on-year comparisons and analyses in the respective segments are made based on the revised classification.

1) Domestic Retail Business

The trend of foreign tourists affecting this segment is characterized by a sharp decrease in the number of visitors to areas that are popular among foreign tourists such as Hokkaido, Kansai, and Kyushu due to the natural disasters that struck during the period under review, which resulted in a year-on-year decline in the number of customers passing through the cash registers of the Company's stores. The Company considers that natural disasters are inevitable issues in the inbound tourism market, which holds a certain share in the Company's sales, and launched a Wechat service for foreign visitors' emergency inquiries to provide 24-hour real-time information and responses to inquiries of foreigners lacking information sources during disasters. The Company will continue to respond carefully to customers' needs and play the role that it should play as a company.

In the third medium-term management plan that was previously announced, the Group places the highest priority on making the global lifestyle a reality by delivering a wide range of Japan Premium (outstanding made-in-Japan products and services), from the consumption of goods based mainly on the sale of goods to the consumption of experiences, to people all over the world via diverse channels in accordance with diversifying customer needs. As part of these efforts, the Company has been strengthening its cross-border e-commerce and trade with China. In September, the Company signed a strategic partnership agreement with Kaola.com, the company holding the largest share in the Chinese cross-border e-commerce industry, to complete its strong platform with the three largest Chinese e-commerce operators (Tmall Global, Suning.com, and Kaola.com). Moving forward, all companies in the Group will continue to cooperate to improve their activities.

As a result, consolidated sales for the segment amounted to 40,997 million yen (up 6.4% from 38,544million yen posted in the same period of the previous year). Consolidated operating profit came to 1,034 million yen (up 113.3% from 485 million yen posted in the same period of the previous year).

2) Life & Fashion Business

While Shaddy, an operator of brochure-based mail-order business that became a consolidated subsidiary in May, contributed significantly to sales and profit, turning a profit in the existing shoe business has been delayed. As a result, consolidated net sales for the segment amounted to 38,059 million yen (up 437.1% from 7,086 million yen in the same period of the previous year) and consolidated operating profit came to 73 million yen (compared to consolidated operating loss of 326 million yen posted in the same period of the previous year) for the three quarters under review.

Shaddy will develop new products using the synergy of the companies in the Group, expand sales channels including cross-border e-commerce, strengthen the corporate sales division, increase the efficiency of the distribution network, and operate other activities to further enlarge the Group's revenue base.

3) Entertainment Business

Japan represents the world's third largest economy and Tokyo is renowned as one of the four largest cities in the world, which makes locations for international social meeting places indispensable in Japan. In the third medium-term management plan, the Group has set the goal of achieving the "realization of strategies that are appropriate for the upcoming era of the global lifestyle," and as the embodiment of this, it opened a membership club, New City Club of Tokyo, in Aoyama, Minato-ku, Tokyo. The club held a reception party as a pre-opening event at the end of August and prepared for its official opening in October. New City Club of Tokyo will provide services based on its concept of being an ideal business people's gathering place for globally active people. It includes a wine cellar with one of the best collections in Japan, authentic French cuisine served in a room filled with masterpiece paintings, a large Teppanyaki counter providing live action, a quiet sushi counter made from a rare single piece of Japanese cypress, and a cigar bar offering a large selection of well-known brands.

Currently, however, capital investment, including that for other facilities, is preceding profit, and as a result, net sales in this business stood at 475 million yen (up –% from 41 million yen in the same period of the previous year) and the operating loss came to 671 million yen (a loss of 136 million yen in the same period of the previous year) for the first three quarters of the fiscal year under review.

4) SC Development Business

In this business segment, the Company engages in the operation of Chiba Port Town and Chiba Port Circle in Chiba Port Square, Riverwalk Kitakyushu, a commercial complex, and other facilities in addition to efficiency improvements of existing shops and the leasing of unused spaces among the real estate owned by the Company.

The Company will continue its efforts to establish the structure as soon as possible, establish efficient operation, and gain profits while also placing emphasis on improving the value of the facilities of the overall Laox Group.

As a result, consolidated sales for the segment amounted to 1,001 million yen (down 34.0% from 1,516 million yen posted in the same period of the previous year), and consolidated operating loss came to 613 million yen (compared to consolidated operating gain of 756 million yen).

A complete English version of the Summary of Financial Statements for Q3 term Endling December 2018 (Japanese Standards) (Consolidated) will be posted around November 19th.