

Summary of (Consolidated) Financial Statements for the Q3 Term of Fiscal Year Ending December 31, 2019 (Japanese Standards)

November 14, 2019

Listed company: Laox Co., Ltd. Stock exchange: Tokyo Stock Exchange
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Planned Submission Date for the Quarterly Report: November 14, 2019
 Planned Starting Date for Dividend Payments: —
 Supplementary Documents for Quarterly Results: No
 Quarterly Results Briefing: No

(Rounded down to nearest million yen)

1. Consolidated Results for the Q3 term of FY2019 (January 1, 2019 to September 30, 2019)

(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 FY2019	94,768	17.9	△2,783	—	△3,012	—	△3,765	—
Q3 of FY2018	80,350	70.4	△1,438	—	△1,054	—	△355	—

(Note) Comprehensive income Q3 of FY2019: (3,887) million yen (—%) Q3 of FY2018: (306) million yen (—%)

	Profit per share		Diluted profit per share	
	Yen		Yen	
Q3 of FY2019	△58.41		—	
Q3 of FY2018	△5.51		—	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
Q3 of FY2019	75,674		40,060		51.7	
FY2018	84,538		43,979		50.8	

(For reference) Shareholders' equity Q3 of FY2019: 39,135 million yen FY2018: 42,949 million yen

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen				
FY2018	—	—	—	0.00	0.00
FY2019	—	—	—		
FY2019 (forecast)				0.00	0.00

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

3. Results forecast for FY2019 (from January 1, 2019 to December 31, 2019)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Full year	134,000	13.6	△2,000		△2,200	

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

Notes

- (1) Important changes in subsidiaries in the third quarter under review: No
(changes in specified subsidiaries resulting in changes in scope of consolidation)
New: – company Excluded: – company
- (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
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|---|----|
| (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 FY2019	66,388,103
	FY2018	66,388,103
(ii) Number of shares of treasury stock at the end of period:	Q3 of FY2019	1,918,232
	FY2018	1,918,200
(iii) Average number of issued shares during period (from the beginning of fiscal year)	Q3 of FY2019	64,469,898
	Q3 of FY2018	64,469,966

This summary of quarterly consolidated financial statements falls outside the scope of the quarterly review 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

(1) Explanation of operating results

During the first three quarters of the consolidated fiscal year under review, the Japanese economy generally achieved a moderate recovery. However, this quarter saw some changes in the inbound demand that had driven consumer spending in recent years. This is attributable to the deceleration of China's economic growth and weakening of the CNY against the JPY—both stemming from trade friction with the US. A consumer trends study from September 2019 showed consumer confidence weakening month-on-month for the past twelve months in a row, and as the domestic economy grows increasingly wary of a possible recession given the risk of consumption slowdown following the consumer tax hike and nationwide damage from successive natural disasters, it is clear that Japan still faces a challenging business climate.

The Laox Group continues working to deliver superior Japan-made products and services—everything from tangible goods to unique experiences—to consumers around the world. The Group is shoring up efforts not only focused on the inbound demand that Japan has heretofore enjoyed, but to expand business centered on trade and international e-commerce as Japan experiences rapid expansion of so-called “outbound” demand (demand from foreign tourists to Japan, whose positive experience with purchases and services in Japan inspires them to repeat purchases on their own country's e-commerce sites or at brick and mortar stores in their own countries). So that the Company might expand this business as early as possible and create a solid foundation for earnings, the Company passed a resolution to issue new shares through third-party allotment and implement the 6th issuance of share acquisition rights in June 2019, to procure up to approximately 10 billion yen in capital. The Company also established a new Merchandising Strategy Development Division in September 2019, to strengthen the Company's ability to form Group-wide product strategies and develop new products based on our diverse business segments.

Although revenue is down as of the third quarter of the fiscal year under review due to the Inbound Business's lower average sale per customer, consolidated sales reached 94,768 million yen (up 17.9% year-on-year). This is thanks to earnings contributed by Shaddy Co., Ltd., which the Company made a subsidiary in April of last year, and strong growth in trade and global e-commerce sales for the China market. Looking at profit and loss, however, the operating loss was 2,783 million yen (compared to operating loss of 1,438 million yen in the same period of the previous fiscal year), the ordinary loss was 3,012 million yen (compared to an ordinary loss of 1,054 million yen in the same period of the previous fiscal year), and the loss attributable to owners of parent was 3,730 million yen (compared to a loss attributable to owners of parent of 465 million yen in the same period of the previous year). This is due in part to the one-time increase in selling, general, and administrative costs incurred by structural reforms and new marketing expenditures centered on the elimination and consolidation of the Life & Fashion Business's logistics center.

Shaddy Co., Ltd.'s sales during the four months that make up the Japanese gift-giving seasons of Ochugen (June – July) and Oseibo (November – December) account for a huge portion of its annual sales—around 50%. In this sense, the enterprise's quarterly performance is subject to significant seasonal fluctuations.

Results for each business segment are detailed below.

1) Inbound Business

The Japan National Tourism Organization (JNTO) estimates that foreign visitors to Japan during the first three quarters of the consolidated fiscal year under review totaled 24,420,000 (up 4.0% year-on-year). Moreover, the Japan Tourism Agency's first preliminary estimate had their total consumer spending at 3,618.9 billion yen, making it the highest on record.

Although the number of cash register checkouts (number of customers) at the Company's tax-free shops has recovered from the dip it took after the natural disasters last summer, it largely plateaued during the first three quarters of the consolidated fiscal year under review, at up only 1.1% year on year. This, combined with average sale per customer dropping below our expectations due to the recent

strong JPY against the CNY, has led to decreased sales. Despite the reduced gross profit brought by lower revenue, the Company actually saw percentage sales to operating expenses ratio to net sales improve and profits increase thanks to elimination and consolidation of underperforming stores.

As a result, the segment's net sales amounted to 33,905 million yen (down 7.7% year-on-year) while operating profit came to 1,458 million yen (up 31.1% year-on-year).

2) Global Business

In the Global Business segment, trade business is showing growth bolstered by strong Chinese domestic consumer confidence in Japan-made products including cosmetics and miscellaneous lifestyle goods. Following the response to the 818 Sale and Taobao Maker Festival sales events in China, the Company's cross-border e-commerce business is also working to expand sales for flagship stores operating on T-mall Global, Suning.com, Kaola.com, and other major Chinese e-commerce sites.

As a result, the segment's net sales amounted to 12,374 million yen (up 190.6% year-on-year) while operating profit came to 21 million yen (compared with 77 million yen in loss for the same period last year).

3) Life & Fashion Business

The segment's shoes businesses (ladies shoes retailers Mode et Giacomo Co., Ltd. and Ogitsu Co., Ltd.) offered casual shoes in line with the recent sneaker boom, but their failure to fully read market trends led to difficulty selling products at list prices. The segment tried special sales events and renovating official online retail sites during and after the third quarter of the fiscal year under review, but revenue ultimately decreased.

Profit fell sharply despite increased sales at Shaddy Co., Ltd. (made a subsidiary in April of last year) due to new marketing expenditures to grow sales during the second quarter, one-time expenditures related to structure reforms centered on the elimination and consolidation of a logistics center, and merger synergy failing to improve profits as quickly as hoped.

As a result, the segment's net sales amounted to 46,805 million yen (up 23.1% year-on-year) while operating loss came to 1,774 million yen (compared with 17 million yen profit for the same period last year.)

4) Entertainment Business

This business segment operates shopping complexes, as well as eating and drinking establishments and amusement facilities both inside and outside these complexes.

In addition to inviting fresh foods supermarket Foodway Seisen Bikkuri Shijyo to the Chiba Port Town shopping complex and helping them open their store, the largest indoor theme park in Kyushu, Ribachika Kodomo Oukoku Giant Stadium, opened in Riverwalk Kitakyushu. It remains the area's most popular family-oriented attraction. Laox SCD Co., Ltd., the company which operates both facilities, also acquired a real estate license, marking the Company's first foray into the real estate industry.

In terms of eating and drinking establishments, the Shanghai Kurogi restaurant which the Company opened last year has found favor among wealthy Chinese, and the New City Club of Tokyo, a club in the Aoyama neighborhood of Tokyo's Minato Ward requiring exclusive membership for entry, has been popular with both domestic and foreign VIPs. This has contributed to increased sales for the segment.

Although the profit and loss statement shows the segment still in the red, the Company has managed to reduce this loss compared to that of previous year through increased sales.

As a result, the segment's net sales amounted to 1,683 million yen (up 26.8% year-on-year) while operating loss came to 1,129 million yen (compared with 1,285 million yen in loss for the same period last year).