

## Summary of Financial Results for the First Quarter of Fiscal Year 2019 (Three Months Ended March 31, 2019)

[Japanese GAAP]

April 25, 2019

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 filing of Quarterly Report: May 14, 2019

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting: None

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

### 1. Consolidated Financial Results for the 1st Quarter of 2019 (January 1, 2019 – March 31, 2019)

#### (1) Consolidated operating results (cumulative)

(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	%
1Q 2019	20,952	(21.4)	(395)	-	141	-	6,974	-
1Q 2018	26,673	(8.0)	(1,454)	-	(1,393)	-	(1,565)	-

Note: Comprehensive income (millions of yen) 1Q 2019: 6,561 (-%) 1Q 2018: (1,975) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
1Q 2019	173.55	121.87
1Q 2018	(30.09)	-

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
1Q 2019	75,984	41,254	54.3	851.08
Fiscal Year 2018	75,949	34,853	45.8	689.05

Reference: Shareholders' equity (millions of yen) 1Q 2019: 41,254 Fiscal Year 2018: 34,768

### 2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2018	-	0.00	-	0.00	0.00
Fiscal Year 2019	-	-	-	-	-
Fiscal Year 2019 (forecasts)	-	0.00	-	-	-

Notes: 1. Revision to the most recently announced dividend forecast: None

2. Dividend forecast for the Fiscal Year 2019 has not been determined at this time.

3. 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 2019 (January 1, 2019 – December 31, 2019)

(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 2019	94,000	(17.1)	(700)	-	(1,100)	-	5,400	-	134.36

Note: Revision to the most recently announced consolidated outlook: Yes

For more information, please refer to "Notice of Revisions to Consolidated Outlook" (Japanese version only) that was announced today (April 25, 2019).

**\* Notes**

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

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes  
Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)” on page 8 for further information.

(3) 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

(4) Number of shares outstanding (common shares)

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

1Q 2019:	52,230,393 shares	Fiscal Year 2018:	52,230,393 shares
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2) Number of treasury shares at the end of the period

1Q 2019:	12,040,107 shares	Fiscal Year 2018:	12,040,107 shares
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3) Average number of shares outstanding during the period

1Q 2019:	40,190,286 shares	1Q 2018:	52,028,735 shares
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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.

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

\* Cautionary statement with respect to forward-looking statements

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 3, “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements.”

(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
Fiscal Year 2018	Yen -	Yen 15,178,083.00	Yen -	Yen 15,178,083.00	Yen 30,356,166.00
Fiscal Year 2019	-				
Fiscal Year 2019 (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
Fiscal Year 2018	Yen -	Yen -	Yen -	Yen -	Yen -
Fiscal Year 2019	-				
Fiscal Year 2019 (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 2018, breakdown of dividends paid from the capital surplus are shown below.

Record date	2Q-end	Year-end	Total
Dividend per share (Yen)	15,178,083.00	15,178,083.00	30,356,166.00
Total dividends (Millions of yen)	75	75	151

Note: Reduction rate in net assets due to the dividends paid from net assets      2Q-end: 0.002      Year-end: 0.002

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

In the first quarter (January 1 to March 31) of 2019, the Japanese economy recovered slowly as the employment continued to improve with the support of the strong corporate earnings. However, the outlook remains uncertain because of concerns about slowing economic growth in China, Brexit, U.S. trade policies, the upcoming directions of financial and equity markets, and other reasons. In Japan's retail industry, consumers continue to economize and seek low prices as they retain a defensive stance about spending. In addition, competition among retail companies and companies in outside the retail sector is increasing. The emerging risk of higher prices of raw materials and logistics services create more challenges. As a result, the operating environment in the retail industry remains difficult.

Net sales in the first quarter decreased 21.4% year-over-year to 20,952 million yen due to a policy of optimizing the size of the mail-order business.

There was an operating loss of 395 million yen compared with a 1,454 million yen loss in the same period of 2018. This was attributable to measures to lower the cost of sales ratio and all categories of selling, general and administrative expenses. Ordinary profit was 141 million yen compared with a loss of 1,393 million yen in the same period of 2018 due to an increase in share of profit of entities accounted for using equity method. Profit attributable to owners of parent was 6,974 million yen compared with a loss of 1,565 million yen in the same period of 2018 mainly due to a gain on sales of non-current assets and a gain on sales of investment securities.

Overview by segment

(Mail-order Business)

Consolidated sales in the mail-order business, centered on the catalog and the Internet businesses, decreased 28.2% year-over-year to 15,288 million yen in the first quarter. There was an operating loss of 265 million yen compared with a loss of 1,318 million yen in the same period of 2018.

(Bridal Business)

Consolidated sales in the bridal business, centered on the house wedding business, increased 9.6% year-over-year to 4,034 million yen. There was an operating loss of 234 million yen compared with a loss of 247 million yen in the same period of 2018.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, decreased 3.3% year-over-year to 1,105 million yen, and operating profit decreased 1.2% year-over-year to 72 million yen.

(Others)

Consolidated sales in other businesses, which include childcare support business, services business, and manufacturing and sales of cosmetics, decreased 4.0% year-over-year to 524 million yen. Operating profit decreased 17.6% year-over-year to 31 million yen.

## **(2) Explanation of Financial Position**

(Balance sheet position)

Assets totaled 75,984 million yen at the end of the first quarter of 2019, an increase of 35 million yen from the end of 2018.

Current assets increased 3,910 million yen to 44,206 million yen. The main factor was an increase of 7,109 million yen in cash and deposits, while there were decreases of 1,730 million yen in notes and accounts receivable-trade and 1,056 million yen in merchandise and finished goods. Non-current assets decreased 3,875 million yen to 31,778 million yen. The factors included decreases of 2,953 million yen in property, plant and equipment, 197 million yen in intangible assets, and 724 million yen in investments and other assets.

Current liabilities decreased 5,749 million yen to 23,019 million yen. The main factors were decreases of 3,599 million yen in other and 1,128 million yen in electronically recorded obligations-operating. Non-current liabilities decreased 616 million yen to 11,710 million yen. The main factor was a decrease of 331 million yen in long-term loans payable.

Net assets increased 6,401 million yen to 41,254 million yen mainly due to booking of profit attributable to owners of parent of 6,974 million yen. As a result, the equity ratio was 54.3%.

Starting with the beginning of the first quarter 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) Explanation of Consolidated Forecasts and Other Forward-looking Statements**

Senshukai has revised its consolidated outlook for fiscal year 2019 (January 1, 2019 to December 31, 2019) that was released on February 8, 2019. For more information, please refer to “Notice of Revisions to Consolidated Outlook” (Japanese version only) that was announced today (April 25, 2019).

## 2. Quarterly Consolidated Financial Statements and Notes

## (1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Fiscal Year 2018 (As of Dec. 31, 2018)	1Q 2019 (As of Mar. 31, 2019)
Assets		
Current assets		
Cash and deposits	17,150	24,259
Notes and accounts receivable-trade	5,532	3,802
Merchandise and finished goods	9,732	8,676
Accounts receivable-other	6,110	5,152
Other	1,903	2,443
Allowance for doubtful accounts	(133)	(127)
Total current assets	40,295	44,206
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,606	12,193
Land	8,477	6,811
Other, net	980	1,105
Total property, plant and equipment	23,063	20,110
Intangible assets		
Goodwill	1,736	1,672
Other	729	596
Total intangible assets	2,466	2,269
Investments and other assets		
Investment securities	6,458	5,954
Other	3,846	3,591
Allowance for doubtful accounts	(180)	(146)
Total investments and other assets	10,123	9,399
Total non-current assets	35,653	31,778
Total assets	75,949	75,984

(Millions of yen)

	Fiscal Year 2018 (As of Dec. 31, 2018)	1Q 2019 (As of Mar. 31, 2019)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Electronically recorded obligations-operating	6,631	5,503
Accounts payable-trade	4,836	4,089
Short-term loans payable	1,468	1,290
Current portion of bonds with share acquisition rights	4,340	4,340
Income taxes payable	318	53
Provision for sales promotion expenses	305	277
Provision for bonuses	291	488
Other	10,575	6,976
<b>Total current liabilities</b>	<b>28,768</b>	<b>23,019</b>
<b>Non-current liabilities</b>		
Long-term loans payable	9,799	9,467
Net defined benefit liability	69	3
Provision for management board incentive plan trust	2	1
Other	2,456	2,237
<b>Total non-current liabilities</b>	<b>12,327</b>	<b>11,710</b>
<b>Total liabilities</b>	<b>41,096</b>	<b>34,730</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	22,304	22,304
Capital surplus	23,712	17,571
Retained earnings	(3,526)	9,684
Treasury shares	(6,932)	(6,932)
<b>Total shareholders' equity</b>	<b>35,558</b>	<b>42,628</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	605	248
Deferred gains or losses on hedges	60	18
Revaluation reserve for land	(1,346)	(1,517)
Foreign currency translation adjustment	(61)	(76)
Remeasurements of defined benefit plans	(47)	(46)
<b>Total accumulated other comprehensive income</b>	<b>(789)</b>	<b>(1,373)</b>
<b>Non-controlling interests</b>	<b>84</b>	<b>-</b>
<b>Total net assets</b>	<b>34,853</b>	<b>41,254</b>
<b>Total liabilities and net assets</b>	<b>75,949</b>	<b>75,984</b>



**(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income****(Quarterly Consolidated Statement of Income)****(For the Three-month Period)**

(Millions of yen)

	1Q 2018 (Jan. 1, 2018 – Mar. 31, 2018)	1Q 2019 (Jan. 1, 2019 – Mar. 31, 2019)
Net sales	26,673	20,952
Cost of sales	15,083	10,903
Gross profit	11,589	10,049
Selling, general and administrative expenses	13,044	10,445
Operating loss	(1,454)	(395)
Non-operating income		
Interest income	8	6
Dividend income	4	7
Share of profit of entities accounted for using equity method	263	476
Gain on adjustment of account payable	46	73
Other	70	38
Total non-operating income	393	601
Non-operating expenses		
Interest expenses	39	33
Commission fee	254	7
Other	38	22
Total non-operating expenses	332	64
Ordinary profit (loss)	(1,393)	141
Extraordinary income		
Gain on sales of non-current assets	0	5,617
Gain on sales of investment securities	21	926
Gain on sales of shares of subsidiaries and associates	-	336
Subsidy income	-	4
Total extraordinary income	21	6,885
Extraordinary losses		
Loss on sales and retirement of non-current assets	0	16
Loss on reduction of non-current assets	-	4
Impairment loss	115	1
Loss on sales of shares of subsidiaries and associates	-	4
Business structure reform expenses	19	18
Other	-	1
Total extraordinary losses	134	46
Profit (loss) before income taxes	(1,506)	6,980
Income taxes	60	5
Profit (loss)	(1,566)	6,974
Loss attributable to non-controlling interests	(0)	-
Profit (loss) attributable to owners of parent	(1,565)	6,974

**(Quarterly Consolidated Statement of Comprehensive Income)**  
**(For the Three-month Period)**

(Millions of yen)

	1Q 2018 (Jan. 1, 2018 – Mar. 31, 2018)	1Q 2019 (Jan. 1, 2019 – Mar. 31, 2019)
Profit (loss)	(1,566)	6,974
Other comprehensive income		
Valuation difference on available-for-sale securities	(192)	(356)
Deferred gains or losses on hedges	(212)	(30)
Foreign currency translation adjustment	(5)	(2)
Share of other comprehensive income of entities accounted for using equity method	1	(24)
Total other comprehensive income	<u>(409)</u>	<u>(413)</u>
Comprehensive income	<u>(1,975)</u>	<u>6,561</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,974)	6,561
Comprehensive income attributable to non-controlling interests	(0)	-

### **(3) Notes to Quarterly Consolidated Financial Statements**

#### **(Going Concern Assumption)**

Not applicable.

#### **(Significant Changes in Shareholders' Equity)**

At the annual general meeting of shareholders on March 28, 2019, shareholders approved a resolution to eliminate the retained earnings deficit. In accordance with Article 452 of the Companies Act, other capital surplus was decreased by 6,065 million yen and this amount was transferred to retained earnings brought forward. This process decreased the capital surplus by 6,065 million yen and increased the retained earnings by 6,065 million yen in the first quarter of 2019.

#### **(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)**

(Calculation of tax expense)

The tax expenses are calculated by first reasonably estimating the effective tax rate after the application of tax effect accounting with respect to profit before income taxes for the fiscal year in which the quarter under review falls, and multiplying that rate by the profit before income taxes for the quarter under review. However, Senshukai uses legally stipulated effective tax rates to calculate tax expenses for cases in which using estimated tax rates gives a noticeably irrational result.

#### **(Additional Information)**

(Application of the Partial Amendments to Accounting Standard for Tax Effect Accounting)

Senshukai has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc. at the beginning of the first quarter of 2019. Accordingly, deferred tax assets and deferred tax liabilities are reclassified and included in the investments and other assets section and the non-current liabilities section, respectively.

**(Segment Information)**

I 1Q 2018 (Jan. 1, 2018 – Mar. 31, 2018)

## 1. Information related to sales and profit or loss for each reportable segment

(Millions of yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Mail-order business	Bridal business	Corporates business	Sub-total				
Net sales								
Sales to customers	21,303	3,680	1,142	26,126	546	26,673	-	26,673
Inter-segment sales or transfers	209	-	45	255	1	256	(256)	-
Total	21,513	3,680	1,188	26,381	547	26,929	(256)	26,673
Segment profit (loss)	(1,318)	(247)	73	(1,492)	37	(1,454)	0	(1,454)

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

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

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

## 2. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

No major events or changes occurred.

II 1Q 2019 (Jan. 1, 2019 – Mar. 31, 2019)

## 1. Information related to sales and profit or loss for each reportable segment

(Millions of yen)

	Reportable segment				Others (Note 1)	Total	Adjustment	Amounts shown on quarterly consolidated statement of income (Note 2)
	Mail-order business	Bridal business	Corporates business	Sub-total				
Net sales								
Sales to customers	15,288	4,034	1,105	20,428	524	20,952	-	20,952
Inter-segment sales or transfers	226	0	0	227	0	227	(227)	-
Total	15,515	4,034	1,106	20,655	524	21,180	(227)	20,952
Segment profit (loss)	(265)	(234)	72	(426)	31	(395)	-	(395)

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

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

## 2. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

No major events or changes occurred.

**(Significant Subsequent Events)**

(Reduction in capital stock)

On February 15, 2019, the Board of Directors of Senshukai approved a resolution to submit a proposal to reduce the amount of capital stock to the 74th annual general meeting of shareholders on March 28, 2019. This proposal was approved at this meeting.

## 1. Purpose

Capital stock will be reduced and the reduction transferred to the capital surplus for two purposes. First is to give Senshukai more flexibility and agility concerning future actions involving capital. Second is to increase future cash flows by making Senshukai subject to appropriate taxation.

## 2. Overview

## (1) Reduction in capital stock

Capital stock will be reduced by 22,204,934,244 yen from 22,304,934,244 yen to 100,000,000 yen.

## (2) Method used for reducing capital stock

Pursuant to Article 447, Clause 1 of the Companies Act, capital stock will be reduced as explained in the preceding item and the entire reduction will be transferred to the capital surplus.

## 3. Schedule

(1) Date of resolution of meeting of the Board of Directors:	February 15, 2019
(2) Date of resolution of annual general meeting of shareholders:	March 28, 2019
(3) Official end of period for creditors to state their objections:	May 7, 2019 (tentative)
(4) Effective date:	May 8, 2019 (tentative)

### 3. Other

#### Important Information about Going Concern Assumption

In the first quarter of 2019, Senshukai Group had a consolidated operating loss of 395 million yen, ordinary profit of 141 million yen and profit attributable to owners of parent of 6,974 million yen. However, 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.

This plan include following initiatives:

- (1) Reduce the mail-order business to the proper size by cutting the number of sizes and models of merchandise sold, lowering inventories and taking other actions.
- (2) Improve operations by shortening lead times for producing merchandise, selling a higher percentage of merchandise at list prices, holding down the occurrence of surplus inventories, increasing joint activities with suppliers and taking other actions.
- (3) Rebuild the model for attracting customers, centered on catalogs, by establishing a model for attracting customers that combines analog and digital elements, reexamining the media plan and catalog distribution method, improving the quality of customer interactions by upgrading digital marketing and Internet customer contact, and taking other actions.
- (4) Reexamine the group's organizational structure and human resource systems by combining and eliminating organizational units, using voluntary retirement program, and taking other actions.
- (5) Cut costs and reduce assets, centralizing activities at each department, selling Osaka head office, and taking other actions.
- (6) Reorganize the Senshukai Group by merging subsidiaries that perform similar functions, and taking other actions.

Some initiatives in the mail-order business have already been completed in 2018, such as inventory reductions and the adjustment of personnel expenses to the proper level. The benefits of these actions are already beginning to appear in 2019.

In addition, for renewed growth, the organizational units that determine and execute marketing activities will be based on customers rather than merchandise and marketing uses an approach that reflects the behavior patterns of customers. Furthermore, the organizational structure and business processes will be rebuilt to establish clear lines of accountability for earnings and inventories. The goal of these initiatives is to improve our ability to sell merchandise. We are determined to use these measures to construct a solid earnings foundation and renewed growth in order to achieve a recovery in sales and earnings and stabilize the performance of the Senshukai Group.

At the end of the first quarter, cash and deposits were 24,259 million yen. Senshukai also has a credit line 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.

*\* 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.*