Summary of Financial Results for the Third Quarter of Fiscal Year 2022
(Nine Months Ended September 30, 2022)

[Japanese GAAP]

November 11, 2022

Company name: **SENSHUKAI CO.,LTD.**   Stock exchange: Tokyo Stock Exchange
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Scheduled date of filing of Quarterly Report: November 14, 2022
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 3rd Quarter of 2022 (January 1, 2022 – September 30, 2022)

(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	%
3Q 2022	41,840	-	(6,316)	-	(6,130)	-	(8,670)	-
3Q 2021	53,540	(10.0)	462	-	503	-	479	-

Note: Comprehensive income (millions of yen) 3Q 2022: (8,182) (-%) 3Q 2021: 880 (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
3Q 2022	(184.98)	-
3Q 2021	10.36	-

Note: Beginning with the first quarter of 2022, Senshukai has applied Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020). All figures for the third quarter of 2022 incorporate this accounting standard and comparisons with the third quarter of the previous fiscal year are omitted.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
3Q 2022	42,031	24,857	59.1	530.03
Fiscal Year 2021	52,476	33,202	63.3	708.09

Reference: Shareholders' equity (millions of yen) 3Q 2022: 24,830 Fiscal Year 2021: 33,202

Note: Beginning with the first quarter of 2022, Senshukai has applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). All figures for the third quarter of 2022 incorporate this accounting standard.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2021	-	3.00	-	4.00	7.00
Fiscal Year 2022	-	0.00	-		
Fiscal Year 2022 (forecasts)				0.00	0.00

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

3. Consolidated Outlook for Fiscal Year 2022 (January 1, 2022 – December 31, 2022)

(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 2022	61,000	-	(6,900)	-	(6,700)	-	(9,700)	-	(206.98)

Notes: 1. Revision to the most recently announced consolidated outlook: Yes
For more information, please refer to "Notice of Extraordinary Losses (Impairment Losses) and Revisions to Consolidated Outlook" (Japanese version only) that was announced today (November 11, 2022).
2. Beginning with the first quarter of 2022, Senshukai has applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). The above consolidated outlook for fiscal year 2022 incorporate this accounting standard and comparisons with the previous fiscal year are omitted.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: 2 (Senshukai Make Co- Inc., WellServe Co., Ltd.) Excluded: 1 (Huit laboratories, Inc.)

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Changes in Significant Subsidiaries during the Period)” on page 8 for further information.

(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: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” on page 8 for further information.

(4) Number of shares outstanding (common shares)

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

3Q 2022:	52,056,993 shares	Fiscal Year 2021:	52,056,993 shares

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

3Q 2022:	5,209,121 shares	Fiscal Year 2021:	5,167,335 shares

3) Average number of shares outstanding during the period

3Q 2022:	46,870,067 shares	3Q 2021:	46,293,785 shares

* 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

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

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

Beginning with the first quarter of 2022, Senshukai has applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As a result, the explanation of results of operations for the first nine months of 2022 does not show the amount of increase or decrease compared with the same period of 2021.

In the first nine months (January 1 to September 30) of 2022, while the severity of the pandemic declined and economic activity normalized, business confidence continued to deteriorate due to protracted geopolitical risks including the situation in Ukraine, rising interest rates in the U.S., the depreciation of the yen, and further price increases accompanying soaring costs for energy and raw materials.

In this business environment, the Group's normal business activities were hampered by issues related to the replacement of the core IT system executed in January this year. From March onwards, sales promotion measures were resumed and sales activities expanded, but sales from Belle Maison, the Group's core mail-order and online shopping business, fell significantly year on year, and the inclusion of sales from the bridal business up to the first quarter of 2021, which were subsequently excluded from the scope of consolidation, also had an effect. As a result, net sales in the first nine months of 2022 were 41,840 million yen (compared with 53,540 million yen in the first nine months of 2021), operating loss was 6,316 million yen (compared with a profit of 462 million yen in the first nine months of 2021), and ordinary loss was 6,130 million yen (compared with a profit of 503 million yen in the first nine months of 2021). Loss attributable to owners of parent was 8,670 million yen (compared with a profit of 479 million yen in the first nine months of 2021).

Furthermore, our core IT system has grown in size and complexity alongside the growth of the mail-order and online shopping business, making it difficult to respond to various changes, while the business model of our mail-order and online shopping business has reached a turning point and systemic flexibility become essential to the future transformation of the business. Accordingly, we decided to replace the core IT system with a basic, simple one while pressing forward with preparations for reforming our business processes, and completed the replacement of the core IT system in January 2022, as originally planned. However, we take seriously the inconvenience caused to our customers and many other stakeholders from the disruption of the system replacement, and accordingly the full-time directors, full-time auditors, general manager, and deputy general managers have offered to voluntarily return a portion of their remuneration. This offer has been accepted.

Business segment performance was as follows.

Consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD., and WONDERSTAGE Co., Ltd., a wholly owned subsidiary of Dears Brain and a sub-subsidiary of Senshukai, were excluded from the scope of consolidation following the sales of all shares of Dears Brain and PLANETWORK on March 31, 2021. As a result, the Senshukai Group no longer operates a bridal business. Consequently, there is no longer business segment information for the bridal business beginning with the first quarter of 2022.

(Mail-order and Online Shopping Business)

Consolidated sales in the mail-order and online shopping business, which is primarily the catalog and the Internet businesses, was 36,883 million yen in the first nine months of 2022 compared with 46,521 million yen in the first nine months of 2021. There was an operating loss of 6,556 million yen compared with a profit of 1,153 million yen in the first nine months of 2021.

There were problems involving the launch of the new core IT system following the completion of the replacement of the previous system in January 2022. To deal with these problems, marketing activities were suspended and the level of normal business activities was reduced in order to focus on handling inquiries from customers during the first nine months. For a recovery of sales, marketing activities resumed in March after IT system operations returned to normal. As sales activities increased, there were other measures for a recovery of the performance of this business. Despite these measures, more time will be needed for the number of members to return to the prior-year level. In addition, the rising cost of living has led to a greater desire to save money, and the lingering summer heat has led to a decline in demand for seasonal products. As a result, sales of Bell Maison, the core business of this segment, were far below sales one year earlier, resulting in lower segment sales and earnings.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, were 3,483 million yen compared with 3,622 million yen in the first nine months of 2021. Operating profit was 147 million yen compared with a profit of 289 million yen in the first nine months of 2021.

Although the use of novelties related to corporate shareholder benefits remained strong, the first nine months sales and earnings decreased because of lower than expected utilization of outsourced logistics and call center services.

(Insurance Business)

This business provides support, mainly to Belle Maison members, for choosing the most suitable insurance policies. Consolidated sales were 344 million yen compared with 284 million yen in the first nine months of 2021 and operating profit was 174 million yen compared with a profit of 116 million yen in the first nine months of 2021.

(Others)

Consolidated sales in other businesses, which include the childcare support business and manufacturing and sales of cosmetics, were 1,128 million yen compared with 1,378 million yen in the first nine months of 2021. Operating loss was 81 million yen compared with a loss of 51 million yen in the first nine months of 2021. The manufacturing and sales of cosmetics business was excluded from the scope of consolidation following the sales of all shares of Huit laboratories, Inc., which was a consolidated subsidiary of Senshukai, on April 1, 2022. For more information, please refer to the “Notice of Change in Consolidated Subsidiaries (Transfer of Shares)” released on March 4, 2022 (Japanese version only).

(2) Explanation of Financial Position

(Balance sheet position)

Assets totaled 42,031 million yen at the end of the third quarter of 2022, a decrease of 10,444 million yen from the end of 2021.

Current assets decreased 7,140 million yen to 27,322 million yen. The factors included a decrease of 7,786 million yen in cash and deposits. Non-current assets decreased 3,304 million yen to 14,709 million yen. The factors included decreases of 2,468 million yen in intangible assets, 567 million yen in property, plant and equipment, and 268 million yen in investments and other assets due to the booking of impairment losses.

Current liabilities decreased 2,756 million yen to 13,210 million yen. The factors included an increase of 889 million yen in contract liabilities, decreases of 2,265 million yen in electronically recorded obligations-operating and 1,703 million yen in other. Non-current liabilities increased 655 million yen to 3,963 million yen. The main factors included increases of 460 million yen in long-term borrowings and 195 million yen in other.

Net assets decreased 8,344 million yen to 24,857 million yen. The factors included booking of loss attributable to owners of parent of 8,670 million yen. As a result, the equity ratio was 59.1%.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

Senshukai has revised its Consolidated Outlook for Fiscal Year 2022 (January 1, 2022 to December 31, 2022) that was released on May 13, 2022. For more information, please refer to “Notice of Extraordinary Losses (Impairment Losses) and Revisions to Consolidated Outlook” (Japanese version only) that was announced today (November 11, 2022).

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Fiscal Year 2021 (As of Dec. 31, 2021)	3Q 2022 (As of Sep. 30, 2022)
Assets		
Current assets		
Cash and deposits	15,665	7,878
Notes and accounts receivable-trade, and contract assets	2,235	2,629
Merchandise and finished goods	9,123	9,553
Accounts receivable-other	5,654	4,550
Other	1,911	2,791
Allowance for doubtful accounts	(126)	(80)
Total current assets	34,463	27,322
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,076	3,879
Land	5,524	5,402
Other, net	379	130
Total property, plant and equipment	9,980	9,413
Intangible assets		
Other	4,204	1,735
Total intangible assets	4,204	1,735
Investments and other assets		
Investment securities	2,493	2,416
Other	1,425	1,216
Allowance for doubtful accounts	(90)	(73)
Total investments and other assets	3,828	3,560
Total non-current assets	18,013	14,709
Total assets	52,476	42,031

(Millions of yen)

	Fiscal Year 2021 (As of Dec. 31, 2021)	3Q 2022 (As of Sep. 30, 2022)
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	6,612	4,347
Accounts payable-trade	2,761	3,132
Short-term borrowings	550	620
Income taxes payable	22	16
Contract liabilities	-	889
Provision for bonuses for directors (and other officers)	6	-
Provision for sales promotion expenses	258	-
Provision for bonuses	33	186
Other	5,721	4,017
Total current liabilities	15,966	13,210
Non-current liabilities		
Long-term borrowings	3,005	3,465
Retirement benefit liability	6	6
Other	296	491
Total non-current liabilities	3,307	3,963
Total liabilities	19,274	17,174
Net assets		
Shareholders' equity		
Share capital	100	100
Capital surplus	30,084	30,084
Retained earnings	7,061	(1,801)
Treasury shares	(2,953)	(2,953)
Total shareholders' equity	34,291	25,428
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	267	257
Deferred gains or losses on hedges	119	585
Revaluation reserve for land	(1,516)	(1,516)
Foreign currency translation adjustment	38	75
Total accumulated other comprehensive income	(1,089)	(597)
Non-controlling interests	-	26
Total net assets	33,202	24,857
Total liabilities and net assets	52,476	42,031

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

(Quarterly Consolidated Statement of Income)

(For the Nine-month Period)

(Millions of yen)

	3Q 2021 (Jan. 1, 2021 – Sep. 30, 2021)	3Q 2022 (Jan. 1, 2022 – Sep. 30, 2022)
Net sales	53,540	41,840
Cost of sales	26,561	21,856
Gross profit	26,979	19,984
Selling, general and administrative expenses	26,516	26,300
Operating profit (loss)	462	(6,316)
Non-operating income		
Interest and dividend income	26	22
Share of profit of entities accounted for using equity method	17	-
Gain on adjustment of account payable	60	124
Other	322	263
Total non-operating income	427	410
Non-operating expenses		
Interest expenses	66	34
Rental expenses on real estate	35	50
Share of loss of entities accounted for using equity method	-	5
Commission expenses	238	106
Other	45	28
Total non-operating expenses	385	225
Ordinary profit (loss)	503	(6,130)
Extraordinary income		
Gain on sale of shares of subsidiaries and associates	-	134
Subsidy income	162	187
Total extraordinary income	162	321
Extraordinary losses		
Loss on sale and retirement of non-current assets	1	13
Loss on tax purpose reduction entry of non-current assets	151	172
Impairment losses	-	2,840
Loss on sale of shares of subsidiaries and associates	11	-
Loss on change in equity	110	-
Total extraordinary losses	274	3,026
Profit (loss) before income taxes	392	(8,835)
Income taxes	(87)	(161)
Profit (loss)	479	(8,674)
Loss attributable to non-controlling interests	-	(4)
Profit (loss) attributable to owners of parent	479	(8,670)

(Quarterly Consolidated Statement of Comprehensive Income)

(For the Nine-month Period)

(Millions of yen)

	3Q 2021 (Jan. 1, 2021 – Sep. 30, 2021)	3Q 2022 (Jan. 1, 2022 – Sep. 30, 2022)
Profit (loss)	479	(8,674)
Other comprehensive income		
Valuation difference on available-for-sale securities	48	(10)
Deferred gains or losses on hedges	177	465
Foreign currency translation adjustment	(11)	9
Share of other comprehensive income of entities accounted for using equity method	185	27
Total other comprehensive income	400	492
Comprehensive income	880	(8,182)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	880	(8,177)
Comprehensive income attributable to non-controlling interests	-	(4)

(3) Notes to Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Significant Subsidiaries during the Period)

Senshukai Make Co- Inc. and WellServe Co., Ltd. were included in the scope of consolidation in the second quarter of 2022 due to these establishments. These companies are specified subsidiaries of Senshukai.

Huit laboratories, Inc., a consolidated subsidiary of Senshukai, was excluded from the scope of consolidation following the sales of all shares of this company in the second quarter of 2022.

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

(Calculation of tax expense)

Tax expenses are calculated by first determining a reasonable estimate of the effective tax rate after the application of tax effect accounting with respect to profit before income taxes for the fiscal year that includes the applicable quarter and multiplying the profit before income taxes for that quarter by that rate. However, Senshukai uses legally stipulated effective tax rates to calculate tax expenses when the use of estimated tax rates produces a clearly irrational result.

(Changes in Accounting Policies)

(Application of the Accounting Standards for Revenue Recognition)

Senshukai is applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of 2022. Based on these standards, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

The main changes resulting from the application of the Accounting Standard for Revenue Recognition are as follows:

(1) Revenue recognition concerning the Senshukai Point Program
In prior years, Senshukai maintained a provision for sales promotion expenses based on the expected future use of points that customers receive when they buy Senshukai merchandise in order to prepare for the use of these points. Additions to this allowance were classified as selling, general and administrative expenses. In accordance with the new revenue recognition standard, these points are now classified as a performance obligation and recognition of revenue is deferred.

(2) Revenue recognition concerning point programs of other companies
In prior years, an amount equivalent to the value of the points of point programs operated by other companies was classified as selling, general and administrative expenses. In accordance with the new revenue recognition standard, the calculation of transaction prices concerning merchandise sale performance obligations to customers now uses the method of recognizing revenue after deducting transaction prices as the amount recovered for third parties.

(3) Revenue recognition concerning shipping expenses paid by customers
In prior years, shipping expenses received from customers were deducted from selling, general and administrative expenses. In accordance with the new revenue recognition standard, payments from customers for shipping expenses are now recognized as revenue because the merchandise shipping service is included in the performance obligation involving the provision of merchandise to customers.

(4) Revenue recognition concerning sales of merchandise that may be returned

In prior years, for transactions of merchandise that may be returned, the value of merchandise returned by customers was deducted from sales when Senshukai confirmed the receipt of the merchandise. In accordance with the provision of the new revenue recognition standard concerning variable compensation, revenue for merchandise that is expected to be returned is not recognized when the merchandise is sold. Instead, a refund liability is now recognized that is equivalent to the payment that was or will be received for the applicable merchandise.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the first quarter of 2022, is added to or subtracted from retained earnings at the beginning of the first quarter of 2022. The new standard is then applied beginning with this amount of retained earnings.

As a result, net sales increased 957 million yen and cost of sales increased 0 million yen. Operating loss increased 311 million yen, and ordinary loss and loss before income taxes increased 320 million yen each in the first nine months of 2022. In addition, there was a decrease of 5 million yen in retained earnings at the beginning of 2022.

Due to the application of the Accounting Standard for Revenue Recognition, "Notes and accounts receivable-trade" that was presented in the current assets section of the consolidated balance sheet in 2021 is, from the first quarter of 2022, included in "Notes and accounts receivable-trade, and contract assets." In addition, the amount corresponding to contract liabilities in the revenue recognition standards, that was included in "Other" presented in the current liabilities section in 2021 is, from the first quarter of 2022, stated as "Contract liabilities." In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the prior year's consolidated financial statements to conform to the new presentation.

(Application of the Accounting Standards for Measurement of Fair Value)

Senshukai has applied the Accounting Standard for Measurement of Fair Value (ASBJ Statement No. 30, July 4, 2019) and other standards from the beginning of the first quarter of 2022, and has applied the new accounting policies set forth by the Accounting Standard for Measurement of Fair Value, etc. prospectively in accordance with the transitional measures prescribed in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no effect of the application of these standards on the quarterly consolidated financial statements.

(Additional Information)

(Application of tax effect accounting associated with the transition from the consolidated taxation system to the group tax sharing system)

Senshukai and its consolidated subsidiaries are transitioning to the group tax sharing system that was created by the Act on Partial Amendments to the Income Tax Act, etc. (Act No. 8 of 2020) and, in conjunction with this transition, has reexamined items concerning the non-consolidated taxation system. With respect to this transition and reexamination, Senshukai and its consolidated subsidiaries have not used the provisions of Paragraph 44 of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018) in accordance with the treatment in Paragraph 3 of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020). As a result, deferred tax assets and deferred tax liabilities are based on the tax law prior to these amendments.

(Uncertainty of accounting estimates)

As of the end of September 2022, while the severity of the pandemic declined and economic activity normalized, business confidence continued to deteriorate due to protracted geopolitical risks including the situation in Ukraine, rising interest rates in the U.S., the depreciation of the yen, and further price increases accompanying soaring costs for energy and raw materials. Senshukai assumes that these factors will have only a limited effect on accounting estimates. However, due to problems involving the launch of the new core IT system in January 2022, marketing activities were suspended and the level of normal business activities was reduced in order to focus on handling inquiries from customers. Due to this situation, sales of Belle Maison in the core mail-order and online shopping business were far below sales one year earlier, resulting in lower segment sales and earnings. Currently, marketing activities have resumed, the volume of business activities is increasing and there are new actions for achieving a sales recovery. The entire Senshukai Group is firmly committed to restoring the trust of customers and achieving a recovery in the volume of orders. Although Senshukai is using the best possible estimates based on information that is currently available, a change in the business climate or problems involving the new core IT system may have an effect on the financial condition, results of operations and cash flows of the Senshukai Group.

(Segment Information)

I 3Q 2021 (Jan. 1, 2021 – Sep. 30, 2021)

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 and online shopping business	Bridal business	Corporates business	Insurance business	Sub-total				
Net sales									
Sales to customers	46,521	1,733	3,622	284	52,161	1,378	53,540	-	53,540
Inter-segment sales or transfers	208	5	26	-	239	0	239	(239)	-
Total	46,729	1,738	3,649	284	52,401	1,378	53,780	(239)	53,540
Segment profit (loss)	1,153	(1,045)	289	116	513	(51)	462	0	462

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. The 0 million yen adjustment to segment profit (loss) is an elimination for inter-segment transactions.
3. Segment profit (loss) is adjusted with the operating profit on the quarterly consolidated statement of income.

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

Significant changes in the amount of goodwill

In the bridal business, all shares of consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD. were sold at the end of the first quarter of 2021. As a result of the sales of these subsidiaries shares, goodwill decreased 1,158 million yen.

3. Information related to assets for each reportable segment

Significant decrease in assets due to decrease in number of subsidiaries

Consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD., and WONDERSTAGE Co., Ltd., a wholly owned subsidiary of Dears Brain and a sub-subsidiary of Senshukai, were excluded from the scope of consolidation following the sales of all shares of Dears Brain and PLANETWORK at the end of the first quarter of 2021. As a result, segment assets of the bridal business for the third quarter of 2021 decreased 14,911 million yen, compared with the end of 2020.

II 3Q 2022 (Jan. 1, 2022 – Sep. 30, 2022)

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 and online shopping business	Corporates business	Insurance business	Sub-total				
Net sales								
Sales to customers	36,883	3,483	344	40,712	1,128	41,840	-	41,840
Inter-segment sales or transfers	184	30	-	214	0	215	(215)	-
Total	37,068	3,513	344	40,926	1,128	42,055	(215)	41,840
Segment profit (loss)	(6,556)	147	174	(6,234)	(81)	(6,316)	-	(6,316)

Notes: 1. Others represent the businesses which are not included in any of the three reportable segments and consist of the childcare support 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

(Significant impairment losses related to non-current assets)

In the mail-order and online shopping business segment, the book values of some assets were reduced to their recoverable amounts in view of performance being significantly lower than planned, and an impairment loss was recorded. This impairment loss was 2,840 million yen in the first nine months of 2022.

3. Information related to revisions for reportable segments

In 2021, consolidated subsidiaries Dears Brain Inc. and PLANETWORK CO., LTD., and WONDERSTAGE Co., Ltd., a wholly owned subsidiary of Dears Brain and a sub-subsidiary of Senshukai, were excluded from the scope of consolidation following the sales of all shares of Dears Brain and PLANETWORK. As a result, the Senshukai Group no longer operates a bridal business. Consequently, there is no longer business segment information for the bridal business beginning with the first quarter of 2022.

(Application of the Accounting Standards for Revenue Recognition)

As described in Changes in Accounting Policies, Senshukai has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) from the beginning of the first quarter of 2022 and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well.

The effect of this change was to increase net sales by 964 million yen and to increase segment loss by 311 million yen for the first nine months of 2022 in the mail-order and online shopping business. Net sales decreased 6 million yen and there was no effect on the segment profit in other businesses.

3. Other

(Important Matters Regarding Going Concern Assumption, etc.)

The Senshukai Group recorded an operating profit, ordinary profit and profit attributable to owners of parent in 2021. However, sales in the first half of 2022 were far below 2021 first half sales mainly because of problems involving the launch of the new core IT system in January 2022 and the removal from consolidation of subsidiaries that operate the bridal business. Furthermore, there was a large operating loss, ordinary loss and loss attributable to owners of parent in the first half of 2022.

In the third quarter of 2022, there was still no significant recovery in results of operations as sales continued to be lower than one year earlier. In addition, there was an impairment loss of 2,840 million yen in the third quarter based on the result of a comprehensive examination of the ability to recover these assets in the future based on accounting standards for the impairment of non-current assets. As a result, there were large losses in the first nine months of 2022: an operating loss of 6,316 million yen, ordinary loss of 6,130 million yen and loss attributable to owners of parent of 8,670 million yen.

Due to the continuing decline in sales even after the resolution of problems involving the new core IT system and to the large operating loss, there are currently significant doubts about the going concern assumption. The Senshukai Group is taking the following actions in order to end the current problems and improve results of operations.

(Measures to improve results of operations)

The Senshukai Group is taking actions aimed at maintaining the stability of the core IT system and regaining the trust of customers. In addition, group companies will continue to focus on numerous measures for increasing sales and earnings. To become profitable in 2023, the main objective is the transformation of the group’s business model by placing priority on goals of the medium-term business plan, including the digital shift of the mail order and online shopping business, profit structure reforms, and co-creation with partner companies.

Progress report

(1) Digital shift of the mail-order and online shopping business

This business is currently reexamining promotions centered on catalogs and shifting resources to digital promotional activities using social networking services (SNS) and other digital channels. Activities involving this shift include the creation of banners based on click funnels for major products, the creation of landing pages (a web page where a visitor “lands” after clicking a link in an ad), the provision of more information about merchandise, increasing the number of sessions for specific products, and raising the sales conversion rate. There has been steady progress in all of these areas and we plan to expand these activities to encompass even more products.

Preparations are under way for a very large cross-media marketing campaign with links between TV commercials and SNS that is to begin in the middle of November 2022. Based on the results of this campaign, we plan to make more improvements to these activities and continue these linked TV commercial-SNS marketing activities in 2023.

(2) Profit structure reforms

In the past, Senshukai’s operations were structured mainly for the catalog business. This emphasis on catalogs will be ended in order to narrow our focus dramatically to primarily original merchandise that is ideally suited for digital sales channels and is highly competitive in open markets. The goals are to improve our gross profit margin and boost our efficiency concerning merchandise development, inventory management and other aspects of business operations.

We will use sales promotion expenses more effectively by cutting back catalog distribution to customers who do not use catalogs for shopping and shift to more effective digital promotions. Going forward, we plan to maximize return on investment by directing investment to raising the retention rate and purchasing frequency of existing members, in addition to approaching potential new customers.

We will continue to use catalogs as a major tool for promotions and communication with customers who support this sales channel and will further upgrade the quality of the new ideas and other innovations in our catalogs.

In addition, we plan to expand the advertising solutions business as the digital shift takes place in the mail-order and online shopping business. We will develop a new advertising menu and conduct trial sales that utilize Bell Maison

Net, an e-commerce website that ranks among the largest in Japan in terms of the number of female members. Our objective is to use growth of sales and earnings in the highly profitable advertising solutions business to raise the profitability of the entire Senshukai Group.

(3) Co-creation with partner companies

We are strengthening and expanding our collaboration with East Japan Railway Company (JR East). One activity data marketing support based on the ability to contact JRE Point members for the purpose of increasing activity on JRE MALL. Another is performing tasks outsourced by the JR East Group. Activities involving JR East Group are adding to the Senshukai Group operations other than mail-order and online shopping and the operation of physical stores. Expansion of co-creation activities utilizing the assets of Senshukai and JR East will continue.

Raising the value of the Belle Maison brand and strengthening the Belle Maison membership base are also major goals. One way is by providing services involving the use and disposal of merchandise, such as the "kimawari" used merchandise purchasing service that was started through co-creation with Aucnet, Inc., a provider of information-based distribution services. Increasing the number of convenient services closely tied to customers' lives is another way we plan to accomplish these goals. The trial operation of "kimawari" demonstrated that the percentage of "kimawari" customers who continue to use Belle Maison to buy merchandise is dramatically higher than for other Belle Maison customers. The November grand opening of "kimawari" was very successful. We plan to enlarge merchandise handled by "kimawari" and speed up other measures in order to use this new service as an important measure for improving the profitability of Belle Maison.

Senshukai's financial position was sound as of the end of the third quarter of 2022 with an equity ratio of 59.1%. Furthermore, cash and deposits totaled 7,878 million yen and there is a 2,500 million yen overdraft facility. As a result, there are no concerns about liquidity.

There is a committed credit facility of 10 billion yen with several financial institutions that include a number of financial covenants. At the end of 2022, Senshukai may violate one of these covenants concerning the level of net assets. However, there were no loans using this credit facility at the end of the third quarter of 2022 and land, buildings and other assets have been submitted as collateral for the entire 10 billion yen of this credit facility. Some of these assets have also been used as collateral for long-term borrowings from these financial institutions that amounted to 3,100 million yen at the end of the third quarter of 2022. We plan to hold discussions with financial institutions about revising the terms of the credit facility and take other actions in order to continue receiving the support of these financial institutions.

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

The outlook for the business climate for the Senshukai Group remains uncertain because of shifts in consumer behavior caused by the pandemic, geopolitical risk involving the Ukraine crisis and other events, the yen's rapid depreciation, and other reasons. We plan to return to profitability in 2023 by continuing to adapt with flexibility to changes in the business climate and taking actions that are needed in a timely manner. From a longer perspective, our goal is to become an organization that can earn the support of customers for many years and meet the expectations of all stakeholders.

** 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.*