

Summary of Financial Results for the Second Quarter of Fiscal Year 2023 (Six Months Ended June 30, 2023)

[Japanese GAAP]

August 10, 2023

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Scheduled date of filing of Quarterly Report: August 14, 2023

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes (A video of this meeting is planned to be posted on the Senshukai website)

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

1. Consolidated Financial Results for the 2nd Quarter of 2023 (January 1, 2023 – June 30, 2023)

(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	%
2Q 2023	26,635	(6.2)	(3,157)	-	(3,268)	-	(3,264)	-
2Q 2022	28,389	-	(3,908)	-	(3,749)	-	(3,656)	-

Note: Comprehensive income (millions of yen) 2Q 2023: (2,873) (-%) 2Q 2022: (3,239) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
2Q 2023	(69.73)	-
2Q 2022	(77.99)	-

Note: Starting with the beginning 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 2Q 2022 incorporate this accounting standard and comparisons with 2Q 2022 are omitted.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
2Q 2023	33,815	19,146	56.6	408.87
Fiscal Year 2022	38,923	22,019	56.5	469.79

Reference: Shareholders' equity (millions of yen) 2Q 2023: 19,137 Fiscal Year 2022: 21,999

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2022	-	0.00	-	0.00	0.00
Fiscal Year 2023	-	0.00	-	-	-
Fiscal Year 2023 (forecasts)	-	-	-	0.00	0.00

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

3. Consolidated Outlook for Fiscal Year 2023 (January 1, 2023 – December 31, 2023)

(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 2023	55,000	(6.6)	(3,800)	-	(3,700)	-	(4,200)	-	(89.71)

Note: Revision to the most recently announced consolidated outlook: None

*** 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, (4) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)” on page 9 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)			
2Q 2023:	52,056,993 shares	Fiscal Year 2022:	52,056,993 shares
2) Number of treasury shares at the end of the period			
2Q 2023:	5,251,309 shares	Fiscal Year 2022:	5,229,999 shares
3) Average number of shares outstanding during the period			
2Q 2023:	46,814,264 shares	2Q 2022:	46,878,733 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.”

How to view supplementary information at the financial results meeting

A video of the meeting for the presentation of the financial results for the second quarter of 2023 is planned to be posted on the Senshukai website soon. In addition, materials used for this presentation will be disclosed using the Timely Disclosure network (TDnet) and will be posted on the Senshukai website.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	6
Quarterly Consolidated Statement of Income	
(For the Six-month Period)	6
Quarterly Consolidated Statement of Comprehensive Income	
(For the Six-month Period)	7
(3) Quarterly Consolidated Statement of Cash Flows	8
(4) Notes to Quarterly Consolidated Financial Statements	9
(Going Concern Assumption)	9
(Significant Changes in Shareholders' Equity)	9
(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)	9
(Additional Information)	9
(Segment Information)	10
(Significant Subsequent Event)	11
3. Other	12

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half (January 1 to June 30) of 2023, the Japanese economy is showing a gradual recovery trend against the backdrop of an improved corporate earnings and income environment as economic activity returns to normal with the easing of restrictions triggered by COVID-19. However, the outlook remains uncertain due to a marked rise in commodity prices caused by soaring global resource prices and exchange rate fluctuations as well as concerns about rising geopolitical risks.

In the retail industry, while the use of e-commerce for purchasing goods became more established, greater opportunities to go outside have led consumers to increasingly shop at physical stores, and the use of mail-order and online shopping has declined in reaction to this.

In this business environment, during the first half of 2023, the Group focused on implementing the measures set forth in its medium-term management plan, including a digital shift of the mail-order and online shopping business, profit structure reforms, and co-creation with partner companies. Although the effects of these measures are steadily emerging, Belle Maison, the Group's core mail-order and online shopping business, did not achieve sufficient cost efficiency in acquiring orders to achieve its plan in the first half, and sales fell below the level of the first half of 2022. As a result, net sales in the first half of 2023 decreased 6.2% YoY to 26,635 million yen, operating loss was 3,157 million yen (compared with a loss of 3,908 million yen in the first half of 2022), and ordinary loss was 3,268 million yen (compared with a loss of 3,749 million yen in the first half of 2022). Loss attributable to owners of parent was 3,264 million yen (compared with a loss of 3,656 million yen in the first half of 2022).

Business segment performance was as follows.

(Mail-order and Online Shopping Business)

In the mail-order and online shopping business, which primarily uses catalogs and the Internet, the Group shifted sales promotion expenses from catalogs to digital during the first half of 2023 and proactively implemented various measures. Although the shift to digital is showing signs of success, the return rate of existing members (re-purchases during the first half) was lower than expected. As a result, consolidated sales in the mail-order and online shopping business decreased 5.2% YoY to 23,830 million yen in the first half of 2023. There was an operating loss of 3,315 million yen compared with a loss of 4,042 million yen in the first half of 2022.

(Corporates Business)

Consolidated sales in the corporates business, which provides products and services to corporations, decreased 16.7% YoY to 1,846 million yen in the first half of 2023. Operating profit decreased 94.5% YoY to 5 million yen. The outsourcing services for logistics operations did not grow as expected.

(Insurance Business)

This business provides support, mainly to Belle Maison members, for choosing the most suitable insurance policies. Consolidated sales increased 8.2% YoY to 231 million yen in the first half of 2023 and operating profit increased 19.5% to 115 million yen.

(Others)

Consolidated sales in other businesses, which include the childcare support business, decreased 10.6% YoY to 726 million yen in the first half of 2023. Operating profit was 36 million yen compared with a loss of 70 million yen in the first half of 2022.

(2) Explanation of Financial Position

(Balance sheet position)

Assets totaled 33,815 million yen at the end of the second quarter of 2023, a decrease of 5,107 million yen from the end of 2022.

Current assets decreased 4,977 million yen to 19,610 million yen. The factors included decreases of 2,110 million yen in accounts receivable-other and 2,005 million yen in cash and deposits. Non-current assets decreased 130 million yen to 14,204 million yen. The factors included decreases of 81 million yen in property, plant and equipment and 174 million yen in intangible assets, while there was an increase of 126 million yen in investments and other assets.

Current liabilities decreased 1,993 million yen to 11,108 million yen. The factors included decreases of 994 million yen in accounts payable-trade and 825 million yen in other. Non-current liabilities decreased 241 million yen to 3,560 million yen. The main factors included a decrease of 310 million yen in long-term borrowings.

Net assets decreased 2,873 million yen to 19,146 million yen. The factors included booking of loss attributable to owners of parent of 3,264 million yen. As a result, the equity ratio was 56.6%.

(Cash flow position)

The balance of cash and cash equivalents at the end of the second quarter of 2023 was 7,282 million yen, a decrease of 2,005 million yen from the end of 2022.

Operating activities used net cash of 1,691 million yen (net cash used of 4,079 million yen in the same period of 2022). The main cash inflows include a decrease in other current liabilities of 1,837 million yen. The main cash outflows include loss before income taxes of 3,348 million yen, a decrease in trade payables of 996 million yen and a decrease in other current liabilities of 938 million yen.

Investing activities provided net cash of 4 million yen (net cash used of 273 million yen in the same period of 2022). The main cash inflows include proceeds from collection of loans receivable of 72 million yen. The main cash outflows include 79 million yen for the purchase of intangible assets and 74 million yen for purchase of property, plant and equipment.

Financing activities used net cash of 368 million yen (net cash provided of 482 million yen in the same period of 2022). The main cash outflows were repayments of long-term borrowings of 310 million yen.

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

Senshukai currently maintains its consolidated forecasts for fiscal year 2023 (January 1, 2023 to December 31, 2023) that was released on June 23, 2023.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Millions of yen)

	Fiscal Year 2022 (As of Dec. 31, 2022)	2Q 2023 (As of Jun. 30, 2023)
Assets		
Current assets		
Cash and deposits	9,287	7,282
Notes and accounts receivable-trade, and contract assets	1,940	1,981
Merchandise and finished goods	6,871	6,148
Accounts receivable-other	5,147	3,036
Other	1,423	1,353
Allowance for doubtful accounts	(82)	(192)
Total current assets	24,587	19,610
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,804	3,735
Land	5,402	5,402
Other, net	123	110
Total property, plant and equipment	9,331	9,249
Intangible assets		
Other	1,465	1,290
Total intangible assets	1,465	1,290
Investments and other assets		
Investment securities	2,417	2,643
Other	1,157	1,022
Allowance for doubtful accounts	(37)	(1)
Total investments and other assets	3,538	3,664
Total non-current assets	14,335	14,204
Total assets	38,923	33,815

	(Millions of yen)	
	Fiscal Year 2022 (As of Dec. 31, 2022)	2Q 2023 (As of Jun. 30, 2023)
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	4,872	4,799
Accounts payable-trade	2,465	1,470
Short-term borrowings	620	620
Income taxes payable	19	29
Contract liabilities	589	480
Provision for bonuses for directors (and other officers)	5	-
Provision for sales promotion expenses	-	6
Provision for bonuses	31	30
Other	4,496	3,670
Total current liabilities	13,101	11,108
Non-current liabilities		
Long-term borrowings	3,285	2,975
Retirement benefit liability	6	6
Other	510	579
Total non-current liabilities	3,802	3,560
Total liabilities	16,903	14,669
Net assets		
Shareholders' equity		
Share capital	100	100
Capital surplus	30,084	30,084
Retained earnings	(4,108)	(7,372)
Treasury shares	(2,953)	(2,953)
Total shareholders' equity	23,122	19,857
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	286	473
Deferred gains or losses on hedges	51	243
Revaluation reserve for land	(1,516)	(1,516)
Foreign currency translation adjustment	56	79
Total accumulated other comprehensive income	(1,123)	(719)
Non-controlling interests	20	8
Total net assets	22,019	19,146
Total liabilities and net assets	38,923	33,815

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

	(Millions of yen)	
	2Q 2022	2Q 2023
	(Jan. 1, 2022 – Jun. 30, 2022)	(Jan. 1, 2023 – Jun. 30, 2023)
Net sales	28,389	26,635
Cost of sales	14,400	13,177
Gross profit	13,989	13,458
Selling, general and administrative expenses	17,897	16,615
Operating loss	(3,908)	(3,157)
Non-operating income		
Interest and dividend income	21	20
Share of profit of entities accounted for using equity method	4	-
Gain on adjustment of account payable	89	96
Other	223	171
Total non-operating income	338	289
Non-operating expenses		
Interest expenses	23	24
Share of loss of entities accounted for using equity method	-	2
Commission expenses	98	174
Penalty loss	-	139
Other	56	60
Total non-operating expenses	178	400
Ordinary loss	(3,749)	(3,268)
Extraordinary income		
Gain on sale of investment securities	-	3
Gain on sale of shares of subsidiaries and associates	134	-
Subsidy income	187	-
Total extraordinary income	321	3
Extraordinary losses		
Loss on sale and retirement of non-current assets	4	4
Loss on tax purpose reduction entry of non-current assets	172	-
Impairment losses	-	79
Total extraordinary losses	176	83
Loss before income taxes	(3,604)	(3,348)
Income taxes	52	(72)
Loss	(3,656)	(3,276)
Loss attributable to non-controlling interests	(0)	(11)
Loss attributable to owners of parent	(3,656)	(3,264)

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

	(Millions of yen)	
	2Q 2022	2Q 2023
	(Jan. 1, 2022 – Jun. 30, 2022)	(Jan. 1, 2023 – Jun. 30, 2023)
Loss	(3,656)	(3,276)
Other comprehensive income		
Valuation difference on available-for-sale securities	15	186
Deferred gains or losses on hedges	391	192
Foreign currency translation adjustment	3	12
Share of other comprehensive income of entities accounted for using equity method	6	11
Total other comprehensive income	416	403
Comprehensive income	(3,239)	(2,873)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(3,239)	(2,861)
Comprehensive income attributable to non-controlling interests	(0)	(11)

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	2Q 2022 (Jan. 1, 2022 – Jun. 30, 2022)	2Q 2023 (Jan. 1, 2023 – Jun. 30, 2023)
Cash flows from operating activities		
Loss before income taxes	(3,604)	(3,348)
Depreciation	730	372
Impairment losses	-	79
Increase (decrease) in allowance for doubtful accounts	(41)	73
Increase (decrease) in provision for bonuses	17	(0)
Increase (decrease) in provision for sales promotion expenses	30	6
Interest and dividend income	(21)	(20)
Interest expenses	23	24
Share of loss (profit) of entities accounted for using equity method	(4)	2
Loss (gain) on sale and retirement of non-current assets	4	4
Loss on tax purpose reduction entry of non-current assets	172	-
Loss (gain) on sale of investment securities	-	(3)
Loss (gain) on sale of shares of subsidiaries and associates	(134)	-
Subsidy income	(187)	-
Decrease (increase) in trade receivables	(170)	(26)
Decrease (increase) in inventories	267	719
Decrease (increase) in other current assets	1,837	1,837
Increase (decrease) in trade payables	(1,500)	(996)
Increase (decrease) in contract liabilities	104	(109)
Increase (decrease) in other current liabilities	(1,914)	(938)
Other, net	172	595
Subtotal	(4,218)	(1,729)
Interest and dividends received	50	59
Interest paid	(22)	(23)
Income taxes refund (paid)	111	2
Net cash provided by (used in) operating activities	(4,079)	(1,691)
Cash flows from investing activities		
Purchase of property, plant and equipment	(40)	(74)
Purchase of intangible assets	(1,166)	(79)
Subsidies received	187	0
Purchase of investment securities	(15)	-
Proceeds from sale of investment securities	-	3
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	626	-
Proceeds from collection of loans receivable	30	72
Other, net	103	81
Net cash provided by (used in) investing activities	(273)	4
Cash flows from financing activities		
Proceeds from long-term borrowings	1,000	-
Repayments of long-term borrowings	(340)	(310)
Proceeds from share issuance to non-controlling shareholders	31	-
Dividends paid	(186)	(0)
Repayments of installment payables	-	(43)
Other, net	(22)	(14)
Net cash provided by (used in) financing activities	482	(368)
Effect of exchange rate change on cash and cash equivalents	82	50
Net increase (decrease) in cash and cash equivalents	(3,787)	(2,005)
Cash and cash equivalents at beginning of period	15,665	9,287
Cash and cash equivalents at end of period	11,878	7,282

(4) Notes to Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(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.

(Additional Information)

(Application of the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System)

Senshukai and some of its consolidated subsidiaries in Japan have transitioned from the consolidated tax system to the group tax sharing system from the first quarter of 2023. Consequently, the accounting treatment and disclosure of income tax, local income tax, and tax effect accounting are in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (Practical Solution No. 42, August 12, 2021; hereafter, Practical Issues Task Force (PITF) No. 42). Moreover, on the basis of PITF No. 42, Paragraph 32 (1), no impact is deemed to arise from changes in accounting policies as a result of the application of PITF No. 42. Regarding the accounting and disclosure of income tax, local income tax, and tax effect accounting, PITF No. 42 was applied from the end of 2022.

(Uncertainty of accounting estimates)

During the second quarter of 2023, the Japanese economy made progress in normalizing activity with the relaxation of restrictions on behavior imposed due to the COVID-19 pandemic. However, the outlook remains uncertain due to a combination of prolonged geopolitical risks such as the situation in Ukraine, rising prices resulting from soaring energy and raw material costs, and tightening of global financial conditions to control inflation. Senshukai assumes that these factors will have only a limited effect on accounting estimates. Although Senshukai is using the best possible estimates based on information that is currently available, a change in the business climate or problems may have an effect on the financial condition, results of operations and cash flows of the Senshukai Group.

(Segment Information)

I 2Q 2022 (Jan. 1, 2022 – Jun. 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	25,145	2,217	214	27,577	811	28,389	-	28,389
Inter-segment sales or transfers	118	20	-	139	0	139	(139)	-
Total	25,263	2,238	214	27,716	812	28,529	(139)	28,389
Segment profit (loss)	(4,042)	107	97	(3,837)	(70)	(3,908)	-	(3,908)

Notes: 1. Others represent the businesses which are not included in any of the 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.

II 2Q 2023 (Jan. 1, 2023 – Jun. 30, 2023)

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	23,830	1,846	231	25,909	726	26,635	-	26,635
Inter-segment sales or transfers	120	24	-	144	0	145	(145)	-
Total	23,950	1,871	231	26,054	726	26,780	(145)	26,635
Segment profit (loss)	(3,315)	5	115	(3,193)	36	(3,157)	-	(3,157)

Notes: 1. Others represent the businesses which are not included in any of the reportable segments and consist of the childcare support business. The manufacturing and sales of cosmetics business, which was included in Others, was excluded from the scope of consolidation following the sales of all of the shares of Huit laboratories, Inc. held by the Company on April 1, 2022.

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

(Significant Subsequent Events)

(Changes in contractual terms in commitment line agreement)

Due to an increased likelihood of breaching the financial covenants in the commitment line agreement as stated in notes to the quarterly consolidated balance sheet in the Quarterly Report for the first quarter of the fiscal year ending December 31, 2023, based on a resolution of the Board of Directors' meeting held on August 4, 2023, the Group reached an agreement with the financial institutions on August 9, 2023, to reduce the total committed amount and reassess the content of the financial covenants in the commitment line agreement, which totals 10,000 million yen. The term of the agreement is unchanged.

1. Total commitment amount after change: 8,000 million yen
2. Release of collateral on investment securities
3. Removal of financial covenant clauses
4. Interest rate after the change

Base rate + spread (an additional 0.5% will be added if the operating loss reported in the consolidated statement of income for the fiscal year ending December 31, 2023, is greater than 3,800 million yen)

(Renewal of overdraft agreement)

In accordance with a resolution of the Board of Directors' meeting held on July 14, 2023, in order to cope with the impact on the Company of deteriorating consumer confidence due to price increases of daily necessities and the increasingly competitive business environment stemming from the rising number of new entrants into mail order and online shopping, on August 4, 2023, the Company renewed the term of the special overdraft agreement with the financial institution it does business with for 3,000 million yen. The details of the renewal are as follows.

Lender: Sumitomo Mitsui Banking Corporation

Contract signing date: August 4, 2023

Contract maturity date: July 31, 2024

3. Other

(Important Matters Regarding Going Concern Assumption, etc.)

Due to issues related to the replacement of our core system implemented in January 2022, the Senshukai Group experienced a significant fall in sales for 2022 when compared to 2021. We recorded substantial losses in 2022, with an operating loss of 8,139 million yen, ordinary loss of 7,889 million yen, and loss attributable to owners of parent of 10,976 million yen. In the first half of 2023, the Group recorded an operating loss of 3,157 million yen, ordinary loss of 3,268 million yen, and loss attributable to owners of parent of 3,264 million yen. These circumstances raise significant doubts about the Group's ability to continue as a going concern. The Group is taking the following measures to resolve this situation.

(Measures to improve results of operations)

The Senshukai Group will continue to focus on numerous measures to improve results of operations. To achieve an early return to profitability, the main objective is the transformation of the group's business model by placing priority on goals of the medium-term management 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. As part of these efforts, we have been creating banners, developing landing pages (pages to which advertisements are linked), and enhancing product details aligned with the sales funnel for our targeted products, which has resulted in improved session numbers and conversion rates for these products.

Moving forward, in web advertising, we will undertake promotions that not only promote single products but also lead to "lifestyle proposals" in order to improve efficiency and maximize effectiveness.

(2) Profit structure reforms

By moving away from traditional catalog-optimized business operations towards carefully selecting products and narrowing down the number of types, we will further refine our proposals for original products and services that meet customer needs, streamline business operations such as product development and inventory management, and improve gross profit margins.

Regarding the commitment of sales promotion expenses, we will build a high-quality membership base by emphasizing measures that not only acquire new members but also foster deeper relationships with existing members, leading to maximize the retention rate and purchase frequency.

As part of these measures, the "kimawari" merchandise purchasing service, which had its grand opening in November 2022, has contributed to an increase in the product purchase rate after the use of this service. As one of the key measures to improve Belle Maison's profitability, we will accelerate efforts to strengthen the system and expand the range of products to be purchased.

In addition, in the high-margin advertising solutions business, we will develop a new advertising menu utilizing Belle Maison Net, one of Japan's largest e-commerce sites in terms of female members, to improve the profitability of the entire group.

(3) Co-creation with partner companies

Our collaboration with East Japan Railway Company (JR East) is making steady progress. The Belle Maison JRE MALL store has become the main store on JR East's e-commerce site JRE MALL, and Iihana Dot Com and Kurasu Gourmet operated by the Senshukai Group have also opened stores to increase sales. The in-station Disney Fantasy Shop by Belle Maison is also performing well, driven by a recovery in railroad traffic and an increase in demand from foreign tourists visiting Japan. In addition, business synergies have been expanding since our distribution center took over the online shopping logistics of LUMINE Co., Ltd. from April.

The aforementioned “kimawari” merchandise purchasing service, co-created with Aucnet Inc. for information distribution support services, is positioned as a strategy to strengthen ties between customers and the Belle Maison brand.

As for other services, we are building a system that enables ordering and payment for services provided by partner companies on Belle Maison Net, based on a system replaced in 2022 that will enable flexible development. As the first such service, the existing home-delivery laundry and dry-cleaning service was revamped and sales commenced from May. Going forward, we intend to expand this system and develop a menu of services pleasing to our customers that goes beyond the traditional handling of goods in order to build a structure that will allow Belle Maison fans to use our services on a continuous basis.

Senshukai’s financial position was sound as of the end of the second quarter of 2023 with an equity ratio of 56.6%. Furthermore, cash and deposits totaled 7,282 million yen and there is a 5,000 million yen overdraft facility. Regarding this amount, no due date has been set for the sum of 2,000 million yen and the contractual due date of April 26, 2024, for the sum of 3,000 million yen has been extended to July 31, 2024, as stated in the Significant Subsequent Events section. In all cases, there were no borrowings outstanding at the end of the second quarter of 2023. As a result, there are no concerns about liquidity.

Moreover, Senshukai has entered into a commitment line agreement totaling 10,000 million yen with financial institutions. However, due to an increased likelihood of breaching the financial covenants in the commitment line agreement as stated in notes to the quarterly consolidated balance sheet in the Quarterly Report for the first quarter of the fiscal year ending December 31, 2023, we reached an agreement with the financial institutions on August 9, 2023, regarding a reassessment of the content. As a result, we have removed the financial covenant clauses of this agreement, released the collateral for investment securities, and revised the total amount to 8,000 million yen. The expiration date of this agreement remains unchanged on March 29, 2024, with the option to borrow for a maximum of six months from the execution date. There were no borrowings outstanding under this agreement at the end of the second quarter of 2023, and we will 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.

We plan to return to profitability at an early stage 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.*