

Consolidated Financial Results for the Six Months Ended February 28, 2019 [Japanese GAAP]



April 10, 2019

Company name: ANAP INC.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 3189
 URL: <http://www.anap.co.jp/>
 Representative: Toshiyasu Yataka, President & Representative Director
 Contact: Masayuki Ohya, Executive Officer, General Manager of Corporate Planning Department
 Phone: +81-3-5772-2717
 Scheduled date of filing quarterly securities report: April 12, 2019
 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on quarterly financial results: None
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended February 28, 2019 (September 1, 2018 to February 28, 2019)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary profit | | Profit attributable to owners of parent | |
|-------------------|-------------|---|------------------|---|-----------------|---|---|---|
| Six months ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| February 28, 2019 | 2,994 | - | (11) | - | (10) | - | (22) | - |
| February 28, 2018 | - | - | - | - | - | - | - | - |

Note: Comprehensive income: Six months ended February 28, 2019: ¥(27) million [- %]

Six months ended February 28, 2018: ¥- million [- %]

| | Basic earnings per share | Diluted earnings per share |
|-------------------|--------------------------|----------------------------|
| Six months ended | Yen | Yen |
| February 28, 2019 | (5.16) | - |
| February 28, 2018 | - | - |

- Notes: 1. As the Company began preparing quarterly consolidated financial statements from the nine months ended May 31, 2018, consolidated operating results for the six months ended February 28, 2018 and changes from the previous corresponding period for the six months ended February 28, 2019 are not stated.
2. Diluted earnings per share for the six months ended February 28, 2019 are not stated because it was a loss per share, despite the existence of dilutive shares.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|-------------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| As of February 28, 2019 | 2,493 | 1,586 | 63.4 |
| As of August 31, 2018 | 2,903 | 1,848 | 63.3 |

Reference: Equity: As of February 28, 2019: ¥1,580 million

As of August 31, 2018: ¥1,836 million

2. Dividends

| | Annual dividends | | | | |
|---|------------------|-----------------|-----------------|-------------|-------------|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
| Fiscal year ended August 31, 2018 | Yen - | Yen 0.00 | Yen - | Yen 6.00 | Yen 6.00 |
| Fiscal year ending August 31, 2019 | - | 0.00 | | | |
| Fiscal year ending August 31, 2019 (Forecast) | | | - | 6.00 | 6.00 |

Note: Revision to the most recently announced dividend forecast: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2019 (September 1, 2018 to August 31, 2019)

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary profit | | Profit attributable to owners of parent | | Basic earnings per share |
|-----------|-------------|-----|------------------|-----|-----------------|-------|---|-----|--------------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 7,107 | 7.2 | 356 | 2.0 | 319 | (6.2) | 265 | 3.8 | 61.31 |

Note: Revision to the most recently announced financial results forecast: No

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Accounting policies adopted specially for the preparation of the quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of shares issued (common shares)
 - 1) Total number of shares issued at the end of the period (including treasury shares):
 - February 28, 2019: 4,760,000 shares
 - August 31, 2018: 4,760,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - February 28, 2019: 469,339 shares
 - August 31, 2018: 219,339 shares
 - 3) Average number of shares during the period:
 - Six months ended February 28, 2019: 4,358,605 shares
 - Six months ended February 28, 2018: 4,315,771 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation on the proper use of the financial results forecast and other notes

Note on forward-looking statements, etc.

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document. The Company makes no warranty as to the achievability of these forecasts. Actual results may differ significantly from these forecasts due to various factors. Please refer to P. 4 "1. Qualitative Information on Quarterly Financial Results for the Period under Review (3) Explanation on Consolidated Financial Results Forecast and Other Forward-looking Information" of the Appendix.

Table of Contents

| | |
|--|---|
| 1. Qualitative Information on Quarterly Financial Results for the Period under Review | 2 |
| (1) Explanation on Business Results | 2 |
| (2) Explanation on Financial Position | 3 |
| (3) Explanation on Consolidated Financial Results Forecast and Other Forward-looking Information | 4 |
| 2. Quarterly Consolidated Financial Statements and Primary Notes | 5 |
| (1) Quarterly Consolidated Balance Sheets | 5 |
| (2) Quarterly Consolidated Statements of Income and Comprehensive Income | 6 |
| Quarterly Consolidated Statements of Income | |
| Six Months Ended February 28 | 6 |
| Quarterly Consolidated Statements of Comprehensive Income | |
| Six Months Ended February 28 | 7 |
| (3) Quarterly Consolidated Statements of Cash Flows | 8 |
| (4) Notes to the Quarterly Consolidated Financial Statements | 9 |
| Notes on going concern assumption | 9 |
| Notes in the case of significant changes in shareholders' equity | 9 |
| Segment information | 9 |

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation on Business Results

The Japanese economy during the six months ended February 28, 2019 followed a moderate recovery trend as corporate earnings and the employment environment continued to improve. Meanwhile, a sense of uncertainty about the economic outlook persisted amid unease in the global economy including the intensified trade friction between the U.S. and China, the economic downturn in Europe, the Brexit issue, and other unpredictable economic trends and policies.

In the casual fashion industry where the Company operates, the operating environment continued to be severe due to labor shortages and soaring logistics costs, in addition to intensifying competition with excessive provision of services by other companies.

Under these circumstances, the revitalization project launched in April 2016 has largely been completed in the previous fiscal year, and the Company is steering toward a growth strategy for further business expansion in the fiscal year under review.

The Company's focus has mainly been to rapidly improve operational efficiency through e-commerce, AI, and other technologies, as well as to expand the projects developed by consolidated subsidiary ATLAB. As the first half was devoted to upfront investment, the Company foresees positive effects to appear in sales and profit from the second half, and current figures are progressing generally favorably against the plan.

As a result, for the six months ended February 28, 2019, net sales were ¥2,994 million, operating loss was ¥11 million, ordinary loss was ¥10 million, and loss attributable to owners of parent was ¥22 million.

As the Company did not prepare quarterly consolidated financial statements for the previous corresponding period, comparisons with the previous corresponding period are not available.

Operating results by business segment are as follows.

Internet Retailing Business

In the Internet Retailing Business, in order to keep the competitors' services at bay, the Company has continued to improve usability through efforts such as a systematic reconstruction of the Company's website using cutting-edge technology and internalizing the app production process from May 2019. It was a period of prior investment for the segment.

As a result, net sales were ¥1,706 million and segment profit was ¥98 million.

Store Retailing Business

In the Store Retailing Business, with the closing of three stores since the end of the previous fiscal year, the Company's store count was 29 at the end of the second quarter. Although the store closing conducted in and before the previous year still had an impact on sales, existing stores are performing well ever since the previous fiscal year, creating a steady profit trend supported also by the cost reduction effect from store closing.

As a result, net sales were ¥1,147 million and segment profit was ¥57 million.

Wholesale Distribution Business

In the Wholesale Distribution Business, sales have been steady with increased sales to new major customers.

As a result, net sales were ¥113 million and segment loss was ¥7 million.

(2) Explanation on Financial Position

1) Status of assets, liabilities, and net assets

Current assets

Current assets as of the end of the second quarter decreased by ¥517 million from the end of the previous fiscal year to ¥1,883 million. This is mainly attributable to decreases in cash and deposits and notes and accounts receivable – trade by ¥431 million and ¥168 million, respectively, in spite of an increase in merchandise and finished goods by ¥68 million.

Non-current assets

Non-current assets as of the end of the second quarter increased by ¥107 million from the end of the previous fiscal year to ¥609 million. This is mainly attributable to increases in property, plant and equipment, intangible assets, and lease and guarantee deposits by ¥13 million, ¥12 million, and ¥91 million, respectively.

Deferred assets

Deferred assets as of the end of the second quarter decreased by ¥0 million from the end of the previous fiscal year to ¥0 million.

Current liabilities

Current liabilities as of the end of the second quarter decreased by ¥132 million from the end of the previous fiscal year to ¥618 million. This is mainly attributable to decreases in income taxes payable, asset retirement obligations, and other current liabilities by ¥28 million, ¥6 million, and ¥153 million, respectively, in spite of increases in accounts payable – trade and short-term loans payable by ¥7 million and ¥50 million, respectively.

Non-current liabilities

Non-current liabilities as of the end of the second quarter decreased by ¥16 million from the end of the previous fiscal year to ¥288 million. This is mainly attributable to a decrease in net defined benefit liability by ¥16 million.

Net assets

Net assets as of the end of the second quarter decreased by ¥261 million from the end of the previous fiscal year to ¥1,586 million. This is mainly attributable to decreases in retained earnings from loss attributable to owners of parents, cash dividends paid and purchase of treasury shares of ¥22 million, ¥27 million, and ¥206 million, respectively.

2) Status of cash flows

Cash and cash equivalents (hereinafter referred to as “net cash”) for the six months ended February 28, 2019 were ¥936 million. Cash flows for the six months ended February 28, 2019 and associated factors are described below.

Cash flows from operating activities

Net cash used in operating activities during the six months ended February 28, 2019 amounted to ¥17 million. This is mainly attributable to an increase due to a decrease in notes and accounts receivable – trade of ¥168 million and decreases due to loss before income taxes of ¥12 million, a decrease in net defined benefit liability of ¥16 million, an increase in inventories of ¥70 million, a decrease in accounts payable – other of ¥21 million, a decrease in accrued expenses of ¥17 million, a decrease in deposits received of ¥34 million, and income taxes paid of ¥28 million.

Cash flows from investing activities

Net cash used in investing activities during the six months ended February 28, 2019 amounted to ¥155 million. This is mainly attributable to an increase due to proceeds from collection of lease and guarantee deposits of ¥16 million and decreases due to purchase of property, plant and equipment of ¥21 million, payments for retirement of property, plant and equipment of ¥14 million, purchase of intangible assets of ¥23 million, and payments for lease and guarantee deposits of ¥107 million.

Cash flows from financing activities

Net cash used in financing activities during the six months ended February 28, 2019 amounted to ¥257 million. This is mainly attributable to an increase due to net increase in short-term loans payable of ¥50 million and decreases due to repayments of long-term loans payable of ¥69 million, purchase of treasury shares of ¥206 million, and cash dividends paid of ¥26 million.

(3) Explanation on Consolidated Financial Results Forecast and Other Forward-looking Information

No revisions have been made to the full year consolidated financial results forecast released in the “Consolidated Financial Results for the Fiscal Year Ended August 31, 2018 [Japanese GAAP]” on October 10, 2018.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

| | As of August 31, 2018 | As of February 28, 2019 |
|---|-----------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,368,115 | 936,763 |
| Notes and accounts receivable - trade | 428,691 | 260,558 |
| Merchandise and finished goods | 563,614 | 632,556 |
| Work in process | 1,248 | 1,759 |
| Raw materials and supplies | 3,769 | 5,128 |
| Other | 40,655 | 50,970 |
| Allowance for doubtful accounts | (4,663) | (3,882) |
| Total current assets | 2,401,431 | 1,883,853 |
| Non-current assets | | |
| Property, plant and equipment | 108,661 | 122,086 |
| Intangible assets | 59,442 | 71,841 |
| Investments and other assets | | |
| Lease and guarantee deposits | 209,391 | 300,700 |
| Other | 124,014 | 114,636 |
| Total investments and other assets | 333,406 | 415,336 |
| Total non-current assets | 501,510 | 609,265 |
| Deferred assets | 250 | 218 |
| Total assets | 2,903,192 | 2,493,338 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 197,736 | 205,348 |
| Short-term loans payable | 140,000 | 190,000 |
| Income taxes payable | 42,263 | 13,691 |
| Provision for bonuses | 35,000 | 35,000 |
| Provision for sales returns | 300 | – |
| Asset retirement obligations | 6,990 | – |
| Other | 328,161 | 174,352 |
| Total current liabilities | 750,452 | 618,392 |
| Non-current liabilities | | |
| Net defined benefit liability | 191,756 | 175,601 |
| Asset retirement obligations | 85,639 | 89,091 |
| Other | 27,203 | 23,677 |
| Total non-current liabilities | 304,599 | 288,370 |
| Total liabilities | 1,055,052 | 906,762 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 393,188 | 393,188 |
| Capital surplus | 716,654 | 716,654 |
| Retained earnings | 795,154 | 745,406 |
| Treasury shares | (68,678) | (275,013) |
| Total shareholders' equity | 1,836,318 | 1,580,236 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 620 | 343 |
| Total accumulated other comprehensive income | 620 | 343 |
| Non-controlling interests | 11,200 | 5,996 |
| Total net assets | 1,848,140 | 1,586,575 |
| Total liabilities and net assets | 2,903,192 | 2,493,338 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Six Months Ended February 28

(Thousand yen)

| | For the six months ended February 28, 2019 |
|--|---|
| Net sales | 2,994,367 |
| Cost of sales | 1,259,662 |
| Gross profit | 1,734,705 |
| Selling, general and administrative expenses | |
| Salaries and allowances | 414,100 |
| Provision for bonuses | 35,000 |
| Retirement benefit expenses | 17,348 |
| Business consignment expenses | 397,965 |
| Rents | 275,642 |
| Provision of allowance for doubtful accounts | (780) |
| Other | 606,768 |
| Total selling, general and administrative expenses | 1,746,044 |
| Operating loss | (11,339) |
| Non-operating income | |
| Interest income | 20 |
| Dividend income | 33 |
| Compensation income | 9,713 |
| Other | 1,049 |
| Total non-operating income | 10,816 |
| Non-operating expenses | |
| Interest expenses | 1,055 |
| Foreign exchange losses | 2,051 |
| Commission fee | 5,294 |
| Other | 1,160 |
| Total non-operating expenses | 9,561 |
| Ordinary loss | (10,084) |
| Extraordinary losses | |
| Impairment loss | 2,627 |
| Total extraordinary losses | 2,627 |
| Loss before income taxes | (12,711) |
| Income taxes - current | 3,485 |
| Income taxes - deferred | 11,510 |
| Total income taxes | 14,996 |
| Loss | (27,708) |
| Loss attributable to non-controlling interests | (5,204) |
| Loss attributable to owners of parent | (22,503) |

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended February 28

(Thousand yen)

| | For the six months ended February 28, 2019 |
|--|---|
| Loss | (27,708) |
| Other comprehensive income | |
| Valuation difference on available-for-sale securities | (277) |
| Total other comprehensive income | (277) |
| Comprehensive income | (27,985) |
| Comprehensive income attributable to | |
| Comprehensive income attributable to owners of parent | (22,780) |
| Comprehensive income attributable to non-controlling interests | (5,204) |

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

| | For the six months ended February 28, 2019 |
|--|---|
| Cash flows from operating activities | |
| Loss before income taxes | (12,711) |
| Depreciation | 26,727 |
| Impairment loss | 2,627 |
| Amortization of long-term prepaid expenses | 1,659 |
| Increase (decrease) in net defined benefit liability | (16,155) |
| Increase (decrease) in allowance for doubtful accounts | (780) |
| Interest and dividend income | (53) |
| Interest expenses | 1,055 |
| Foreign exchange losses (gains) | (16) |
| Decrease (increase) in notes and accounts receivable - trade | 168,133 |
| Decrease (increase) in inventories | (70,813) |
| Decrease (increase) in prepaid expenses | (9,364) |
| Increase (decrease) in notes and accounts payable - trade | 7,612 |
| Increase (decrease) in accounts payable - other | (21,005) |
| Increase (decrease) in accrued expenses | (17,525) |
| Increase (decrease) in accrued consumption taxes | (8,657) |
| Increase (decrease) in deposits received | (34,833) |
| Other, net | (13,757) |
| Subtotal | 2,141 |
| Interest and dividend income received | 53 |
| Interest expenses paid | (1,037) |
| Proceeds from compensation | 9,713 |
| Income taxes paid | (28,713) |
| Net cash provided by (used in) operating activities | (17,841) |
| Cash flows from investing activities | |
| Purchase of investment securities | (0) |
| Purchase of property, plant and equipment | (21,990) |
| Payments for retirement of property, plant and equipment | (14,277) |
| Purchase of intangible assets | (23,945) |
| Payments for lease and guarantee deposits | (107,384) |
| Proceeds from collection of lease and guarantee deposits | 16,075 |
| Purchase of long-term prepaid expenses | (4,464) |
| Net cash provided by (used in) investing activities | (155,987) |
| Cash flows from financing activities | |
| Net increase (decrease) in short-term loans payable | 50,000 |
| Repayments of long-term loans payable | (69,984) |
| Repayments of finance lease obligations | (4,315) |
| Purchase of treasury shares | (206,334) |
| Cash dividends paid | (26,904) |
| Net cash provided by (used in) financing activities | (257,539) |
| Effect of exchange rate change on cash and cash equivalents | 16 |
| Net increase (decrease) in cash and cash equivalents | (431,352) |
| Cash and cash equivalents at beginning of period | 1,368,115 |
| Cash and cash equivalents at end of period | 936,763 |

(4) Notes to the Quarterly Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Notes in the case of significant changes in shareholders' equity

Based on a Board of Directors' resolution made on October 10, 2018, the Company repurchased 250,000 treasury shares. As a result, treasury shares increased by ¥206 million during the six months ended February 28, 2019 to ¥275 million as of February 28, 2019.

Segment information

For the six months ended February 28, 2019

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

| | Reportable segment | | | | Other (Note 1) | Adjustment (Note 2) | Quarterly Consolidated Financial Statements (Note 3) |
|---|-----------------------------------|-----------------------------|---------------------------------------|-----------|-------------------|------------------------|--|
| | Internet Retailing Business | Store Retailing Business | Wholesale Distribution Business | Total | | | |
| Net sales | | | | | | | |
| Net sales to outside customers | 1,706,696 | 1,147,586 | 113,550 | 2,967,833 | 26,533 | – | 2,994,367 |
| Inter-segment net sales or transfers | – | – | – | – | – | – | – |
| Total | 1,706,696 | 1,147,586 | 113,550 | 2,967,833 | 26,533 | – | 2,994,367 |
| Segment profit (loss) | 98,325 | 57,201 | (7,031) | 148,495 | 7,002 | (166,837) | (11,339) |

- Notes:
1. "Other" is a segment for businesses that do not fall under any reportable segments such as the license business.
 2. The adjustment for segment profit (loss) includes corporate expenses of ¥166,837 thousand not allocated to reportable segments. These corporate expenses are mainly general and administrative expenses at the Company's administrative departments, etc. which do not belong to any reportable segments.
 3. Segment profit (loss) is reconciled with operating loss in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets or goodwill, etc. by reportable segment

Information is omitted due to lack of materiality.