



Quarterly Financial Results
for the Six Months Ended September 30, 2019

Vega corporation Co., Ltd.

■ Financial Highlight

Results Overview	2Q	Net sales:	3,356 million yen (113.0% YoY)
		Operating profit:	20 million yen ((95) million yen in previous 2Q)
	1H	Net sales:	6,676 million yen (105.3% YoY)
		Operating profit:	28 million yen ((23) million yen in previous 1H)

- **Net sales and ordinary profit increased** due to profit improvement, and the Company resumed advertisement investments after quickly **achieving profitability**

Sales increase

Sales boosted by advertisement investment and rush demand before the consumption tax hike

Gross margin improvement

Cost of sales ratio improvement through continuous review of sales prices and product lineup

Cost reductions

Fixed costs reduced by company-wide cost revisions

- **Net sales at the flagship store grew smoothly and its sales ratio exceeded 30%**

Access increase

The number of visitors increased after the resumption of efficient online advertising in 2Q

- **The Company released a string of new services it had developed leveraging new technology**

New services

LOWYA360 / LOWYA Search by Appearance

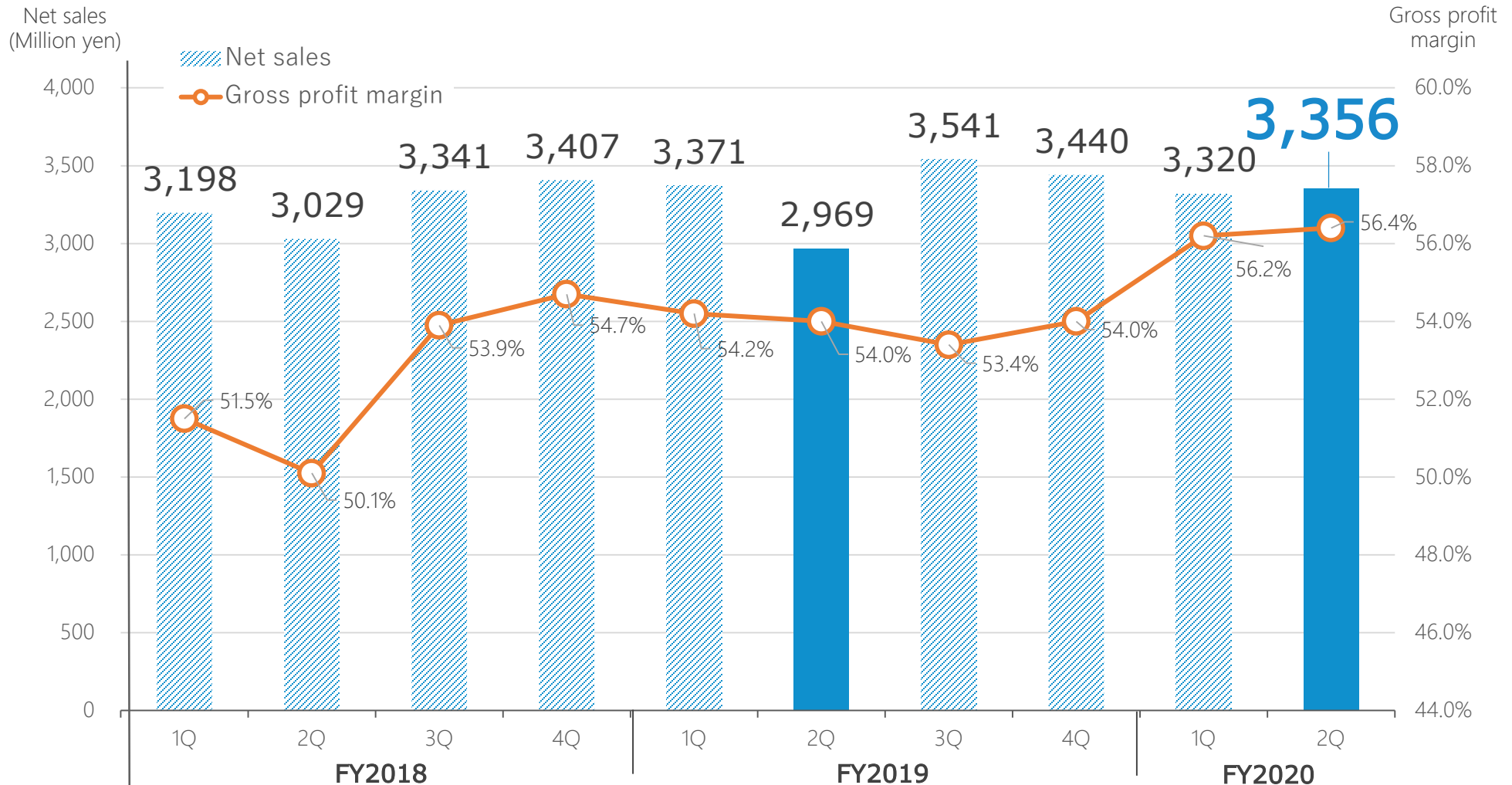
Considering that the economic outlook for the second half of the fiscal year is uncertain due to increasingly bearish consumer sentiment after the consumption tax hike and the effect of non-applicability of the cashless payment rebate program, the Company kept its full-year financial results forecasts unchanged.

Overview of Quarterly Financial Results for the Six Months Ended September 30, 2019

■ Quarterly Sales

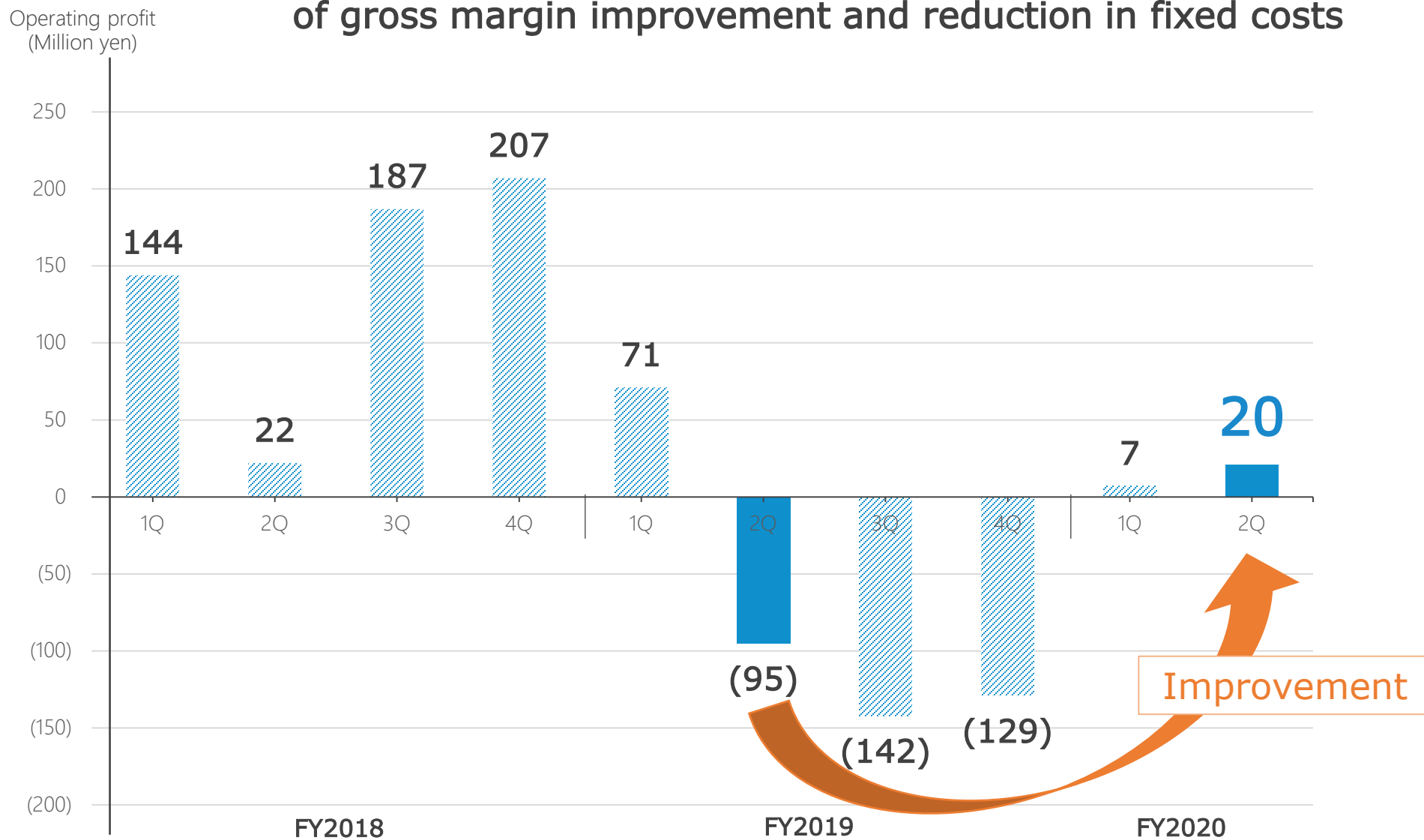
Net sales increased by 13.0% YoY

Gross margin improved as a result of sales price and product lineup revisions

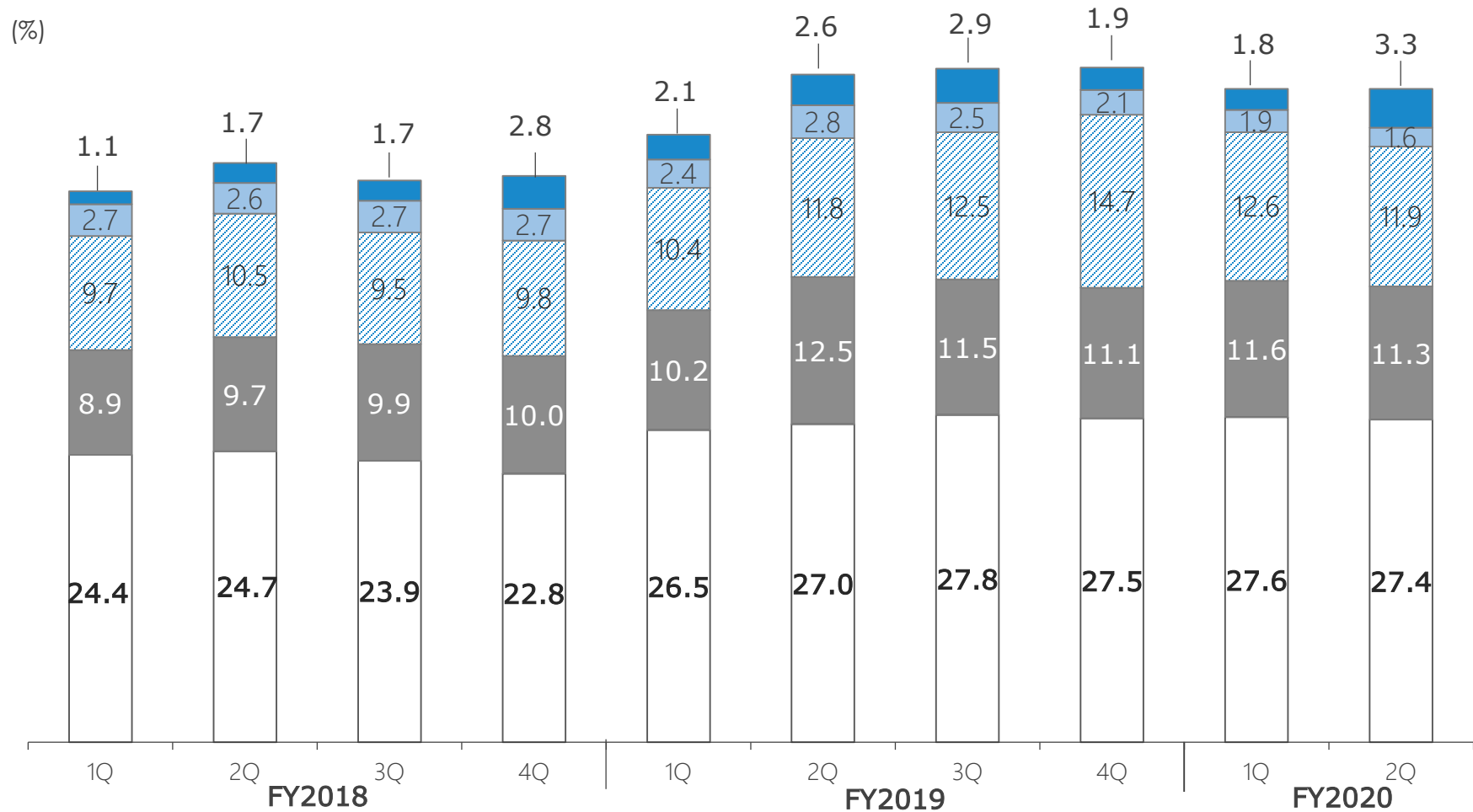


■ Quarterly Operating Profit

Operating profit increased by **115** million yen YoY due to the effects of gross margin improvement and reduction in fixed costs



■ Quarterly SG&A Expenses Ratio



■ Advertising expenses

■ R&D expenses (Note 1)

▨ Fixed costs

■ Personnel expenses (Note 2)

□ Selling expenses (Note 3)

(Note 1) Presented as the net amount of revenue and expenditures.

(Note 2) Includes salaries and allowances.

(Note 3) Includes sales commissions and packing and shipping costs.

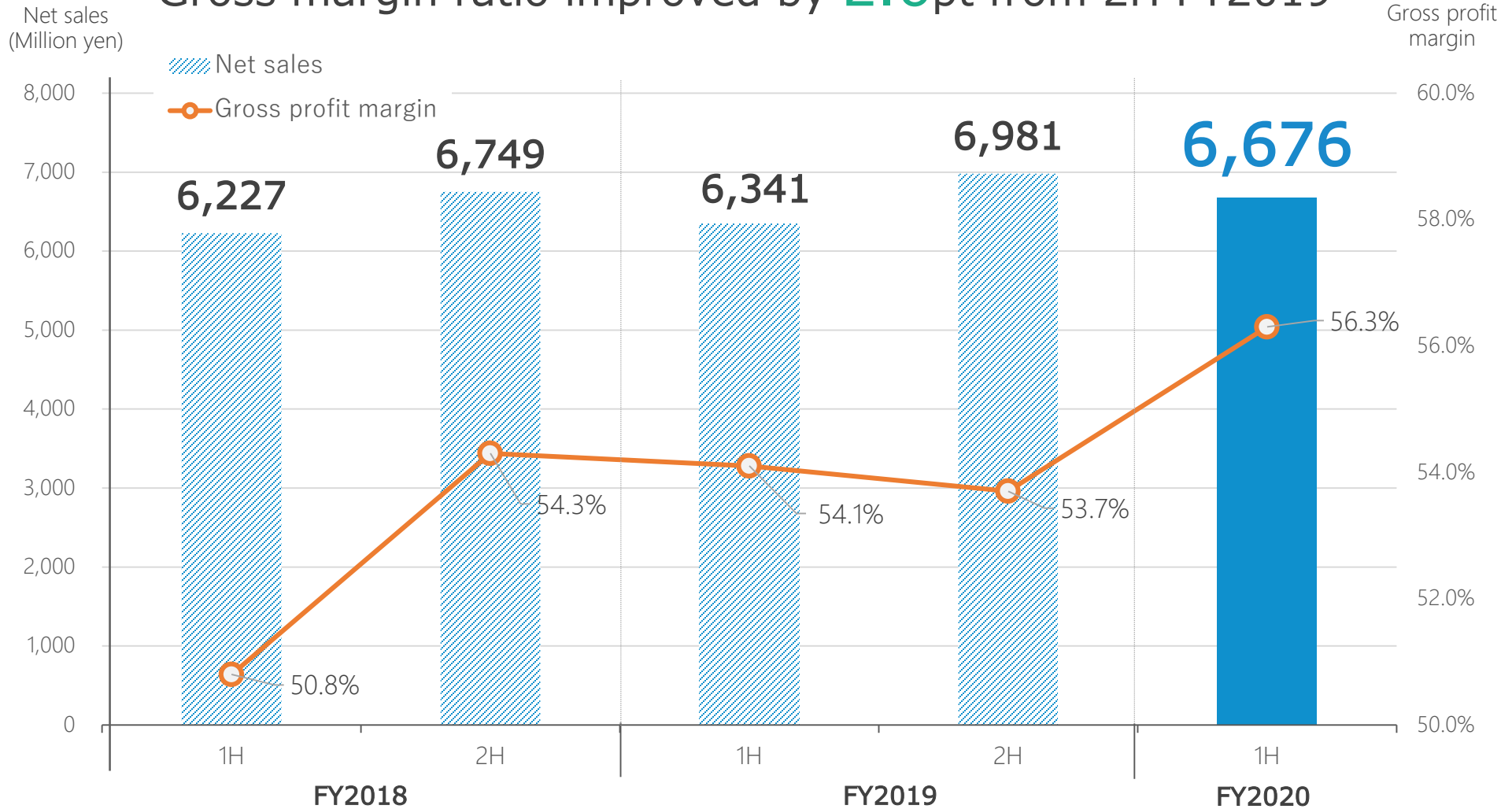
(*) The SG&A expense ratio shows the ratio against net sales.

Furthermore, revenue related to research and development expenses is excluded from net sales used as the basis for the calculation of the SG&A expense ratio, and therefore this data does not match the SG&A expense ratio on the statement of income.

■ Semiannual Sales

Net sales in 1H FY2020 increased by **5.3%** YoY

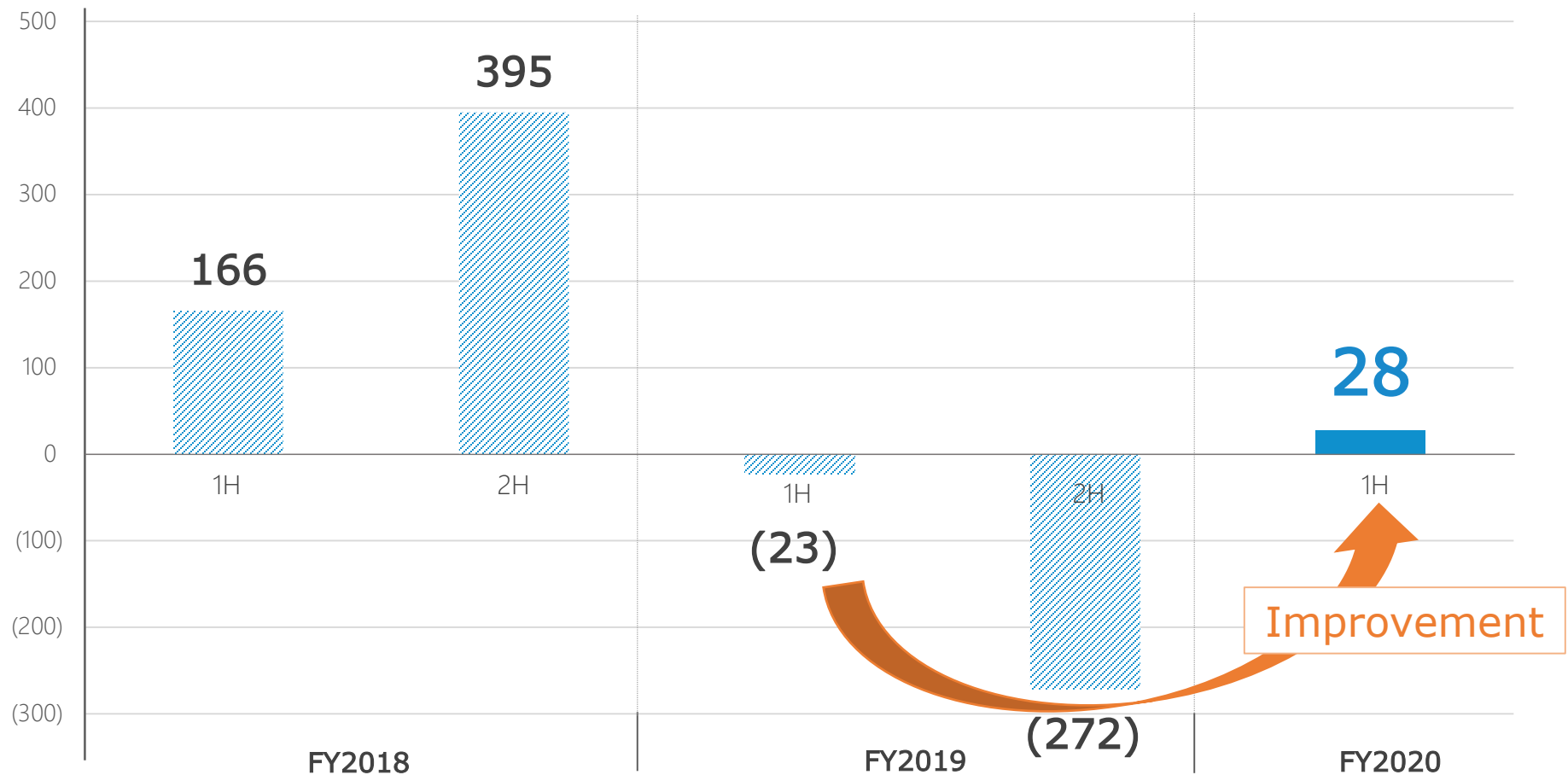
Gross margin ratio improved by **2.6pt** from 2H FY2019



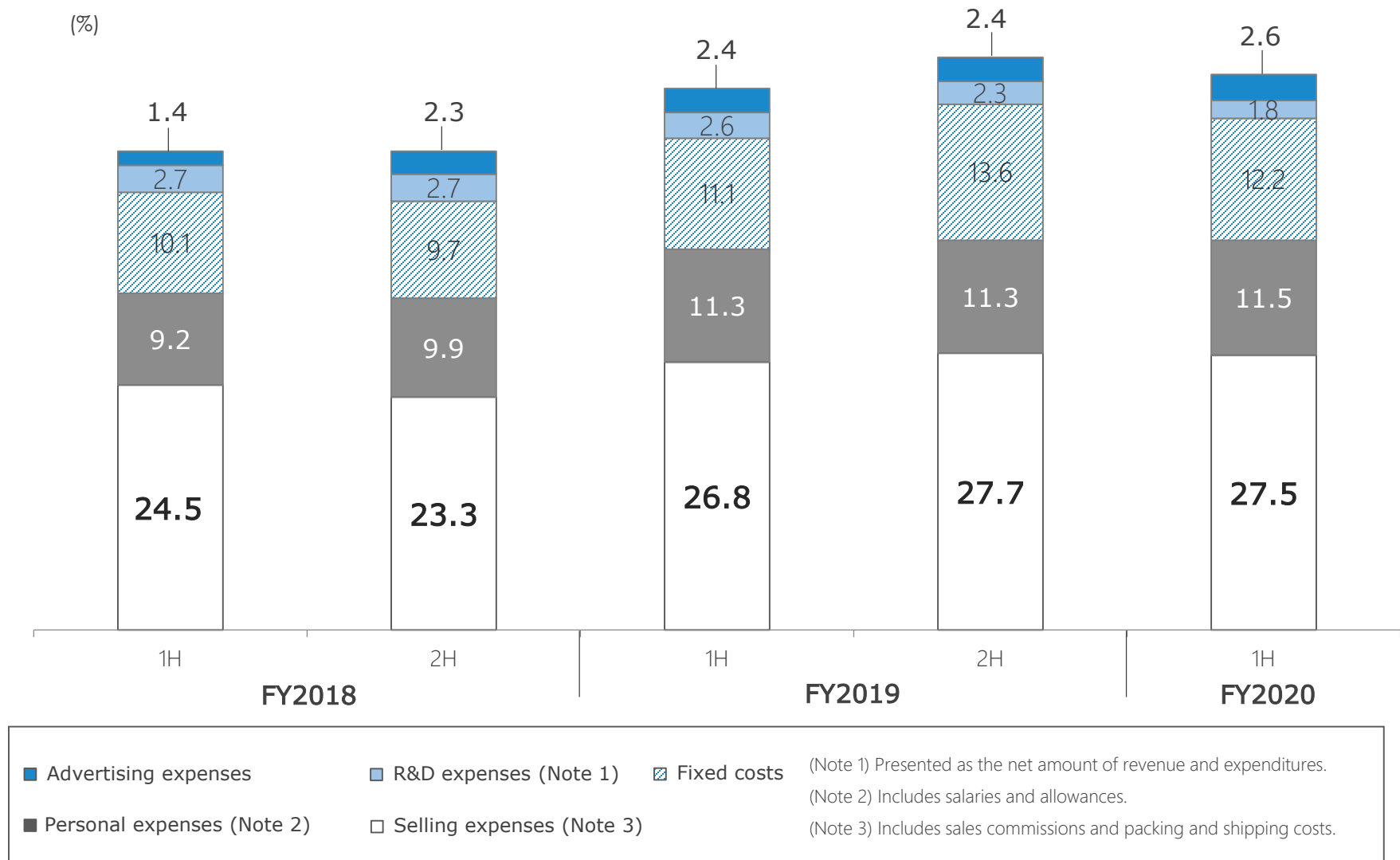
■ Semiannual Operating Profit

Profits improved as a result of a **51** million yen increase in operating profit compared to 1H FY2019 owing to the effects of a gross margin improvement and a reduction in fixed costs

Operating profit
(Million yen)



■ Semiannual SG&A Expenses Ratio



(*) The SG&A expense ratio shows the ratio against net sales.

Furthermore, revenue related to research and development expenses is excluded from net sales used as the basis for the calculation of the SG&A expense ratio, and therefore this data does not match the SG&A expense ratio on the statement of income.

■ Statement of Income

Net sales and ordinary profit increased YoY due to early profit improvement

(Million yen)

	Six months ended September 30, 2018	Sales ratio	Six months ended September 30, 2019	Sales ratio	Change	YoY
Net sales	6,341	100.0%	6,676	100.0%	+335	105.3%
Gross profit	3,432	54.1%	3,761	56.3%	+329	109.6%
SG&A expenses	3,455	54.5%	3,733	55.9%	+277	108.0%
Operating profit	(23)	—%	28	0.4%	+51	—%
Ordinary profit	(16)	—%	43	0.7%	+60	—%
Profit	(47)	—%	19	0.3%	+66	—%

(*) Audit procedures pursuant to the Financial Instruments and Exchange Act are in progress as of the date of disclosure of this document.

■ Balance Sheet

Product inventory decreased by 550 million yen as optimization of product inventory has progressed steadily since the end of the previous fiscal year

As cash and deposits also increased, the Company repaid 500 million yen in loans (Million yen)

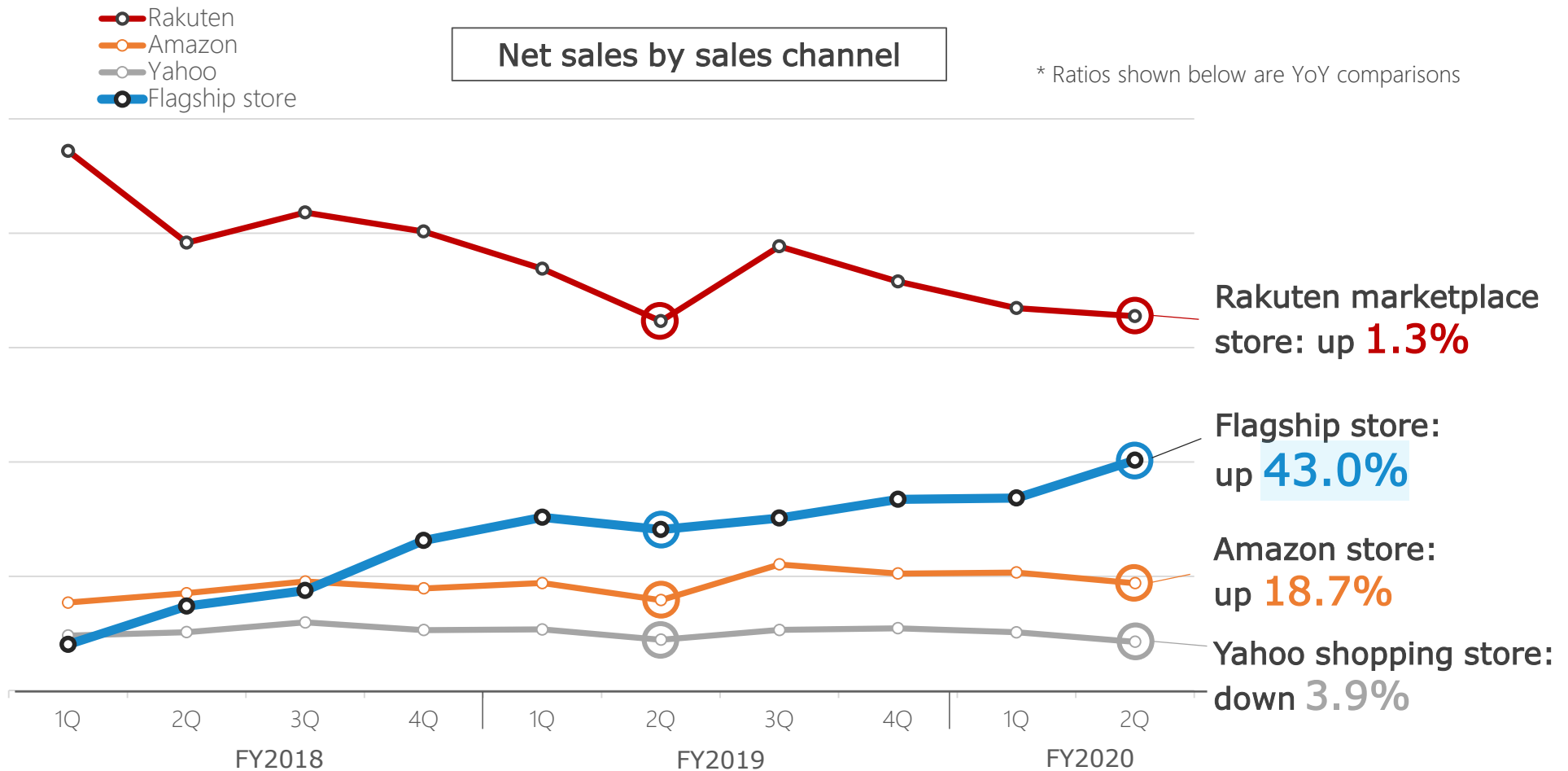
	Previous fiscal year (as of March 31, 2019)	Six months ended September 30, 2019		Previous fiscal year (as of March 31, 2019)	Six months ended September 30, 2019
Current assets	4,935	4,679	Current liabilities	2,410	2,114
Cash and deposits	1,019	1,372	Debt obligations	1,320	820
Accounts receivable –trade	1,186	1,294	Non-current liabilities	52	27
Merchandise	2,405	1,854	Total liabilities	2,463	2,141
Non-current assets	1,102	1,082	Shareholders' equity	3,558	3,607
Property, plant and equipment, and intangible assets	431	452	Total net assets	3,574	3,620
Total assets	6,037	5,762	Total liabilities and net assets	6,037	5,762

(*) Audit procedures pursuant to the Financial Instruments and Exchange Act are in progress as of the date of disclosure of this document.

Report on LOWYA Business

■ Net Sales by Sales Channel <LOWYA Businesses>

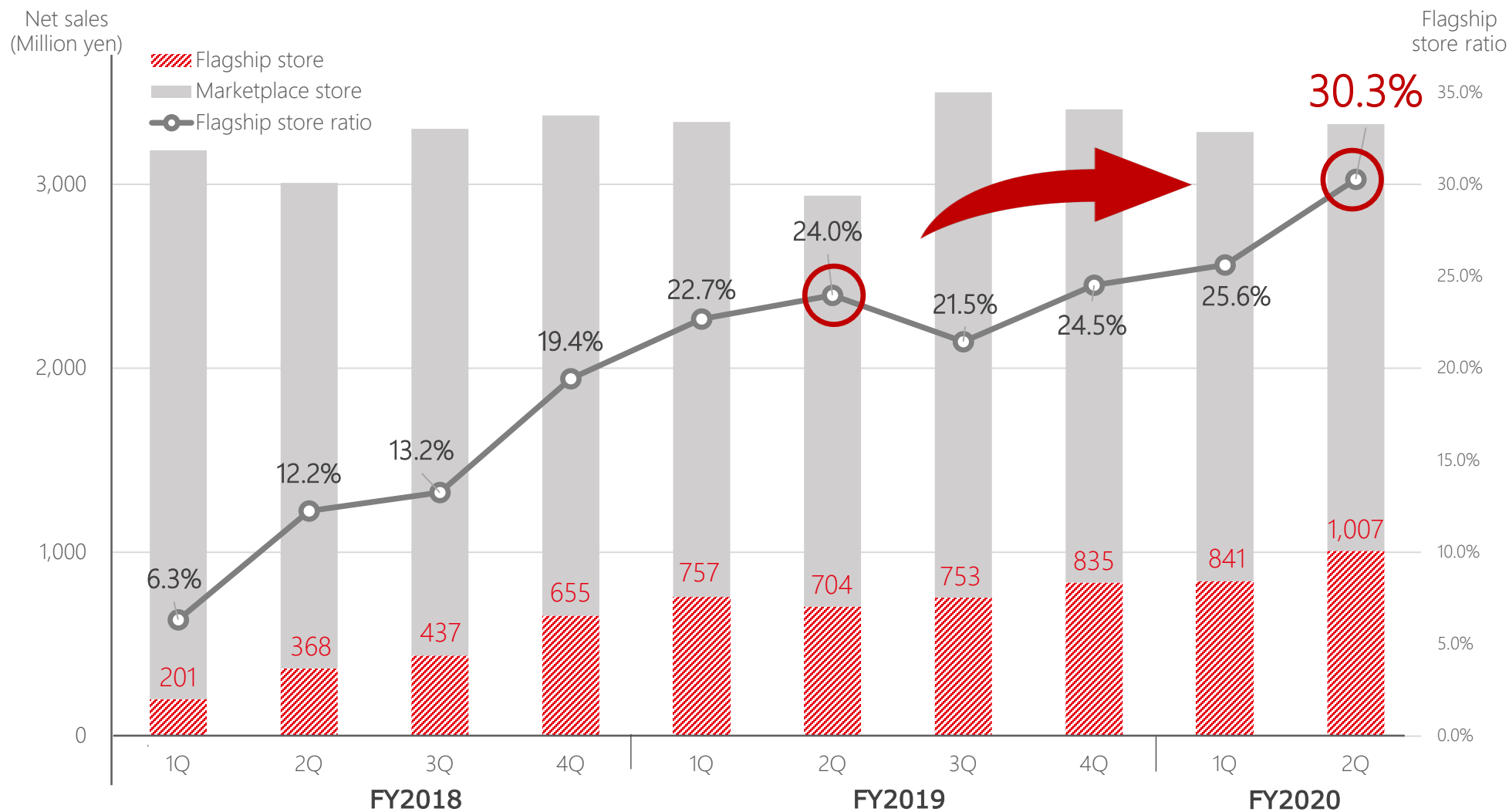
Net sales at the flagship store increased by **43.0%** YoY
Sales are smoothly shifting to the flagship store



■ Net Sales by Sales Channel <LOWYA Businesses >

Flagship store

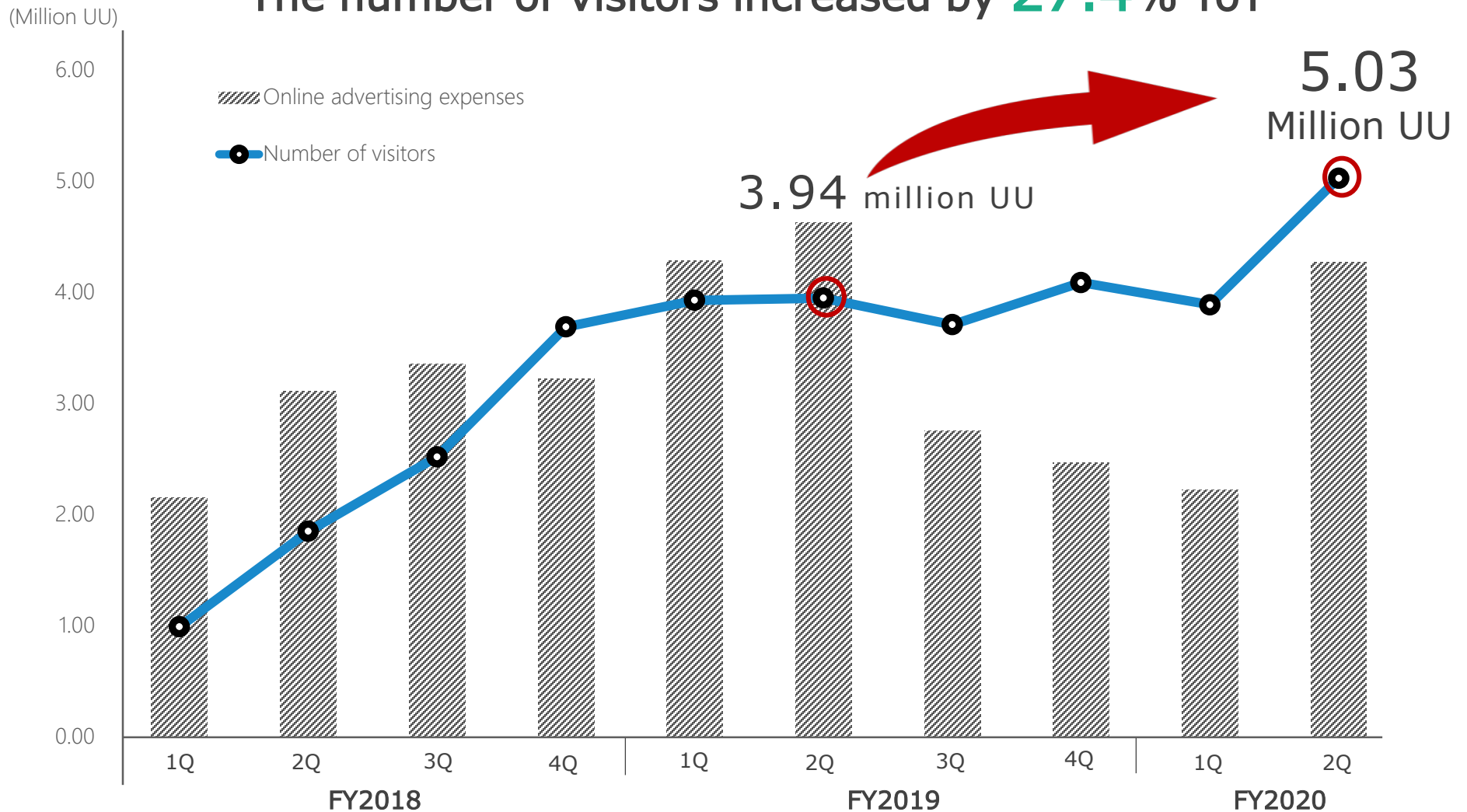
Flagship store ratio increased from 24.0% in the previous 2Q to **30.3%**
Quarterly net sales exceeded **1** billion yen



■ Online Advertising Expenses <LOWYA Businesses >

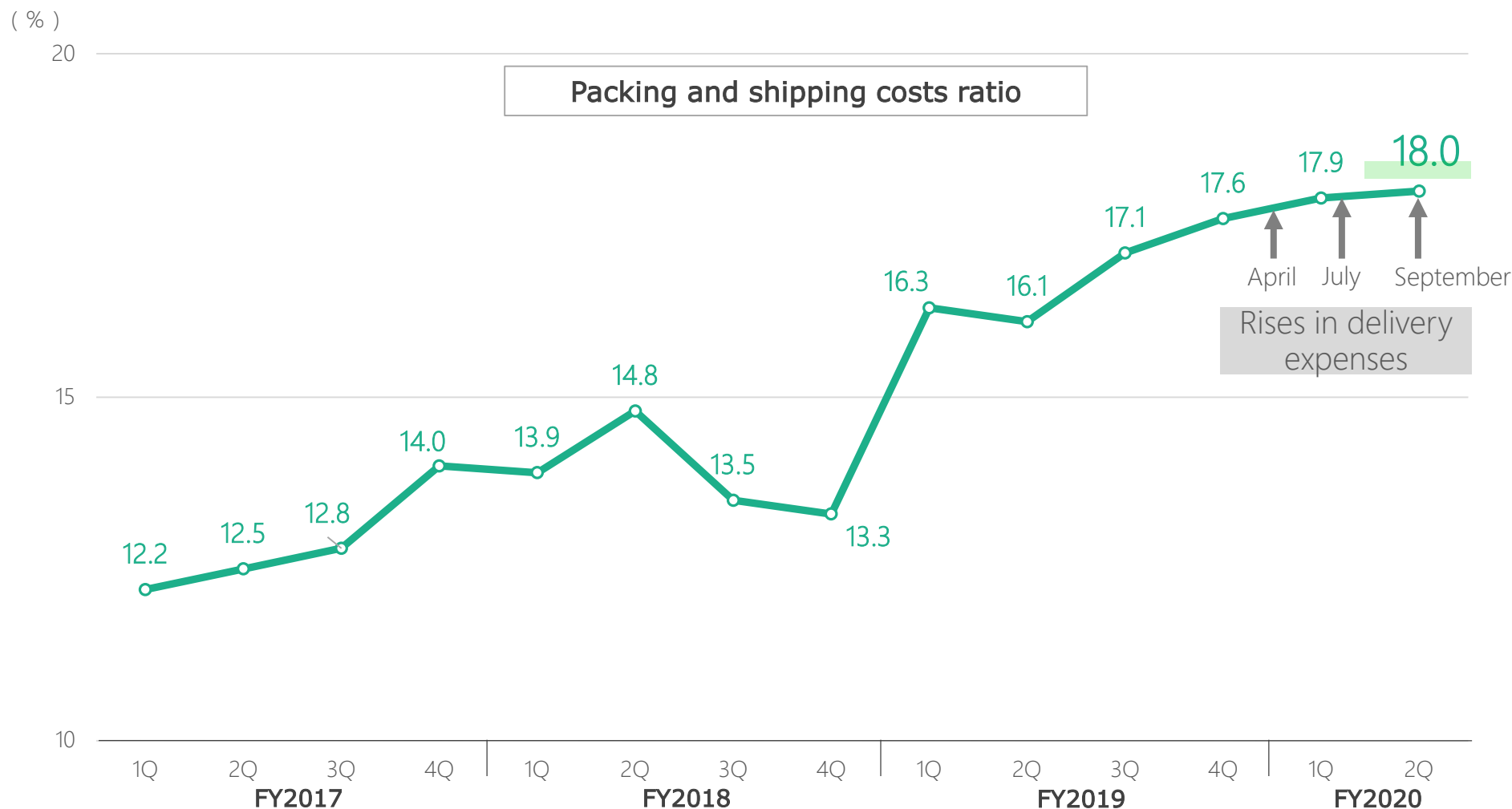
Flagship
store

Efficient online advertising resumed in 2Q
The number of visitors increased by **27.4%** YoY



■ Delivery Expense Ratio <LOWYA Businesses>

The Company optimized product inventory, reviewed the product lineup and curbed delivery expenses despite staged rises in delivery expenses



* The packing and shipping costs ratio shows the ratio against net sales.

■ Management Indicators <LOWYA Businesses>

The number of visitors rose due to advertising investments and a rush in demand before the consumption tax hike
Average customer spend increased as a result of the review of sales prices and product lineup

Item	Fiscal year ended March 31, 2019				Fiscal year ending March 31, 2020	
	1Q (Apr. –Jun.)	2Q (Jul. –Sep.)	3Q (Oct. –Dec.)	4 Q (Jan. –Mar.)	1Q (Apr. –Jun.)	2Q (Jul. –Sep.)
YoY number of visitors (%)	125.1	110.1	109.8	98.2	91.3	101.2
YoY average customer spend (%)	109.9	113.0	112.8	113.3	114.5	120.8
YoY CVR (%)	75.2	78.5	82.8	94.7	96.9	96.9
Number of products (Note)	2,070	2,169	2,041	1,967	1,930	1,951
Number of new products introduced	112	99	91	103	57	55
Average settlement rate (yen)	107.58	108.74	111.59	109.05	107.70	107.37

(Note) Obsolete products are excluded. Actual figure may differ from the total of Number of products and Number of new products introduced.

The number of visitors rose as efficient advertising resumed in 2Q
Average customer spend and CVR also grew smoothly

Item	Fiscal year ended March 31, 2019				Fiscal year ending March 31, 2020	
	1Q (Apr. –Jun.)	2Q (Jul. –Sep.)	3Q (Oct. –Dec.)	4 Q (Jan. –Mar.)	1Q (Apr. –Jun.)	2Q (Jul. –Sep.)
[Flagship store] YoY number of visitors (%)	396.6	213.5	147.2	111.0	99.0	127.4
[Flagship store] YoY average customer spend (%)	100.3	110.8	103.5	108.1	114.1	107.5
[Flagship store] YoY CVR (%)	94.6	81.8	108.2	110.2	103.9	111.7

Initiatives in the Second Quarter

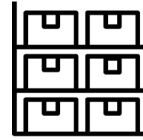
- (1) Initiatives toward improving profit
- (2) Initiatives toward increasing access to the flagship store and sales

■ Initiatives in the Second Quarter <(1) Improving Profit>

*Texts in red show updates from 1Q

Continue with 4 initiatives toward “improving profit”

(1) Reduce storage expenses



Issues

- Adjust amount of inventory
- Consider introduction of facilities to improve storage efficiency
- Introduce warehouse management system



Progress in 1H

- Saved space at some warehouses to adjust amount of inventory
- Introduced facilities to improve storage efficiency
- Preparing to introduce warehouse management system

(2) Reduce delivery expenses



Issues

- Allocate product inventory to the right warehouse
- Review packaging size
- **Introduce new carriers**



Progress in 1H

- **Began considering the creation of an overseas logistics base**
- Ongoing efforts to review packaging size
- Established a new delivery network

■ Initiatives in the Second Quarter <(1) Improving Profit>

*Texts in red show updates from 1Q

Continue with 4 initiatives toward “improving profit”

(3) Improve cost of sales ratio



Issues

- Select and concentrate suppliers
- Reduce cost of sales via product replacement



Progress in 1H

- Conducting audits **and selection** to decide suppliers
- **Sales share by product category changed**

(4) Review product lineup



Issues

- Introduce new products and categories that suit the cost structure

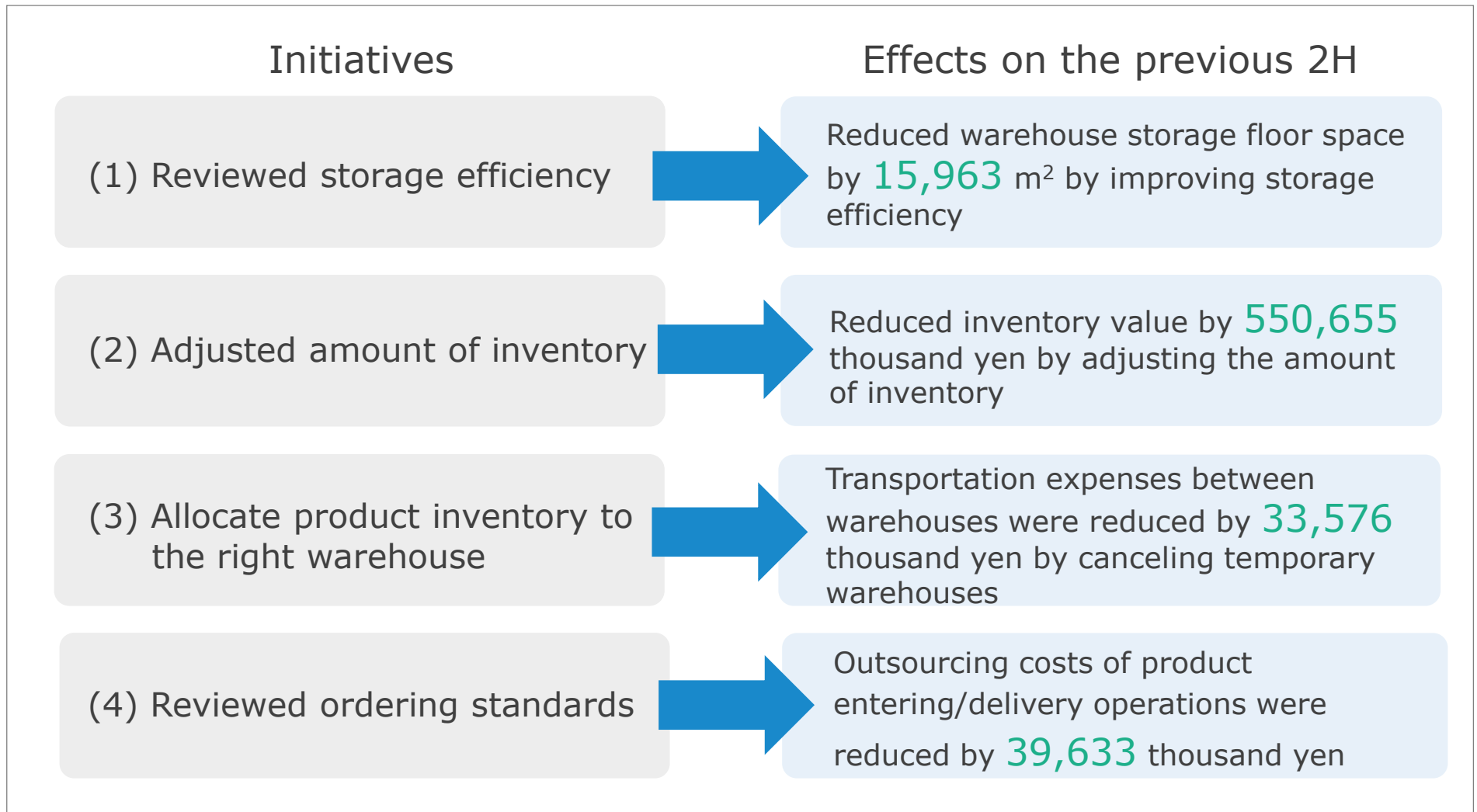


Progress in 1H

- Introduced **new categories and** products with high profitability

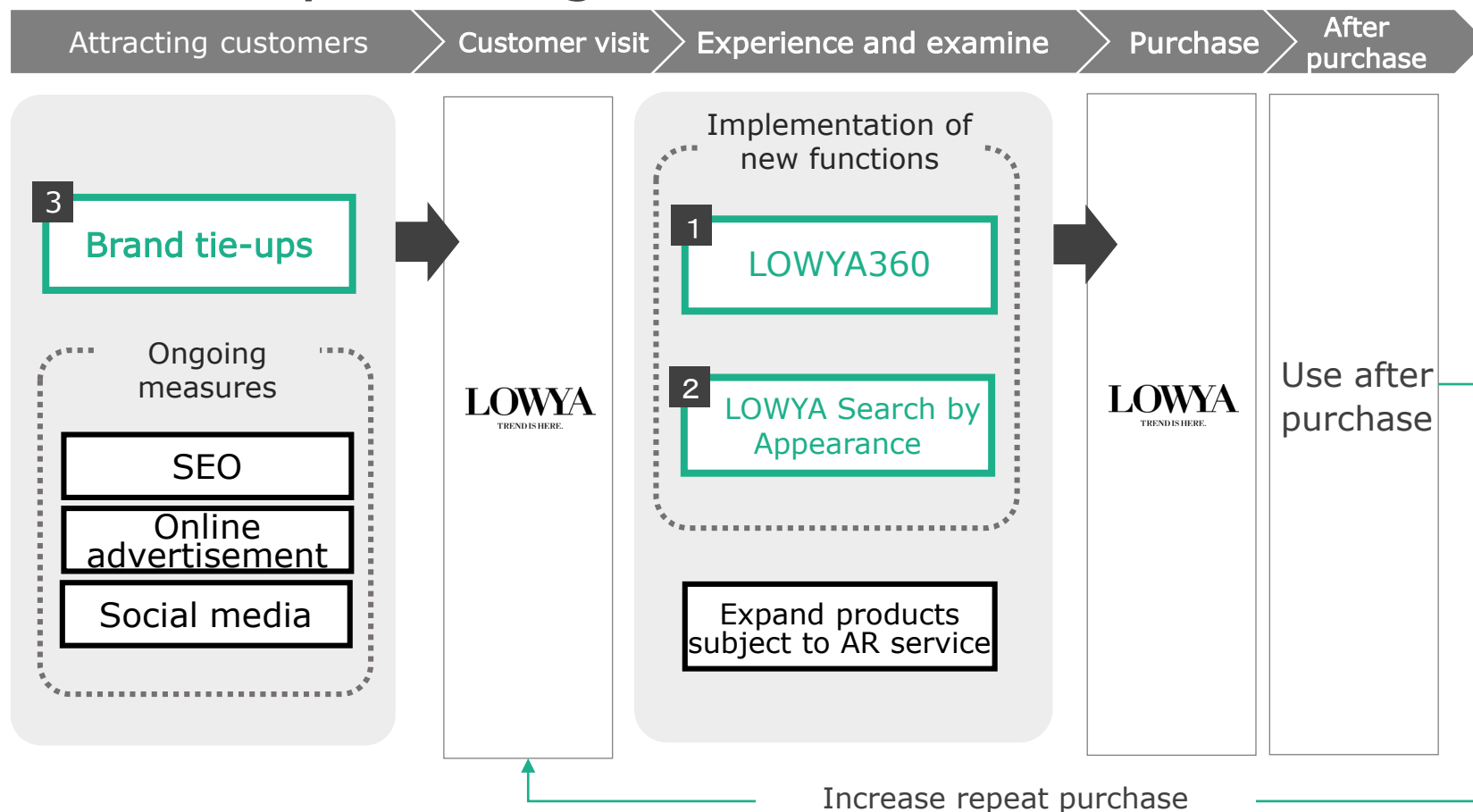
■ Initiatives in the Second Quarter <(1) Improving Profit>

Other initiatives that contributed to “improving profit”



■ Initiatives in the Second Quarter <(2) New Access>

Provided an ease-of-shopping experience by expanding access to meet demand before the tax hike and implementing new interactive functions

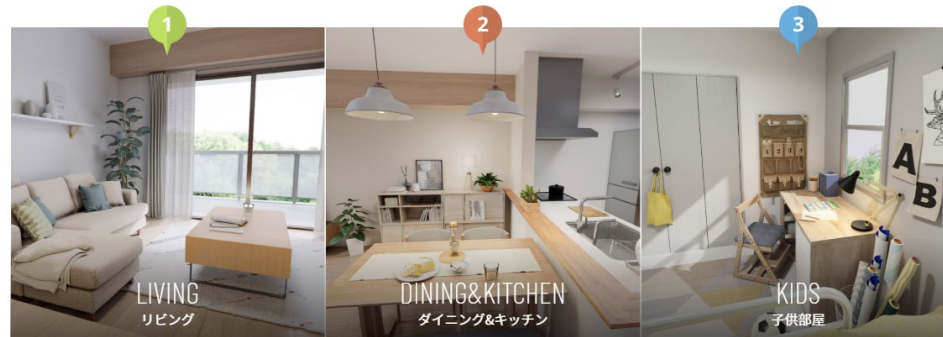


Released in-house developed and VR-enabled LOWYA360 Realistic environment and textures recreated by LOWYA AR models

Provides a sense of presence and immersion and allows users to arrange
the entire home with a 360-degree view



- ✓ Recreates interior textures and light and shadows in 3D through complex computing
- ✓ Supports VR headset access
- ✓ Uses the same 3D model as LOWYA AR
- ✓ Allows customers to check spatial image before purchasing products



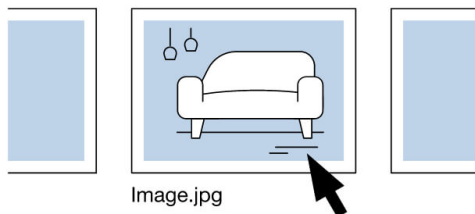
Released “LOWYA Search by Appearance” employing deep learning technology Developed an in-house image search function featuring artificial intelligence (AI)

AI automatically recognizes interior shapes and colors in an image and displays similar products in LOWYA we recommend

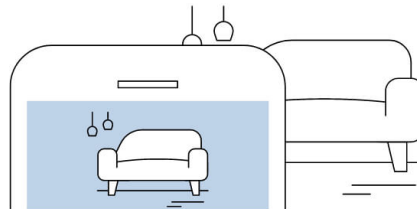


- ✓ Quick access to products without knowing the product name or category
- ✓ AI's core system deep learning allows customers to search a vast amount of data with images
- ✓ Evolved into a highly accurate image search function through reinforcement learning
- ✓ Will gradually expand product categories

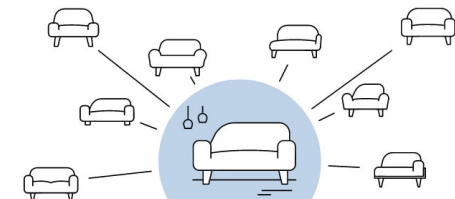
Upload interior images



Images taken with a camera-equipped device on the spot can be used



Matched products are displayed in a list



Planned tie-up products with apparel brands and artists Generated publicity in conjunction with SNS campaigns

430 X LOWYA



Collaboration with 430, an apparel line produced by a BMX rider team

Placing the rug, featuring strong design with impact, creates a bright and energetic room

TOYA HORIUCHI X LOWYA



Collaboration with TOYA HORIUCHI, a popular graphic artist

The rug features a large alligator design to make a room appear wild and luxurious.

* Available for sale since October 31, 2019

New Businesses (R&D)

DOKODEMO Business

■ DOKODEMO Business [Indicators]

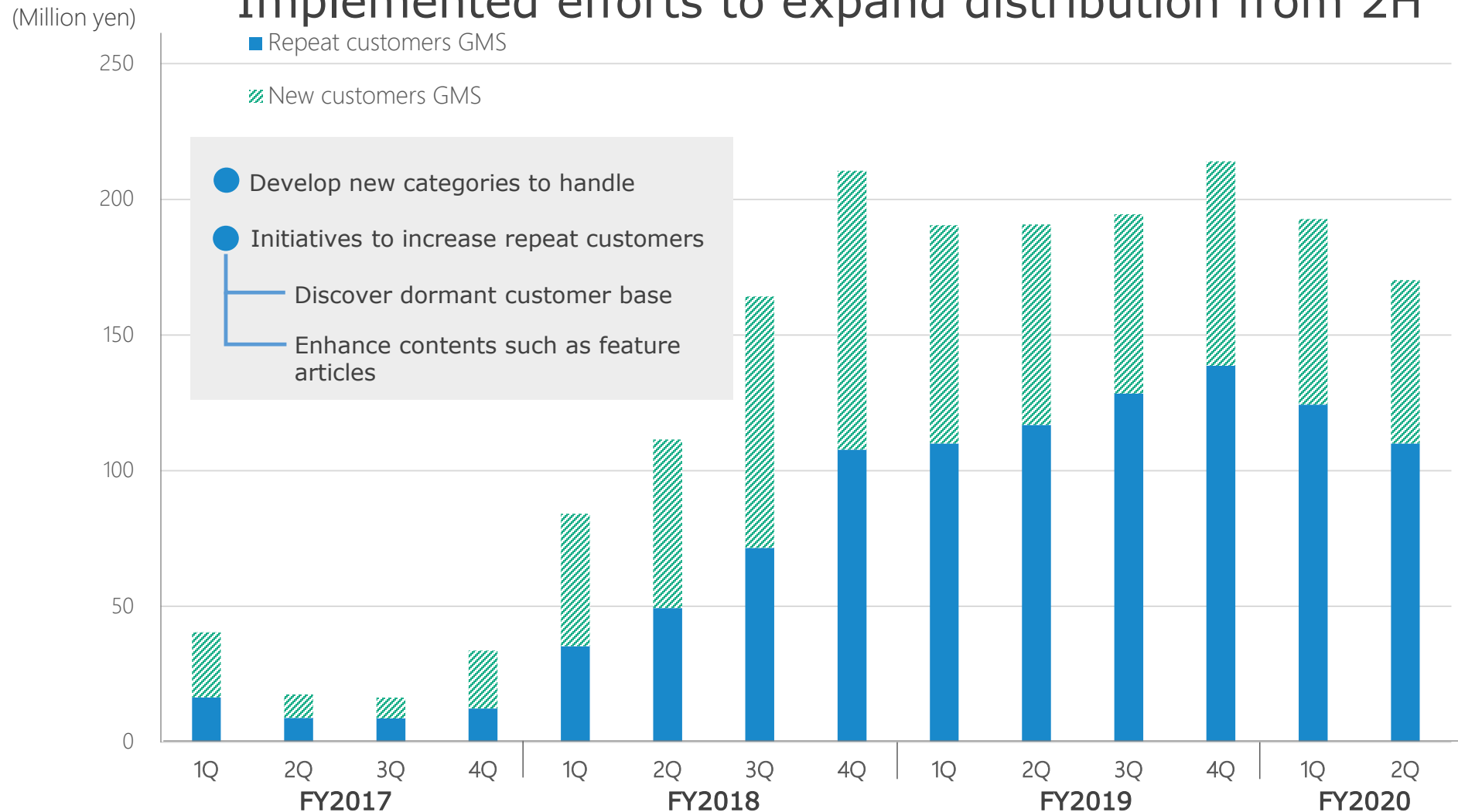
Membership and the number of APP DLs are growing smoothly
Strengthen Customer Relationship Management (CRM) to
further increase repeat customers

Item	2Q ended September 30, 2018	2Q ended September 30, 2019	YoY
Membership (thousand people)	308	439	142.3%
Number of APP DLs (thousand)	700	876	125.1%
Purchase price per person (yen)	8,451	7,314	86.5%
Number of products (thousand)	120	294	245.4%
Number of brands	832	1,701	204.4%
Deliveries * Number of countries and regions to which deliveries were made	87	97	111.5%

■ DOKODEMO Business [Distribution]

Gross Merchandise Sales (GMS) decreased by **10.7% YoY**
by curbing advertising expenses

Implemented efforts to expand distribution from 2H

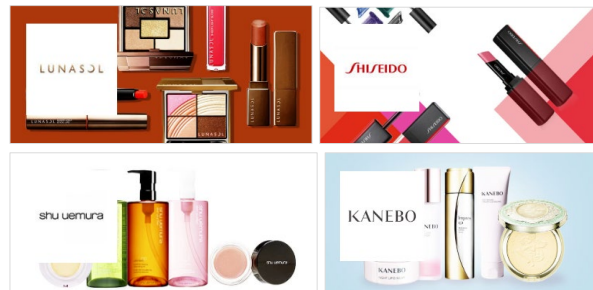


■ DOKODEMO Business [Enhancement of Measures]

Strengthened department store cosmetics and reuse (second-hand brand items) categories

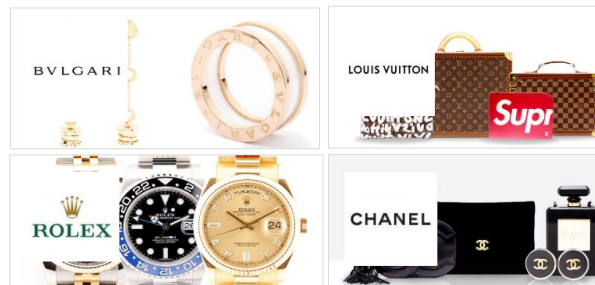
Aiming to expand distribution by focusing on product categories that are expected to meet overseas demand

Department store cosmetics



✓ Handling of department store cosmetics
Number of brands: 22 (September 2019)

Reuse (second-hand brand items)



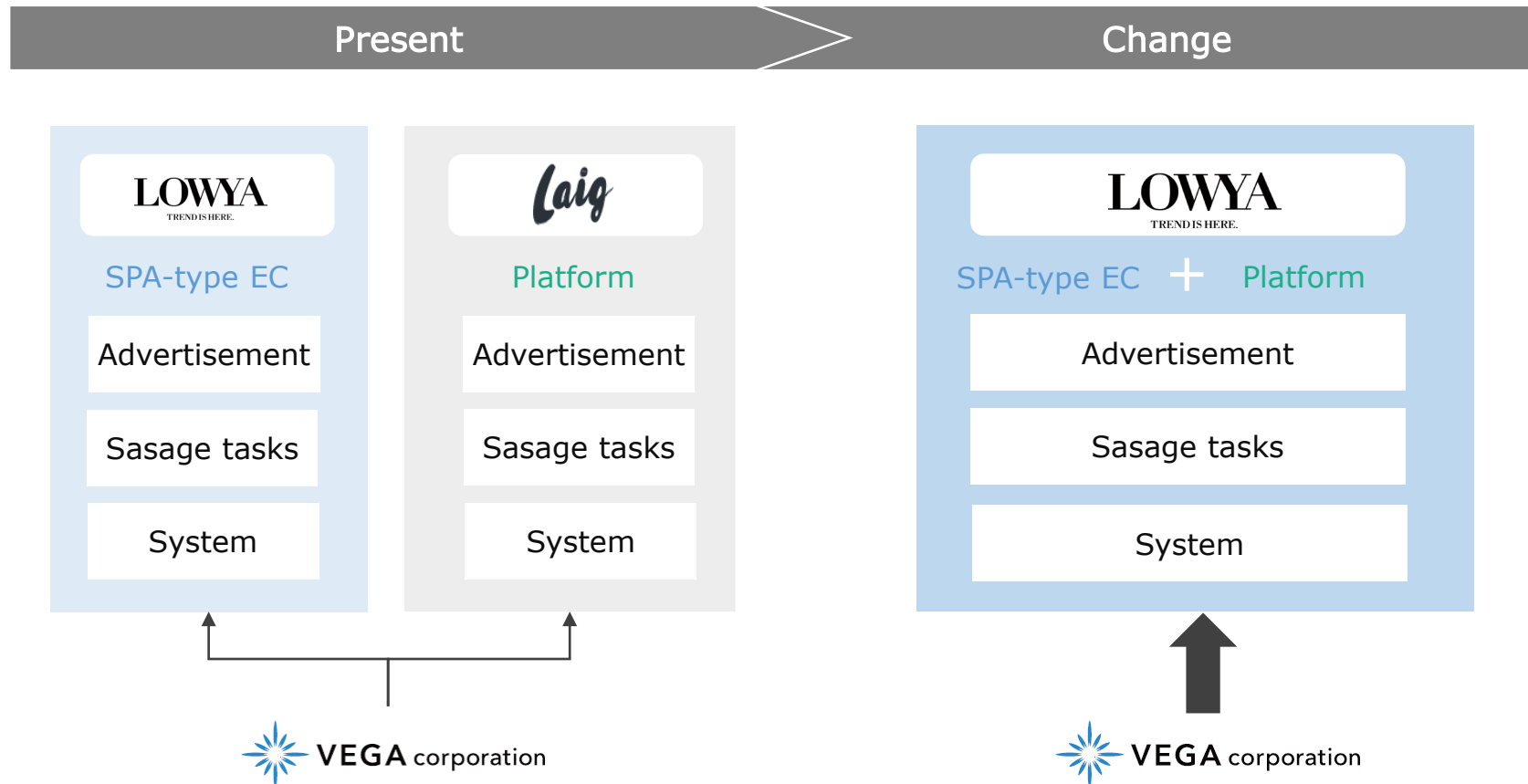
✓ Tie-up with two leading players in the reuse industry, TIN PAN ALLEY CO., LTD. and SOU Inc.

✓ Expand both the number of products and brands handled in the future



■ Business integration of LOWYA and Laig

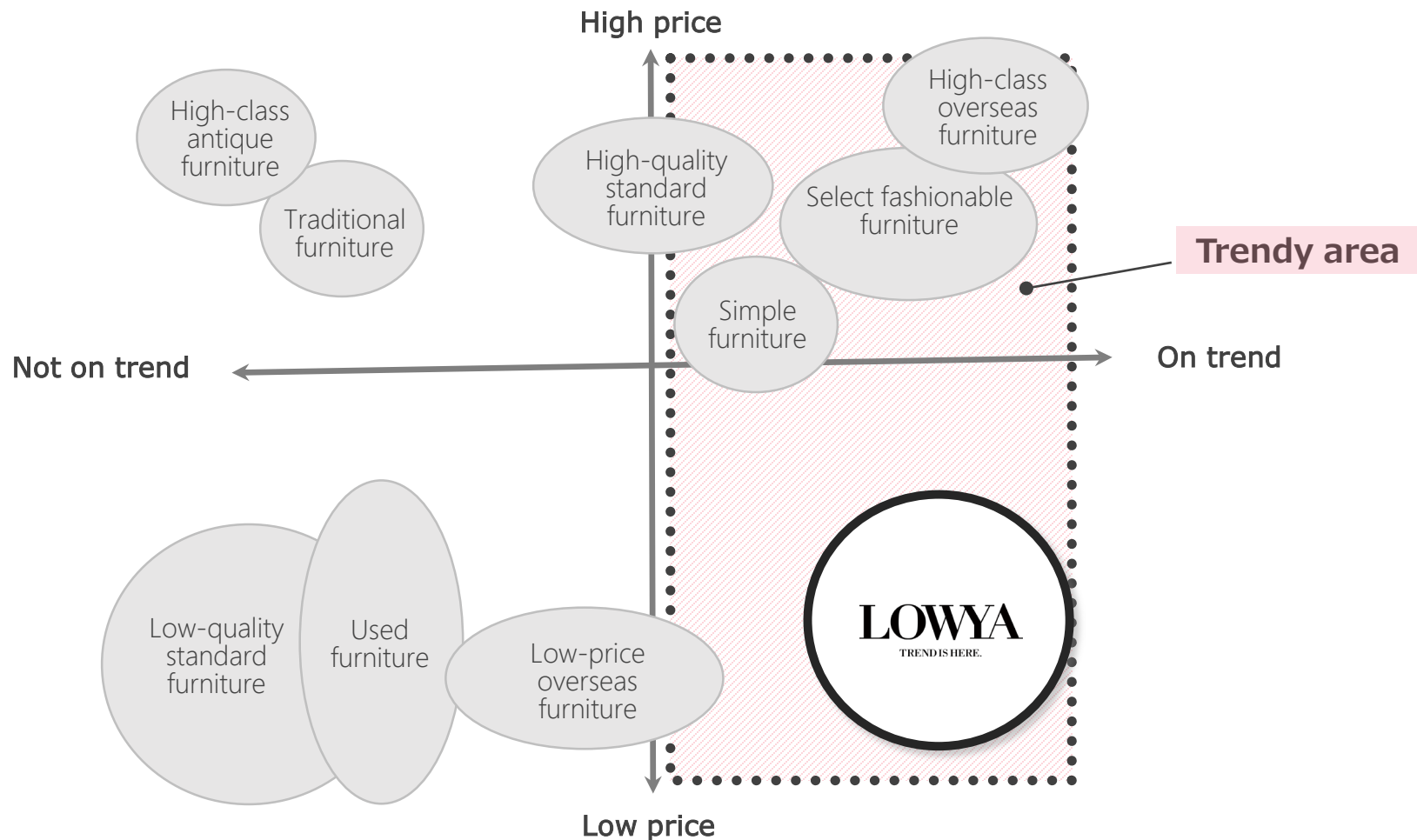
Business integration of LOWYA and Laig will unify business investments and eliminate redundant costs



(*) Sasage tasks refer to operations involving product photoshoot, measurement, and description preparation.

Appendix

Establishing the **fast interior** category in the “trendy & low price” space of the furniture and interior products market



■ Appendix LOWYA Business: Service Vision

As a provider of “fast interior,”

Offer “memorable experiences”
that go beyond value expected by customers

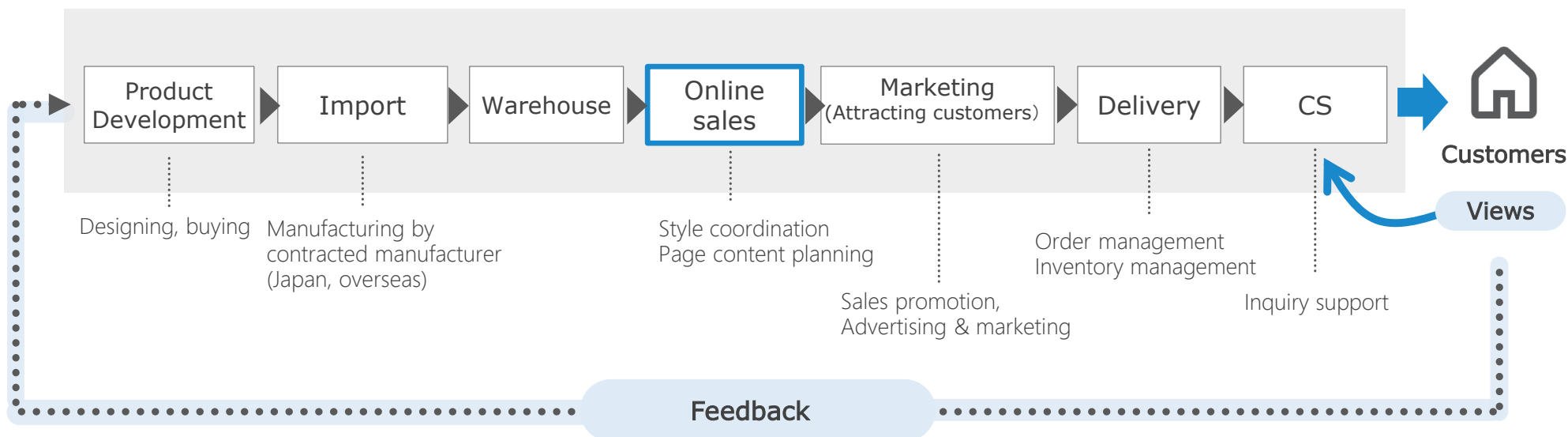


Fulfill satisfaction and inspiration by creating design that
reflects a variety of tastes and trends.

■ Appendix Business Model Characteristics

D2C business model conducting the entire procedure inhouse

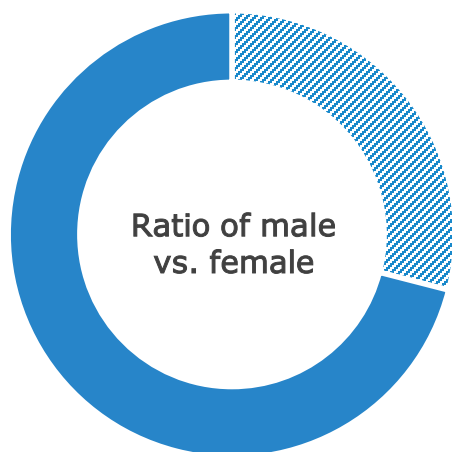
(Direct to Consumer)



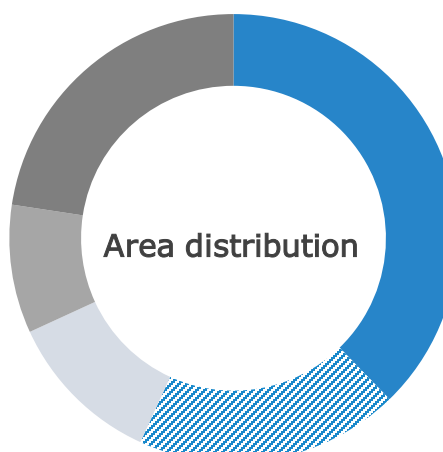
■ Appendix LOWYA Business, Customer Data
(Male vs. Female, Area Distribution, and Generation Distribution)

Showing higher ratio of female in their 30's, mainly in the Tokyo metropolitan area

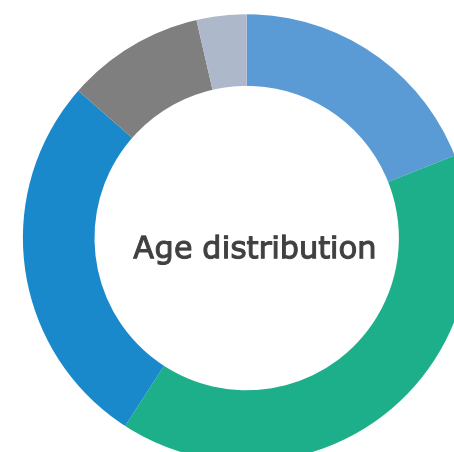
(April 2019 to September 2019)



Male	29.0%
Female	71.0%

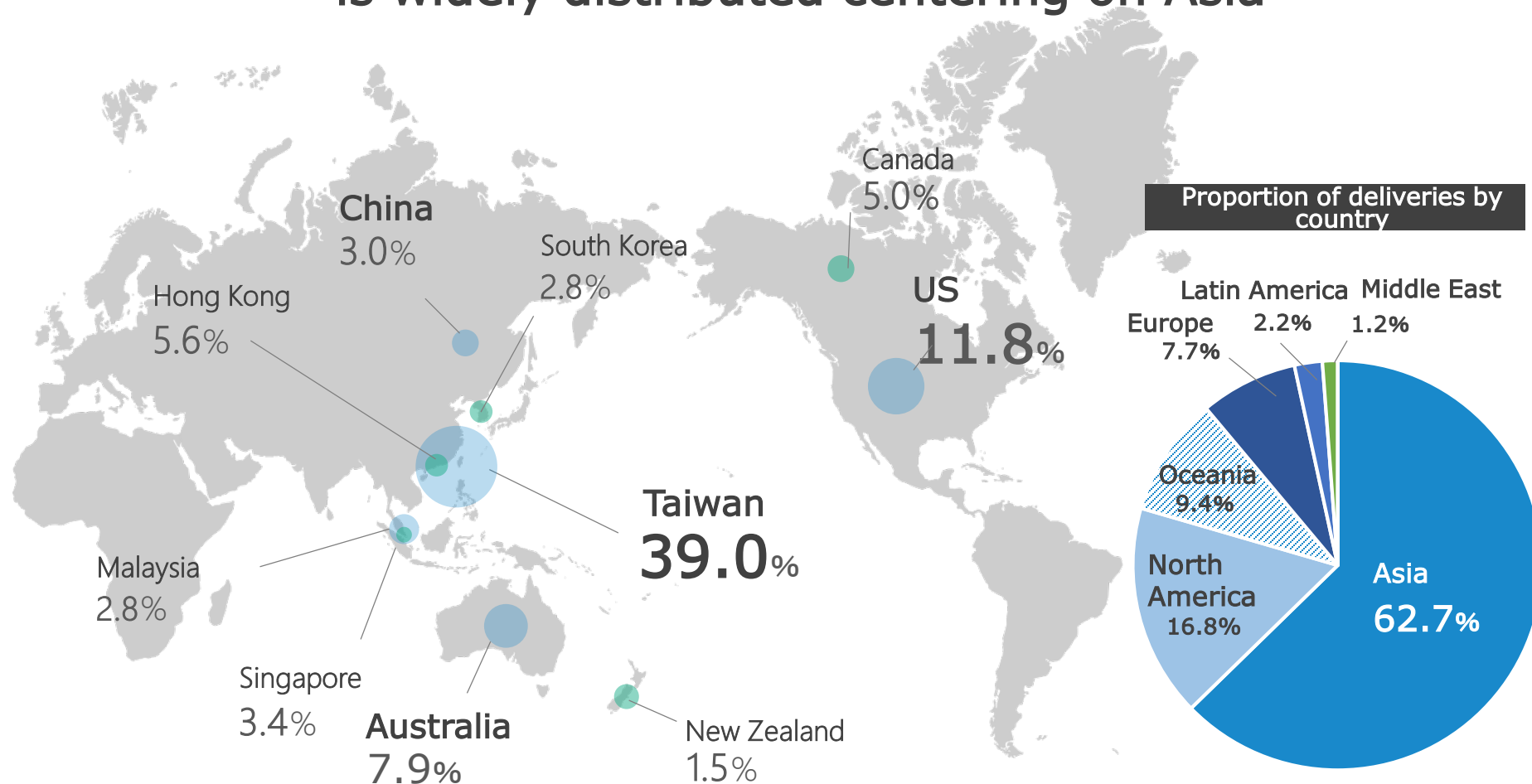


Kanto	37.7%
Kinki	19.1%
Tokai	11.3%
Kyusyu	9.3%
Other	22.6%



29 and younger	19.0%
30 to 39	40.1%
40 to 49	27.3%
50 to 59	10.0%
60 to 69	3.6%

Proportion of deliveries by country based on the GMS ratio is widely distributed centering on Asia

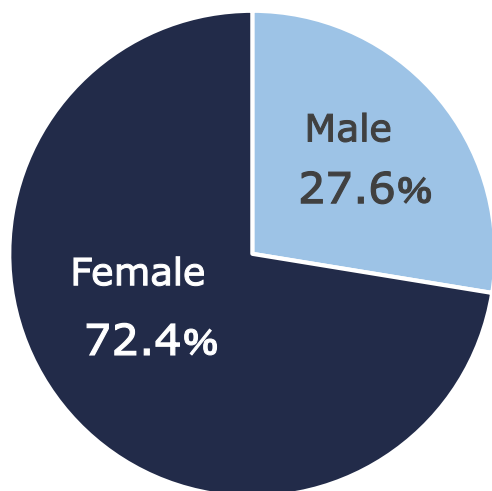


* Proportion of deliveries by country is calculated based on the ratio of gross merchandise sales (GMS) from July to September 2019.

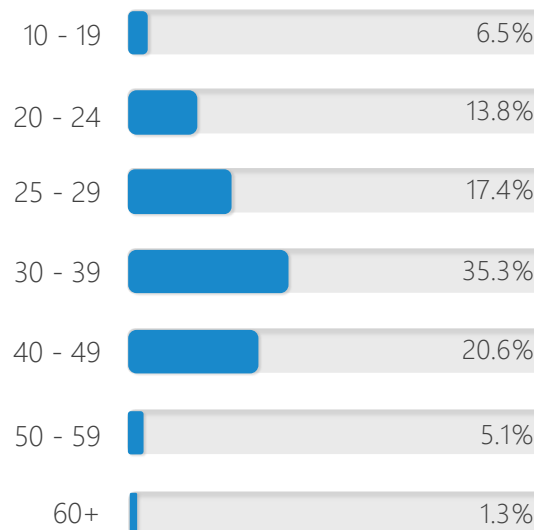
Female users in their 30's are increasing

Calculation period: July to September 2019

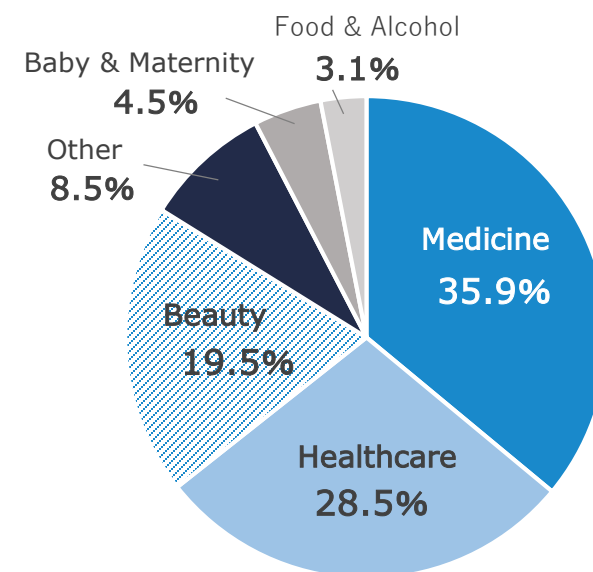
<User data>
Gender



<User data>
Age



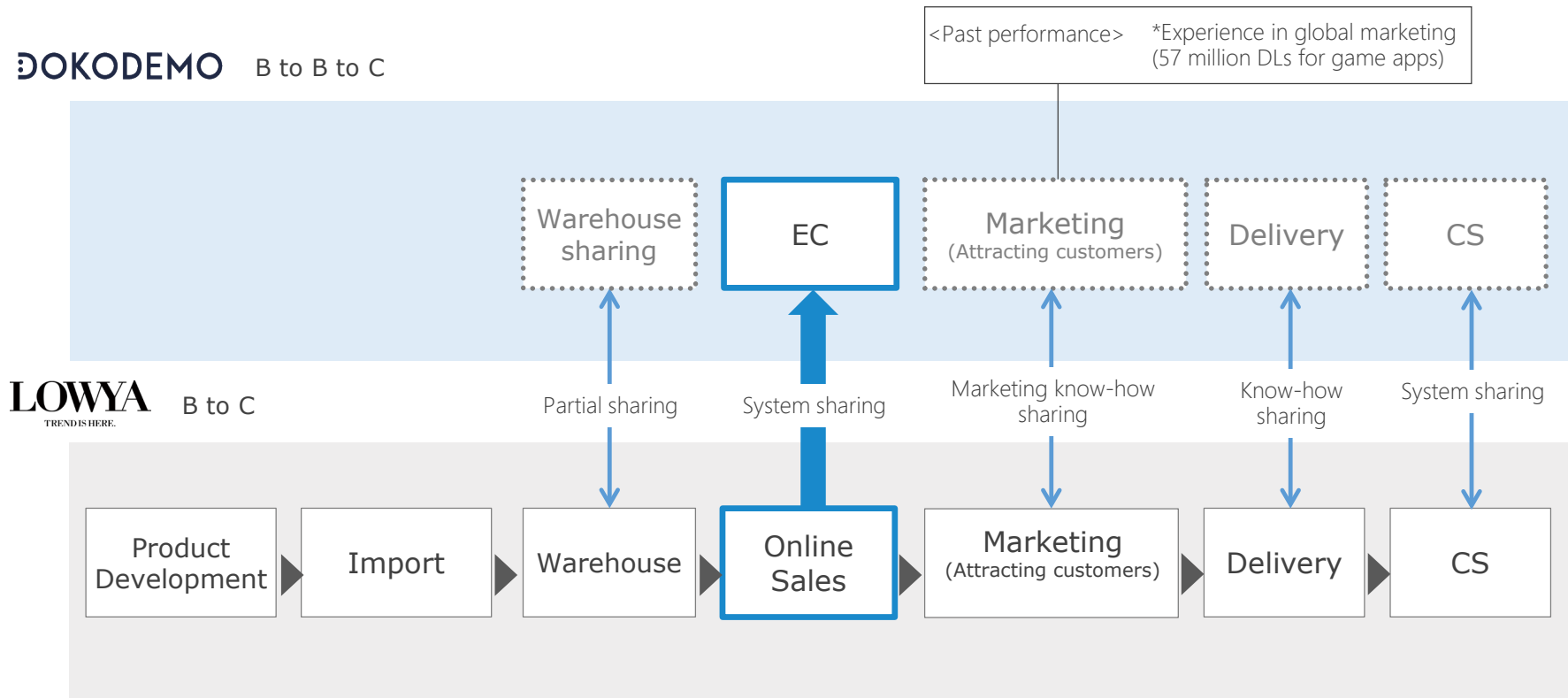
Sales ratio by
category



* Calculated based on user data of registered members.
Members are not required to enter their gender when registering, and therefore the above data does not represent the ratio for all members.

■ Appendix Synergy of Company-wide Businesses

Share each system in LOWYA fulfillment service with DOKODEMO and aim for its maximization





VEGA corporation

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These statements are based on current expectations, forecasts, and assumptions that are subject to risks, and contain uncertainties that could cause actual outcomes to differ materially from these statements.
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