

Non-consolidated Financial Results for the Six Months Ended September 30, 2019 [Japanese GAAP]



October 31, 2019

Company name: Vega corporation Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Code number: 3542

URL: <https://www.vega-c.com/en/ir/>

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Scheduled date of filing quarterly securities report: November 14, 2019

Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and analysts)

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

1. Financial Results for the Six Months Ended September 30, 2019 (April 1, 2019 to September 30, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2019	6,676	5.3	28	—	43	—	19	—
September 30, 2018	6,341	1.5	(23)	—	(16)	—	(47)	—

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2019	1.91	1.91
September 30, 2018	(4.59)	—

(Note) Despite the existence of dilutive shares, diluted earnings per share for the six months ended September 30, 2019 are not presented as it is diluted loss per share.

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	5,762	3,620	62.8
As of March 31, 2019	6,037	3,574	59.2

(Reference) Equity: As of September 30, 2019: ¥3,620 million As of March 31, 2019: ¥3,574 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended	Yen	Yen	Yen	Yen	Yen
March 31, 2019	—	0.00	—	0.00	0.00
Fiscal year ending March 31, 2020	—	0.00			
Fiscal year ending March 31, 2020 (Forecast)			—	0.00	0.00

(Note) Revision to the dividends forecast announced most recently: None

3. Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	13,700	2.8	(170)	—	(150)	—	(100)	—	(9.73)

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

- (1) Adoption of accounting policies for the preparation of quarterly financial statements: Yes
- (2) 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
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
 - September 30, 2019: 10,374,800 shares
 - March 31, 2019: 10,367,800 shares
 - 2) Total number of treasury shares at the end of the period:
 - September 30, 2019: 76,803 shares
 - March 31, 2019: 95,203 shares
 - 3) Average number of shares during the period:
 - Six months ended September 30, 2019: 10,282,715 shares
 - Six months ended September 30, 2018: 10,267,123 shares

(Note) The number of treasury shares deducted for the purpose of calculating the total number of treasury shares at the end of the period and average number of shares during the period include 76,600 shares of the Company's shares held by Trust & Custody Services Bank, Ltd. (trust account E) as a trust asset under the Employee Stock Ownership Plan (J-ESOP).

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

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

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 and the Company does not in any way guarantee the achievement of the projections. Actual results may differ significantly from these forecasts due to various factors. For preconditions for the financial results forecast and notes on the use thereof, etc., please refer to "1. Qualitative Information on Quarterly Financial Results for the Period under Review (3) Explanation of Financial Results Forecast and Other Forward-looking Information" on page 3 of the Appendix.

(Method of obtaining supplementary quarterly briefing materials)

Supplementary briefing materials on quarterly financial results are provided on TDnet on October 31, 2019.

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

(1) Explanation of Business Results

During the six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019), the Japanese economy remained on a gradual recovery track, backed by improvement in corporate earnings and the employment and wage environment, but there are continued uncertainties about the future mainly due to instability in the global economy.

In the furniture and interior industry, the business environment continues to be challenging due to intensifying competition taking place beyond business categories in addition to increased logistics costs. Meanwhile, the scale of the sundries, furniture and interior B to C-EC market, which the Company belongs to, steadily expanded to ¥1,608.3 billion in 2018, up 8.6% year on year (source: FY2018 E-Commerce Market Survey published by the Ministry of Economy, Trade and Industry; May 2019).

Under such a business environment, the Company took active initiatives for its Furniture E-Commerce business (LOWYA) to review the supply chain management (SCM) structure through profit improvement efforts and expand traffic to the flagship store by expanding the number of new accesses while enhancing services mainly through strengthened online advertising and launch of new services developed in-house using new technology. As a result, the share of sales from the flagship store exceeded 30% of total sales during the second quarter under review.

As for profit and loss, net sales increased steadily due to the resumption of advertisement investments during the second quarter under review and contribution from a rush in demand before the consumption tax hike, as well as profit improvements observed during the first quarter. The gross margin ratio also improved year on year as a result of ongoing sales price revision of existing products and revision of the product lineup. As for initiatives to improve SCM, the Company reassessed storage efficiency, optimized inventory levels to save space at some warehouses and curb inbound stock, and succeeded in cutting down on storage and logistics outsourcing costs. In addition, the Company has been making preparations to launch a warehouse management system to facilitate the optimal allocation of inventory for the future. As a result of these effects of profit improvements, sales and profit increased year on year.

The new International EC Platform DOKODEMO business is enjoying steady growth in visitor count and membership due to ceaseless efforts made to improve the convenience of the site and upgrade relevant systems. Lately, the user base has grown to include a range of countries and regions such as mainland China, Australia and the U.S. In addition, effective advertisement investments were made along with our commitment to expand the number of registered stores.

As for our other new business initiative, the Furniture/Interior Specialized EC Platform Laig, the Company will integrate its services with LOWYA as announced on September 25, 2019, and aim at more efficient business operations going forward.

As a result of the above initiatives, the Company's business results for the six months ended September 30, 2019 were ¥6,676 million in net sales (up 5.3% year on year), ¥28 million in operating profit (¥23 million in operating loss in the previous corresponding period), ¥43 million in ordinary profit (¥16 million in ordinary loss in the previous corresponding period) and ¥19 million in profit (¥47 million in loss in the previous corresponding period).

* Flagship store: Renamed from "Main Store."

(2) Explanation of Financial Position

Total assets as of the end of the second quarter under review decreased by ¥275 million to ¥5,762 million (¥6,037 million as of the end of the previous fiscal year). Current assets decreased by ¥255 million to ¥4,679 million (¥4,935 million as of the end of the previous fiscal year). This is mainly attributable to increases in cash and deposits and accounts receivable - trade by ¥353 million and ¥107 million, respectively, and a decrease in merchandise by ¥550 million. Non-current assets decreased by ¥20 million to ¥1,082 million (¥1,102 million as of the end of the previous fiscal year).

Liabilities decreased by ¥321 million to ¥2,141 million (¥2,463 million as of the end of the previous fiscal year). Current liabilities decreased by ¥296 million to ¥2,114 million (¥2,410 million as of the end of the previous fiscal year). This is mainly attributable to a decrease in short-term borrowings by ¥500 million. Non-current liabilities decreased by ¥25 million to ¥27 million (¥52 million as of the end of the previous fiscal year).

Net assets increased by ¥46 million to ¥3,620 million (¥3,574 million as of the end of the previous fiscal year).

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

For the financial results forecasts for the fiscal year ending March 31, 2020, no revisions have been made to the full-year forecast released on May 13, 2019.

2. Quarterly Financial Statements and Primary Notes
(1) Quarterly Balance Sheets

(Thousand yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	1,019,304	1,372,674
Accounts receivable – trade	1,186,911	1,294,070
Merchandise	2,405,260	1,854,605
Income taxes receivable	90,655	–
Forward exchange contracts	15,922	13,655
Other	217,145	144,803
Total current assets	4,935,199	4,679,809
Non-current assets		
Property, plant and equipment	286,571	263,560
Intangible assets	144,935	189,353
Investments and other assets		
Deferred tax assets	214,073	215,019
Leasehold and guarantee deposits	388,174	347,256
Other	71,042	69,633
Allowance for doubtful accounts	(2,400)	(2,500)
Total investments and other assets	670,890	629,409
Total non-current assets	1,102,398	1,082,324
Total assets	6,037,597	5,762,133
Liabilities		
Current liabilities		
Accounts payable – trade	169,296	218,447
Short-term borrowings	1,320,000	820,000
Accounts payable – other	689,519	700,863
Income taxes payable	–	43,446
Provision for bonuses	61,302	47,211
Provision for point card certificates	4,500	9,140
Provision for sales returns	13,269	14,203
Provision for product warranties	11,479	28,747
Other	141,501	232,144
Total current liabilities	2,410,870	2,114,205
Non-current liabilities		
Provision for share-based remuneration	52,687	27,571
Total non-current liabilities	52,687	27,571
Total liabilities	2,463,558	2,141,776
Net assets		
Shareholders' equity		
Share capital	880,549	882,404
Capital surplus	840,549	842,404
Retained earnings	1,967,605	1,987,257
Treasury shares	(129,999)	(104,883)
Total shareholders' equity	3,558,704	3,607,182
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,231	3,647
Deferred gains or losses on hedges	11,073	9,497
Total valuation and translation adjustments	15,305	13,145
Share acquisition rights	29	29
Total net assets	3,574,038	3,620,356
Total liabilities and net assets	6,037,597	5,762,133

(2) Quarterly Statements of Income
For the six months ended September 30

(Thousand yen)

	For the six months ended September 30, 2018	For the six months ended September 30, 2019
Net sales	6,341,001	6,676,848
Cost of sales	2,908,809	2,915,592
Gross profit	3,432,192	3,761,256
Selling, general and administrative expenses	3,455,595	3,733,209
Operating profit (loss)	(23,403)	28,046
Non-operating income		
Foreign exchange gains	—	697
Compensation income	5,450	11,764
Other	2,748	4,941
Total non-operating income	8,198	17,403
Non-operating expenses		
Interest expenses	787	1,265
Loss on investments in investment partnerships	—	584
Foreign exchange losses	491	—
Other	180	100
Total non-operating expenses	1,459	1,949
Ordinary profit (loss)	(16,664)	43,501
Extraordinary income		
Compensation income	—	14,517
Total extraordinary income	—	14,517
Extraordinary losses		
Loss on retirement of non-current assets	—	1,238
Provision for product warranties	51,096	21,882
Total extraordinary losses	51,096	23,121
Profit (loss) before income taxes	(67,760)	34,897
Income taxes – current	(20,633)	15,245
Total income taxes	(20,633)	15,245
Profit (loss)	(47,127)	19,652

(3) Notes to the Quarterly Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes on significant changes in shareholders' equity)

There is no relevant information.

(Adoption of accounting policies for the preparation of quarterly financial statements)

Calculation of tax expenses

Tax expenses are determined based on the amount of profit before income taxes for the second quarter ended September 30, 2019 multiplied by the effective tax rate after the adoption of tax-effect accounting estimated for the entire fiscal year ending March 31, 2020. However, in cases where the result of calculation using this estimated effective tax rate significantly lacks rationality, calculations are made based on the statutory tax rate.

(Segment information, etc.)

Description is omitted as the Company engages in the single segment of the e-commerce business.