

Non-consolidated Financial Results for the Nine Months Ended December 31, 2018 [Japanese GAAP]



January 31, 2019

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

URL: <http://www.vega-c.com>

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Scheduled date of filing quarterly securities report: February 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: Not scheduled

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

1. Financial Results for the Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2018	9,882	3.3	(166)	—	(146)	—	(149)	—
December 31, 2017	9,569	20.2	354	(43.6)	376	(37.7)	230	(40.8)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2018	(14.57)	—
December 31, 2017	22.33	21.91

(Note) Despite the existence of dilutive shares, diluted earnings per share for the nine months ended December 31, 2018 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 December 31, 2018	6,278	3,652	58.2
As of March 31, 2018	5,914	3,779	63.9

(Reference) Equity: As of December 31, 2018: ¥3,652 million As of March 31, 2018: ¥3,779 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	—	0.00	—	0.00	0.00
Fiscal year ending March 31, 2019	—	0.00	—		
Fiscal year ending March 31, 2019 (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, 2019 (April 1, 2018 to March 31, 2019)

(% 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	14,000	7.9	(152)	—	(139)	—	(123)	—	(11.98)

(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):
 - December 31, 2018: 10,367,800 shares
 - March 31, 2018: 10,347,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - December 31, 2018: 95,203 shares
 - March 31, 2018: 95,150 shares
 - 3) Average number of shares during the period:
 - Nine months ended December 31, 2018: 10,268,954 shares
 - Nine months ended December 31, 2017: 10,338,430 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 of nine months ended December 31, 2018 include 95,000 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 January 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 nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018), the Japanese economy remained on a gradual recovery track, backed by improvement in corporate earnings and the employment environment, but there are uncertainties about the future mainly due to the increasing uncertainty of the global economy owing to factors including trade disputes between the United States and China.

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 ¥1,481.7 billion in 2017, up 9.8% year on year (source: FY2017 E-Commerce Market Survey published by the Ministry of Economy, Trade and Industry; April 2018).

Under such a business environment, the Company took active initiatives for its Furniture E-Commerce business (LOWYA) to continuously strengthen the product pages and quality of design, while branding was also enhanced through the building of a fan base. The website infrastructure was enhanced focusing on Search Engine Optimization (SEO) to increase access and endeavored to attract customers to the flagship store. As a result, net sales of the flagship store increased steadily, although net sales of marketplace stores decreased year on year owing to multiple factors such as opportunity losses associated with product shortages in the first half of this fiscal year and sluggish sales of seasonal products due to the warm winter.

As for profit and loss, the gross margin ratio improved year on year as a result of ongoing sales price revision of existing products while the growth rate slowed due to price reductions associated with sluggish sales of seasonal products. On the other hand, selling, general and administrative expenses increased owing to factors including rising logistics costs triggered mainly by upward price revisions by delivery companies, upfront investment in human resources, and advertisement and promotion to improve brand recognition including conducting promotional activities. As a result, sales increased while profit decreased year on year.

The new International EC Platform DOKODEMO business is enjoying steady growth in visitor count and membership due to ceaseless efforts made for improving the convenience of the site and system upgrades. Lately, the user base has grown to include a range of countries and regions such as Taiwan, Australia and the U.S. Moreover, measures were taken to increase the number of registered stores, while advertising expenses are used on a trial basis in order to evaluate investment effect.

As for another new business development, the Furniture/Interior Specialized Platform Laig, the Company has aimed to build a platform focusing on a product lineup to propose a wide range of lifestyles in order to create a venue to satisfy user requests. The platform officially opened in October 2018.

As a result of the above initiatives, the Company's business results for the nine months ended December 31, 2018 were ¥9,882 million in net sales (up 3.3% year on year), ¥166 million in operating loss (¥354 million in operating profit in the previous corresponding period), ¥146 million in ordinary loss (¥376 million in ordinary profit in the previous corresponding period) and ¥149 million in loss (¥230 million in profit in the previous corresponding period).

* Flagship store: Renamed from "Main Store." The same applies hereinafter.

(2) Explanation of Financial Position

Total assets as of the end of the third quarter under review increased by ¥363 million to ¥6,278 million (¥5,914 million as of the end of the previous fiscal year). Current assets decreased by ¥129 million to ¥5,180 million (¥5,309 million as of the end of the previous fiscal year). This is mainly attributable to an increase in merchandise by ¥905 million, and decreases in cash and deposits and in accounts receivable - trade by ¥571 million and ¥701 million, respectively. Non-current assets increased by ¥493 million to ¥1,097 million (¥604 million as of the end of the previous fiscal year). This is mainly attributable to increases in property, plant and equipment and lease and guarantee deposits by ¥156 million and ¥260 million, respectively.

Liabilities increased by ¥490 million to ¥2,625 million (¥2,135 million as of the end of the previous fiscal year). Current liabilities increased by ¥465 million to ¥2,573 million (¥2,107 million as of the end of the previous fiscal year). This is mainly attributable to increases in short-term loans payable and in accounts payable - trade by ¥500 million and ¥55 million, respectively, and a decrease in income taxes payable by ¥248 million. Non-current liabilities increased by ¥25 million to ¥52 million (¥27 million as of the end of the previous fiscal year). This is mainly attributable to an increase in provision for stocks payment by ¥25 million.

Net assets decreased by ¥126 million to ¥3,652 million (¥3,779 million as of the end of the previous fiscal year). This is mainly attributable to increases in capital stock and capital surplus by ¥5 million respectively, resulting from the exercise of stock acquisition rights as stock options, and deferred gains or losses on hedges by ¥10 million, and the recording of ¥149 million of loss.

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

For the financial results forecasts for the fiscal year ending March 31, 2019, no revisions have been made to the full-year forecast released on October 31, 2018.

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

(Thousand yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	1,656,656	1,084,692
Accounts receivable - trade	1,801,039	1,099,321
Merchandise	1,750,520	2,656,517
Income taxes receivable	—	112,716
Forward exchange contracts	—	3,381
Other	101,668	223,767
Total current assets	5,309,884	5,180,397
Non-current assets		
Property, plant and equipment	123,316	279,922
Intangible assets	146,768	160,296
Investments and other assets		
Deferred tax assets	118,745	177,118
Lease and guarantee deposits	151,475	411,643
Other	66,301	71,195
Allowance for doubtful accounts	(2,200)	(2,350)
Total investments and other assets	334,322	657,607
Total non-current assets	604,406	1,097,826
Total assets	5,914,291	6,278,224
Liabilities		
Current liabilities		
Accounts payable - trade	231,744	287,656
Short-term loans payable	820,000	1,320,000
Accounts payable - other	627,447	786,736
Income taxes payable	248,622	—
Provision for bonuses	58,283	29,814
Provision for point card certificates	2,209	2,061
Provision for sales returns	11,512	11,495
Provision for product warranties	—	27,098
Forward exchange contracts	12,371	—
Other	95,678	108,294
Total current liabilities	2,107,867	2,573,158
Non-current liabilities		
Provision for stocks payment	27,300	52,687
Total non-current liabilities	27,300	52,687
Total liabilities	2,135,167	2,625,845
Net assets		
Shareholders' equity		
Capital stock	875,016	880,549
Capital surplus	835,016	840,549
Retained earnings	2,208,283	2,058,640
Treasury shares	(129,915)	(129,999)
Total shareholders' equity	3,788,400	3,649,739
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(731)	258
Deferred gains or losses on hedges	(8,574)	2,351
Total valuation and translation adjustments	(9,306)	2,610
Share acquisition rights	29	29
Total net assets	3,779,123	3,652,378
Total liabilities and net assets	5,914,291	6,278,224

(2) Quarterly Statements of Income
For the nine months ended December 31

(Thousand yen)

	For the nine months ended December 31, 2017	For the nine months ended December 31, 2018
Net sales	9,569,509	9,882,698
Cost of sales	4,602,772	4,559,086
Gross profit	4,966,736	5,323,611
Selling, general and administrative expenses	4,612,715	5,490,012
Operating profit (loss)	354,021	(166,400)
Non-operating income		
Foreign exchange gains	3,704	5,930
Compensation income	8,685	9,536
Insurance premiums refunded cancellation	9,813	—
Other	3,107	5,602
Total non-operating income	25,310	21,069
Non-operating expenses		
Interest expenses	1,233	1,344
Advances depreciation	888	—
Other	591	150
Total non-operating expenses	2,714	1,494
Ordinary profit (loss)	376,617	(146,825)
Extraordinary losses		
Loss on retirement of non-current assets	—	9,811
Provision for product warranties	—	51,096
Total extraordinary losses	—	60,907
Profit (loss) before income taxes	376,617	(207,733)
Income taxes - current	145,734	(58,090)
Total income taxes	145,734	(58,090)
Profit (loss)	230,882	(149,643)

(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 third quarter ended December 31, 2018 multiplied by the effective tax rate after the adoption of tax-effect accounting estimated for the entire fiscal year ending March 31, 2019. 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.

(Additional Information)

Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting" and other standards

As the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28; February 16, 2018) and other standards have been adopted from the beginning of the first quarter ended June 30, 2018, deferred tax assets are presented under the category of investments and other assets.