



## The GEO Group

### Supplementary Materials on Financial Results of the Fiscal Year Ended March 31, 2015



GEO HOLDINGS CORPORATION

May 2015

<http://www.geonet.co.jp/>

## Executive Summary



### Results of the Fiscal Year ended March 31, 2015

#### Summary of results

- Net sales and all incomes exceeded the projection at the beginning of the fiscal year
- Achieved record high sales (which increased for five consecutive fiscal years)
- Net income increased significantly from factors including reorganization of subsidiaries

#### Summary and issues that we addressed

- Deployment of stores under a new concept
- Reform the organization and invest in human resources
- Active advancement into the right locations and expedite closing of unprofitable stores
- Further pursuit of network strategy
- Gain a foothold in new business fields

### Fiscal Year ending March 31, 2016

#### Projections

- (Full year) Net sales of 275 billion yen, operating income of 8.5 billion yen, ordinary income of 9 billion yen, net income of 4.5 billion yen
- (1st half) Net sales of 127 billion yen, operating income of 2.9 billion yen, ordinary income of 3.1 billion yen, net income of 1.3 billion yen

#### Issues we must address

- Expedite the expansion of "reuse"
- Maintain and improve profits for "media"
- Establish the "mobile" business
- Continue to pursue in depth the network strategy
- Gain a foothold in new business fields



## Financial Summary for Fiscal Year Ended March 31, 2015

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### Summary of Consolidated Income Statement

|                                                         | Fiscal Year ended<br>March 31,<br>2014 |                | Fiscal Year ended<br>March 31, 2015 |                |                       |        | Projection<br>presented on<br>May 9, 2014 |        |
|---------------------------------------------------------|----------------------------------------|----------------|-------------------------------------|----------------|-----------------------|--------|-------------------------------------------|--------|
|                                                         | Results                                | Sales<br>ratio | Results                             | Sales<br>ratio | Increase/<br>decrease | Change | Difference from<br>projection             |        |
| <b>Net sales</b>                                        | 262,324                                |                | <b>270,308</b>                      |                | 7,984                 | 103.0% | 308                                       | 100.1% |
| Gross profit                                            | 110,022                                | 41.9%          | 112,483                             | 41.6%          | 2,460                 | 102.2% |                                           |        |
| SG&A                                                    | 100,823                                | 38.4%          | 102,925                             | 38.1%          | 2,101                 | 102.1% |                                           |        |
| <b>Operating income</b>                                 | <b>9,198</b>                           | 3.5%           | <b>9,558</b>                        | 3.5%           | 359                   | 103.9% | 3,058                                     | 147.0% |
| <b>Ordinary income</b>                                  | <b>9,344</b>                           | 3.6%           | <b>10,030</b>                       | 3.7%           | 685                   | 107.3% | 3,030                                     | 143.3% |
| Income before<br>income taxes and<br>minority interests | 7,726                                  | 2.9%           | 8,486                               | 3.1%           | 760                   | 109.8% |                                           |        |
| <b>Net income</b>                                       | <b>3,808</b>                           | 1.5%           | <b>7,337</b>                        | 2.7%           | 3,528                 | 192.6% | 2,937                                     | 166.8% |

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## Summary of issues we addressed during the Fiscal Year ended March 31, 2015

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### Issues we must address and results

| Issues                                                                                                                                            | Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>“Deployment of stores under a new concept”</p> <p>“Active advancement into the right location and expedite closing of unprofitable stores”</p> | <ul style="list-style-type: none"><li>• The storefronts for the “Super 2nd STREET” which is a media and reuse integrated store was at first experimentally opened in “Omiya Nisshin,” but new shops at “Nagoya Minato” and in “Oyachi” (Sapporo City) were set up by considering the features of the relevant areas and buildings more.</li><li>• A reuse flagship store “Jumble Store” (Shibuya Main Store) was experimentally opened.</li><li>• At the time of relocating, expanding, or redecorating the stores, we opened multiple advanced media stores with digital signage.</li><li>• We expedited closing stores that do not meet our strict standards which will resulted in a net reduction in the number of stores.</li></ul> |
| <p>Further pursuit of network strategy</p>                                                                                                        | <ul style="list-style-type: none"><li>• GEO Networks Corporation kicked off (GEO HD network division and “Posuren” were reorganized) to centralize the network strategy.</li><li>• Ongoing renewal of the GEO application and expansion of users (achieved 3,500,000 downloads).</li><li>• We released the reuse shopping application and we tested selling stock at the storefront and through the internet</li></ul>                                                                                                                                                                                                                                                                                                                   |
| <p>Gaining a foothold in new business field</p>                                                                                                   | <ul style="list-style-type: none"><li>• We established the format for our mobile specialty stores to launch GEO mobile business on a full scale.</li><li>• We commenced duty-free shopping.</li><li>• Through capital alliance with Glamolucks, we acquired and expanded the function as a trading house</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                       |

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## Changes in our stores



Mobile specialty store (Ohsu Shintenchidori Store)



JUMBLE STORE (Shibuya Main Store)



Super Second Street (Nagoya Minato Store)

### Changes in number of stores

|                                     | As of March 31, 2014 | Opened | Closed | As of March 31, 2015 | Increase/decrease from March 31, 2014 |
|-------------------------------------|----------------------|--------|--------|----------------------|---------------------------------------|
| Media                               | 1,046                | 14     | (72)   | 983                  | (63)                                  |
| Mobile specialty store in the above | 0                    | 3      | 0      | 3                    | 3                                     |
| Integrated                          | 91                   | 5      | (2)    | 98                   | 7                                     |
| Reuse                               | 240                  | 36     | (5)    | 279                  | 41                                    |
| Warehouse                           | 11                   |        | (1)    | 10                   | (1)                                   |
| Total directly managed stores       | 1,386                | 55     | (80)   | 1,370                | (16)                                  |
| Distributors                        | 99                   | 2      | (9)    | 92                   | (7)                                   |
| Franchise stores                    | 121                  | 13     | (6)    | 128                  | 7                                     |
| Total                               | 1,608                |        |        | 1,590                | (18)                                  |

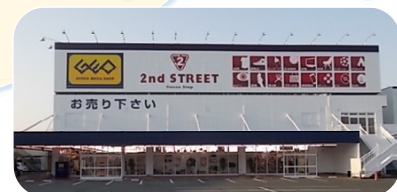
(Notes)

- Of the 43 Family Book stores that existed at March 31, 2014, 27 stores changed its business and 16 stores closed.
- Multiple stores operating in the same location are counted as one store. The former GEO Communications are not counted as media stores.
- A store that changed its business is not counted as a new store. Therefore, the numbers of stores that opened and closed do not correspond to the numbers of increase/decrease.



Before redecoration

After redecoration



Integrated store (Second Street at 1st floor and GEO store at 2nd floor)

## Network strategy



### Reuse application and the renewed Website were simultaneously released

### On-going renewal of the GEO application



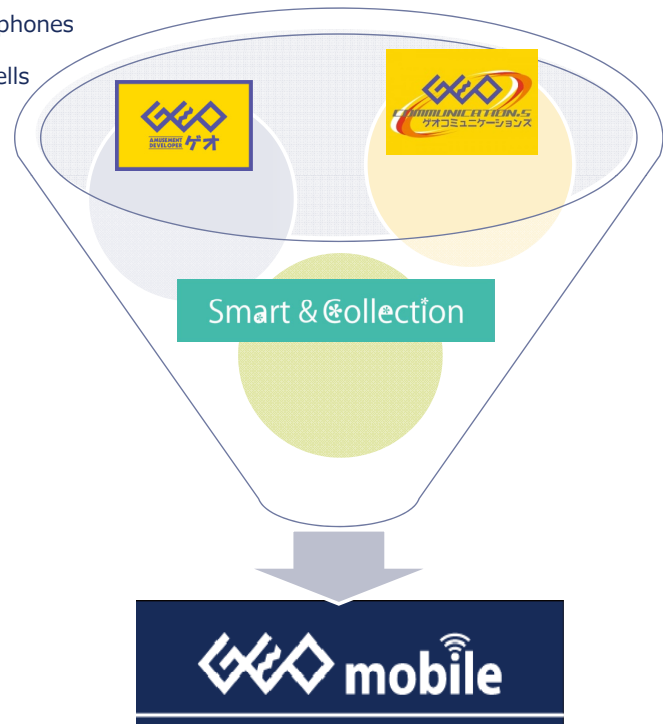
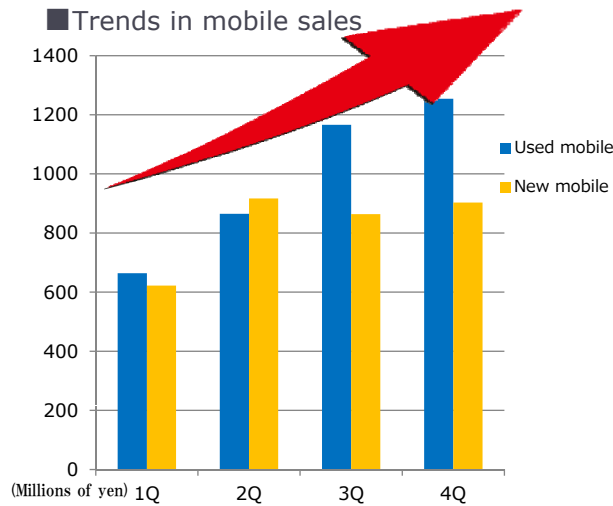
Approximately 40,000 items (mainly clothes and accessories) in stock at reuse shops nationwide could be purchased. The selling of both at the stores and by EC is anticipated to arouse various consumer interests.





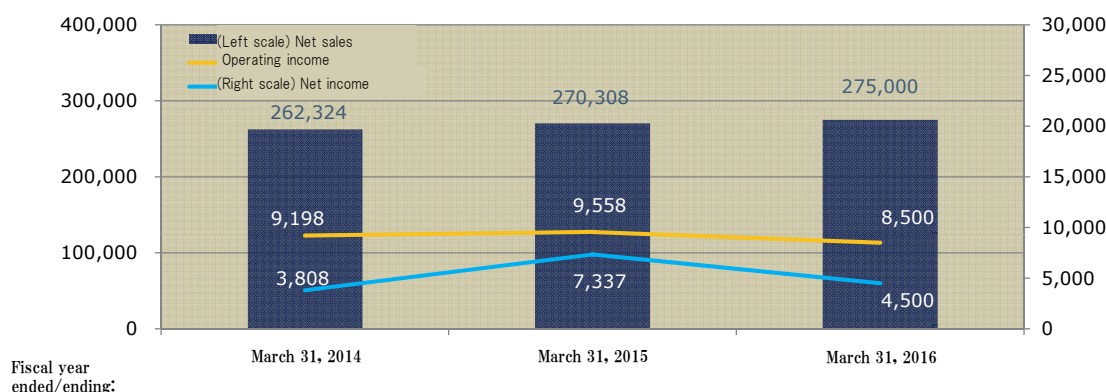
## Our history in the "mobile" business

- April 2002** We began business as a cell phone sales agency (GEO Communications)
- June 2009** We began to sell and purchase used cell phones
- April 2014** We opened a general mobile store that sells new goods, used goods and accessories
- April 2015** We expanded business by establishing mobile division



## Forecast for Fiscal Year Ending March 31, 2016

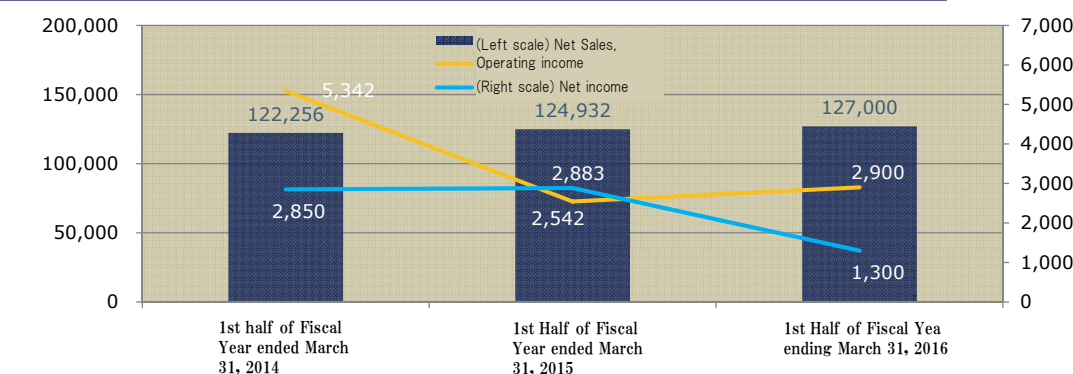
## Forecast (Full year)



|                                  | (Millions of yen) |              |         |                  |                 |            |
|----------------------------------|-------------------|--------------|---------|------------------|-----------------|------------|
|                                  | Net sales         | Gross profit | SG&A    | Operating income | Ordinary income | Net income |
| Fiscal Year ended March 31, 2016 | 275,000           | 115,000      | 106,500 | 8,500            | 9,000           | 4,500      |
| Sales ratio                      |                   | 41.8%        | 38.7%   | 3.1%             | 3.3%            | 1.6%       |
| Fiscal Year ended March 31, 2015 | 270,308           | 112,483      | 102,925 | 9,558            | 10,030          | 7,337      |
| Increase/decrease                | 4,691             | 2,516        | 3,574   | (1,058)          | (1,030)         | (2,837)    |
| Change                           | 101.7%            | 102.2%       | 103.5%  | 88.9%            | 89.7%           | 61.3%      |

(Basis) 20 "mobile" stores and 100 "reuse" stores opened (including stores that changed from media and integrated stores). "Media" reflects a bearish market (due to increased competition anticipated by the full-scale introduction of on-demand business). Personnel costs are anticipated to increase in view of the demand-supply situation of employment. The factors that increased net income for fiscal year ended March 31, 2014 are losing effect.

## Forecast (1st Half)



|                                               | (Millions of yen) |              |        |                  |                 |            |
|-----------------------------------------------|-------------------|--------------|--------|------------------|-----------------|------------|
|                                               | Net sales         | Gross profit | SG&A   | Operating income | Ordinary income | Net income |
| 1st half of Fiscal Year ending March 31, 2016 | 127,000           | 55,000       | 52,100 | 2,900            | 3,100           | 1,300      |
| Sales ratio                                   |                   | 43.3%        | 41.0%  | 2.3%             | 2.4%            | 1.0%       |
| 1st half of Fiscal Year ended March 31, 2015  | 124,932           | 54,235       | 51,692 | 2,542            | 2,769           | 2,883      |
| Increase/decrease                             | 2,067             | 764          | 407    | 357              | 330             | (1,583)    |
| Change                                        | 101.7%            | 101.4%       | 100.8% | 114.1%           | 111.9%          | 45.1%      |

Positive factors: There are no big events such as the World Cup that would cause rental profits to decline; Negative factors: The effect of "Frozen" and "Youkai Watch" weakened; Other factors: Introduction of LED at current stores as measures to cut down utilities expenses in the future but which would temporarily cause maintenance expenses to increase.



## Issues we must address during Fiscal Year ending March 31, 2016

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### Issues we must address

| Issues we must address                           | Challenges for Fiscal Year Ending March 31, 2016                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Expedite the expansion of "reuse"                | See p.15 through to p.16                                                                                                                                                                                                                                                                                                                                                                    |
| Maintain and improve profits for "media"         | In aim of maximizing profits: <ul style="list-style-type: none"><li>· Flexibly and quickly select merchandise and conduct sales promotion that suits the market and competition particular to each "area"</li><li>· Maximize profits for each facility by introducing other merchandise handled inside the group</li></ul>                                                                  |
| Establish the "mobile" business                  | See p.17 through to p.19                                                                                                                                                                                                                                                                                                                                                                    |
| Continue to pursue in depth the network strategy | In view of the increasing number of smartphone users: <ul style="list-style-type: none"><li>· Enhance recognition of the GEO application and promote sales efficiently</li><li>· Further expand the number of users (currently 3.5 million) and consider various new services</li><li>· Expand sales through selling at both the stores and the EC by using the reuse application</li></ul> |
| Gain a foothold in new business fields           | Seek to acquire new field of business as an extension of the current business and through M&A                                                                                                                                                                                                                                                                                               |

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## 2nd STREET Reuse Shop to become the top reuse brand



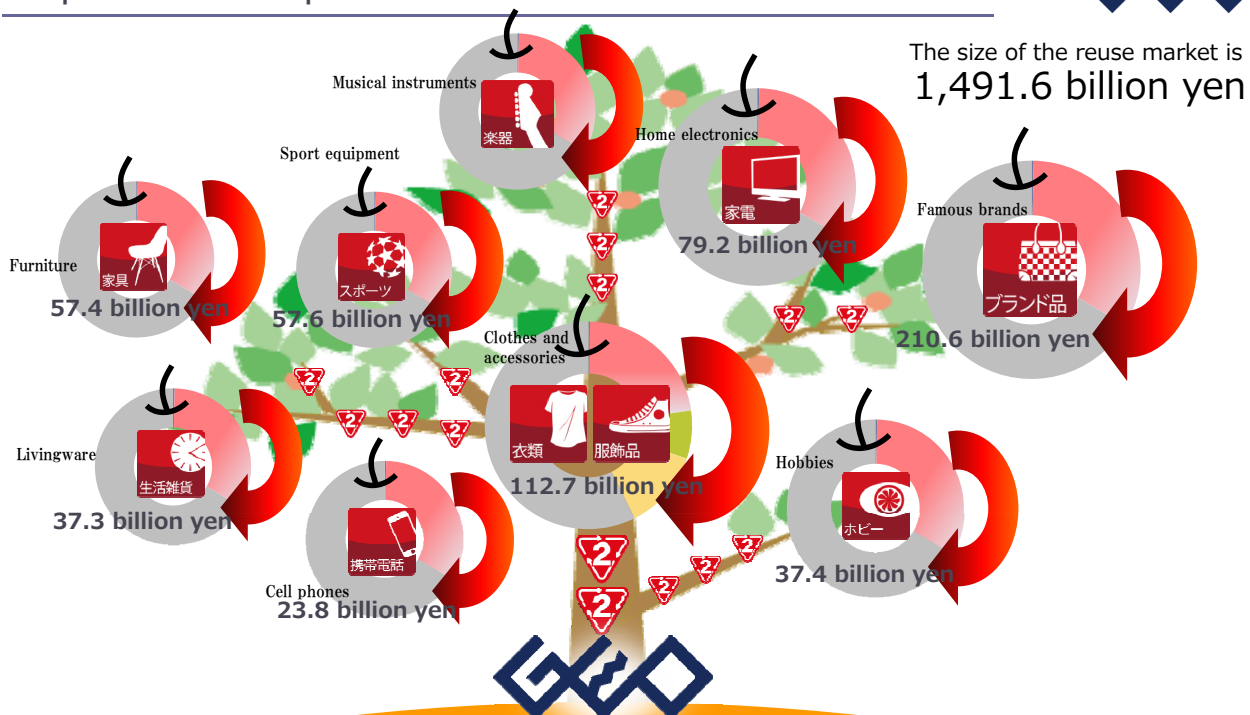
2nd STREET Reuse Shop

JUMBLESTORE by 2nd STREET JS



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## Expedite the expansion of reuse merchandise



boasts No. 1 share\* in clothes and accessories

GEO will aim to acquire the top share in Japan in clothes and accessories.

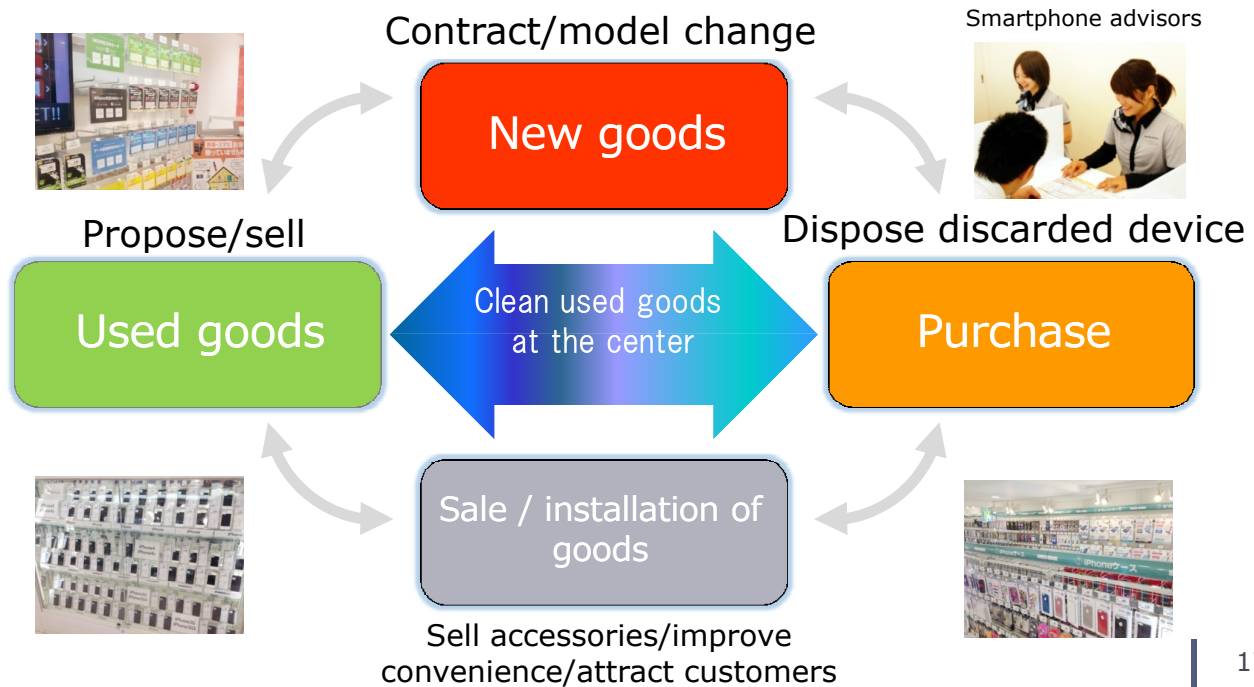
\*GEO had the top share of 16.4% to the market size of 112.7 billion yen (according to Recycle Tsushin issued on March 20, 2015).

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We achieved our unique model for the "mobile" business

## GEO's "circulating" and "one-stop" mobile business



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The potential of "mobile"

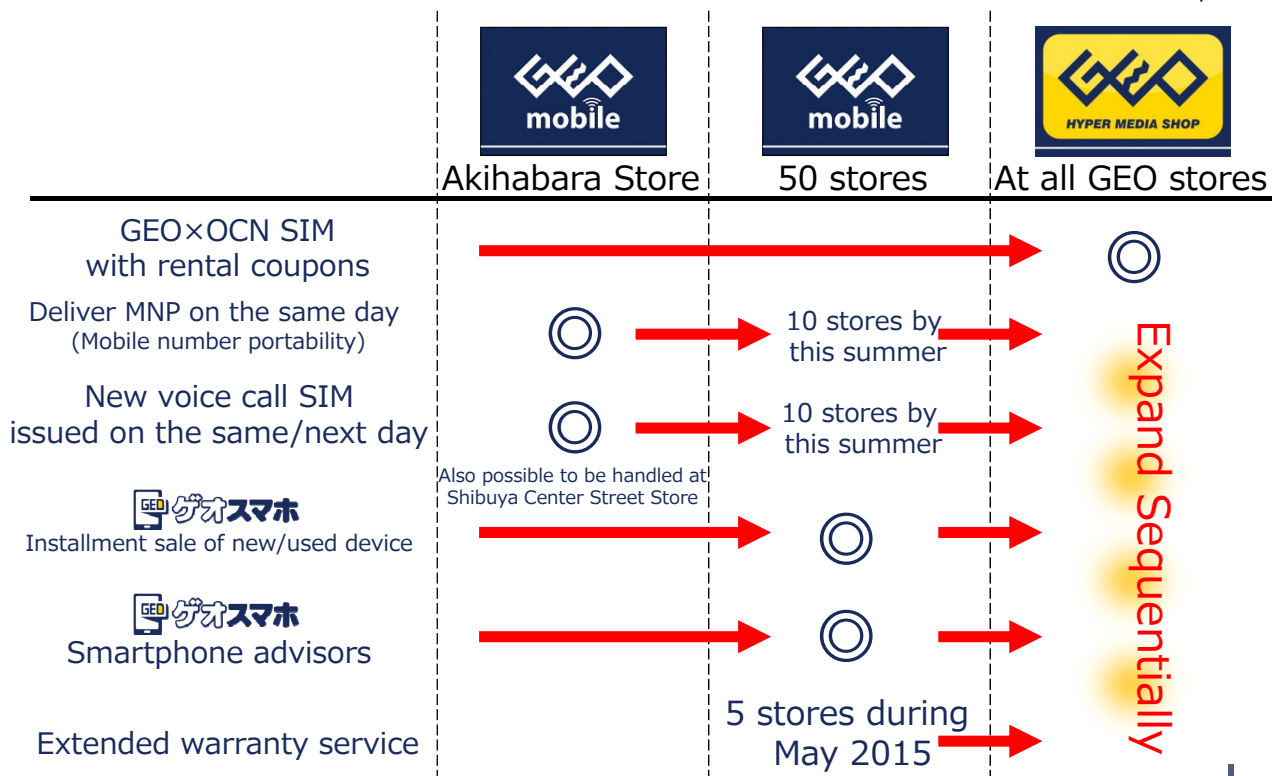


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## Our image of expanding our "mobile" service



As of May 2015



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## Appendices

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## Breakdown of Selling, general and administrative expenses (consolidated)

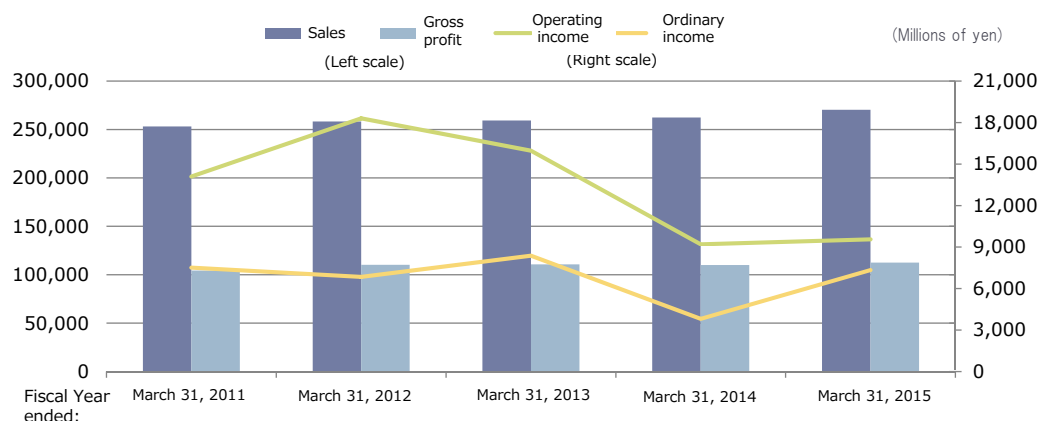


(Millions of yen)

|                               | Fiscal Year ended<br>March 31, 2014 |             | Fiscal Year ended<br>March 31, 2015 |             | Increase/<br>decrease | Change |
|-------------------------------|-------------------------------------|-------------|-------------------------------------|-------------|-----------------------|--------|
|                               | Results                             | Sales ratio | Results                             | Sales ratio |                       |        |
| Total selling expenses        | 9,649                               | 3.7%        | 9,193                               | 3.4%        | (455)                 | 95.3%  |
| Advertising                   | 3,432                               | 1.3%        | 2,804                               | 1.0%        | (628)                 | 81.7%  |
| Sales promotion               | 1,171                               | 0.4%        | 1,110                               | 0.4%        | (61)                  | 94.8%  |
| Total personnel expenses      | 44,750                              | 17.1%       | 48,313                              | 17.9%       | 3,562                 | 108.0% |
| Total other expenses          | 45,320                              | 17.3%       | 44,534                              | 16.5%       | (786)                 | 98.3%  |
| Utilities                     | 6,544                               | 2.5%        | 6,475                               | 2.4%        | (68)                  | 99.0%  |
| Rent                          | 19,645                              | 7.5%        | 20,044                              | 7.4%        | 399                   | 102.0% |
| Depreciation and amortization | 4,054                               | 1.5%        | 4,230                               | 1.6%        | 175                   | 104.3% |
| Consumables                   | 3,543                               | 1.4%        | 2,818                               | 1.0%        | (725)                 | 79.5%  |
| Maintenance                   | 1,320                               | 0.5%        | 1,489                               | 0.6%        | 169                   | 112.8% |
| Amortization of goodwill      | 1,103                               | 0.4%        | 884                                 | 0.3%        | (219)                 | 80.1%  |
| Total SG&A                    | 100,823                             | 38.4%       | 102,925                             | 38.1%       | 2,101                 | 102.1% |

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## Changes in profits for the recent five years (consolidated)



(Millions of yen)

| Fiscal Year ended: | March 31, 2011 | March 31, 2012 | March 31, 2013 | March 31, 2014 | March 31, 2015 |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| Net sales          | 253,082        | 258,244        | 259,288        | 262,324        | 270,308        |
| Cost of goods sold | (148,720)      | (148,011)      | (148,597)      | (152,301)      | (157,825)      |
| Gross profit       | 104,362        | 110,232        | 110,690        | 110,022        | 112,483        |
| Operating income   | 14,094         | 18,306         | 15,965         | 9,198          | 9,558          |
| Ordinary income    | 14,447         | 16,464         | 15,643         | 9,344          | 10,030         |
| Net income         | 7,512          | 6,842          | 8,380          | 3,808          | 7,337          |

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(Millions of yen)

## Summary of Consolidated Balance Sheet for the recent five years

| As of:                           | March 31, 2011 |                   | March 31, 2012 |                   | March 31, 2013 |                   | March 31, 2014 |                   | March 31, 2015 |                   |
|----------------------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|
|                                  | Balance        | Composition ratio | Balance        | Composition ratio | Balance        | Composition ratio | Balance        | Composition ratio | Balance        | Composition ratio |
| Current assets                   | 55,397         | 44.2%             | 56,240         | 43.9%             | 55,166         | 45.5%             | 54,729         | 47.4%             | 68,659         | 53.8%             |
| Non-current assets               | 70,045         | 55.8%             | 71,834         | 56.1%             | 66,186         | 54.5%             | 60,851         | 52.6%             | 58,952         | 46.2%             |
| Assets                           | 125,442        |                   | 128,075        |                   | 121,353        |                   | 115,581        |                   | 127,612        |                   |
| Current liabilities              | 36,458         | 29.1%             | 43,889         | 34.3%             | 39,405         | 32.5%             | 34,713         | 30.0%             | 35,068         | 27.5%             |
| Non-current liabilities          | 40,945         | 32.6%             | 30,759         | 24.0%             | 23,970         | 19.8%             | 21,668         | 18.7%             | 29,329         | 23.0%             |
| Liabilities                      | 77,404         | 61.7%             | 74,649         | 58.3%             | 63,375         | 52.2%             | 56,381         | 48.8%             | 64,398         | 50.5%             |
| Shareholders' equity             | 44,964         | 35.8%             | 50,229         | 39.2%             | 56,648         | 46.7%             | 58,729         | 50.8%             | 62,724         | 49.2%             |
| Net assets                       | 48,037         | 38.3%             | 53,425         | 41.7%             | 57,978         | 47.8%             | 59,199         | 51.2%             | 63,214         | 49.5%             |
| Total liabilities and net assets | 125,442        |                   | 128,075        |                   | 121,353        |                   | 115,581        |                   | 127,612        |                   |
| Interest-bearing liabilities     |                | 44,129            |                | 33,381            |                | 28,101            |                | 23,317            |                | 29,343            |
| Net interest-bearing liabilities |                | 20,830            |                | 5,309             |                | 3,999             |                | 3,447             |                | (2,708)           |
| BPS (yen)                        |                | 82,856.62         |                | 92,690.69         |                | 105,331.25        |                | 1093.16           |                | 1204.85           |
| ROA                              |                | 6.2%              |                | 5.4%              |                | 6.7%              |                | 3.2%              |                | 6.0%              |
| ROE                              |                | 18.1%             |                | 14.3%             |                | 15.6%             |                | 6.6%              |                | 12.0%             |
| Total amount of dividend paid    |                | 1,510             |                | 1,631             |                | 1,675             |                | 1,727             |                | 1,692             |

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(Millions of yen)

## Summary of Consolidated Cash Flow Statements for the recent five years

※Only the major items are selected.

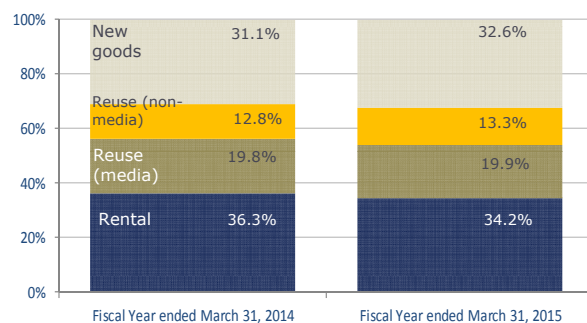
| Fiscal Year ended:                                         | March 31, 2011 | March 31, 2012  | March 31, 2013 | March 31, 2014 | March 31, 2015 |
|------------------------------------------------------------|----------------|-----------------|----------------|----------------|----------------|
| Depreciation                                               | 5,136          | 5,399           | 5,467          | 5,166          | 5,105          |
| Rental assets depreciation                                 | 13,070         | 15,052          | 14,244         | 13,150         | 13,554         |
| Impairment loss                                            | 1,052          | 1,089           | 1,529          | 1,218          | 1,543          |
| Loss on disposal of property, plant and equipment          | 516            | 124             | 453            | 97             | 71             |
| Increase in provision for loss from closing stores         | (182)          | 77              | (155)          | 24             | 122            |
| Purchase of rental assets                                  | (13,936)       | (16,244)        | (13,247)       | (13,422)       | (12,267)       |
| Increase (decrease) in notes and accounts payable          | (930)          | 1,019           | 382            | (708)          | 430            |
| Increase (decrease) in other assets                        | 737            | 1,262           | (143)          | 295            | (180)          |
| Increase (decrease) in other liabilities                   | 0              | 0               | (64)           | (169)          | (486)          |
| <b>Net cash provided by (used in) operating activities</b> | <b>17,662</b>  | <b>25,241</b>   | <b>11,457</b>  | <b>8,255</b>   | <b>17,424</b>  |
| Purchase of property, plant and equipment                  | (7,683)        | (4,379)         | (4,454)        | (4,937)        | (7,374)        |
| Proceeds from acquisition of consolidated subsidiary       | 0              | 30              | 0              | 0              | 0              |
| Payment for acquisition of consolidated subsidiary         | (2,148)        | 0               | 0              | (3,391)        | 0              |
| Payment for further investment in consolidated subsidiary  | (217)          | 0               | (824)          | (266)          | 0              |
| Purchase of intangible assets                              | (425)          | (352)           | (362)          | (385)          | (514)          |
| Payment for transfer of business                           | (821)          | (196)           | (207)          | (7)            | 0              |
| <b>Net cash provided by (used in) investing activities</b> | <b>(8,854)</b> | <b>(4,364)</b>  | <b>(5,296)</b> | <b>(9,401)</b> | <b>(7,416)</b> |
| Increase in short-term loans payable                       | (2,288)        | 3,700           | 9,050          | 13,550         | 12,310         |
| Decrease in short-term loans payable                       | 0              | (4,113)         | (9,020)        | (13,630)       | (12,310)       |
| Proceeds from long-term loans payable                      | 18,790         | 2,150           | 6,860          | 11,200         | 15,400         |
| Repayments of long-term loans payable                      | (15,987)       | (12,191)        | (11,480)       | (10,972)       | (9,124)        |
| Repayments of finance lease obligations                    | (2,694)        | (2,664)         | (2,350)        | (1,958)        | (570)          |
| Purchase of treasury shares                                | (125)          | 0               | (334)          | 0              | (1,645)        |
| <b>Net cash provided by (used in) financing activities</b> | <b>(4,111)</b> | <b>(15,034)</b> | <b>(9,615)</b> | <b>(3,790)</b> | <b>2,107</b>   |
| <b>FCF</b>                                                 | <b>8,808</b>   | <b>20,876</b>   | <b>6,160</b>   | <b>(1,145)</b> | <b>10,007</b>  |

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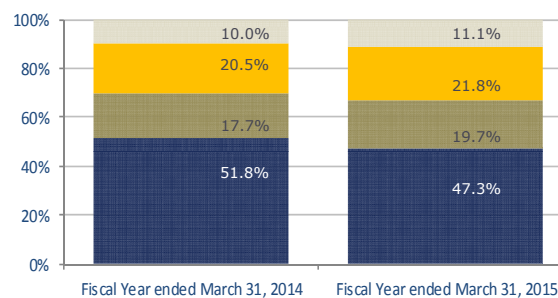


## Sales and Gross Income based on merchandise

### Composition of Sales



### Composition of Gross Income



| Millions of yen   | Fiscal Year ended March 31, 2014 | Fiscal Year ended March 31, 2015 |                   |        |
|-------------------|----------------------------------|----------------------------------|-------------------|--------|
|                   | Results                          | Results                          | Increase/decrease | Change |
| Rental            | 82,831                           | 83,307                           | 475               | 100.6% |
| Reuse (media)     | 45,340                           | 48,526                           | 3,185             | 107.0% |
| Reuse (non-media) | 29,259                           | 32,341                           | 3,082             | 110.5% |
| Total reuse       | 74,599                           | 80,868                           | 6,268             | 108.4% |
| New goods         | 71,059                           | 79,568                           | 8,509             | 112.0% |

| Fiscal Year ended March 31, 2014 |                    | Fiscal Year ended March 31, 2015 |                    |                   |        |
|----------------------------------|--------------------|----------------------------------|--------------------|-------------------|--------|
| Results                          | Gross income ratio | Results                          | Gross income ratio | Increase/decrease | Change |
| 49,424                           | 59.7%              | 48,743                           | 58.5%              | (680)             | 98.6%  |
| 16,881                           | 37.2%              | 20,288                           | 41.8%              | 3,407             | 120.2% |
| 19,534                           | 66.8%              | 22,484                           | 69.5%              | 2,949             | 115.1% |
| 36,416                           | 48.8%              | 42,773                           | 52.9%              | 6,357             | 117.5% |
| 9,560                            | 13.5%              | 11,514                           | 14.5%              | 1,954             | 120.4% |

Note) From fiscal year ended March 31, 2015, the amounts are calculated based on each category of merchandise, i.e., rental, reuse (media), reuse (non-media), and new goods, at the rental shops and reuse shops.

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## Notice concerning forward-looking statements

All indications made in this document concerning forecasts of performance, policies, management strategies, targets, plans, understanding and assessment of facts, as well as outlook on performance and dividends with respect to the Group, excluding historical facts, only reflect our current expectations, predictions, plans, understanding, assessments and others based on information available to the Group. These indications, facts or preconditions (assumptions) by their nature may be inaccurate from an objective perspective and they are exposed to potential risks of being affected by changes in general business environment, weather, economic trends, consumer trends, and consumer preferences. Therefore, no guarantee is made that the indications in this document will be realized in the future as projected.

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