

Summary of Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2019 (Japan GAAP)

November 9, 2018

GEO HOLDINGS CORPORATION

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Scheduled date to submit quarterly report: November 12, 2018

Scheduled date to start dividend payment: December 10, 2018

Supplementary material on quarterly financial results: Yes

Briefing on this quarterly financial results: Yes (to institutional investors and analysts)

(Amounts less than million yen are discarded.)

1. Consolidated Financial Results for the Second Quarter (from April 1, 2018 to September 30, 2018)

(1) Consolidated operating results

(The percentages indicate the rates of increase or decrease from the same period of the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended:	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2018	132,573	(2.6)	7,321	(1.9)	8,186	3.9	4,981	14.0
September 30, 2017	136,142	10.8	7,463	80.2	7,881	76.4	4,369	80.8

(Note) Comprehensive income: 4,960 million yen (increase of 12.5%) for six months ended September 30, 2018
4,408 million yen (increase of 77.3%) for six months ended September 30, 2017

	Earnings per share (yen)	Fully diluted earnings per share (yen)
Six months ended:		
September 30, 2018	108.66	108.23
September 30, 2017	90.97	90.70

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	(Millions of yen)	(Millions of yen)	%
As of September 30, 2018	130,878	70,076	53.4
As of March 31, 2018	137,335	72,191	52.4

(Reference) Shareholders' equity: As of September 30, 2018: 69,840 million yen
As of March 31, 2018: 71,991 million yen

2. Dividends

	Dividend per share (yen)				
(Record dates)	1st quarter end	2nd quarter end	3rd quarter end	Year-end	Annual
Fiscal Year ended March 31, 2018	-	17	-	17	34
Fiscal Year ending March 31, 2019	-	17			
Fiscal Year ending March 31, 2019 (Forecast)			-	17	34

(Note) Modifications in the dividend forecast from the latest disclosure: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

(The percentages indicate the rates of increase or decrease from the same period of the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	yen
Full-year	290,000	(3.1)	12,500	(14.8)	14,000	(8.2)	7,600	14.9	165.78

(Note) Modifications in the earnings forecast from the latest disclosure: Yes

Notes

- (1) Changes in important subsidiaries during this consolidated six months period (changes in Specified Subsidiaries accompanying a change in the scope of consolidation): None
- (2) Adoptions of special accounting treatments for quarterly consolidated financial statements: None
- (3) Changes in accounting principles or changes in accounting estimates or retrospective restatements
 - 1) Changes in accounting principles due to amendments to accounting standards, etc.: None
 - 2) Changes in accounting principles other than 1): None
 - 3) Changes in estimates used for accounting: None
 - 4) Retrospective restatements: None
- (4) Number of shares outstanding (common stock)
 - 1) Number of shares outstanding (including treasury shares):

As of September 30, 2018	43,871,188 shares
As of March 31, 2018	48,349,700 shares
 - 2) Number of treasury shares:

As of September 30, 2018	—
As of March 31, 2018	450,000 shares
 - 3) Average number of outstanding shares:

During six months ended September 30, 2018	45,843,512 shares
During six months ended September 30, 2017	48,022,746 shares

* This summary is not subject to the quarterly review procedures by certified public accountants or audit firms.

* Explanation regarding appropriate use of financial forecasts and other special remarks

(Note concerning forward-looking statements)

The forward-looking statements included in this summary such as financial forecasts are based on currently available information and certain assumptions which we deem to be reasonable as of the date of this summary. There is no guarantee that we will achieve those financial forecasts. Actual results may differ significantly from these forecasts due to various factors. Please see “1. Qualitative Information on Quarterly Results” on page 2 of the Attachment on the assumptions used for forecasts and a note on reliance on forecasts.

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1. Qualitative Information on Quarterly Results

(1) Details of consolidated operating results

Consolidated Earnings (April 1, 2018 to September 30, 2018)

For the business environment for six months ended September 30, 2018, the reuse market continue becoming more active which could be seen from the penetration of the flea market applications and increasing transactions for businesses that operate only through the internet using smartphone applications, etc.

For the Group, the sale of reuse merchandise is growing solidly mainly at our reuse stores, and our EC related sales are also growing due to strengthened promotional efforts by the official site (GEO MART) operated by our subsidiary.

Gross profit increased soundly from the change in composition of profit for the entire group which change was mainly led by growth in sales for reuse merchandise although income decreased compared to the same period of the previous year due to softer sales for rental merchandise and active launch of new model game device in the same period of the previous year.

In developing stores, we opened 28 new reuse stores (including franchise stores and stores that were relocated and reopened) as scheduled. We developed new store formats such as concept shop for men and stores focused on luxury brands. Our reuse store network has now expanded to exceed 600 stores.

We are making continuous efforts to pursue efficient operations but operating profit decreased due to increase in SG&A such as personnel costs and rent attributable to opening new stores. In the first quarter, the Company received compensation for vacation of land and buildings owned by the Company accompanying urban redevelopment project, which gave rise to non-operating income, and thereby resulted in increase in ordinary profit and profit attributable to owners of parent.

As a result, for the Group's results for six months ended September 30, 2018, sales resulted in 132,573 million yen (2.6% decrease from the same period of the previous year), operating profit resulted in 7,321 million yen (1.9% decrease from the same period of the previous year), ordinary profit resulted in 8,186 million yen (3.9% increase from the same period of the previous year), and profit attributable to owners of parent resulted in 4,981 million yen (14.0% increase from the same period of the previous year).

The number of our stores as of September 30, 2018 is as follows.

() show increase or decrease from the end of the previous fiscal year.

	Directly-managed stores		Distributors		FC stores		Total	
	Increase (decrease)		Increase (decrease)		Increase (decrease)		Increase (decrease)	
Total number of GEO group stores and facilities	1,624	13	103	(5)	126	2	1,853	10
Media	1,049	(5)	103	(5)	75	0	1,227	(10)
GEO mobile (mobile dedicated stores)	16	(1)					16	(1)
Reuse	553	18			51	2	604	20
WAREHOUSE	11	1					11	1
Others	11	(1)					11	(1)

Notes:

1. The number of stores is counted based on each store name.
2. Media stores include stores that sell and purchase home game related items and rent DVDs where they operate under the store names of GEO and GEO mobile.
3. GEO mobile means mobile store that does not operate within a media store.
4. Reuse stores include stores that sell and purchase clothing and accessories, etc. Reuse stores operate under the store names of Second Street, Super Second Street, 2nd Outdoor, and Jumble Store, etc.

(Sales for core merchandise: Six months results)

(i) Reuse (media)

Sales resulted in 26,539 million yen (102.0% compared to the same period of the previous year) mainly led by sales in communication device such as used smartphones although sales for used games remained at the same level as the same period of the previous year.

(ii) Reuse (non-media)

Sales resulted in 23,953 million yen (116.6% compared to the same period of the previous year) from the solid growth in sales at reuse stores among the existing stores and increase in the number of stores from opening new stores.

(iii) Rental

Sales resulted in 32,291 million yen (94.7% compared to the same period of the previous year) reflecting recovery in the sales for rental comics although sales remained soft for rental videos.

(iv) New (media)

Sales resulted in 33,380 million yen (82.6% compared to the same period of the previous year) since there were the launch of hit game software and sales of new model game device in the same period of the previous year.

(2) Details of consolidated financial position

[Assets]

The current assets as of September 30, 2018 resulted in 78,274 million yen which is a decrease of 6,291 million yen from the previous fiscal year end. This decrease is mainly due to a decrease of 9,326 million yen in cash and deposits and 143 million yen in notes and accounts receivable-trade while there was an increase of 1,948 million yen in merchandise and 1,238 million yen in other. The non-current assets resulted in 52,603 million yen which is a decrease of 166 million yen from the previous fiscal year end. This decrease is mainly due to a decrease of 142 million yen in property, plant and equipment and 51 million yen in investments and other assets.

As a result, the total assets as of September 30, 2018 resulted in 130,878 million yen which is a decrease of 6,457 million yen from the previous fiscal year end.

[Liabilities]

The current liabilities as of September 30, 2018 resulted in 30,594 million yen which is a decrease of 5,023 million yen from the previous fiscal year end. This decrease is mainly due to a decrease of 1,673 million yen in accounts payable-trade, 1,885 million yen in accrued income tax, 903 million yen in other, and 671 million yen in current portion of long-term loans payable. Non-current liabilities resulted in 30,207 million yen which is an increase of 681 million yen from the previous fiscal year end. This is mainly due to an increase of 771 million yen in long-term loans payable while there was a decrease of 154 million yen in other.

As a result, total liabilities resulted in 60,802 million yen which decreased by 4,342 million yen from the previous fiscal year end.

[Net assets]

The net assets as of September 30, 2018 resulted in 70,076 million yen which is a decrease of 2,115 million yen from the previous fiscal year end. This decrease is mainly due to 4,981 million yen in profit attributable to owners of parent, dividends of 814 million yen paid from retained earnings, and purchase of treasury shares for 6,308 million yen.

From the above, the equity ratio resulted in 53.4% (52.4% as of the previous fiscal year end).

(Cash flow)

Cash and cash equivalents (“cash”) at the end of period that ended on September 30, 2018 were 36,960 million yen which is a decrease of 8,215 million yen compared to that at fiscal year ended March 31, 2018.

The results of each item of cash flow and their causal factors for the six months ended September 30, 2018 are as follows.

Cash flows from operating activities

As a result of operating activities, cash increased by 1,811 million yen (where this increased by 6,476 million yen in the same period of the previous fiscal year).

This increase is mainly due to profit before income taxes of 8,045 million, and rental asset depreceiation and amortization of 3,183 million yen while inventories increased by 1,852 million yen, purchase of rental asset of 2,649 million yen, and income taxes paid of 4,696 million yen.

Cash flows from investing activities

As a result of investing activities, cash decreased by 3,007 million yen (where this decreased by 1,928 million yen in the same period of the previous fiscal year).

This decrease is mainly due to expenditures of 2,105 million yen from purchases of property, plant and equipment.

Cash flows from financing activities

As a result of financing activities, cash decreased by 7,086 million yen (where this decreased by 3,579 million yen in the same period of the previous fiscal year).

This decrease is mainly due to payment of cash dividends of 812 million yen and purchase of treasury shares for 6,308 million yen.

(3) Explanation on forward-looking information including consolidated earnings forecast

The consolidated earnings forecast for full year presented on May 10, 2018 was revised to reflect the recent trends in our results. For details, please see the “Notice Concerning Revision of Full Year Forecast” announced today (November 9, 2018).

2. Consolidated Financial Statements for the Quarter
(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	42,667	33,341
Notes and accounts receivable - trade	5,562	5,418
Merchandise	30,007	31,955
Other	6,384	7,622
Allowance for doubtful accounts	(55)	(63)
Total current assets	84,566	78,274
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,407	12,948
Other, net	15,988	15,305
Total property, plant and equipment	28,396	28,253
Intangible assets	1,443	1,470
Investments and other assets		
Lease and guarantee deposits	15,393	15,426
Other	8,419	8,357
Allowance for doubtful accounts	(883)	(905)
Total investments and other assets	22,929	22,878
Total non-current assets	52,769	52,603
Total assets	137,335	130,878
Liabilities		
Current liabilities		
Accounts payable - trade	12,316	10,643
Current portion of long-term loans payable	5,539	4,868
Income taxes payable	4,634	2,749
Provision for bonuses	2,085	2,195
Other	11,041	10,137
Total current liabilities	35,618	30,594
Non-current liabilities		
Long-term loans payable	19,897	20,668
Asset retirement obligations	6,201	6,266
Other	3,427	3,272
Total non-current liabilities	29,526	30,207
Total liabilities	65,144	60,802
Net assets		
Shareholders' equity		
Capital stock	8,933	8,938
Capital surplus	3,345	3,351
Retained earnings	59,984	57,317
Treasury shares	(525)	(0)
Total shareholders' equity	71,738	69,607
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	262	237
Deferred gains or losses on hedges	(8)	(6)
Foreign currency translation adjustment	-	1
Total accumulated other comprehensive income	253	232
Share acquisition rights	200	236
Total net assets	72,191	70,076
Total liabilities and net assets	137,335	130,878

(2) Consolidated quarterly income statement and statement of comprehensive income

Income statement

	(Millions of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	136,142	132,573
Cost of sales	77,808	73,119
Gross profit	58,334	59,454
Selling, general and administrative expenses	50,871	52,132
Operating profit	7,463	7,321
Non-operating income		
Real estate rent	634	363
Compensation income	-	654
Other	479	295
Total non-operating income	1,114	1,313
Non-operating expenses		
Rent expenses on real estates	483	208
Other	212	240
Total non-operating expenses	695	448
Ordinary profit	7,881	8,186
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	-	92
Impairment loss	593	49
Total extraordinary losses	593	141
Profit before income taxes	7,288	8,045
Income taxes - current	2,451	2,854
Income taxes - deferred	468	209
Total income taxes	2,919	3,063
Profit	4,369	4,981
Profit attributable to owners of parent	4,369	4,981

Statement of comprehensive income

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	4,369	4,981
Other comprehensive income		
Valuation difference on available-for-sale securities	37	(24)
Deferred gains or losses on hedges	1	2
Foreign currency translation adjustment	-	1
Total other comprehensive income	39	(20)
Comprehensive income	4,408	4,960
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,408	4,960

(3) Consolidated quarterly statement of cash flow

	(Millions of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	7,288	8,045
Depreciation	2,398	2,042
Rental asset depreciation and amortization	3,622	3,183
Impairment loss	593	49
Interest and dividend income	(19)	(15)
Interest expenses	92	79
Compensation income	-	(654)
Decrease (increase) in inventories	(767)	(1,852)
Purchase of Rental asset	(2,692)	(2,649)
Increase (decrease) in notes and accounts payable - trade	(5,644)	(1,708)
Increase (decrease) in accrued consumption taxes	883	(396)
Other, net	(559)	(199)
Subtotal	5,193	5,923
Interest and dividend income received	12	6
Interest expenses paid	(92)	(79)
Income taxes paid	(534)	(4,696)
Income taxes refund	1,897	2
Proceeds from compensation	-	654
Net cash provided by (used in) operating activities	6,476	1,811
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,051)	(2,105)
Other, net	122	(902)
Net cash provided by (used in) investing activities	(1,928)	(3,007)
Cash flows from financing activities		
Increase in short-term loans payable	10,400	10,100
Decrease in short-term loans payable	(12,040)	(10,100)
Proceeds from long-term loans payable	2,900	3,100
Repayments of long-term loans payable	(3,425)	(3,000)
Cash dividends paid	(819)	(812)
Purchase of treasury shares	(525)	(6,308)
Other, net	(69)	(65)
Net cash provided by (used in) financing activities	(3,579)	(7,086)
Effect of exchange rate change on cash and cash equivalents	-	0
Net increase (decrease) in cash and cash equivalents	968	(8,282)
Cash and cash equivalents at beginning of period	36,908	45,175
Increase in cash and cash equivalents from newly consolidated subsidiary	143	67
Cash and cash equivalents at end of period	38,020	36,960

(4) Notes on consolidated financial statements

(Notes on going concern assumptions)

None

(Notes on significant change in shareholders' equity)

The Company cancelled 4,489,012 treasury shares on August 31, 2018 pursuant to the resolution of its board of directors meeting held on July 27, 2018. As a result, retained earnings and treasury shares respectively decreased by 6,834 million yen for the six months ended September 30, 2018, and as of September 30, 2018, retained earnings were 57,317 million and treasury shares were 0 million yen.

(Segment information)

【Segment information】

For the six months ended September 30, 2017 (consolidated) and the six months ended September 30, 2018 (consolidated):

Description is omitted because the Group reports only through one segment, i.e., retail services.