

Summary of Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2020 (Japan GAAP)

November 8, 2019

GEO HOLDINGS CORPORATION

Securities Code: 2681

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Scheduled date to submit quarterly report: November 11, 2019

Scheduled date to start dividend payment: December 10, 2019

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, 2019 to September 30, 2019)

(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, 2019	138,048	4.1	4,581	(37.4)	4,906	(40.1)	2,696	(45.9)
September 30, 2018	132,573	(2.6)	7,321	(1.9)	8,186	3.9	4,981	14.0

(Note) Comprehensive income: 2,700 million yen (decrease of 45.6%) for six months ended September 30, 2019
4,960 million yen (increase of 12.5%) for six months ended September 30, 2018

	Earnings per share (yen)	Fully diluted earnings per share (yen)
Six months ended:		
September 30, 2019	61.73	61.62
September 30, 2018	108.66	108.23

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	(Millions of yen)	(Millions of yen)	%
As of September 30, 2019	141,183	75,179	53.0
As of March 31, 2019	136,590	74,609	54.4

(Reference) Shareholders' equity: As of September 30, 2019: 74,887 million yen
As of March 31, 2019: 74,336 million yen

2. Dividends

(Record dates)	Dividend per share (yen)				
	1st quarter end	2nd quarter end	3rd quarter end	Year-end	Annual
Fiscal Year ended March 31, 2019	-	17	-	17	34
Fiscal Year ending March 31, 2020	-	17			
Fiscal Year ending March 31, 2020 (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	310,000	6.0	10,000	(36.2)	10,500	(40.5)	5,250	(49.0)	120.20

(Note) Modifications in the earnings forecast from the latest disclosure: No

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, 2019	43,929,488 shares
As of March 31, 2019	43,882,588 shares
 - 2) Number of treasury shares:

As of September 30, 2019	1,090,636 shares
As of March 31, 2019	36 shares
 - 3) Average number of outstanding shares:

During six months ended September 30, 2019	43,677,488 shares
During six months ended September 30, 2018	45,843,512 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

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 and actual results may differ significantly from these forecasts due to various factors. Please see “1. Qualitative Information on Quarterly Results, (3) Explanation on forward-looking information including consolidated earnings forecast” on page 4 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, 2019 to September 30, 2019)

For the business environment for six months ended September 30, 2019, the reuse market continued to becoming more active which is attributable to less resistance to used goods and the penetration of the flea market applications.

In such environment, the Company has continued opening new stores for general reuse mainly for 2nd STREET in aim to “offer joy to your everyday life.”

As an overview in business, there was some effect from adverse weather but the sales for existing 2nd STREET stores continued growing solidly, and due to the addition of Okura to our Group that is acquired in the first quarter and is engaged in reuse wholesale and retail business in luxury watches and luxury brand bags, the sales resulted in 138,048 million yen which exceeded from the same period of the previous year. However, due to increased SG&A mainly attributable to increase in personnel expenses and expenses for development of new format stores, operating profit, ordinary profit and profit attributable to owners of parent for six months ended September 30, 2019 all declined from the same period of the previous year.

In rental whose main merchandise is rental videos such as DVD, the downtrend in the market continued and reuse (media) market mainly in game software has also softened. On the other hand, sales for the existing 2nd STREET stores grew solidly, and reuse (non-media) business grew where its sales exceeded the reuse (media) business.

Furthermore, we opened our second off price store (OPS business) in Yao-shi, Osaka, following our first OPS store opened in Kohoku-ku, Yokohama-shi, which is a new retail format for the Group, and we started exploring to build the chain of this business. An off-price store is a business to sell apparel manufacturers’ surplus production and off-season goods, etc. always at discount prices and such business is growing in the United States.

In addition to in-stores, in our business of selling and offering services online, which is a growing market, we are also proceeding with the creation of an environment enabling users to more easily access our services by increasing various selling and buying opportunities that meet customers’ need such as by providing information and buying method and attracting customers through the online site application.

As a result, for the Group’s results for six months ended September 30, 2019, sales resulted in 138,048 million yen (4.1% increase from the same period of the previous year), operating profit resulted in 4,581 million yen (37.4% decrease from the same period of the previous year), ordinary profit resulted in 4,906 million yen (40.1% decrease from the same period of the previous year), and profit attributable to owners of parent resulted in 2,696 million yen (45.9% decrease from the same period of the previous year).

The number of our stores as of September 30, 2019 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	1,682	33	100	(5)	117	(7)	1,899	21
Media	1,048	5	100	(5)	64	(8)	1,212	(8)
GEO mobile (mobile dedicated stores)	21	4					21	4
Reuse	595	17			53	1	648	18
WAREHOUSE	13	1					13	1
Others	26	10					26	10

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, home appliances and other items. Reuse stores operate under the store names of 2nd STREET, Super 2nd STREET, 2nd Outdoor, and Jumble Store, etc.
5. 2nd STREET USA, Inc. is included in Others from this fiscal year.

(2) Details of consolidated financial position

[Assets]

The current assets as of September 30, 2019 resulted in 86,102 million yen which is an increase of 1,695 million yen from the previous fiscal year end. This increase is mainly due to an increase of 1,685 million yen in notes and accounts receivable-trade cash and 3,466 million yen in merchandise while there was a decrease of 3,531 million yen in cash and deposits. The non-current assets resulted in 55,081 million yen which is an increase of 2,897 million yen from the previous fiscal year end. This increase is mainly due to an increase of 1,134 million yen in property, plant and equipment and 1,640 million yen in intangible assets.

As a result, the total assets as of September 30, 2019 resulted in 141,183 million yen which is an increase of 4,593 million yen from the previous fiscal year end.

[Liabilities]

The current liabilities as of September 30, 2019 resulted in 32,785 million yen which is an increase of 1,404 million yen from the previous fiscal year end. This increase is mainly due to an increase of 2,724 million yen in accounts payable-trade and 1,750 million yen in short-term borrowings, while income taxes payable decreased by 1,082 million yen and current portion of long-term loans payable decreased by 911 million yen. Non-current liabilities resulted in 32,218 million yen which is an increase of 2,691 million yen from the previous fiscal year end. This is mainly due to an increase of 2,469 million yen in long-term loans payable.

As a result, total liabilities resulted in 66,004 million yen which increased by 4,023 million yen from the previous fiscal year end.

[Net assets]

The net assets as of September 30, 2019 resulted in 75,179 million yen which is an increase of 569 million yen from the previous fiscal year end. This increase is mainly due to 2,696 million yen in profit attributable to owners of parent, dividend of surplus of 746 million yen, and purchase of treasury shares for 1,414 million yen.

From the above, the equity ratio resulted in 53.0% (54.4% as of the previous fiscal year end).

(Cash flow)

Cash and cash equivalents ("cash") at the end of period that ended on September 30, 2019 were 33,966 million yen which is a decrease of 4,808 million yen compared to that at fiscal year ended March 31, 2019.

The results of each item of cash flow and their causal factors for the six months ended September 30, 2019 are as follows.

Cash flows from operating activities

As a result of operating activities, cash increased by 3,209 million yen (where this increased by 1,811 million yen in the same period of the previous fiscal year).

This increase is mainly due to profit before income taxes of 4,799 million, and rental asset depreciation and amortization of 2,846 million yen while there were purchase of rental asset of 2,311 million yen, and income taxes paid or refunded of 3,137 million yen.

Cash flows from investing activities

As a result of investing activities, cash decreased by 6,658 million yen (where this decreased by 3,007 million yen in the same period of the previous fiscal year).

This decrease is mainly due to expenditures of 2,984 million yen from purchases of property, plant and equipment and 2,040 million yen from purchase of shares of subsidiaries resulting in change of scope of consolidation.

Cash flows from financing activities

As a result of financing activities, cash decreased by 1,436 million yen (where this decreased by 7,086 million yen in the same period of the previous fiscal year).

This decrease is mainly due to payment of cash dividends of 748 million yen and purchase of treasury shares for 1,414 million yen.

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

There were no change to the consolidated earnings forecast for full year presented on May 10, 2019.

2. Consolidated Financial Statements for the Quarter

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	35,789	32,257
Notes and accounts receivable - trade	6,251	7,937
Merchandise	35,071	38,538
Other	7,362	7,459
Allowance for doubtful accounts	(68)	(90)
Total current assets	84,406	86,102
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,872	13,790
Other, net	15,106	15,321
Total property, plant and equipment	27,978	29,112
Intangible assets		
Goodwill	-	1,575
Other	1,517	1,582
Total intangible assets	1,517	3,157
Investments and other assets		
Leasehold and guarantee deposits	15,576	16,309
Other	7,991	7,413
Allowance for doubtful accounts	(879)	(911)
Total investments and other assets	22,688	22,811
Total non-current assets	52,183	55,081
Total assets	136,590	141,183
Liabilities		
Current liabilities		
Accounts payable - trade	11,484	14,209
Short-term borrowings	-	1,750
Current portion of long-term borrowings	4,203	3,292
Income taxes payable	3,001	1,918
Provision for bonuses	2,126	2,103
Other	10,564	9,511
Total current liabilities	31,380	32,785
Non-current liabilities		
Long-term borrowings	21,193	23,662
Asset retirement obligations	6,216	6,352
Other	3,188	3,203
Total non-current liabilities	30,599	33,218
Total liabilities	61,980	66,004
Net assets		
Shareholders' equity		
Share capital	8,944	8,969
Capital surplus	3,357	3,382
Retained earnings	61,891	63,803
Treasury shares	(0)	(1,414)
Total shareholders' equity	74,193	74,739
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	147	163
Deferred gains or losses on hedges	(7)	(6)
Foreign currency translation adjustment	2	(9)
Total accumulated other comprehensive income	142	147
Share acquisition rights	272	292
Total net assets	74,609	75,179
Total liabilities and net assets	136,590	141,183

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

Income statement

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	132,573	138,048
Cost of sales	73,119	78,083
Gross profit	59,454	59,965
Selling, general and administrative expenses	52,132	55,383
Operating profit	7,321	4,581
Non-operating income		
Rental income from real estate	363	342
Other	949	393
Total non-operating income	1,313	736
Non-operating expenses		
Rental expenses on real estate	208	188
Other	240	222
Total non-operating expenses	448	411
Ordinary profit	8,186	4,906
Extraordinary losses		
Impairment loss	49	107
Other	92	-
Total extraordinary losses	141	107
Profit before income taxes	8,045	4,799
Income taxes - current	2,854	1,896
Income taxes - deferred	209	206
Total income taxes	3,063	2,102
Profit	4,981	2,696
Profit attributable to owners of parent	4,981	2,696

Statement of comprehensive income

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	4,981	2,696
Other comprehensive income		
Valuation difference on available-for-sale securities	(24)	15
Deferred gains or losses on hedges	2	0
Foreign currency translation adjustment	1	(12)
Total other comprehensive income	(20)	4
Comprehensive income	4,960	2,700
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,960	2,700

(3) Consolidated quarterly statement of cash flow

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	8,045	4,799
Depreciation	2,042	2,267
Rental asset depreciation and amortization	3,183	2,846
Interest and dividend income	(15)	(18)
Interest expenses	79	76
Compensation income	(654)	-
Decrease (increase) in inventories	(1,852)	(806)
Purchase of Rental asset	(2,649)	(2,311)
Increase (decrease) in trade payables	(1,708)	2,076
Increase (decrease) in accounts payable - other, and accrued expenses	(614)	(913)
Decrease (increase) in other assets	(172)	(840)
Other, net	240	(762)
Subtotal	5,923	6,413
Interest and dividends received	6	9
Interest paid	(79)	(76)
Income taxes (paid) refund	(4,694)	(3,137)
Proceeds from compensation	654	-
Net cash provided by (used in) operating activities	1,811	3,209
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,105)	(2,984)
Loan advances	(383)	(646)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(2,040)
Other, net	(518)	(987)
Net cash provided by (used in) investing activities	(3,007)	(6,658)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	(400)
Proceeds from long-term borrowings	3,100	3,500
Repayments of long-term borrowings	(3,000)	(2,348)
Dividends paid	(812)	(748)
Purchase of treasury shares	(6,308)	(1,414)
Other, net	(65)	(24)
Net cash provided by (used in) financing activities	(7,086)	(1,436)
Effect of exchange rate change on cash and cash equivalents	0	(3)
Net increase (decrease) in cash and cash equivalents	(8,282)	(4,889)
Cash and cash equivalents at beginning of period	45,175	38,774
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	67	81
Cash and cash equivalents at end of period	36,960	33,966

(4) Notes on consolidated financial statements

(Notes on going concern assumptions)

None

(Notes on significant change in shareholders' equity)

The Company purchased 1,090,600 treasury shares pursuant to the resolution of its board of directors meeting held on June 28, 2019. As a result, the treasury shares increased by 1,414 million yen for the six months ended September 30, 2019, and the treasury shares as of September 30, 2019 were 1,414 million yen.

(Segment information)

【Segment information】

For the six months ended September 30, 2018 (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.