August 15, 2022

Summary of Consolidated Financial Results for the Fiscal Year Ended June 30, 2022

[Japanese GAAP]

Company name: istyle Inc.
Securities code: 3660
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Stock exchange listings: Prime Market of the TSE
URL: https://www.istyle.co.jp/en
Tel: +81-3-6161-3660
Scheduled date of Annual General Meeting of Shareholders: September 26, 2022
Scheduled date of filing Annual Securities Report: September 27, 2022
Scheduled date of dividend payment: -
Preparation of supplementary materials for financial results: Yes
Holding of financial results briefing: Yes (For analysts and institutional investors)

(All amounts are rounded off to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended June 30, 2022 (July 1, 2021 – June 30, 2022)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended June 30, 2022	34,401	11.2	(453)	-	(593)	-	(571)	-
Fiscal year ended June 30, 2021	30,950	1.3	(604)	-	(795)	-	379	-

Note: Comprehensive income (million yen) Fiscal year ended June 30, 2022: 571 (-8.5 %)
Fiscal year ended June 30, 2021: 624 (- %)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended June 30, 2022	(8.00)	-	(7.0)	(2.7)	(1.3)
Fiscal year ended June 30, 2021	5.50	5.28	5.8	(3.4)	(2.0)

Reference: Equity in earnings of affiliates: Fiscal year ended June 30, 2022: 107 million yen
Fiscal year ended June 30, 2021: (194) million yen

Note: Diluted net income per share for the fiscal year ended June 30, 2022 is not disclosed even though dilutive shares exist, because the Company recorded net income losses.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2022	22,168	8,652	38.1	118.31
As of June 30, 2021	22,235	8,109	35.5	110.60

Reference: Total equity As of June 30, 2022: 8,454 million yen
As of June 30, 2021: 7,902 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended June 30, 2022	1,276	(1,529)	(1,354)	5,690
Fiscal year ended June 30, 2021	1,553	389	(1,557)	7,094

2. Dividends

	Dividend per share					Total dividends	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended June 30, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended June 30, 2022	-	0.00	-	0.00	0.00	-	-	-

Fiscal year ending June 30, 2023 (forecasts)	-	0.00	-	0.00	0.00		-	

3. Consolidated Forecast for the Fiscal Year Ending June 30, 2023 (July 1, 2022 – June 30, 2023)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	40,000	16.3	500	-	170	-	30	-	0.42

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): Yes

Exclusion: 1 subsidiary: istyle USA, Inc.

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting-based estimates: None
4) Restatements: None

(3) Number of shares outstanding (common shares)

1) Number of shares issued (including treasury shares) at end of period
   As of June 30, 2022: 74,146,800 shares
   As of June 30, 2021: 74,146,800 shares
2) Number of treasury shares at end of period
   As of June 30, 2022: 2,693,567 shares
   As of June 30, 2021: 2,693,567 shares
3) Average number of shares outstanding during the period
   Fiscal year ended June 30, 2022: 71,453,233 shares
   Fiscal year ended June 30, 2021: 68,995,843 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2022 (July 1, 2021 – June 30, 2022)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended June 30, 2022	7,012	5.7	(610)	-	458	-	517	-
Fiscal year ended June 30, 2021	6,632	(4.9)	(172)	-	(732)	-	(1,106)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended June 30, 2022	7.23	7.23
Fiscal year ended June 30, 2021	(16.04)	-

Note: Diluted net income per share for the fiscal years ended June 30, 2021 have not been disclosed because the Company recorded net income losses although there were outstanding dilutive shares.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2022	19,988	6,116	30.6	85.58
As of June 30, 2021	19,354	5,288	27.0	73.18

Reference: Total equity As of June 30, 2022 6,115 million yen As of June 30, 2021 5,229 million yen

* The current summary report is not subject to audit by certified public accountants or auditing corporations.

* Cautionary statement with respect to forecasts and other matters

- Earnings forecasts and other forward-looking statements in this report are based on assumptions judged to be valid and information available to the Company at the time of this report's preparation. Actual performance may differ significantly from these forecasts for a number of reasons. For the assumptions underlying the forecasts herein and other notice on the use of earnings forecasts, please refer to "1. Operating Results and Financial Position (4) Future Outlook" on page 6 in the accompanying material.
- The Company is scheduled to hold a briefing for analysts and institutional investors on August 16, 2022.

** This financial report is solely a translation of the original Japanese "Kessan Tanshin" document, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*

Accompanying Materials – Contents

1. Operating Results and Financial Position

(1) Analysis of Operating Results

Business sentiment in the cosmetics industry remains deeply negative due to the impact of the novel coronavirus (COVID-19), which has resulted in reduced consumer willingness to make purchases, fewer opportunities to wear cosmetics as consumers refrain from outings to prevent the spread of the virus, and the disappearance of demand from overseas visitors to Japan. In response, there has been a clear tendency among cosmetics manufacturers to pursue digital transformation (DX)[*1], with a shift to the use of digital advertising channels and strengthening of E-Commerce. As a result, we expect to see increased opportunities for business growth as a company providing a platform for integrated services combining media, E-Commerce, and retail stores.

The istyle Group posted record net sales in the current fiscal year despite the impact of government restrictions, such as the declaration of a state of emergency and priority measures to prevent the spread of the disease, which were announced for approximately five months mainly in the Tokyo metropolitan area, a marked return of human flow and recovery in demand for cosmetics after March 2022 led to an increase in store sales. In addition to an increase in store sales, growth in EC, including sales expansion of *@cosme BEAUTY DAY*, a special EC event in the Beauty Service segment, and an increase in advertising and solutions sales in the On Platform segment contributed to a record-high sales.

Despite a rise in SG&A expenses, including increases in depreciation and amortization of software in the On Platform segment and provision for bonuses, operating income improved year on year due to increase in gross profit due to higher sales.

In addition, we recorded an extraordinary profit of 208 million yen, including a 114 million yen on step acquisitions due to acquisition of shares in South Korean company Glowdayz Inc., which became a subsidiary in August 2021. We also recorded an extraordinary loss of 305 million yen, including a 211 million yen impairment loss associated with an impairment charge on lower profitability of overseas retail stores.

As a result, the consolidated operating performance for this fiscal year was as follows:

Net sales:	34,401 million yen (30,950 million yen in previous fiscal year: 11.2% year-on-year increase)
Operating loss:	453 million yen (604 million yen loss in previous fiscal year)
Ordinary loss:	593 million yen (795 million yen loss in previous fiscal year)
Loss before income taxes:	690 million yen (558 million yen income in previous fiscal year)
Net loss attributable to owners of the parent company:	571 million yen (379 million yen income in previous fiscal year)

*1 Digital transformation (DX): Company reforms leveraging data and digital technologies, of products, services, business models, work flows, organizational structures, processes, and company culture, with the aim of increasing adaptability to sudden changes in the business environment, better responding to the needs of customers and society, and establishing competitive advantages.

1) On Platform segment

The On Platform segment comprises services based on the beauty portal site *@cosme*, including B-to-B services and B-to-C services.

Although clients continued to tighten their budgets in response to the pandemic, sales were up year on year in the current consolidated fiscal year due to the positive impact of proposals relating to advertising, promotional measures, and sales via our E-Commerce channels, all based on analysis conducted by the marketing service Brand Official.

Operating income was down year on year. The operating income margin fell temporarily due to increases in provision for bonuses and depreciation and amortization of software, as well as expenses relating to initiatives to stimulate user activity on *@cosme*. These initiatives proved effective, resulting in record-high levels for monthly active users (MAU), annual number of reviews posted, and app downloads.

As a result, the consolidated operating performance for this fiscal year was as follows:

Net Sales: 7,317 million yen (6,981 million yen in the previous fiscal year; 4.8% year-on-year increase)

Operating income: 903 million yen (1,313 million yen in the previous fiscal year; 31.2% year-on-year decrease)

2) Beauty Service segment

The Beauty Service segment comprises mainly retail services in Japan, such as the operation of the domestic E-Commerce site *@cosme SHOPPING*, and the operation of cosmetics specialty shop *@cosme STORE*, including the large flagship store.

E-Commerce maintained a high growth rate because of increased demand as consumers continued to stay home to prevent the spread of COVID-19, as well as record GMV recorded during the *@cosme BEAUTY DAY*, with sales up 18.2% year on year. Despite the impact of government restrictions, such as the declaration of a state of emergency and priority measures to prevent the spread of the disease, which were announced for approximately five months mainly in the Tokyo metropolitan area, retail stores in Japan posted a 21.4% year-on-year sales increase as the large flagship store recorded its highest sales since opening in January 2020 and customer traffic recovered significantly at other stores, because consumer spending began to recover, helped by the lifting of these restrictions, progress with vaccinations, and other factors. As a result, net sales were up 19.9% year on year in the Beauty Service segment.

Despite booking similar promotional expenses for the *@cosme BEAUTY DAY* as in 2020 (290 million yen in 2020 and 240 million yen in 2021), the segment turned profitable at the operating income level thanks to the strong growth of E-Commerce and higher retail store sales.

As a result, the consolidated operating performance for this fiscal year was as follows:

Net Sales: 21,902 million yen (18,260 million yen in previous fiscal year; 19.9%year-on-year increase)

Operating income: 338 million yen (271 million yen loss in previous fiscal year)

3) Global segment

The Global segment comprises business operations outside Japan, such as E-Commerce & Wholesale, retail stores, and media and other services.

Net sales declined 8.9% year on year as EC and wholesale business experienced a decline in revenue due to logistics outages and cooling consumer spending caused by the lockdown in some areas of China that was implemented from late March to early June 2022, the closure of three stores in Hong Kong between July 2021 and March 2022, and other factors.

Despite recording a larger loss year on year with operating loss and goodwill amortization for Glowdayz, Inc., the businesses except for the Korean business turned profitable, as scaling back and withdrawing from unprofitable businesses helped to improve profitability.

As a result, the consolidated operating performance for this fiscal year was as follows:

Net Sales: 4,247 million yen (4,660 million yen in previous fiscal year; 8.9% year-on-year decrease)
Operating loss: 209 million yen (157 million yen loss in previous fiscal year)

4) Others

The Others segment consists of a temporary staffing agency for beauty consultants and salespersons, and investment and consulting projects for companies in various stages of development, including new startups.

The temporary staffing agency remained profitable, although sales were down because of the impact of the pandemic.

As a result, the consolidated operating performance for this fiscal year was as follows:

Net Sales: 935 million yen (1,049 million yen in the previous fiscal year; 10.9% year-on-year decrease)
Operating income: 17 million yen (18 million yen loss in the previous fiscal year)

(2) Consolidated Financial Position

(Assets)

Total assets as of this fiscal year were 22,168 million yen, a decrease of 67 million yen from June 30, 2021.

Current assets of this fiscal year totaled 12,928 million yen, a decrease of 497 million yen from June 30, 2021. This was mainly due to a decrease of 1,378 million in cash and deposits, though there were an increase of 447 million in “notes and accounts receivable – trade, and contract assets” (in the previous fiscal year this was “notes and accounts receivable – trade”), and an increase of 185 million yen in merchandise, 141 million yen in operational investment securities.

Fixed assets of this fiscal year totaled 9,241 million yen, an increase of 430 million yen from June 30, 2021. This was mainly due to a 1,104 million yen increase in goodwill, which offset a 565 million yen decrease in tangible assets.

(Liabilities)

Total liabilities of this fiscal year were 13,516 million yen, an decrease of 611 million yen from June 30, 2021.

Current liabilities increased by 5,805 million yen from June 30, 2021 to 11,686 million yen. This was largely due to an increase of 5,463 million yen in the current portion of long-term debt.

Fixed liabilities decreased by 6,416 million yen from June 30, 2021 to 1,829 million yen. This was mainly due to a 6,428 million yen decrease in long-term debt.

(Net Assets)

Net assets as of this fiscal year were 8,652 million yen, an increase of 543 million yen from June 30, 2021. This was primarily due to increases of 713 million yen in foreign currency translation adjustments, 378 million yen in net unrealized gain on available-for-sale securities, which offset a 540 million yen decrease in retained earnings due to the net loss attributable to the parent company, etc.

(3) Status of Cash Flows

As of June 30, 2022, cash and cash equivalents (hereinafter referred to as “capital”) totaled 5,690 million yen, a decrease of 1,404 million yen versus June 30, 2021. The status of cash flows as of June 30, 2022 and the main factors are discussed below.

(Cash flows from operating activities)

In this fiscal year, funds provided by operating activities totaled 1,276 million yen (1,553 million yen provided in the previous fiscal year).

This mainly reflects 1,855 million yen in depreciation and amortization (a non-fund transaction), despite 690 million yen in loss before income taxes and minority interests.

(Cash flows from investing activities)

In this fiscal year, funds used in investing activities totaled 1,529 million yen (389 million yen provided in the previous fiscal year).

This mainly reflects 1,156 million yen for the purchase of intangible fixed assets and 659 million yen for the purchase of investments in subsidiaries resulting in changes in the scope of consolidation.

(Cash flows from financing activities)

In this fiscal year, funds used in financing activities totaled 1,354 million yen (1,557 million yen used in the previous fiscal year).

This mainly reflects cash outflows of 965 million yen for the repayment of long-term debt, and 370 million yen for the repayment of lease obligations.

(Reference) Cash Flow Indicators

	Fiscal year ended June 30, 2018	Fiscal year ended June 30, 2019	Fiscal year ended June 30, 2020	Fiscal year ended June 30, 2021	Fiscal year ended June 30, 2022
Equity ratio (%)	53.0	47.1	21.5	35.5	38.1
Equity ratio based on market price (%)	356.8	220.0	72.5	167.1	73.8
Cash flows / Interest-bearing debt ratio (%)	321.1	4,754.4	-	712.0	768.2
Interest coverage ratio (multiples)	158.2	29.1	-	-	-

Notes:

1. All figures have been calculated using consolidated financial figures.
2. The market capitalization has been calculated by multiplying the closing stock price at the end of the fiscal year by the number of outstanding shares at the end of the fiscal year (excluding treasury shares).
3. Cash flows are cash flows from operating activities.
4. Interest-bearing debt refers to all debt posted in the Consolidated Balance Sheets for which interest is being paid.

5. The interest-bearing debt ratio and interest coverage ratio are not provided for the fiscal year ended June 30, 2020, 2021, and 2022 because cash flow from operating activities was negative.

(4) Future Outlook

In the fiscal year ending June 30, 2023, we will leverage the retail sales and sales promotion capabilities of our Beauty Service segment, which provides retail services such as EC and retail stores in Japan, not only to increase sales in this business but also to contribute to the performance of our client cosmetics brands. We will form a virtuous cycle by increasing advertising placement in our media, utilization of our solution services, and use of our EC and in-store sales promotion services, which will also lead to sustainable growth of the On Platform business.

With these efforts, we will continue to focus on the On Platform and Beauty Service segments, which are our earnings pillars, with the goal of turning profitable at the operating profit level.

In light of the above, our consolidated operating results forecast for the fiscal year ending June 30, 2023 is as follows:

<Full-year consolidated operating results forecast for fiscal year ending June 30, 2023>

Net Sales:	40,000 million yen (net sales of 34,401 million yen in the previous fiscal year; 16.3% year-on-year increase)
Operating Profit:	500 million yen (operating loss of 453 million yen in the previous fiscal year)
Ordinary Profit:	170 million yen (ordinary loss of 593 million yen in the previous fiscal year)
Net Profit attributable to owners of the parent company:	30 million yen (net loss of 571 million yen in the previous fiscal year)

The forecast for the next fiscal year assumes some negative impact of the COVID-19 pandemic, but the impact may be greater than expected depending on how the pandemic develops.

2. Basic Rationale Regarding the Selection of Accounting Standards

The istyle Group will prepare consolidated financial statements based on Japanese accounting standards in the near term, in order to ensure that viewers can compare financial statements among different periods as well as among companies.

Going forward, the Company will continue to study the possible adoption of international accounting standards, basing its considerations on factors such as the ratio of foreign shareholders and trends regarding the adoption of IFRS (International Financial Reporting Standards) by other Japanese companies in the same business.

3. Consolidated Financial Statements and Relevant Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2021	As of June 30, 2022
	Amount	Amount
Assets		
Current assets		
Cash and deposits	7,205	5,828
Notes and accounts receivable - trade	2,707	-
Notes and accounts receivable - trade and contract assets	-	3,153
Merchandise	2,146	2,331
Operational investment securities	893	1,034
Other	540	652
Allowance for doubtful receivables	(2)	(6)
Allowance for investment loss	(65)	(65)
Total current assets	13,424	12,928
Fixed assets		
Tangible assets		
Buildings	2,147	2,140
Accumulated depreciation	(906)	(1,126)
Buildings, net	1,241	1,014
Leased assets	1,369	1,034
Accumulated depreciation	(1,047)	(950)
Leased assets, net	322	84
Other	809	782
Accumulated depreciation	(439)	(512)
Other, net	369	270
Total tangible assets	1,932	1,367
Intangible assets		
Goodwill	384	1,488
Software	2,663	2,412
Other	282	376
Total intangible assets	3,329	4,277
Investments and other assets		
Investment securities	1,338	1,371
Lease and guarantee deposits	1,845	1,796
Deferred tax assets	71	135
Other	296	325
Allowance for doubtful receivables	-	(30)
Total investments and other assets	3,550	3,597
Total fixed assets	8,811	9,241

Total assets	22,235	22,168

(Millions of yen)

	As of June 30, 2021	As of June 30, 2022
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable – trade	1,194	1,419
Short-term debt	1,500	1,500
Current portion of long-term debt	965	6,428
Account payable – other	644	664
Lease obligations	355	117
Income taxes payable	95	117
Contract liabilities	-	516
Provision for bonuses	94	183
Provision for loss on liquidation of affiliated companies	45	-
Provision for business structure improvement	3	-
Other	986	743
Total current liabilities	5,881	11,686
Fixed liabilities		
Long-term debt	8,156	1,728
Lease obligations	81	27
Deferred tax liabilities	3	-
Other	4	75
Total fixed liabilities	8,245	1,829
Total liabilities	14,126	13,516
Net assets		
Shareholders' equity		
Capital stock	4,756	4,756
Capital surplus	3,937	3,937
Retained earnings	(443)	(983)
Treasury stock	(280)	(280)
Total shareholders' equity	7,970	7,430
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	(59)	319
Foreign currency translation adjustments	(8)	705
Total accumulated other comprehensive income	(67)	1,024
Subscription rights to shares	59	1
Non-controlling interests	148	198
Total net assets	8,109	8,652
Total liabilities and net assets	22,235	22,168

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Year ended June 30, 2021	Year ended June 30, 2022
	Amount	Amount
Net sales	30,950	34,401
Cost of sales	16,627	18,563
Gross profit	14,323	15,838
Selling, general and administrative expenses	14,927	16,291
Operating income (loss)	(604)	(453)
Non-operating income		
Interest income	2	3
Dividend income	5	6
Income from subsidies	103	27
Gain on forgiveness of debts	30	5
Equity in gains of affiliates	-	107
Other	31	22
Total non-operating income	172	169
Non-operating expenses		
Interest expenses	63	54
Foreign exchange losses	65	133
Equity in losses of affiliates	194	-
Loss on investments in partnership	13	2
Idle asset expenses	-	84
Other	26	36
Total non-operating expenses	362	310
Ordinary income (loss)	(795)	(593)
Extraordinary income		
Gain on sales of investment securities	1,772	-
Gain on sales of shares of affiliated companies	-	16
Gain on reversal of share acquisition rights	38	58
Compensation income	-	13
Provision for loss on liquidation of affiliated companies	-	8
Gain on step acquisitions	-	114
Total extraordinary income	1,809	208
Extraordinary loss		
Impairment loss	175	211
Loss on temporary closure of stores etc.	16	-
Loss on valuation of investment securities	1	-

Loss on sale of shares of affiliated companies	173	-
Loss on cancellation of office contract	38	-
Loss on liquidation of affiliated companies	14	82
Provision for loss on liquidation of affiliated companies	41	-
Loss on disposal of fixed assets	-	2
Other	-	9
Total extraordinary loss	456	305
Income (loss) before income taxes	558	(690)
Income taxes-current	131	92
Income taxes-deferred	38	(238)
Total income taxes	169	(147)
Net income (loss)	389	(544)
Net income (loss) attributable to non-controlling interests	10	28
Net income (loss) attributable to owners of the parent company	379	(571)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Year ended June 30, 2021	Year ended June, 30, 2022
	Amount	Amount
Net income (loss)	389	(544)
Other comprehensive income (loss)		
Net unrealized gain on available-for-sale securities	17	56
Foreign currency translation adjustments	218	737
Share of other comprehensive income of associates accounted for using equity method	-	322
Total other comprehensive income	235	1,115
Comprehensive income (loss)	624	571
Comprehensive income (loss) attributable to		
Owners of the parent	604	520
Non-controlling interests	20	51

(3) Consolidated Statements of Changes in Net Assets

Year ended June 30, 2021 (July 1, 2020 to June 30, 2021)

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of term	3,703	2,882	(822)	(280)	5,484	(76)	(216)	(292)	97	125	5,413
Cumulative effects from new accounting policies											
Balance at beginning of term reflecting change in accounting policies	3,703	2,882	(822)	(280)	5,484	(76)	(216)	(292)	97	125	5,413
Changes during term											
Issuance of new shares	1,053	1,053			2,106						2,106
Net income (loss) attributable to owners of the parent company			379		379						379
Purchase of treasury shares				(0)	(0)						(0)
Sales of shares of consolidated subsidiaries		1			1						1
Net changes in items other than shareholders' equity						17	208	225	(38)	23	210
Total changes during term	1,053	1,054	379	(0)	2,486	17	208	225	(38)	23	2,696
Balance at end of term	4,756	3,937	(443)	(280)	7,970	(59)	(8)	(67)	59	148	8,109

Year ended June 30, 2022 (July 1, 2021 to June 30, 2022)

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of term	4,756	3,937	(443)	(280)	7,970	(59)	(8)	(67)	59	148	8,109
Cumulative effects from new accounting policies			31		31					(1)	30
Balance at beginning of term reflecting change in accounting policies	4,756	3,937	(411)	(280)	8,001	(59)	(8)	(67)	59	146	8,139
Changes during term											
Issuance of new shares					-			-			-
Net income (loss) attributable to owners of the parent company			(571)		(571)			-			(571)
Purchase of treasury shares					-			-			-
Sales of shares of consolidated subsidiaries					-			-			-
Net changes in items other than shareholders' equity					-	378	713	1,091	(58)	51	1,085
Total changes during term	-	-	(571)	-	(571)	378	713	1,091	(58)	51	514
Balance at end of term	4,756	3,937	(983)	(280)	7,430	319	705	1,024	1	198	8,652

(4) Consolidated Statements of Cash flows

(Millions of yen)

	Year ended June 30, 2021	Year ended June 30, 2022
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	558	(690)
Depreciation and amortization	1,738	1,855
Amortization of goodwill	71	154
Impairment loss	175	211
Increase (decrease) in allowance for doubtful receivables	(2)	(4)
Increase (decrease) in provision for bonuses	(134)	86
Increase (decrease) in provision for business structure improvement	(21)	(3)
Equity in losses (gains) of affiliates	194	(107)
Interest income	(8)	(9)
Interest expenses	63	54
Foreign exchange losses (gains)	48	132
Loss (gain) on investments in partnership	13	2
Loss (gain) on valuation of investment securities	1	-
Loss (gain) on sale of shares of affiliated companies	173	(16)
Loss (gain) on sales of investment securities	(1,772)	-
Gain on forgiveness of debts	(30)	(5)
Gain on reversal of share acquisition rights	(38)	(58)
Loss (gain) on step acquisitions	-	(114)
Loss on temporary closure of stores etc.	16	-
Loss on cancellation of office contract	38	-
Loss on subsidiaries closing	14	82
Loss on retirement of fixed assets	-	2
Compensations received	-	(13)
Decrease (increase) in notes and accounts receivable – trade	(102)	(377)
Decrease (increase) in operational investment securities	54	-
Decrease (increase) in inventories	873	(105)
Increase (decrease) in notes and accounts payable – trade	(200)	183
Increase (decrease) in accounts payable – other	(90)	(23)
Other	106	188
Sub-total	1,737	1,426
Interest and dividends received	8	10
Interest paid	(61)	(53)
Subsidy received	75	-

Payment on loss of temporary closure of stores	(112)	-
Compensations received	-	13
Corporate tax etc.	(95)	(120)
Net cash provided by (used in) operating activities	1,553	1,276
Cash flows from investing activities		
Proceeds from sales of investment securities	2,111	-
Purchase of investment securities	(20)	(20)
Proceeds from distribution from investment partnership	-	146
Purchase of tangible assets	(184)	(49)
Purchase of intangible assets	(1,256)	(1,156)
Payments for guarantee deposits	(6)	(26)
Proceeds from collection of guarantee deposits	15	152
Payments into time deposits	(176)	(226)
Proceeds from withdrawal of time deposits	141	318
Purchase of shares in subsidiary company resulting in the change in scope of consolidation	-	(659)
Proceeds from sales of shares in subsidiary company resulting in change of scope of consolidation	-	7
Payments for sales of shares in subsidiary company resulting in the change in scope of consolidation	(204)	-
Other- net	(31)	(15)
Net cash provided by (used in) investing activities	389	(1,529)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	(1,500)	-
Repayment of long-term debt	(1,652)	(965)
Repayments of lease obligations	(488)	(370)
Proceeds from issuance of shares	2,091	-
Purchase of shares in subsidiaries not resulting in change in scope of consolidation	(14)	-
Purchase of treasury stocks	(0)	-
Other – net	4	(19)
Net cash provided by (used in) financing activities	(1,557)	(1,354)
Foreign currency translation adjustments on cash and cash equivalents	125	203
Net increase (decrease) in cash and cash equivalents	509	(1,404)
Cash and cash equivalents, beginning of period	6,584	7,094
Cash and cash equivalents, end of period	7,094	5,690

(5) Notes on Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. have been applied effective from the beginning of the consolidated fiscal year. Consequently, revenue is recognized when control of promised goods or services has been transferred to the customer at the amount expected to be received in exchange for those goods or services. As to those transactions in which the Group's role in providing goods and services to the customer is that of an agent, we previously recognized revenue at the total amount of consideration received from the customer, but the Group now recognizes revenue on a net basis, which is the amount received from customers less the amount paid to third parties. The revenue recognition of advertising production expenses used to be conducted at the point in time of delivery of advertisement materials. The method, however, has now been changed to recognizing revenues over time in line with advertisement placement. Points program expenses, related to customer loyalty programs managed by other companies, used to be reported as selling, general and administrative expenses, but revenue recognition is now based on amounts after deduction of points program-related expenses.

The Group's application of the Accounting Standard for Revenue Recognition, etc. is in accordance with the transitional treatment set forth in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effects of retrospectively applying the new accounting policy prior to the beginning of the fiscal year have been reflected in the balance of retained earnings at the beginning of the fiscal year, and the new accounting policy has thereby been applied to the balance of retained earnings at the beginning of the fiscal year. Note, however, that the new accounting policy was not applied retrospectively to contracts in which almost all of the revenue amounts were recognized in accordance with the previous procedures before the beginning of the fiscal year, pursuant to the provision of Paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, pursuant to the method set forth in note (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition, contractual changes that were made prior to the beginning of the fiscal year have been accounted for with cumulative effects being reflected in the balance of retained earnings at the beginning of the fiscal year in accordance with the new terms and conditions reflecting all contractual changes.

Additionally, as a result of applying the Accounting Standard for Revenue Recognition, etc., notes and accounts receivable – trade, which was presented under current assets in the balance sheet in the previous fiscal year, is presented under notes and accounts receivable - trade and contract assets from this fiscal year, and other, which was presented under current liabilities is contract liabilities and other from this fiscal year. It should be noted that, in accordance with the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the previous fiscal year's statements have not been reclassified to conform to the new presentation method.

As a result, compared to before the application of the Accounting Standard for Revenue Recognition etc., net sales decreased by 272 million yen, cost of sales declined by 30 million yen, and selling, general and administrative expenses decreased by 244 million yen during this fiscal year. Consequently, operating loss, ordinary loss, and loss before income taxes each decreased by 1 million yen respectively. The beginning balance of retained earnings in the consolidated statement of changes in net assets increased by 31 million yen due to the cumulative effect reflected in net assets at the beginning of the current fiscal year.

The impact on per share information is stated in the relevant section.

(Application of Accounting Standard for Fair Value Measurement, etc.)

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. have been applied effective from the beginning of the fiscal year. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Group has opted to apply the new accounting policies set forth in the Accounting Standard for Fair Value Measurement, etc. prospectively. Note that this has no impact on the Company's financial statements.

(Additional Information)

(Accounting-based estimates relating to the spread of COVID-19)

Although the stores in Hong Kong had anticipated a major easing of travel restrictions into Hong Kong in time for the Chinese New Year in February 2022, such easing of travel restrictions can no longer be expected due to the spread of the omicron variant within Hong Kong. Accordingly, estimates have been calculated on the assumption that demand from inbound travelers will not recover. As a result, impairment losses during this fiscal year have been recorded, as a portion of the amounts invested in each Hong Kong store will not be recovered.

As for the stores in Japan, there have been no significant changes to the assumptions outlined under (Additional Information) in the Securities Report for the fiscal year ended June 30, 2021, including assumptions regarding the spread of COVID-19 going forward.

(Segment Information)

1. Overview of Reportable Segments

The Group's reportable segments comprise those business units for which separate financial statements can be obtained, and for which the Board of Directors regularly considers the allocation of management resources and evaluates operating performance.

The Group's primary businesses are related to cosmetics, and include a cosmetics-related community site, as well as On Platform, Beauty Service, Global, and Other, all stemming from this community site. Accordingly, the Group has four reportable segments based on the services provided and products handled. These four segments are the On Platform segment, the Beauty Service segment, the Global segment and the Other segment.

The On Platform segment comprises the domestic and overseas marketing business, services for premium members, and other initiatives.

The Beauty Service segment comprises the operation of the domestic cosmetics E-Commerce site and the operation of cosmetics specialty shops.

The Global segment comprises business operations outside Japan.

The Other business comprises temporary staffing agency business to send beauty consultants and investment and consulting projects primarily for companies at their growth phase including those immediately after founding.

2. Calculation methods for net sales, income/loss, assets, liabilities, and other items by reportable segment

The calculation methods for each reportable segment accord with the accounting standards used in the preparation of the Consolidated Financial Statements.

3. Net sales, income/loss, assets, liabilities, and other items by reportable segment

Year ended June 30, 2021 (July 1, 2020 through June 30, 2021)

(Millions of yen)

	Reportable segment				Total	Adjustments	Amounts on the consolidated statements of income
	On Platform	*Beauty Service*	*Global*	*Others*			
Net sales							
Sales to outside customers	6,981	18,260	4,660	1,049	30,950	-	30,950
Inter-segment sales and transfers	223	49	45	7	325	(325)	-
Total	7,204	18,309	4,704	1,056	31,274	(325)	30,950
Segment profit (loss)	1,313	(271)	(157)	(18)	867	(1,471)	(604)
Segment assets	4,582	7,284	7,008	1,340	20,213	2,022	22,235
Other items							
Depreciation/amortization	997	320	359	12	1,688	50	1,738
Impairment loss	71	-	95	-	166	9	175
Increase(decrease) in tangible/intangible assets	1,165	112	1	1	1,279	18	1,296

Notes: 1. Adjustments in Segment profit (loss) in the amount of (1,471) million yen include 15 million yen elimination of inter-segment transactions and (1,486) million yen corporate expense not allocated to any reportable segment.

2. The segment asset adjustment of 2,022 million yen refers to (7,883) million yen elimination of inter-segment transactions and corporate assets not allocated to reportable segments in the amount of 9,905 million yen.

3. The adjustment of 50 million yen for depreciation and amortization is related to the elimination of inter-segment transactions of (8) million yen and corporate assets of 58 million yen that have not been attributed to a reportable segment.

4. The adjustment of 9 million yen for impairment loss is related to the administrative functions of the Company that have not been attributed to a reportable segment.

5. The increase in tangible and intangible assets adjustment of 18 million yen represents the corporate assets that are not allocated to reportable segments.

6. Segment profit (loss) is adjusted to correspond with operating income reported on the consolidated statements of income for the corresponding period.

Year ended June 30, 2022 (July 1, 2021 through June 30, 2022)

(Millions of yen)

	Reportable segment				Total	Adjustments	Amounts on the consolidated statements of income
	On Platform	*Beauty Service*	*Global*	*Others*			
Net sales							
Goods transferred at a point in time	-	21,902	3,649	3	25,555	-	25,555
Goods transferred over time	7,317	-	598	932	8,847	-	8,847
Revenue generated from contracts with customers	7,317	21,902	4,247	935	34,401	-	34,401
Sales to outside customers	7,317	21,902	4,247	935	34,401	-	34,401
Inter-segment sales and transfers	402	16	7	12	438	(438)	-
Total	7,719	21,919	4,255	947	34,840	(438)	34,401

Segment profit (loss)	903	338	(209)	17	1,049	(1,502)	(453)
Segment assets	4,202	6,630	6,266	1,256	18,353	3,815	22,168
Other items							
Depreciation/amortization	1,288	274	232	5	1,799	56	1,855
Impairment loss	14	-	130	-	143	67	211
Increase(decrease) in tangible/intangible assets	1,143	49	3	-	1,195	28	1,223

Notes: 1. Adjustments in Segment profit (loss) in the amount of (1,502) million yen include 2 million yen elimination of inter-segment transactions and (1,504) million yen corporate expense not allocated to any reportable segment.

2. The segment asset adjustment of 3,815 million yen refers to (7,045) million yen elimination of inter-segment transactions and corporate assets not allocated to reportable segments in the amount of 10,860 million yen.

3. The adjustment of 56 million yen for depreciation and amortization is related to the administrative functions of the Company that have not been attributed to a reportable segment.

4. The adjustment of 67 million yen for impairment loss is related to the administrative functions of the Company that have not been attributed to a reportable segment.

5. The increase in tangible and intangible assets adjustment of 28 million yen represents the corporate assets that are not allocated to reportable segments.

6. Segment profit (loss) is adjusted to correspond with operating income reported on the consolidated statements of income for the corresponding period.

(Per Share Information)

	Year ended June 30, 2021 (or as of June 30, 2021)	Year ended June 30, 2022 (or as of June 30, 2022)
Net assets per share	110.60 yen	118.31 yen
Net income (loss) per share	5.50 yen	(8.00) yen
Diluted net income per share	5.28 yen	- yen

(Note) 1. Diluted net income per share for the fiscal years ended June 30, 2022 have not been disclosed because the Company recorded net income losses although there were outstanding dilutive shares.

2. As stated in "Changes in Accounting Policies," the Company has adopted the "Accounting Standard for Revenue Recognition" and others. As a result, net assets per share increased by 0.45 yen and net loss per share decreased by 0.01 yen for the current fiscal year.

3. Calculation base for net income (loss) per share and diluted net income per share are as follows.

	Year ended June 30, 2021	Year ended June 30, 2022
Net income (loss) per share		
Net income (loss) attributable to owners of the parent company (millions of yen)	379	(571)
Amount not attributable to common stockholders (millions of yen)	-	-
Net income (loss) available to common shareholders attributable to owners of parent company (millions of yen)	379	(571)
Average number of shares outstanding during term (shares)	68,995,843	71,453,233
Diluted net income per share		
Adjustments to Net income attributable to owners of the parent company (millions of yen)	-	-
Increase in the number of shares in common stock (shares)	2,857,412	-
(Of which, subscription rights to shares) (shares)	(2,857,412)	-
Residual securities that are not dilutive and not included in the calculation for diluted net income per share	Four issues of subscription rights to shares Residual securities: 1,252,200 shares	Three issues of subscription rights to shares Residual securities: 6,012,200 shares

(Significant Subsequent Events)

Issuance of Subscription Rights to Shares (Paid-in Stock Options)

istyle Inc. (“the Company”) hereby discloses that on August 15, 2022, its Board of Directors passed a resolution authorizing issuance of a 26th series of subscription rights to shares (“subscription rights”) to the directors and employees of the Company and the directors and employees of its subsidiaries, and a 27th series of subscription rights to its directors pursuant to Articles 236, 238, and 240 of the Companies Act as explained below.

I. Subscription rights offering’s purpose and rationale

The Company issues subscription rights to the directors and employees of the Company, and the directors and employees of subsidiaries at a set issuance price to increase said personnel’s motivation to contribute to increasing its medium- to long-term corporate value, improve morale, and align its management more closely with shareholders’ interests.

On April 3, 2020, the Company’s Board of Directors passed a resolution authorizing issuance of a 21st series of subscription rights to its employees and subsidiaries’ directors and a 22nd series of subscription rights to its directors. Their issuance was intended to further strengthen the grantees’ commitment to increasing the Company’s medium- to long-term corporate value. However, in light of the

Company's recent business performance, etc., it was determined that it is necessary to change the profit target, which is a condition for exercising the subscription rights, and the Company decided to cancel or void the 21st and 22nd series of subscription rights and issue them as the 26th and 27th series of subscription rights. Procedures for the cancelation or voiding of the 21st and 22nd series of subscription rights will be carried out on September 13, 2022.

By increasing its earnings power through fulfillment of the subscription rights' earnings-based exercisability conditions, the Company expects to grow its EPS (earnings per share). The Company believes the resultant EPS growth will ultimately lead to gains for existing shareholders also.

II. Overview of subscription rights issuance

[1] 26th series of subscription rights

1. Number of subscription rights to be issued:

12,122

A total of 1,212,200 shares of the Company's common stock may be issued upon the subscription rights' exercise. If the number of shares issuable per subscription right is adjusted pursuant to 3.(1) below, the maximum number of issuable shares would be the adjusted number of shares issuable per subscription right multiplied by the number of subscription rights.

2. Consideration payable in exchange for subscription rights

The subscription right issuance price is set at 377 yen per subscription right.

The Company commissioned Akasaka International Accounting Co., Ltd. (address: 1-1-8 Moto Akasaka, Minato-ku, Tokyo), a third-party valuation services provider, to value the subscription rights in light of their exercisability conditions as specified in the present overview. Akasaka International Accounting conducted a calculation of the subscription rights using a Monte Carlo simulation, which is a general option price calculation model, based on the Company's August 12, 2022 closing share price of 297 yen on the Tokyo Stock Exchange (TSE), share price volatility of 60% , a dividend yield of 0 % , a risk-free rate of 0.0%, and the subscription right exercisability conditions of the subscription rights such as subscription right exercise price of 29.7 yen per share. Once Akasaka International Accounting had valued the subscription rights using commonly used valuation methods and taking into account events that potentially could influence their valuation, the Company reviewed Akasaka International Accounting's valuation results and ultimately decided to price the subscription rights at parity with Akasaka International Accounting's valuation to arrive at a price it deemed not especially favorable.

3. Description of subscription rights

(1) Class and number of shares underlying subscription rights

The number of underlying shares per subscription right ("Number of Issuable Shares") is 100 shares of the Company's common stock.

If the Company does a stock split (defined to include common stock dividends; likewise below) or a reverse stock split after the subscription right allotment date, the Number of Issuable Shares shall be adjusted by the formula below. However, of the subscription rights, such adjustments apply only to the number of shares underlying those subscription rights yet to be exercised as of the date of the stock split or reverse stock split. Any fractional shares resulting from such adjustments shall be disregarded.

Adjusted Number of Issuable Shares = pre-adjustment Number of Issuable Shares × stock split (or reverse stock split) ratio

Additionally, if the Company is involved in a merger, splits itself up, reduces its capital stock, or is subject to any other such event necessitating adjustment of the Number of Issuable Shares, the Company shall appropriately adjust the Number of Issuable Shares.

(2) Value or method of valuation of property to be contributed upon exercise of subscription rights

The value of property to be contributed upon exercise of a subscription right is the exercise price per share (the "Exercise Price") multiplied by the Number of Issuable Shares.

The Exercise Price is set at 29.7 yen, 10% of the Company's closing share price on the TSE on August 12, 2022, the day before the date of the Board of Directors' resolution authorizing the subscription rights' issuance*.

*For these stock options, the Company believes that to elevate subscription right grantees' motivation and morale on an ongoing basis even in the event of a large, short-term decline in its share price not due to any Company-specific factor after fulfillment of the subscription right exercisability conditions, it should not allow the grantees to be dis-incentivized by a share price decline despite fulfillment of the subscription rights' earnings-based exercisability conditions.

Conversely, if equity prices are steadily rising, grantees would benefit from incentive compensation in excess of their contributions to share price appreciation attributable to earnings growth. However, the Company is willing to permit the additional incentive compensation under such circumstances because the subscription rights' exercisability is contingent on a high level of earnings. After weighing these considerations, the Company set the subscription rights' Exercise Price at 29.7 yen.

Once any of the subscription rights' earnings-based exercisability conditions have been fulfilled, grantees may profit even during a share price decline by selling shares acquired by exercising subscription rights. Although exercising subscription rights is potentially dilutive, the Company expects to grow its EPS by increasing its earnings power through fulfillment of the earnings-based exercisability conditions. The Company believes such EPS growth will ultimately lead to gains for existing shareholders also. The Company will issue subscription rights to the directors and employees of the Company and the directors and employees of its subsidiaries, in exchange for cash consideration with the aim of strongly incentivizing the grantees to strengthen their commitment to earnings growth in pursuit of specific, ambitious targets set by the Company. The Company deems the Exercise Price to be reasonable.

If the Company carries out a stock split or reverse stock split after the subscription right allotment date, the Exercise Price shall be adjusted by the formula below. If the adjustment results in a non-integer price, the adjusted price shall be rounded up to the nearest whole yen.

$$\text{Adjusted Exercise Price} = \text{Pre-adjustment Exercise Price} \times \frac{1}{\text{Stock split (or reverse stock split) ratio}}$$

If, after the subscription right allotment date, the Company either issues new common shares or resells treasury shares at a below-market price (excluding new share issuance and treasury share sales in response to subscription rights' exercise and treasury share transfers due to a share exchange), the Exercise Price shall be adjusted by the formula below. If the adjustment results in a non-integer price, the adjusted price shall be rounded up to the nearest whole yen.

$$\text{Adjusted Exercise Price} = \text{Pre-adjustment Exercise Price} \times \frac{\text{Preexisting outstanding share count} + \dfrac{\text{Newly issued shares} \times \text{Exercise price per share}}{\text{Market value per share before new issuance}}}{\text{Preexisting outstanding share count + newly issued shares}}$$

In the above formula, "preexisting outstanding share count" means total issued common shares net of common treasury shares. When the above formula is applied to a sale of common treasury shares, "newly issued shares" in the formula is replaced with "treasury shares sold".

In addition to the above, if the Company merges with another company, splits itself up, or is subject to any other such event necessitating adjustment of the Exercise Price after the subscription right allotment date, it may appropriately adjust the Exercise Price within reasonable limits.

(3) Subscription right exercise period

The subscription rights are exercisable from October 1, 2023 through February 28, 2026, or the latest preceding bank business day if February 28, 2026 is a bank holiday (the "Exercise Period").

(4) Matters concerning additions to capital stock and legal capital surplus

1) When shares are issued upon subscription rights' exercise, capital stock shall be increased by one half of the maximum capital stock increase calculated pursuant to Article 17(1) of the Ordinance on Corporate Accounting. If not an integer, the amount thus calculated shall be rounded up to the nearest whole yen.

2) When shares are issued upon subscription rights' exercise, legal capital surplus shall be increased by the difference between the maximum capital stock increase specified in 1) immediately above and the amount that capital stock actually increased pursuant to 1) immediately above.

(5) Restrictions on subscription right transferability

Subscription rights may not be acquired by transfer without the Company's Board of Directors' approval in the form of a resolution.

(6) Subscription right exercisability conditions

1) Subscription rights holders may exercise their rights if EBITDA is 2,500 million yen or more for any of the fiscal years ending June 30, 2023, 2024, and 2025.

EBITDA above is defined as operating income in the Company's audited Consolidated Statement of Income in the Securities Report filed by the Company plus depreciation and amortization (including amortization of goodwill) in the Company's Consolidated Statement of Cash Flows.

In determining the amount of EBITDA, reference shall be made to the amount of operating income in the Company's audited Consolidated Statement of Income (or the statement of income if consolidated financial statements are not prepared) as stated in the Securities Report filed by the Company, plus depreciation and amortization (including amortization of goodwill) in the Company's Consolidated Statement of Cash Flows, and the amount of EBITDA shall be calculated by excluding stock compensation expenses related to the subscription rights, if any, and such amount of EBITDA shall be applied from the time the relevant Securities Report is filed.

In the event of a significant change in the Company's financial statement taxonomy due to, e.g., adoption of IFRS, the Company's Board of Directors shall, to the extent reasonable, separately specify the financial statement line items to be referenced in calculating EBITDA.

2) Subscription rights holders must be a director, auditor, or employee of the Company or of an affiliate of the Company from the date of allotment of the subscription rights to December 31, 2024, except for individuals who have relinquished their position upon expiration of their term of office, retired upon reaching retirement age, or otherwise have a justifiable reason for no longer holding their previous position.

3) Notwithstanding the provisions of 2) above, in the event of a merger agreement in which the Company becomes a dissolving company or a share exchange agreement or share transfer plan in which the Company becomes a wholly owned subsidiary (except in the case where subscription rights of the Reorganized Company (defined below) are delivered to the holders of subscription rights pursuant to 6.), the Company's general meeting of shareholders shall approve (or the Board of Directors of the Company shall resolve if approval at a general meeting of shareholders is not required), the subscription rights that satisfy the conditions set forth in (6). above, excluding (2) above, may be exercised within 30 days from the day following the date of such approval (resolution).

4) Subscription rights holders must be a director, auditor, or employee of the Company or of an affiliate of the Company (i.e., an "affiliated company" as defined in the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements) even at the time they exercise subscription rights, except for individuals who have relinquished their position upon expiration of their term of office, retired upon reaching retirement age, or otherwise have a justifiable reason for no longer holding their previous position.

5) Subscription right holders' heirs may not exercise subscription rights.

6) Subscription rights may not be exercised if their exercise would increase the Company's total issued shares beyond the number of shares authorized to be issued at that time.

7) Fractional subscription rights are not exercisable.

4. Subscription right allotment date

September 13, 2022

5. Matters concerning reacquisition of subscription rights

(1) If, during the period from the subscription right allotment date until fulfillment of any of the exercisability conditions specified in 3.(6) above, the Company's common shares' closing price on a financial instrument exchange is below 50% of its August 12, 2022 closing price for five consecutive trading days, the Company may reacquire for no consideration the percentage of subscription rights that, as of that date, have yet to become exercisable through fulfillment of said exercisability conditions.

(2) If a merger agreement in which the Company is the non-surviving company, an agreement or plan under which the Company would

be split up, or a share exchange agreement or share transfer plan under which the Company would become a wholly owned subsidiary is approved at a general meeting of shareholders (or by a Board of Directors' resolution if shareholder approval is not required), the Company may reacquire all subscription rights for no consideration on or after a designated date to be separately specified by the Company's Board of Directors.

(3) The Company may reacquire for no consideration any unexercised subscription rights that have been rendered unexercisable by the provisions of 3.(6) above.

6. Treatment of subscription rights in a reorganization event

If the Company is involved in a merger as the non-surviving company, divests a portion of its operations to another company, splits off a portion of its operations as a newly established company, or engages in a share exchange or share transfer (the foregoing acts are collectively referred to below as "Reorganization Events"), subscription right holders shall be granted subscription rights of the company specified in the applicable provision of Article 236 (1)(viii)(a)~(e) of the Companies Act (the "Reorganized Company") on the Reorganization Event's effective date in accordance with the conditions enumerated below. However, the foregoing shall apply only if the agreement or plan pursuant to which the Reorganization Event takes place stipulates that the Reorganized Company's subscription rights are to be granted in accordance with said conditions.

(1) Number of Reorganized Company's subscription rights to be granted

Subscription right holders shall be granted the same number of subscription rights that they respectively own.

(2) Class of Reorganized Company's shares underlying subscription rights

The subscription rights' underlying shares shall be the Reorganized Company's common shares.

(3) Number of Reorganized Company's shares underlying subscription right

The number of the Reorganized Company's shares underlying the subscription rights shall be determined in accordance with the provisions of 3.(1) above and in light of the Reorganization Event's conditions.

(4) Value of property to be contributed upon exercise of subscription rights

The value of property to be contributed upon exercise of the granted subscription rights shall be the post-reorganization exercise price multiplied by the number of the Reorganized Company's shares underlying the subscription rights as determined in accordance with 6.(3) above. The postreorganization exercise price is to be calculated by adjusting the Exercise Price stipulated in 3.(2) above to reflect the Reorganization Event's conditions and any other relevant factors.

(5) Subscription right exercisability period

The subscription rights shall be exercisable from either the first day of the Exercise Period specified in 3.(3) above or the Reorganization Event's effective date, whichever is later, through the last day of said Exercise Period.

(6) Matters concerning additions to capital stock and legal capital surplus when shares are issued upon subscription rights' exercise

To be determined in accordance with 3.(4) above.

(7) Restrictions on subscription right transferability

Transferability restrictions must be approved by a resolution of the Reorganized Company's Board of Directors.

(8) Other subscription right exercisability conditions

To be determined in accordance with 3.(6) above.

(9) Grounds for and conditions of reacquisition of subscription rights

To be determined in accordance with 5. above.

(10) Other conditions shall be determined in accordance with the Reorganized Company's terms and conditions.

7. Matters concerning subscription rights certificates

The Company will not issue subscription right certificates for the subscription rights.

8. Deadline for subscribing to subscription rights offering

September 12, 2022

9. Deadline for paying subscription rights' issuance price

September 13, 2022

10. Numbers of subscription right grantees and rights to be allotted

2 directors of the Company:400

121 employees of the Company: 10,812

3 directors of the Company's subsidiaries: 710

20 employees of the Company's subsidiaries: 200

[2] 27th series of subscription rights

1. Number of subscription rights to be issued:

20,000

A total of 2,000,000 shares of the Company's common stock may be issued upon the subscription rights' exercise. If the number of shares issuable per subscription right is adjusted pursuant to 3.(1) below, the maximum number of issuable shares would be the adjusted number of shares issuable per subscription right multiplied by the number of subscription rights.

2. Consideration payable in exchange for subscription rights

The subscription right issuance price is set at 261 yen per subscription right.

The Company commissioned Akasaka International Accounting Co., Ltd. (address: 1-1-8 Moto Akasaka, Minato-ku, Tokyo), a third-party valuation services provider, to value the subscription rights in light of their exercisability conditions as specified in the present overview. Akasaka International Accounting conducted a calculation of the subscription rights using a Monte Carlo simulation, which is a general option price calculation model, based on the Company's August 12, 2022 closing share price of 297 yen on the Tokyo Stock Exchange (TSE), share price volatility of 60 % , a dividend yield of 0% , a risk-free rate of 0.0%, and the subscription right exercisability conditions of the subscription rights such as subscription right exercise price of 29.7 yen per share. Once Akasaka International Accounting had valued the subscription rights using commonly used valuation methods and taking into account events that potentially could influence their valuation, the Company reviewed Akasaka International Accounting's valuation results and ultimately decided to price the subscription rights at parity with Akasaka International Accounting's valuation to arrive at a price it deemed not especially favorable.

3. Description of subscription rights

(1) Class and number of shares underlying subscription rights

The number of underlying shares per subscription right ("Number of Issuable Shares") is 100 shares of the Company's common stock.

If the Company does a stock split (defined to include common stock dividends; likewise below) or a reverse stock split after the subscription right allotment date, the Number of Issuable Shares shall be adjusted by the formula below. However, of the subscription rights, such adjustments apply only to the number of shares underlying those subscription rights yet to be exercised as of the date of the stock split or reverse stock split. Any fractional shares resulting from such adjustments shall be disregarded.

Adjusted Number of Issuable Shares = pre-adjustment Number of Issuable Shares × stock split (or reverse stock split) ratio

Additionally, if the Company is involved in a merger, splits itself up, reduces its capital stock, or is subject to any other such event necessitating adjustment of the Number of Issuable Shares, the Company shall appropriately adjust the Number of Issuable Shares.

(2) Value or method of valuation of property to be contributed upon exercise of subscription rights

The value of property to be contributed upon exercise of a subscription right is the exercise price per share (the "Exercise Price") multiplied by the Number of Issuable Shares.

The Exercise Price is set at 29.7 yen, 10% of the Company's closing share price on the TSE on August 12, 2022, the day before the date of the Board of Directors' resolution authorizing the subscription rights' issuance*.

*For these stock options, the Company believes that to elevate subscription right grantees' motivation and morale on an ongoing basis even in the event of a large, short-term decline in its share price not due to any Company-specific factor after fulfillment of the subscription right exercisability conditions, it should not allow the grantees to be dis-incentivized by a share price decline despite fulfillment of the subscription rights' earnings-based exercisability conditions.

Conversely, if equity prices are steadily rising, grantees would benefit from incentive compensation in excess of their contributions to share price appreciation attributable to earnings growth. However, the Company is willing to permit the additional incentive compensation under such circumstances because the subscription rights' exercisability is contingent on a high level of earnings. After weighing these considerations, the Company set the subscription rights' Exercise Price at 29.7 yen.

Once any of the subscription rights' earnings-based exercisability conditions have been fulfilled, grantees may profit even during a share price decline by selling shares acquired by exercising subscription rights. Although exercising subscription rights is potentially dilutive, the Company expects to grow its EPS by increasing its earnings power through fulfillment of the earnings-based exercisability conditions. The Company believes such EPS growth will ultimately lead to gains for existing shareholders also. The Company will issue subscription rights to its employees and its subsidiaries' directors in exchange for cash consideration with the aim of strongly incentivizing the grantees to strengthen their commitment to earnings growth in pursuit of specific, ambitious targets set by the Company. The Company deems the Exercise Price to be reasonable.

If the Company carries out a stock split or reverse stock split after the subscription right allotment date, the Exercise Price shall be adjusted by the formula below. If the adjustment results in a non-integer price, the adjusted price shall be rounded up to the nearest whole yen.

$$\text{Adjusted Exercise Price} = \text{Pre-adjustment Exercise Price} \times \frac{1}{\text{Stock split (or reverse stock split) ratio}}$$

If, after the subscription right allotment date, the Company either issues new common shares or resells treasury shares at a below-market price (excluding new share issuance and treasury share sales in response to subscription rights' exercise and treasury share transfers due to a share exchange), the Exercise Price shall be adjusted by the formula below. If the adjustment results in a non-integer price, the adjusted price shall be rounded up to the nearest whole yen.

$$\begin{array}{c}\text{Adjusted}\\\text{Exercise Price}\end{array} = \begin{array}{c}\text{Pre-adjustment}\\\text{Exercise Price}\end{array} \times \frac{\begin{array}{c}\text{Preexisting}\\\text{outstanding}\\\text{share count}\end{array} + \dfrac{\text{Newly issued shares} \times \text{Exercise price per share}}{\text{Market value per share before new issuance}}}{\text{Preexisting outstanding share count + newly issued shares}}$$

In the above formula, "preexisting outstanding share count" means total issued common shares net of common treasury shares. When the above formula is applied to a sale of common treasury shares, "newly issued shares" in the formula is replaced with "treasury shares sold".

In addition to the above, if the Company merges with another company, splits itself up, or is subject to any other such event necessitating adjustment of the Exercise Price after the subscription right allotment date, it may appropriately adjust the Exercise Price within reasonable limits.

(3) Subscription right exercise period

The subscription rights are exercisable from October 1, 2023 through July 31, 2027, or the latest preceding bank business day if July 31, 2027 is a bank holiday (the "Exercise Period").

(4) Matters concerning additions to capital stock and legal capital surplus

1) When shares are issued upon subscription rights' exercise, capital stock shall be increased by one half of the maximum capital stock increase calculated pursuant to Article 17(1) of the Ordinance on Corporate Accounting. If not an integer, the amount thus calculated shall be rounded up to the nearest whole yen.

2) When shares are issued upon subscription rights' exercise, legal capital surplus shall be increased by the difference between the maximum capital stock increase specified in 1) immediately above and the amount that capital stock actually increased pursuant to 1) immediately above.

(5) Restrictions on subscription right transferability

Subscription rights may not be acquired by transfer without the Company's Board of Directors' approval in the form of a resolution.

(6) Subscription right exercisability conditions

1) Subscription rights holders may exercise their rights if EBITDA is 2,500 million yen or more for any of the fiscal years ending June 30, 2023, 2024, and 2025.

EBITDA above is defined as operating income in the Company's audited Consolidated Statement of Income in the Securities Report filed by the Company plus depreciation and amortization (including amortization of goodwill) in the Company's Consolidated Statement of Cash Flows.

In determining the amount of EBITDA, reference shall be made to the amount of operating income in the Company's audited Consolidated Statement of Income (or the statement of income if consolidated financial statements are not prepared) as stated in the Securities Report filed by the Company, plus depreciation and amortization (including amortization of goodwill) in the Company's Consolidated Statement of Cash Flows, and the amount of EBITDA shall be calculated by excluding stock compensation expenses related to the subscription rights, if any, and such amount of EBITDA shall be applied from the time the relevant Securities Report is filed.

In the event of a significant change in the Company's financial statement taxonomy due to, e.g., adoption of IFRS, the Company's Board of Directors shall, to the extent reasonable, separately specify the financial statement line items to be referenced in calculating EBITDA.

2) If any of the exercisability conditions specified in (A) through (E) below is fulfilled, subscription right holders may exercise up to the specified percentage of their allotted subscription rights for each of the fiscal years in which one of said conditions is met. If not an integer, the number of subscription rights exercisable based on the applicable percentage shall be rounded down to the nearest integer.

A) The holder is a director, auditor or employee of the Company or its affiliated company during the period from the allotment date of the subscription rights to June 30, 2023: 5% of holder's allotted subscription rights.

B) The holder is a director, auditor, or employee of the Company or of an affiliate of the Company from the allotment of the subscription rights to June 30, 2024: 5% of holder's allotted subscription rights.

C) The holder is a director, auditor, or employee of the Company or of an affiliate of the Company from the allotment of the subscription rights to June 30, 2025: 10% of holder's allotted subscription rights.

D) The holder is a director, auditor, or employee of the Company or of an affiliate of the Company from the allotment of the subscription rights to June 30, 2026: 10% of holder's allotted subscription rights.

E) The holder is a director, auditor, or employee of the Company or of an affiliate of the Company from the allotment of the subscription rights to June 30, 2027: 70% of holder's allotted subscription rights.

However, this shall not apply to individuals who have relinquished their position upon expiration of their term of office, retired upon reaching retirement age, or otherwise have a justifiable reason recognized by the Board of Directors.

3) Subscription rights holders must be a director, auditor, or employee of the Company or of an affiliate of the Company (i.e., an "affiliated company" as defined in the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements) even at the time they exercise subscription rights, except for individuals who have relinquished their position upon expiration of their term of office, retired upon reaching retirement age, or otherwise have a justifiable reason for no longer holding their previous position.

4) Notwithstanding the provisions of 2) above, in the event of a merger agreement in which the Company becomes a dissolving company or a share exchange agreement or share transfer plan in which the Company becomes a wholly owned subsidiary (except in the case where subscription rights of the Reorganized Company (defined below) are delivered to the holders of subscription rights pursuant to 6.), the Company's general meeting of shareholders shall approve (or the Board of Directors of the Company shall resolve if approval at a general meeting of shareholders is not required), the subscription rights that satisfy the conditions set forth in (6). above, excluding (2) above, may be exercised within 30 days from the day following the date of such approval (resolution).

5) Subscription right holders' heirs may not exercise subscription rights.

6) Subscription rights may not be exercised if their exercise would increase the Company's total issued shares beyond the number of shares authorized to be issued at that time.

7) Fractional subscription rights are not exercisable.

4. Subscription right allotment date

September 13, 2022

5. Matters concerning reacquisition of subscription rights

(1) If, during the period from the subscription right allotment date until fulfillment of any of the exercisability conditions specified in 3.(6) above, the Company's common shares' closing price on a financial instrument exchange is below 50% of its August 12, 2022 closing price for five consecutive trading days, the Company may reacquire for no consideration the percentage of subscription rights that, as of that date, have yet to become exercisable through fulfillment of said exercisability conditions.

(2) If a merger agreement in which the Company is the non-surviving company, an agreement or plan under which the Company would be split up, or a share exchange agreement or share transfer plan under which the Company would become a wholly owned subsidiary is approved at a general meeting of shareholders (or by a Board of Directors' resolution if shareholder approval is not required), the Company may reacquire all subscription rights for no consideration on or after a designated date to be separately specified by the Company's Board of Directors.

(3) The Company may reacquire for no consideration any unexercised subscription rights that have been rendered unexercisable by the provisions of 3.(6) above.

6. Treatment of subscription rights in a reorganization event

If the Company is involved in a merger as the non-surviving company, divests a portion of its operations to another company, splits off a portion of its operations as a newly established company, or engages in a share exchange or share transfer (the foregoing acts are collectively referred to below as "Reorganization Events"), subscription right holders shall be granted subscription rights of the company specified in the applicable provision of Article 236 (1)(viii)(a)~(e) of the Companies Act (the "Reorganized Company") on the Reorganization Event's effective date in accordance with the conditions enumerated below. However, the foregoing shall apply only if the agreement or plan pursuant to which the Reorganization Event takes place stipulates that the Reorganized Company's subscription rights are to be granted in accordance with said conditions.

(1) Number of Reorganized Company's subscription rights to be granted

Subscription right holders shall be granted the same number of subscription rights that they respectively own.

(2) Class of Reorganized Company's shares underlying subscription rights

The subscription rights' underlying shares shall be the Reorganized Company's common shares.

(3) Number of Reorganized Company's shares underlying subscription right

The number of the Reorganized Company's shares underlying the subscription rights shall be determined in accordance with the provisions of 3.(1) above and in light of the Reorganization Event's conditions.

(4) Value of property to be contributed upon exercise of subscription rights

The value of property to be contributed upon exercise of the granted subscription rights shall be the post-reorganization exercise price multiplied by the number of the Reorganized Company's shares underlying the subscription rights as determined in accordance with 6.(3) above. The postreorganization exercise price is to be calculated by adjusting the Exercise Price stipulated in 3.(2) above to reflect the Reorganization Event's conditions and any other relevant factors.

(5) Subscription right exercisability period

The subscription rights shall be exercisable from either the first day of the Exercise Period specified in 3.(3) above or the Reorganization Event's effective date, whichever is later, through the last day of said Exercise Period.

(6) Matters concerning additions to capital stock and legal capital surplus when shares are issued upon subscription rights' exercise

To be determined in accordance with 3.(4) above.

(7) Restrictions on subscription right transferability

Transferability restrictions must be approved by a resolution of the Reorganized Company's Board of Directors.

(8) Other subscription right exercisability conditions

To be determined in accordance with 3.(6) above.

(9) Grounds for and conditions of reacquisition of subscription rights

To be determined in accordance with 5. above.

(10) Other conditions shall be determined in accordance with the Reorganized Company's terms and conditions.

7. Matters concerning subscription rights certificates

The Company will not issue subscription right certificates for the subscription rights.

8. Deadline for subscribing to subscription rights offering

September 12, 2022

9. Deadline for paying subscription rights' issuance price

September 13, 2022

10. Numbers of subscription right grantees and rights to be allotted

2 directors of the Company; 20,000