

**Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending June 30, 2023
(Six Months Ended December 31, 2022)**

[Japanese GAAP]

Company name:	istyle Inc.	Stock exchange listings:	Prime Market of the TSE
Securities code:	3660	URL:	https://www.istyle.co.jp/en
Representative:	Tetsuro Yoshimatsu, Representative Director, CEO		
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Scheduled date of filing of Quarterly Report:			February 13, 2023
Scheduled date of dividend payment:			—
Preparation of supplementary materials for financial results:			Yes
Schedule of quarterly financial results briefing session:			Yes

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

1. Consolidated Financial Results for the Six Months Ended December 31, 2022 (July 1, 2022 – December 31, 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	%
Six months ended December 31, 2022	20,358	19.0	254	—	18	—	(36)	—
Six months ended December 31, 2021	17,109	9.6	(633)	—	(693)	—	(603)	—

Note: Comprehensive income (million yen) Six months ended December 31, 2022: (224) (-%)
Six months ended December 31, 2021: (384) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended December 31, 2022	(0.48)	—
Six months ended December 31, 2021	(8.44)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2022	24,624	9,674	37.5
As of June 30, 2022	22,168	8,652	38.1

Reference: Total equity As of December 31, 2022: 9,224 million yen
As of June 30, 2022: 8,454 million yen

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2022	—	0.00	—	0.00	0.00
Fiscal year ending June 30, 2023	—	0.00			
Fiscal year ending June 30, 2023 (forecasts)			—	0.00	0.00

Note: Revisions to most recently announced dividend forecast: None

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	—	0.40

Note: Note: Revisions to the most recently announced earnings forecast: None

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in the scope of consolidation): None
- (2) Application of special accounting methods for presenting quarterly consolidated financial statements: None
- (3) 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 |
- (4) Number of shares outstanding (common shares)
- | | |
|---|-------------------|
| 1) Number of shares issued (including treasury shares) at end of period | |
| As of December 31, 2022: | 77,963,593 shares |
| As of June 30, 2022: | 74,146,800 shares |
| 2) Number of treasury shares at end of period | |
| As of December 31, 2022: | 2,693,567 shares |
| As of June 30, 2022: | 2,693,567 shares |
| 3) Average number of shares outstanding during the period | |
| Six months ended December 31, 2022: | 73,859,472 shares |
| Six months ended December 31, 2021: | 71,453,233 shares |

* The current quarterly summary report is not subject to the quarterly review procedures by certified public accountants or auditing corporations.

* Cautionary statement with respect to forecasts and other matters

(Note concerning forward-looking statements) · 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 (3) Consolidated Operating Results Forecast and Information about Future Predictions" on page 4 in the accompanying material.

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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. We expect, however, that the domestic cosmetics market will gradually revive as the impact of COVID-19 slowly wanes, and that the performance of the istyle Group's client cosmetics brands will also recover.

The istyle Group 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 growing the On Platform and Beauty Service segments, which are our earnings pillars, with the goal of further boosting earnings and turning profitable for the full year at the operating income level.

The consolidated operating performance for the first six months ended December 31, 2022 was as follows.

Consolidated net sales were up 19.0% year on year. Negative factors such as a resurgence in COVID-19 cases were offset by the achievement of dramatic year-on-year growth of 40.1% by the Beauty Service segment's stores and the success of the E-Commerce special event @cosme BEAUTY DAY. Furthermore, the growth of the Beauty Service segment resulted in higher demand for brand campaigns, including sales promotion services, which in turn drove growth in the On Platform segment, contributing to higher sales.

Operating income increased 886 million yen year on year to return to profitability due to the aforementioned increased sales in the Beauty Service segment and the On Platform segment.

As a result, the consolidated operating performance for the first six months ended December 31, 2022 was as follows:

Net sales:	20,358 million yen (17,109 million yen in previous fiscal year: 19.0% year-on-year increase)
Operating income:	254 million yen (633 million yen loss in the previous fiscal year)
Ordinary income:	18 million yen (693 million yen loss in the previous fiscal year)
Income before income taxes:	11 million yen (747 million yen loss in the previous fiscal year)
Net loss attributable to owners of the parent company:	36 million yen (603 million yen loss in the previous fiscal year)

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 the business environment remained difficult during the first six months under review as clients continued to tighten their budgets in response to the pandemic, sales rose year on year, reflecting growth in brand campaigns including sales promotion services, driven by growth in the Beauty Service segment.

Operating income was up year on year due to increased sales as well as reduced personnel expenses due to recruitment delays.

As a result, the consolidated operating performance for the first six months ended December 31, 2022 was as follows:

Net sales:	3,979 million yen (3,704 million yen in the previous fiscal year; 7.4% year-on-year increase)
Operating income:	727 million yen (382 million yen in the previous fiscal year; 90.4% year-on-year increase)

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 cosmetics specialty shops including @cosme STORE and the large flagship store @cosme TOKYO.

The Beauty Service segment's EC sales were up 13.2% year on year, sustaining its double-digit EC sales growth, with a

special event achieving record-high gross merchandise value, new customers acquired through EC events becoming users, and ongoing measures to enhance merchandizing proving successful. The segment's store sales grew due to a sharp recovery in the movement of people despite a resurgence in COVID-19 cases and increased customer traffic thanks to sales promotion events as part of brand campaigns integrating online and offline marketing. With the large flagship store also posting record-high net sales, the segment's store sales increased by 40.1%.

Operating income returned to profitability, increasing 490 million yen due to the increase in store sales. The large flagship store also achieved profitability for the first time on a quarterly basis during the second quarter under review.

As a result, the consolidated operating performance for the first six months ended December 31, 2022 was as follows:

Net sales: 13,520 million yen (10,557 million yen in the previous fiscal year; 28.1% year-on-year increase)
Operating income: 379 million yen (111 million yen loss in the 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.

EC & Wholesale sales were down year on year as the cross-border EC business in China contended with lackluster consumption and logistics slowdown due to a resurgence of COVID-19 cases in China. The business's performance is gradually improving, however, and sales are up compared with the immediately preceding quarter. Although three unprofitable stores in Hong Kong were closed down in the previous fiscal year, sales of the three remaining stores in Hong Kong are recovering, with sales virtually unchanged year on year. As a result, overall sales for the Global segment were down only slightly year on year.

Despite decreased sales due to the liquidation of or withdrawal from unprofitable business, the segment returned to profitability at the operating income level through ongoing earnings structure improvements.

As a result, the consolidated operating performance for the first six months ended December 31, 2022 was as follows:

Net sales: 2,201 million yen (2,385 million yen in the previous fiscal year; 7.7% year-on-year decrease)
Operating income: 10 million yen (71 million yen loss in the 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.

Temporary staffing agency sales were up year on year due to efforts to expand and enhance the operational workforce and the gradual waning of the impact of COVID-19.

Operating income was temporarily in the red due to upfront personnel expenses for the temporary staffing agency's workforce expansion and enhancement, but the segment as a whole achieved profitability due to a gain on sales of operational investment securities.

As a result, the consolidated operating performance for the first six months ended December 31, 2022 was as follows:

Net sales: 658 million yen (463 million yen in the previous fiscal year; 41.9% year-on-year increase)
Operating income: 4 million yen (15 million yen in the previous fiscal year, 77.1% year-on-year decrease)

(2) Consolidated Financial Position

(Assets)

Total assets as of December 31, 2022 were 24,624 million yen, an increase of 2,456 million yen from the end of the previous fiscal year.

Current assets as of December 31, 2022 totaled 15,247 million yen, an increase of 2,319 million yen from the end of the previous fiscal year. This was mainly due to increases of 312 million yen in cash and deposits; 1,561 million yen in notes and accounts receivable – trade and contract assets; and 609 million yen in merchandise.

Fixed assets as of December 31, 2022 totaled 9,377 million yen, an increase of 136 million yen from the end of the previous fiscal year. This was mainly due to an increase of 453 million yen in tangible assets offsetting a decrease of 302 million yen in investment securities.

(Liabilities)

Total liabilities as of December 31, 2022 were 14,950 million yen, an increase of 1,434 million yen from the end of the previous fiscal year.

Current liabilities decreased by 4,665 million yen from the end of the previous fiscal year to 7,022 million yen. This was largely due to a decrease of 6,140 million yen in the current portion of long-term debt, offsetting an increase of 753 million yen in notes and accounts payable – trade.

Fixed liabilities increased by 6,099 million yen from the end of the previous fiscal year to 7,928 million yen. This was mainly due to increases of 1,798 million yen in long-term debt and 4,000 million yen in bonds with convertible bond type warrants.

(Net Assets)

Net assets as of December 31, 2022 were 9,674 million yen, an increase of 1,021 million yen from the end of the previous fiscal year. This was primarily due to increases of 500 million yen in capital stock and 500 million yen in capital surplus resulting from the Triple Four Investment Partnership exercising its right to have its bonds in the 3rd Series of Unsecured Bonds with Convertible Type Bond Warrants converted into new shares on September 7, 2022.

(3) Consolidated Operating Results Forecast and Information about Future Predictions

Our full-year consolidated operating results forecast for the fiscal year ending June 30, 2023 published in the Summary of Consolidated Financial Results released on August 15, 2022, was predicated on the assumptions that earnings would begin improving as the impact of the COVID-19 pandemic would gradually come to an end. If, however, discrepancies arise between actual societal/economic conditions and the assumptions underlying our forecast, leading to the expectation that actual performance may diverge from our forecasts, we will promptly make an announcement without delay.

2. Consolidated Financial Statements and Relevant Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2022	As of Dec. 31, 2022
	Amount	Amount
Current assets		
Cash and deposits	5,828	6,140
Notes and accounts receivable - trade, and contract assets	3,153	4,714
Merchandise	2,331	2,940
Operational investment securities	1,034	1,028
Other	652	497
Allowance for doubtful receivables	(6)	(8)
Allowance for investment loss	(65)	(65)
Total current assets	12,928	15,247
Fixed assets		
Tangible assets	1,367	1,820
Intangible assets		
Goodwill	1,488	1,405
Software	2,412	2,120
Other	376	487
Total intangible assets	4,277	4,012
Investments and other assets		
Investment securities	1,371	1,069
Leasehold and guarantee deposits	1,796	1,842
Other	460	661
Allowance for doubtful receivables	(30)	(28)
Total investments and other assets	3,597	3,544
Total fixed assets	9,241	9,377
Total assets	22,168	24,624

(Millions of yen)

	As of June 30, 2022	As of Dec. 31, 2022
	Amount	Amount

Liabilities**Current liabilities**

Notes and accounts payable – trade	1,419	2,172
Short-term debt	1,500	1,500
Current portion of long-term debt	6,428	288
Income taxes payable	117	202
Provision for bonuses	183	340
Other	2,039	2,521
Total current liabilities	11,686	7,022

Fixed liabilities

Long-term debt	1,728	3,526
Convertible bond-type bonds with share acquisition rights	—	4,000
Other	101	403
Total fixed liabilities	1,829	7,928

Total liabilities	13,516	14,950
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Net assets**Shareholders' equity**

Capital stock	4,756	5,256
Capital surplus	3,937	4,437
Retained earnings	(983)	(1,019)
Treasury stock	(280)	(280)
Total shareholders' equity	7,430	8,394

Accumulated other comprehensive income

Valuation difference on available-for-sale securities	319	147
Foreign currency translation adjustment	705	683
Total accumulated other comprehensive income	1,024	830

Subscription rights to shares	1	247
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Non-controlling interests	198	203
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Total net assets	8,652	9,674
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Total liabilities and net assets	22,168	24,624
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(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

	(Millions of yen)	
	Six months ended Dec. 31, 2021	Six months ended Dec. 31, 2022
	Amount	Amount
Net sales	17,109	20,358
Cost of sales	9,282	11,126
Gross profit	7,827	9,232
Selling, general and administrative expenses	8,459	8,978
Operating income (loss)	(633)	254
Non-operating income		
Interest income	1	3
Dividend income	3	3
Income from subsidiaries	16	10
Other	16	26
Total non-operating income	36	42
Non-operating expenses		
Interest expenses	27	30
Foreign exchange losses	49	85
Loss on investments in partnership	3	4
Equity in losses of affiliates	7	6
Idle asset expenses	—	84
Commission expenses	—	60
Other	10	8
Total non-operating expenses	96	278
Ordinary income (loss)	(693)	18
Extraordinary income		
Gain on reversal of share acquisition rights	14	0
Gain on step acquisitions	114	—
Total extraordinary income	128	0
Extraordinary loss		
Impairment loss	182	7
Total extraordinary loss	182	7
Income (loss) before income taxes	(747)	11
Total income taxes	(152)	30
Net income (loss)	(594)	(19)
Net income (loss) attributable to non-controlling interests	9	17
Net income (loss) attributable to owners of the parent company	(603)	(36)

Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	Six months ended Dec. 31, 2021	Six months ended Dec. 31, 2022
	Amount	Amount
Net income (loss)	(594)	(19)
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	13	(13)
Share of other comprehensive income of associates accounted for using equity method	—	(159)
Foreign currency translation adjustment	197	(33)
Total other comprehensive income	210	(205)
Comprehensive income (loss)	(384)	(224)
Comprehensive income (loss) attributable to		
Owners of the parent	(399)	(230)
Non-controlling interests	15	5

(3) Notes on Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Upon exercise of the rights of the 3rd Series of Unsecured Bonds with Convertible Bond Type Warrants by Triple Four Investment Partnership, the bonds were converted into new shares, effective September 7, 2022. As a result, capital stock and capital surplus increased by 500 million yen, respectively. Accordingly, capital stock and capital surplus as of December 31, 2022 were 5,256 million yen and 4,437 million yen, respectively.

(Changes in Accounting Policies)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) has been applied effective from the beginning of this first quarter. In accordance with the transitional treatment set forth in Paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement, the Group has opted to apply the new accounting policies set forth in the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively. Note that this has no impact on the Company's quarterly financial statements.

(Additional Information)

(Application of Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System)

The Company and certain of its consolidated subsidiaries in Japan made a shift from the consolidated taxation system to the group tax sharing system in the first quarter of the fiscal year under review. Consequently, with respect to accounting processing and disclosures for income tax, local corporate income tax and tax effect accounting, the Company started to apply the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 42 issued August 12, 2021, hereinafter “PITF No. 42”). In addition, based on Paragraph 32-(1) of PITF No. 42, the Company considers that there will be no impact of changes in its accounting policy resulting from the application of PITF No. 42.

(Segment Information)

Six months ended December 31, 2021 (July 1, 2021 through December 31, 2021)

1. Net sales and income/loss by reportable segment, and information on disaggregation of revenue

(Millions of yen)

	Reportable segment				Total	Adjustments (note 1)	Total (note 2)
	<i>On Platform</i>	<i>Beauty Service</i>	<i>Global</i>	<i>Others</i>			
Net sales							
Goods transferred at a point in time	—	10,557	2,100	3	12,660	—	12,660
Goods transferred over time	3,704	—	284	460	4,449	—	4,449
Revenue generated from contracts with customers	3,704	10,557	2,385	463	17,109	—	17,109
Sales to outside customers	3,704	10,557	2,385	463	17,109	—	17,109
Inter-segment sales and transfers	201	5	6	7	219	(219)	—
Total	3,905	10,562	2,391	470	17,328	(219)	17,109
Segment profit (loss)	382	(111)	(71)	15	215	(848)	(633)

Notes: 1. Adjustments in Segment profit (loss) in the amount of (848) million yen include 2 million yen elimination of inter-segment transactions and (849) million yen corporate expense not allocated to any reportable segment.

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

2. Information about Impairment Loss on Fixed Assets, Goodwill, etc.

(Significant impairment losses related to fixed assets)

In the Global segment, impairment losses have been recorded on some stores and asset groups, as the segment's revenue is expected to fall below initial forecasts. Said impairment losses during the first half of this fiscal year amount to 123 million yen.

In corporate assets not allocated to any reportable segment, impairment losses have been recorded due to the discontinuation of the use of certain assets. Said impairment losses during the first half of this fiscal year amount to 59 million yen.

(Significant changes in goodwill amounts)

As a result of acquiring additional shares in Glowdayz, Inc. and converting it into a consolidated subsidiary in this first quarter, the amount of goodwill in the Global segment increased by 1,092 million yen. The amount of goodwill, which had been calculated on a tentative basis, was finalized in the third quarter of previous fiscal year. There is no change in the amount.

(Significant gain on negative goodwill)

Not applicable.

Six months ended December 31, 2022 (July 1, 2022 through December 31, 2022)

1. Net sales and income/loss by reportable segment, and information on disaggregation of revenue

(Millions of yen)

	Reportable segment				Total	Adjustments (note 1)	Total (note 2)
	<i>On Platform</i>	<i>Beauty Service</i>	<i>Global</i>	<i>Others</i>			
Net sales							
Goods transferred at a point in time	—	13,520	1,800	—	15,320	—	15,320
Goods transferred over time	3,979	—	402	653	5,033	—	5,033
Revenue generated from contracts from customers	3,979	13,520	2,201	653	20,353	—	20,353
Other income	—	—	—	4	4	—	4
Sales to outside customers	3,979	13,520	2,201	658	20,358	—	20,358
Inter-segment sales and transfers	250	17	10	13	289	(289)	—
Total	4,228	13,538	2,211	670	20,647	(289)	20,358
Segment profit (loss)	727	379	10	4	1,120	(866)	254

Notes: 1. Segment profit (loss) adjustment of (866) million yen includes elimination of inter-segment transactions of 2 million yen and whole company expenses not divided into each reporting segment of (868) million yen.

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

2. Information about Impairment Loss on Fixed Assets, Goodwill, etc.

(Significant impairment losses related to fixed assets)

Not applicable.

(Significant changes in goodwill amounts)

Not applicable.

(Significant gain on negative goodwill)

Not applicable.