

**Consolidated Financial Results
for the Six Months Ended February 29, 2020
[Japanese GAAP]**

April 10, 2020

Company name: ANAP INC.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3189

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Scheduled date of filing quarterly securities report: April 14, 2020

Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: None

Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended February 29, 2020 (September 1, 2019 to February 29, 2020)

(1) Consolidated Operating Results

(% indicates changes from the previous corresponding period.)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Six months ended February 29, 2020	Million yen 2,950 (1.5)	Million yen (187) -	Million yen (192) -	Million yen (306) -
February 28, 2019	2,994 - (11)	(11) - -	(10) - -	(22) - -

Note: Comprehensive income: Six months ended February 29, 2020: ¥(306) million [- %]

Six months ended February 28, 2019: ¥(27) million [- %]

	Basic earnings per share	Diluted earnings per share
Six months ended February 29, 2020	Yen (70.62)	Yen -
February 28, 2019	(5.16)	-

Note: Diluted earnings per share are not stated because it was a loss per share, despite the existence of dilutive shares.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of February 29, 2020	Million yen 2,565	Million yen 1,352	% 52.7
As of August 31, 2019	2,888	1,672	57.7

Reference: Equity: As of February 29, 2020: ¥1,352 million

As of August 31, 2019: ¥1,665 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended August 31, 2019	Yen -	Yen 0.00	Yen -	Yen 6.00	Yen 6.00
Fiscal year ending August 31, 2020	Yen -	Yen 0.00			
Fiscal year ending August 31, 2020 (Forecast)				- 3.00	3.00

Note: Revision to the most recently announced dividend forecast: Yes

Please refer to the “Notice of Revision to the Full Year Consolidated Financial Results Forecast and Revision to the Dividend Forecast” released today (April 10, 2020) for details of the revision to the dividend forecast.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2020 (September 1, 2019 to August 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Full year	Million yen 5,828 (6.9)	Million yen (354) -	Million yen (358) -	Million yen (475) -	Yen (109.40)

Note: Revision to the most recently announced financial results forecast: Yes

Please refer to the “Notice of Revision to the Full Year Consolidated Financial Results Forecast and Revision to the Dividend Forecast” released today (April 10, 2020) for details of the revision to the financial results forecast.

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Accounting policies adopted specially for the preparation of the quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of shares issued (common shares)
 - 1) Total number of shares issued at the end of the period (including treasury shares):
 - February 29, 2020: 4,791,000 shares
 - August 31, 2019: 4,760,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - February 29, 2020: 435,807 shares
 - August 31, 2019: 469,339 shares
 - 3) Average number of shares during the period:
 - Six months ended February 29, 2020: 4,334,801 shares
 - Six months ended February 28, 2019: 4,358,605 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation on the proper use of the financial results forecast and other notes

Note on forward-looking statements, etc.

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document. The Company

makes no warranty as to the achievability of these forecasts. Actual results may differ significantly from these forecasts due to various factors. Please refer to P. 4 “1. Qualitative Information on Quarterly Financial Results for the Period under Review (3) Explanation on Consolidated Financial Results Forecast and Other Forward-looking Information” of the Appendix.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation on Business Results

The Japanese economy during the six months ended February 29, 2020 continued to follow a recovery trend, although moderate, on the back of the improvement in corporate earnings and the employment environment. However, with the start of 2020, there has been a growing sense of caution regarding a recession due to the spread of the novel coronavirus, which originated in China. The outlook for the global economy remained uncertain as well, given the potential lingering impact of the novel coronavirus, the effects of an economic slowdown in China caused by the prolonged trade friction between the U.S. and China, and other factors.

In the casual fashion industry where the Company operates, the operating environment continued to be severe due to the aforementioned effects of the novel coronavirus as well as labor shortages, soaring logistics costs, and a record warm winter in and after December.

Under these circumstances, in the fiscal year under review the Company has continued to make investments for business expansion that it had focused on from the previous fiscal year.

Specifically, the Company has continued to implement promotional measures such as advertisement distribution via YouTube and Instagram with the objective of maximizing brand value and improving traffic to the Company's website, and also opened two new stores in October 2019, the first in roughly five years. The new stores have made a steady start, although realizing the maximum advertising impact of promotional measures will require a longer time than anticipated. In addition, the Company is simultaneously proceeding on cutting costs by streamlining operations, primarily with regard to the Company's website. Moreover, in September 2019 consolidated subsidiary ANAP Lab, Inc. (formerly "ATLAB") became a wholly owned subsidiary of the Company and changed its trade name to clarify its position as a member of the ANAP Group with the aim of business expansion by advancing measures to integrate AI and other digital technologies with offline operations.

As a result, for the six months ended February 29, 2020, net sales decreased by 1.5% from the previous corresponding period to ¥2,950 million. Operating loss was ¥187 million compared to operating loss of ¥11 million in the previous corresponding period, and ordinary loss was ¥192 million compared to ordinary loss of ¥10 million in the previous corresponding period due mainly to a decrease in gross profit resulting from a decrease in net sales from the Company's website, an increase in advertising expenses due to promotional measures, and initial costs associated with new store openings. Loss attributable to owners of parent was ¥306 million, compared to loss attributable to owners of parent of ¥22 million in the previous corresponding period as a result of recording impairment loss on the Company's website, software as corporate assets and unprofitable stores, as well as recording income taxes - deferred due to the reversal of deferred tax assets under tax effect accounting.

Operating results by business segment are as follows.

Internet Retailing Business

In the Internet Retailing Business, as stated above, the Company continued to take measures with the goal of enhancing traffic to its website. However, while a certain effect was seen in the number of new customers visiting the Company's website, it took time for purchase rates to recover, resulting in a decrease in net sales. Given these conditions, the Company is making ongoing efforts to raise operational efficiencies by streamlining its business and appropriately positioning personnel.

As a result, net sales decreased by 6.1% from the previous corresponding period to ¥1,602 million and segment loss was ¥18 million, compared to segment profit for the previous corresponding period of ¥98 million.

Store Retailing Business

In the Store Retailing Business, with the closing of three stores, and the opening of three stores since the end of the previous fiscal year, the Company's store count was 28 at the end of the second quarter. Net sales benefitted from existing stores that continued to perform well from the previous fiscal year, and together with this, the newly established stores also demonstrated a favorable performance. Profit fell mainly due to the impact of initial costs

associated with the establishment of the new stores including those for promotional activities, as well as the replacement of equipment at existing stores.

As a result, net sales increased by 10.0% from the previous corresponding period to ¥1,262 million and segment loss was ¥2 million, compared to segment profit for the previous corresponding period of ¥57 million.

Wholesale Distribution Business

In the Wholesale Distribution Business, net sales decreased in line with a decline in sales to existing customers.

As a result, net sales decreased by 45.0% from the previous corresponding period to ¥62 million and segment loss was ¥9 million, compared to segment loss for the previous corresponding period of ¥7 million.

(2) Explanation on Financial Position

1) Status of assets, liabilities, and net assets

Current assets

Current assets as of the end of the second quarter decreased by ¥288 million from the end of the previous fiscal year to ¥1,961 million. This is mainly attributable to decreases in cash and deposits and notes and accounts receivable - trade by ¥120 million and ¥199 million, respectively, in spite of an increase of ¥56 million in merchandise and finished goods.

Non-current assets

Non-current assets as of the end of the second quarter decreased by ¥33 million from the end of the previous fiscal year to ¥603 million. This is mainly attributable to decreases in intangible assets and other in investments and other assets by ¥44 million and ¥45 million, respectively, in spite of an increase of ¥61 million in property, plant and equipment.

Deferred assets

Deferred assets as of the end of the second quarter decreased by ¥0 million from the end of the previous fiscal year to ¥0 million.

Current liabilities

Current liabilities as of the end of the second quarter decreased by ¥36 million from the end of the previous fiscal year to ¥885 million. This is mainly attributable to decreases in accounts payable - trade and other current liabilities by ¥65 million and ¥34 million, respectively, in spite of increases in short-term borrowings and provision for point card certificates by ¥50 million and ¥12 million, respectively.

Non-current liabilities

Non-current liabilities as of the end of the second quarter increased by ¥34 million from the end of the previous fiscal year to ¥327 million. This is mainly attributable to increases in asset retirement obligations and other non-current liabilities by ¥7 million and ¥25 million, respectively.

Net assets

Net assets as of the end of the second quarter decreased by ¥320 million from the end of the previous fiscal year to ¥1,352 million. This is mainly attributable to decreases in retained earnings in line with the posting of a loss attributable to owners of parent, and retained earnings from dividends paid by ¥306 million and ¥25 million, respectively.

2) Status of cash flows

Cash and cash equivalents (hereinafter referred to as “net cash”) for the six months ended February 29, 2020 decreased by ¥120 million from the end of the previous fiscal year to ¥776 million. Cash flows for the six months ended February 29, 2020 and associated factors are described below.

Cash flows from operating activities

Net cash used in operating activities during the six months ended February 29, 2020 amounted to ¥67 million. This is mainly attributable to increases due to a decrease in trade receivables of ¥199 million, impairment loss of ¥53 million, depreciation of ¥31 million, an increase in provision for point card certificates of ¥12 million, a decrease in consumption taxes refund receivable of ¥26 million, and an increase in accrued consumption taxes of ¥7 million, and decreases due to loss before income taxes of ¥245 million, a decrease in trade payables of ¥65 million, an increase in inventories of ¥54 million, and a decrease in accounts payable - other of ¥37 million.

Cash flows from investing activities

Net cash used in investing activities during the six months ended February 29, 2020 amounted to ¥85 million. This is mainly attributable to an increase due to proceeds from refund of leasehold and guarantee deposits of ¥14 million, and decreases due to purchase of property, plant and equipment of ¥57 million, payments for retirement of property, plant and equipment of ¥9 million, purchase of intangible assets of ¥20 million, and payments of leasehold and guarantee deposits of ¥9 million.

Cash flows from financing activities

Net cash provided by financing activities during the six months ended February 29, 2020 amounted to ¥31 million. This is mainly attributable to increases due to a net increase in short-term borrowings of ¥50 million and proceeds from issuance of shares resulting from exercise of share acquisition rights of ¥11 million, and a decrease due to dividends paid of ¥25 million.

(3) Explanation on Consolidated Financial Results Forecast and Other Forward-looking Information

In light of financial results up to the end of the six months ended February 29, 2020, the full year consolidated financial results forecast released on October 11, 2019 was revised. See “Notice of Revision to the Full Year Consolidated Financial Results Forecast and Revision to the Dividend Forecast” released today (April 10, 2020) for details.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of August 31, 2019	As of February 29, 2020
Assets		
Current assets		
Cash and deposits	897,577	776,740
Notes and accounts receivable - trade	491,711	292,596
Merchandise and finished goods	788,528	845,051
Work in process	779	378
Raw materials and supplies	4,664	2,792
Other	71,614	47,381
Allowance for doubtful accounts	(4,517)	(3,115)
Total current assets	<u>2,250,359</u>	<u>1,961,824</u>
Non-current assets		
Property, plant and equipment	162,065	223,118
Intangible assets	93,450	49,076
Investments and other assets		
Leasehold and guarantee deposits	275,700	270,679
Other	106,522	60,963
Total investments and other assets	<u>382,223</u>	<u>331,643</u>
Total non-current assets	<u>637,739</u>	<u>603,838</u>
Deferred assets	187	156
Total assets	<u>2,888,286</u>	<u>2,565,818</u>
Liabilities		
Current liabilities		
Accounts payable - trade	212,602	147,115
Short-term borrowings	450,000	500,000
Income taxes payable	4,039	13,135
Provision for bonuses	28,000	28,000
Provision for point card certificates	—	12,195
Asset retirement obligations	11,328	3,676
Other	216,370	181,493
Total current liabilities	<u>922,341</u>	<u>885,616</u>
Non-current liabilities		
Retirement benefit liability	172,432	174,005
Asset retirement obligations	100,777	108,310
Other	20,145	45,409
Total non-current liabilities	<u>293,354</u>	<u>327,725</u>
Total liabilities	<u>1,215,695</u>	<u>1,213,342</u>
Net assets		
Shareholders' equity		
Share capital	393,188	399,125
Capital surplus	716,654	710,345
Retained earnings	830,123	498,246
Treasury shares	(275,013)	(255,377)
Total shareholders' equity	<u>1,664,952</u>	<u>1,352,339</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	154	137
Total accumulated other comprehensive income	<u>154</u>	<u>137</u>
Non-controlling interests	7,484	—
Total net assets	<u>1,672,591</u>	<u>1,352,476</u>
Total liabilities and net assets	<u>2,888,286</u>	<u>2,565,818</u>

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended February 29

(Thousand yen)

	For the six months ended February 28, 2019	For the six months ended February 29, 2020
Net sales	2,994,367	2,950,201
Cost of sales	1,259,662	1,281,452
Gross profit	1,734,705	1,668,749
Selling, general and administrative expenses		
Salaries and allowances	414,100	422,612
Provision for bonuses	35,000	28,000
Retirement benefit expenses	17,348	9,433
Outsourcing expenses	397,965	400,509
Rent expenses on land and buildings	275,642	311,841
Provision of allowance for doubtful accounts	(780)	(1,401)
Other	606,768	685,730
Total selling, general and administrative expenses	1,746,044	1,856,726
Operating loss	(11,339)	(187,977)
Non-operating income		
Interest income	20	7
Dividend income	33	33
Compensation income	9,713	19
Interest on tax refund	5	241
Gain on sales of goods	225	338
Other	818	754
Total non-operating income	10,816	1,395
Non-operating expenses		
Interest expenses	1,055	1,081
Foreign exchange losses	2,051	3,863
Commission expenses	5,294	—
Other	1,160	549
Total non-operating expenses	9,561	5,494
Ordinary loss	(10,084)	(192,076)
Extraordinary losses		
Impairment loss	2,627	53,573
Total extraordinary losses	2,627	53,573
Loss before income taxes	(12,711)	(245,649)
Income taxes - current	3,485	3,578
Income taxes - deferred	11,510	56,904
Total income taxes	14,996	60,483
Loss	(27,708)	(306,133)
Loss attributable to non-controlling interests	(5,204)	—
Loss attributable to owners of parent	(22,503)	(306,133)

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended February 29

(Thousand yen)

	For the six months ended February 28, 2019	For the six months ended February 29, 2020
Loss	(27,708)	(306,133)
Other comprehensive income		
Valuation difference on available-for-sale securities	(277)	(17)
Total other comprehensive income	(277)	(17)
Comprehensive income	(27,985)	(306,150)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(22,780)	(306,150)
Comprehensive income attributable to non-controlling interests	(5,204)	—

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended February 28, 2019	For the six months ended February 29, 2020
Cash flows from operating activities		
Loss before income taxes	(12,711)	(245,649)
Depreciation	26,727	31,834
Impairment loss	2,627	53,573
Amortization of long-term prepaid expenses	1,659	1,985
Increase (decrease) in retirement benefit liability	(16,155)	1,573
Increase (decrease) in allowance for doubtful accounts	(780)	(1,401)
Increase (decrease) in provision for point card certificates	—	12,195
Interest and dividend income	(53)	(40)
Interest expenses	1,055	1,081
Foreign exchange losses (gains)	(16)	(27)
Decrease (increase) in trade receivables	168,133	199,115
Decrease (increase) in inventories	(70,813)	(54,249)
Decrease (increase) in prepaid expenses	(9,364)	1,239
Decrease (increase) in consumption taxes refund receivable	—	26,026
Increase (decrease) in trade payables	7,612	(65,487)
Increase (decrease) in accounts payable - other	(21,005)	(37,744)
Increase (decrease) in accrued expenses	(17,525)	(5,929)
Increase (decrease) in accrued consumption taxes	(8,657)	7,974
Increase (decrease) in deposits received	(34,833)	(2,356)
Other, net	(13,757)	10,216
Subtotal	2,141	(66,069)
Interest and dividends received	53	40
Interest paid	(1,037)	(1,033)
Proceeds from compensation	9,713	19
Income taxes paid	(28,713)	(186)
Net cash provided by (used in) operating activities	(17,841)	(67,229)
Cash flows from investing activities		
Purchase of investment securities	(0)	(0)
Purchase of property, plant and equipment	(21,990)	(57,689)
Payments for retirement of property, plant and equipment	(14,277)	(9,989)
Purchase of intangible assets	(23,945)	(20,404)
Payments of leasehold and guarantee deposits	(107,384)	(9,000)
Proceeds from refund of leasehold and guarantee deposits	16,075	14,021
Purchase of long-term prepaid expenses	(4,464)	(2,248)
Net cash provided by (used in) investing activities	(155,987)	(85,311)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	50,000	50,000
Repayments of long-term borrowings	(69,984)	—
Proceeds from issuance of shares resulting from exercise of share acquisition rights	—	11,873
Repayments of finance lease obligations	(4,315)	(4,977)
Purchase of treasury shares	(206,334)	(91)
Dividends paid	(26,904)	(25,124)
Other, net	—	(1)
Net cash provided by (used in) financing activities	(257,539)	31,677
Effect of exchange rate change on cash and cash equivalents	16	27
Net increase (decrease) in cash and cash equivalents	(431,352)	(120,837)
Cash and cash equivalents at beginning of period	1,368,115	897,577
Cash and cash equivalents at end of period	936,763	776,740

(4) Notes to the Quarterly Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Notes in the case of significant changes in shareholders' equity

Not applicable.

Additional information

(Provision for point card certificates)

With regard to accounting treatment of points, given the increased importance of points remaining, the Company posted estimated future usage amount as "provision for point card certificates" from the first quarter of the current fiscal year.

Segment information

I. For the six months ended February 28, 2019

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Other (Note 1)	Adjustment (Note 2)	Quarterly Consolidated Financial Statements (Note 3)
	Internet Retailing Business	Store Retailing Business	Wholesale Distribution Business	Total			
Net sales							
Net sales to outside customers	1,706,696	1,147,586	113,550	2,967,833	26,533	–	2,994,367
Inter-segment net sales or transfers	–	–	–	–	–	–	–
Total	1,706,696	1,147,586	113,550	2,967,833	26,533	–	2,994,367
Segment profit (loss)	98,325	57,201	(7,031)	148,495	7,002	(166,837)	(11,339)

Notes: 1. “Other” is a segment for businesses that do not fall under any reportable segments such as the license business.

2. The adjustment for segment profit (loss) includes corporate expenses of ¥166,837 thousand not allocated to reportable segments. These corporate expenses are mainly general and administrative expenses at the Company’s administrative departments, etc. which do not belong to any reportable segments.
3. Segment profit (loss) is reconciled with operating loss in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets or goodwill, etc. by reportable segment

Information is omitted due to lack of materiality.

II. For the six months ended February 29, 2020

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Other (Note 1)	Adjustment (Note 2)	Quarterly Consolidated Financial Statements (Note 3)
	Internet Retailing Business	Store Retailing Business	Wholesale Distribution Business	Total			
Net sales							
Net sales to outside customers	1,602,771	1,262,760	62,468	2,928,000	22,201	–	2,950,201
Inter-segment net sales or transfers	–	–	–	–	–	–	–
Total	1,602,771	1,262,760	62,468	2,928,000	22,201	–	2,950,201
Segment profit (loss)	(18,174)	(2,038)	(9,334)	(29,547)	5,843	(164,274)	(187,977)

Notes: 1. “Other” is a segment for businesses that do not fall under any reportable segments such as the license business.

2. The adjustment for segment profit (loss) includes corporate expenses of ¥164,274 thousand not allocated to reportable segments. These corporate expenses are mainly general and administrative expenses at the Company’s administrative departments, etc. which do not belong to any reportable segments.
3. Segment profit (loss) is reconciled with operating loss in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets or goodwill, etc. by reportable segment

(Thousand yen)

	Reportable segment				Other (Note 1)	Adjustment (Note 2)	Quarterly Consolidated Financial Statements
	Internet Retailing Business	Store Retailing Business	Wholesale Distribution Business	Total			
Impairment loss	43,500	3,105	—	46,606	—	6,966	53,573

Notes: 1. "Other" is a segment for businesses that do not fall under any reportable segments such as the license business.

2. The amount in "Adjustment" is corporate assets which do not belong to any reportable segments.