

Brief announcement of non-consolidated financial statements (Japanese GAAP) for the second quarter of fiscal year ending March 2018

October 30, 2017

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 Code number: 4679 (First Section)
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Shihanki-Houkokusho to be submitted on: November 9, 2017
 Preparing supplementary material for quarterly financial results: Yes
 Holding quarterly financial results presentation meeting: Yes

(Amounts less than 1 million yen were rounded down.)

1. Financial results for the second quarter of FY2017 (year-to-date: April 1 to September 30, 2017)

(1) Operating results (Accumulated total) (The percentages denote year-on-year change)

	Sales		Operating income		Ordinary income	
	million yen	%	million yen	%	million yen	%
Second Qtr. FY2017 (YTD)	5,337	(6.3)	(64)	-	(71)	-
Second Qtr. FY2016 (YTD)	5,695	(1.9)	(174)	-	(173)	-

	Net profit		Net profit per share		Net profit per share after adjustment of latent shares	
	million yen	%	yen	sen	yen	sen
Second Qtr. FY2017 (YTD)	(106)	-	(21.41)	-	-	-
Second Qtr. FY2016 (YTD)	(210)	-	(42.15)	-	-	-

(2) Financial position

	Total assets	Net assets	Capital ratio	Net assets per share
	million yen	million yen	%	yen sen
Second Qtr. FY2017	6,321	2,491	39.4	498.58
FY2016	6,114	2,598	42.5	519.99

(Reference) Equity capital: Second quarter of FY2017: 2,491 million yen, FY2016: 2,598 million yen

2. Dividend payments

(Base date)	Dividend per share				
	At end of first quarter	At end of second quarter	At end of third quarter	Fiscal year-end	Annual dividend
	yen sen	yen sen	yen sen	yen sen	yen sen
FY2016	-	0.00	-	0.00	0.00
FY2017	-	0.00	-	-	-
FY2017 (forecast)	-	-	-	-	-

(NOTE) Revision of forecast for dividends announced recently: None

The year-end dividend will be determined based upon the business performance for the fiscal year ending March 31, 2018.

3. The projected financial results for the period ending March 2018 (April 1, 2017 to March 31, 2018)

(The percentages denote year-on-year change.)

	Sales		Operating income		Ordinary income		Current net profit		Current net profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen sen
Full year	10,926	(4.2)	135	369.5	127	-	37	-	7.53

(NOTE) Revision of forecast for this quarter announced recently: None

*Notes

(1) Application of accounting procedures unique to the preparation of quarterly financial statements: None

(2) Changes in accounting policy, changes in accounting estimates and restatement

1) Changes in accounting policy associated with the revision of accounting standards, etc.: None

2) Changes in accounting policy other than those in 1) above: None

3) Changes in accounting estimates: None

4) Restatement: None

(3) Number of outstanding shares (common stocks)

- 1) Number of outstanding shares (including treasury stocks), at the end of the second quarter of the term ending March 2018: 5,100,000 shares; for the year ended March 2017: 5,100,000 shares
- 2) Number of treasury stocks, at the end of the second quarter of the term ending March 2018: 102,946 shares; for the year ended March 2017: 102,946 shares
- 3) Average number of shares, the second quarter of the term ending March 2018: 4,997,054 shares; the second quarter of the term ended March 2017: 4,997,054 shares

* This quarterly financial summary does not fall within the scope of the Quarterly Review Procedures

* Explanation on an appropriate use of the projected business performance and other remarks

Any forward-looking statements such as business performance forecasts contained in this material are based on the information available to the Company and on certain assumptions that we consider to be reasonable at the time of preparation of this document. The actual results may differ considerably due to various factors. For suppositions that form the assumptions for forecasts and important notes for using such business performance projections, please refer to "Explanation regarding forecast information such as earnings forecast" on page 5 of the accompanying material.

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1. Qualitative information regarding results for this quarter

(1) Explanation regarding business results

During the first six months of the fiscal year under review, Japan's economy continued to recover at a modest pace, supported by improvements to corporate earnings and employment conditions, which were underpinned by various economic policies implemented by the government. However, the outlook for the economy remained uncertain against the backdrop of concerns about the impact on the domestic economy from uncertainties in the overseas economies and the rise of geopolitical risks.

In the beauty industry, the business environment surrounding the Company remained tough because of factors such as consumers becoming more budget conscious due to anxieties about the uncertain economic outlook, an increase in competition among salons, and difficulty in securing beauticians as a result of tightening supply-demand conditions in the labor market.

Under these circumstances, the Company continued to encourage customers to visit its salons by delivering three special offers and strengthening product sales by offering a new product line to “help customers look beautiful every day and anywhere” with “ALWAYS Beautiful” as a slogan. To this end, the Company made company-wide efforts for creating salons capable of satisfying customers.

The Company opened one new salon (Shampoo Keikyu Tsurumi) and relocated and opened one salon (TAYA Nagareyama Otakanomori S·C). In addition, the Company renovated one salon (TAYA Marunouchi) and changed the brand of two salons (from Courreges salon beaute Queens East Yokohama to TAYA Minato Mirai Tokyu Square, and from Courreges salon beaute Yokosuka MORE'S CITY to TAYA Yokosuka MORE'S CITY).

Meanwhile, one salon was closed (TAYA Yokohama Motomachi). As a result, the Company had 135 salons and 1 retail shop as of the end of the second quarter of the fiscal year under review.

Consequently, the Company posted the following operating results for the second quarter YTD of the fiscal year ending March 31, 2018: sales of 5,337 million yen, a decrease of 6.3% year on year, operating loss of 64 million yen (operating loss of 174 million yen a year earlier), ordinary loss of 71 million yen (ordinary loss of 173 million yen a year earlier), and net loss of 106 million yen (net loss of 210 million yen a year earlier).

During the second quarter of the fiscal year under review, the second year of the “Medium-term Management Improvement Plan (FY2016–FY2018)”, we promoted initiatives, centered on four measures: (1) Human resources measures, (2) Sales measures, (3) Salon measures, and (4) Corporate measures. By implementing these measures, we pushed forward with efforts to promptly improve earnings and develop a corporate structure that will allow us to shift to a growth strategy.

(2) Explanation regarding financial position

1) Status of assets, liabilities, and shareholders' equity

Total assets as of the end of the second quarter under review were 6,321 million yen, an increase of 207 million yen from the end of the previous fiscal year.

Current assets totaled 2,069 million yen, up 138 million yen from the end of the previous fiscal year. Fixed assets amounted to 4,251 million yen, up 68 million yen from the end of the previous fiscal year. The main factors underlying the increase were an increase of 247 million yen in cash and deposits and an increase of 89 million yen in buildings, while the main factor for the decrease was a decrease of 58 million yen in accounts receivable-trade.

Total liabilities as of the end of the second quarter stood at 3,829 million yen, up 314 million yen from the end of the previous fiscal year.

Current liabilities amounted to 2,155 million yen, up 260 million yen from the end of the previous fiscal year. Fixed liabilities stood at 1,674 million yen, up 53 million yen from the end of the previous fiscal year. The main factors underlying the increase were a net increase of 114 million yen in short-term and long-term loans payable and an increase of 37 million yen in bonus reserve, while the main factors for the decrease were a decrease of 51 million yen in unpaid corporate taxes and a decrease of 38 million yen in notes and accounts payable-trade.

The Company's net assets as of the end of the second quarter came to 2,491 million yen, down 106 million yen from the end of the previous fiscal year.

As a result, our capital adequacy ratio fell from 42.5% in the previous fiscal year to 39.4%.

2) Cash flows

Cash and cash equivalents ("funds" hereinafter) as of the end of the second quarter increased by 225 million yen from the previous fiscal year to 1,085 million yen.

Detailed cash flows and causal factors are shown below.

(Cash flow from operations)

Cash flow from operations for the second quarter YTD was positive 197 million yen (negative 216 million yen for the same period last year).

This is primarily attributable to a pretax net loss of 78 million yen, payment of corporate taxes of 57 million yen, and a decrease in trade payables of 39 million yen, while there were depreciation expenses of 122 million yen, a decrease in accounts receivable-trade of 58 million yen, and an increase in bonus reserve of 37 million yen.

(Cash flow from investments)

Cash flow from investments for the second quarter YTD amounted to negative 78 million yen (negative 20 million yen for the same period last year).

This is primarily attributable to an outflow 107 million yen for the purchase of tangible fixed assets associated with renovation of salons, and expenditure of 22 million yen for security deposits and guarantee money payments, while there were proceeds of 110 million yen from collecting security deposits and guarantee money associated with store closings.

(Cash flow from financial activities)

Cash flow from financing activities for the second quarter YTD was positive 106 million yen (negative 202 million yen for the same period for the same period last year).

This is primarily attributable to a net increase of 114 million yen in short-term and long-term loans payable.

(3) Explanation regarding forecast information such as earnings forecast

Regarding the projected business performance for the fiscal year ending March 31, 2018, we considered concerns about the future of consumer spending and published the "Notice concerning revision of the projected business performance" on October 24, 2017. According to the projection, sales are expected to total 10,926 million yen (down 4.2% from the previous fiscal year), operating income of 135 million yen (up 369.5% from the previous fiscal year), ordinary income of 127 million yen (ordinary loss of 31 million yen for the previous fiscal year) and net income of 37 million yen (net loss of 177 million yen for the previous fiscal year).

The projected results are prepared based on the information available as at present, and actual future business performance may differ from the projected figures due to various factors.

2. Quarterly Financial Statements and Main Notes

(1) Balance Sheet for the Second Quarter of FY2017

(Unit: thousand yen)

	Previous fiscal year (as of March 31, 2017)	As of the second quarter of FY2017 (September 30, 2017)
Assets		
Current assets		
Cash and deposits	1,082,908	1,330,594
Accounts receivable-trade	507,041	449,038
Merchandise	88,474	80,694
Materials for beauty treatments	25,893	29,993
Others	227,119	179,351
Bad debt reserves	(359)	(359)
Total current assets	1,931,078	2,069,313
Fixed assets		
Tangible fixed assets		
Building (net value)	1,154,925	1,244,848
Land	1,193,505	1,193,505
Others (net value)	42,322	51,218
Total tangible fixed assets	2,390,752	2,489,572
Intangible fixed assets	33,053	32,509
Investments and other assets		
Security deposit and guarantee money	1,728,814	1,701,271
Others	30,331	28,552
Bad debt reserves	(1)	(1)
Total of investment and other assets	1,759,145	1,729,823
Total fixed assets	4,182,951	4,251,905
Total assets	6,114,029	6,321,219

(Unit: Thousand yen)

	Previous fiscal year (as of March 31, 2017)	As of the second quarter of FY2017 (September 30, 2017)
Liabilities		
Current liabilities		
Notes payable and trade accounts payable	410,538	372,014
Short-term loans payable	397,300	435,600
Long-term loans due within one year	137,100	157,540
Unpaid corporate taxes	124,041	72,669
Bonus reserve	65,431	102,760
Asset retirement obligations	33,257	43,429
Others	726,507	971,120
Total current liabilities	1,894,175	2,155,135
Fixed liabilities		
Long-term loans payable	965,500	1,021,133
Retirement benefit reserve	406,605	403,406
Asset retirement obligations	201,592	204,703
Others	47,736	45,418
Total fixed liabilities	1,621,434	1,674,662
Total liabilities	3,515,610	3,829,798
Net assets		
Shareholders' equity		
Capital stock	1,480,180	1,480,180
Capital surplus	1,702,245	1,702,245
Retained earnings	(424,508)	(531,507)
Treasury stock	(159,497)	(159,497)
Total shareholders' equity	2,598,419	2,491,420
Total net assets	2,598,419	2,491,420
Total liabilities and net assets	6,114,029	6,321,219

**(2) Statement of Income for the Second Quarter of FY2017
(Second Quarter of FY2017 (YTD))**

(Unit: thousand yen)

	Second Qtr. FY2016 (YTD) (April 1 to September 30, 2016)	Second Qtr. FY2017 (YTD) (April 1 to September 30, 2017)
Sales	5,695,179	5,337,239
Cost of sales	5,096,775	4,692,264
Gross profit	598,403	644,975
Sales and administrative expenses	773,264	709,687
Operating loss	(174,861)	(64,712)
Non-operating income		
Interest income	109	71
Dividend income of insurance	2,810	2,744
Office work fee	2,777	2,777
Compensation income	3,000	951
Others	4,520	3,845
Total non-operating income	13,218	10,392
Non-operating expenses		
Interest expense	9,326	10,502
Others	2,847	6,335
Total non-operating expense	12,173	16,838
Ordinary loss	(173,815)	(71,158)
Extraordinary losses		
Loss from retirement of fixed assets	215	7,329
Total extraordinary losses	215	7,329
Current net loss before tax	(174,030)	(78,488)
Corporate tax, inhabitant tax and enterprise tax	29,681	27,585
Amount of adjustment for corporate tax	6,931	924
Total of corporate tax and others	36,613	28,510
Current net loss	(210,644)	(106,998)

(3) Statement of Cash Flows for the Second Quarter of FY2017

(Unit: thousand yen)

	Second Qtr. FY2016 (YTD) (April 1 to September 30, 2016)	Second Qtr. FY2017 (YTD) (April 1 to September 30, 2017)
Cash flow from operations		
Current net loss before tax	(174,030)	(78,488)
Depreciation	132,706	122,939
Increase (decrease) in bonus reserve	(30,946)	37,329
Increase (decrease) in retirement benefit reserve	(4,338)	(3,199)
Interest received	(109)	(71)
Interest paid	9,326	10,502
Commission for syndicate loan	-	2,101
Loss from retirement of fixed assets	215	7,329
(Increase) decrease in accounts receivable-trade	67,322	58,200
(Increase) decrease in inventory	3,347	5,143
Increase (decrease) in trade payables	(38,382)	(39,729)
Others	(113,174)	143,109
Sub-total	(148,063)	265,166
Amount of received interest	147	82
Amount of interest payable	(9,220)	(10,324)
Paid corporate taxes	(59,088)	(57,845)
Cash flow from operations	(216,226)	197,078
Cash flow from investments		
Payment for time deposits	(220,321)	(203,328)
Income from withdrawal of time deposits	245,012	181,482
Payment for acquisition of tangible fixed assets	(26,844)	(107,938)
Expenditure for security deposit and guarantee money payment	(13,962)	(22,714)
Revenue due to the recovery of security deposit and guarantee money	12,727	110,267
Others	(16,960)	(35,867)
Cash flow from investments	(20,350)	(78,097)

	Second Qtr. FY2016 (YTD) (April 1 to September 30, 2016)	Second Qtr. FY2017 (YTD) (April 1 to September 30, 2017)
Cash flow from financial operations		
Income from additional short-term loans	595,000	249,000
Repayment of short-term loans	(265,600)	(210,700)
Income from long-term loans	100,000	149,000
Repayment of long-term loans	(515,126)	(72,926)
Expenditure for lease obligation repayment	(10,844)	(6,834)
Outflow by redemption of corporate bonds	(20,000)	-
Repayments of guarantee money received	(85,581)	-
Commission for syndicate loan paid	-	(298)
Dividend payments	(402)	(388)
Cash flow from financial operations	(202,554)	106,851
Translation adjustments on cash and cash equivalents	(125)	8
Increase (decrease) in cash and cash equivalents	(439,256)	225,840
Opening balance of cash and cash equivalents	1,262,359	859,333
Closing balance of cash and cash equivalents	823,103	1,085,174

(4) Notes to financial statements for the second quarter of FY2017

(Note concerning preconditions for business as a going concern)

None

(Note in the case of significant changes in shareholders' equity)

None

3. Others

Key events concerning preconditions for business as a going concern

The Company recorded an operating loss and an ordinary loss for three consecutive fiscal periods in the year before the previous fiscal period, but recorded an operating income of 28 million yen in the previous fiscal year. However, the Company is still in the course of developing an earnings base for generating operating income on a stable basis, and is aware of the existence of events or conditions that may cast significant doubt over the preconditions of a going concern.

However, in order to eliminate such events or conditions by improving business performance at an early date and establishing a corporate structure that allows it to shift to a growth strategy, the Company released the "Medium-term Management Improvement Plan (FY2016–FY2018)," which started from FY2016.

Under the plan, we are implementing the following key priority measures: (1) Human resources measures, (2) Sales measures, (3) Salon measures, and (4) Corporate measures. The aim is to continue to enhance technical and service capabilities and deliver such capabilities to our customers. Another aim is to secure sales by encouraging customers to use our special offers and increasing products sales to customers, while improving profits at salons by closing and relocating unprofitable salons and renovating existing salons. In addition, we will promote the consolidation of head office functions by systematizing operations to achieve a "small head office," reduce costs, and improve earnings capacity.

On the financial front, the Company concluded a syndicated loan agreement in December 2016 with the correspondent financial institutions, with the purpose of raising funds for refinancing the existing borrowings to strengthen its financial strength. After examining cash flow at the end of the second quarter of the fiscal year under review and future cash flow, the Company has determined that there are no concerns about the continuity of business activities in the immediate future nor are there any significant uncertainties relating to the preconditions of a going concern.