

Brief announcement of non-consolidated financial statements (Japanese GAAP) for the second quarter of fiscal year ending March 2019

October 31, 2018

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 Code number: 4679 (First Section)
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Shihanki-Houkokusho to be submitted on: November 9, 2018
 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 FY2018 (year-to-date: April 1 to September 30, 2018)

(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. FY2018 (YTD)	4,894	(8.3)	(55)	-	(58)	-
Second Qtr. FY2017 (YTD)	5,337	(6.3)	(64)	-	(71)	-

	Net profit		Net profit per share		Net profit per share after adjustment of latent shares	
	million yen	%	yen	sen	yen	sen
Second Qtr. FY2018 (YTD)	(83)	-	(16.68)	-	-	-
Second Qtr. FY2017 (YTD)	(106)	-	(21.41)	-	-	-

(2) Financial position

	Total assets		Net assets		Capital ratio	Net assets per share	
	million yen	%	million yen	%	%	yen	sen
Second Qtr. FY2018	5,945	-	2,382	-	40.1	476.79	-
FY2017	6,138	-	2,465	-	40.2	493.47	-

(Reference) Equity capital: Second quarter of FY2018: 2,382 million yen, FY2017: 2,465 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
FY2017	-	0.00	-	0.00	0.00
FY2018	-	0.00	-	-	-
FY2018 (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, 2019.

3. The projected financial results for the period ending March 2019 (April 1, 2018 to March 31, 2019)

(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
Full year	9,808	(7.0)	15	-	7	-	(51)	-	(10.35)

(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 2019: 5,100,000 shares; for the year ended March 2018: 5,100,000 shares
- 2) Number of treasury stocks, at the end of the second quarter of the term ending March 2019: 102,946 shares; for the year ended March 2018: 102,946 shares
- 3) Average number of shares, the second quarter of the term ending March 2019: 4,997,054 shares; the second quarter of the term ended March 2018: 4,997,054 shares

* This quarterly financial summary does not fall within the scope of the Quarterly Review Procedures by certified public accountants or auditing firms.

* 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 robust corporate earnings and an improvement in the employment and income conditions, underpinned by various economic policies implemented by the government. However, the outlook for the economy remained uncertain against the backdrop of continuing uncertainties in overseas economies and the effects of fluctuations in financial and capital markets.

In the beauty industry, the business environment surrounding the Company remained tough because of factors such as consumers becoming more budget conscious, 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, for the final year of the "Medium-term Management Improvement Plan (FY2016–FY2018)," the Company made company-wide efforts to achieve an early turnaround in profitability and reform the business structure, which are basic policies set out under the plan, by implementing initiatives centered on four measures: (1) Human resources measures, (2) Sales measures, (3) Salon measures, and (4) Corporate measures.

The Company renovated one salon and changed the brand of eight salons. Meanwhile, three salons were closed (Shampoo Susukino Lafiler, Courreges salon beaute Aeon Mall Atsuta, and Courreges salon beaute Marui Kinshicho store). As a result, the Company had 123 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, 2019: sales of 4,894 million yen, a decrease of 8.3% year on year, operating loss of 55 million yen (operating loss of 64 million yen a year earlier), ordinary loss of 58 million yen (ordinary loss of 71 million yen a year earlier), and net loss of 83 million yen (net loss of 106 million yen a year earlier).

(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 5,945 million yen, a decrease of 193 million yen from the end of the previous fiscal year.

Current assets totaled 1,781 million yen, down 182 million yen from the end of the previous fiscal year. Fixed assets amounted to 4,163 million yen, down 11 million yen from the end of the previous fiscal year. The main factors underlying the decrease were a decrease of 87 million yen in accounts receivable-trade, a decrease of 35 million yen in cash and deposits and a decrease of 34 million yen in security deposit and guarantee money.

Total liabilities as of the end of the second quarter stood at 3,562 million yen, down 110 million yen from the end of the previous fiscal year.

Current liabilities amounted to 1,901 million yen, down 119 million yen from the end of the previous fiscal year. Fixed liabilities stood at 1,661 million yen, up 8 million yen from the end of the previous fiscal year. The main factor underlying the increase was a net increase of 24 million yen in short-term and long-term loans payable, while the main factors for the decrease were a decrease of 26 million yen in unpaid corporate taxes and a decrease of 23 million yen in electronically recorded obligations - operating.

The Company's net assets as of the end of the second quarter came to 2,382 million yen, down 83 million yen from the end of the previous fiscal year.

As a result, our capital adequacy ratio fell from 40.2% in the previous fiscal year to 40.1%.

2) Cash flows

Cash and cash equivalents ("funds" hereinafter) as of the end of the second quarter decreased by 49 million yen from the previous fiscal year to 916 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 74 million yen (positive 197 million yen for the same period last year).

This is primarily attributable to a pretax net loss of 58 million yen, payment of corporate taxes of 51 million yen, and a decrease in trade payables of 29 million yen, while there were depreciation expenses of 126 million yen and a decrease in accounts receivable-trade of 87 million yen.

(Cash flow from investments)

Cash flow from investments for the second quarter YTD amounted to negative 141 million yen (negative 78 million yen for the same period last year).

This is primarily attributable to an outflow 180 million yen for the purchase of tangible fixed assets associated with renovation of salons, and expenditure for performance of asset retirement obligations of 25 million yen, while there were proceeds of 81 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 17 million yen (positive 106 million yen for the same period for the same period last year).

This is primarily attributable to a net increase of 24 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, 2019, we considered concerns about the future of consumer spending and published the “Notice concerning revision of the projected business performance” on October 24, 2018. According to the projection, sales are expected to total 9,808 million yen (down 7.0% from the previous fiscal year), operating income of 15 million yen (operating loss of 46 million yen for the previous fiscal year), ordinary income of 7 million yen (ordinary loss of 57 million yen for the previous fiscal year) and net loss of 51 million yen (net loss of 132 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 FY2018

(Unit: thousand yen)

	Previous fiscal year (as of March 31, 2018)	As of the second quarter of FY2018 (September 30, 2018)
Assets		
Current assets		
Cash and deposits	1,167,556	1,132,091
Accounts receivable-trade	500,798	413,134
Merchandise	73,537	62,366
Materials for beauty treatments	21,757	23,644
Others	201,022	150,966
Bad debt reserves	(355)	(223)
Total current assets	1,964,316	1,781,980
Fixed assets		
Tangible fixed assets		
Building (net value)	1,313,275	1,322,941
Land	1,193,505	1,193,505
Others (net value)	71,035	85,870
Total tangible fixed assets	2,577,815	2,602,316
Intangible fixed assets	31,990	31,512
Investments and other assets		
Security deposit and guarantee money	1,539,862	1,504,906
Others	25,014	24,631
Bad debt reserves	(1)	(1)
Total of investment and other assets	1,564,875	1,529,536
Total fixed assets	4,174,682	4,163,364
Total assets	6,138,999	5,945,345

(Unit: Thousand yen)

	Previous fiscal year (as of March 31, 2018)	As of the second quarter of FY2018 (September 30, 2018)
Liabilities		
Current liabilities		
Notes payable and trade accounts payable	218,746	226,013
Electronically recorded obligations - operating	148,503	125,308
Short-term loans payable	441,200	397,388
Long-term loans due within one year	172,898	212,698
Unpaid corporate taxes	94,116	67,931
Bonus reserve	67,152	61,556
Asset retirement obligations	27,706	10,828
Others	849,985	799,444
Total current liabilities	2,020,310	1,901,169
Fixed liabilities		
Long-term loans payable	1,021,988	1,050,907
Retirement benefit reserve	394,354	380,837
Asset retirement obligations	203,011	197,912
Others	33,413	31,969
Total fixed liabilities	1,652,768	1,661,626
Total liabilities	3,673,078	3,562,795
Net assets		
Shareholders' equity		
Capital stock	1,480,180	1,480,180
Capital surplus	1,702,245	1,702,245
Retained earnings	(557,006)	(640,378)
Treasury stock	(159,497)	(159,497)
Total shareholders' equity	2,465,920	2,382,549
Total net assets	2,465,920	2,382,549
Total liabilities and net assets	6,138,999	5,945,345

**(2) Statement of Income for the Second Quarter of FY2018
(Second Quarter of FY2018 (YTD))**

(Unit: thousand yen)

	Second Qtr. FY2017 (YTD) (April 1 to September 30, 2017)	Second Qtr. FY2018 (YTD) (April 1 to September 30, 2018)
Sales	5,337,239	4,894,294
Cost of sales	4,692,264	4,301,365
Gross profit	644,975	592,929
Sales and administrative expenses	709,687	648,133
Operating loss	(64,712)	(55,204)
Non-operating income		
Interest income	71	54
Subsidy income	–	2,992
Dividend income of insurance	2,744	–
Office work fee	2,777	–
Compensation income	951	–
Others	3,845	11,828
Total non-operating income	10,392	14,875
Non-operating expenses		
Interest expense	10,502	11,421
Others	6,335	7,239
Total non-operating expense	16,838	18,660
Ordinary loss	(71,158)	(58,989)
Extraordinary losses		
Loss from retirement of fixed assets	7,329	–
Total extraordinary losses	7,329	–
Current net loss before tax	(78,488)	(58,989)
Corporate tax, inhabitant tax and enterprise tax	27,585	24,736
Amount of adjustment for corporate tax	924	(353)
Total of corporate tax and others	28,510	24,382
Current net loss	(106,998)	(83,371)

(3) Statement of Cash Flows for the Second Quarter of FY2018

(Unit: thousand yen)

	Second Qtr. FY2017 (YTD) (April 1 to September 30, 2017)	Second Qtr. FY2018 (YTD) (April 1 to September 30, 2018)
Cash flow from operations		
Current net loss before tax	(78,488)	(58,989)
Depreciation	122,939	126,740
Increase (decrease) in bonus reserve	37,329	(5,596)
Increase (decrease) in retirement benefit reserve	(3,199)	(13,517)
Increase (decrease) in bad debt reserve	-	(132)
Interest received	(71)	(54)
Interest paid	10,502	11,421
Commission for syndicate loan	2,101	2,092
Loss from retirement of fixed assets	7,329	-
(Increase) decrease in accounts receivable-trade	58,200	87,618
(Increase) decrease in inventory	5,143	9,113
Increase (decrease) in trade payables	(39,729)	(29,915)
Others	143,109	8,336
Sub-total	265,166	137,117
Amount of received interest	82	50
Amount of interest payable	(10,324)	(11,381)
Paid corporate taxes	(57,845)	(51,063)
Cash flow from operations	197,078	74,723
Cash flow from investments		
Payment for time deposits	(203,328)	(168,566)
Income from withdrawal of time deposits	181,482	154,563
Payment for acquisition of tangible fixed assets	(107,938)	(180,496)
Expenditure for security deposit and guarantee money payment	(22,714)	(236)
Revenue due to the recovery of security deposit and guarantee money	110,267	81,887
Payments for asset retirement obligations	(33,401)	(25,087)
Others	(2,466)	(3,659)
Cash flow from investments	(78,097)	(141,594)

	Second Qtr. FY2017 (YTD) (April 1 to September 30, 2017)	Second Qtr. FY2018 (YTD) (April 1 to September 30, 2018)
Cash flow from financial operations		
Income from additional short-term loans	249,000	180,000
Repayment of short-term loans	(210,700)	(223,812)
Income from long-term loans	149,000	162,000
Repayment of long-term loans	(72,926)	(93,281)
Expenditure for lease obligation repayment	(6,834)	(7,029)
Commission for syndicate loan paid	(298)	(551)
Dividend payments	(388)	-
Cash flow from financial operations	106,851	17,325
Translation adjustments on cash and cash equivalents	8	77
Increase (decrease) in cash and cash equivalents	225,840	(49,468)
Opening balance of cash and cash equivalents	859,333	965,654
Closing balance of cash and cash equivalents	1,085,174	916,185

(4) Notes to financial statements for the second quarter of FY2018

(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 for the previous fiscal year and has posted an ordinary loss for five consecutive fiscal periods, 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.