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Summary of Consolidated Financial Results for the Three Months Ended August 20, 2018 [Japanese GAAP]*

September 14, 2018

Company name: ASKUL Corporation

Stock exchange listing: Tokyo

Code number: 2678

URL: <https://www.askul.co.jp/kaisya/ir/>

Representative: Shoichiro Iwata

President and chief executive officer

Contact: Tsuguhiro Tamai

Executive officer and chief financial officer

Phone: 03-4330-5130

Scheduled date of filing quarterly securities report: September 28, 2018

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

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

1. Consolidated Financial Results for the Three Months Ended August 20, 2018 (May 21, 2018 to August 20, 2018)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
August 20, 2018	93,972	15.9	(111)	-	(146)	-	(234)	-
August 20, 2017	81,065	0.6	1,155	(5.0)	1,014	(13.8)	554	(14.1)

(Note) Comprehensive income: Three months ended August 20, 2018: ¥ (221) million [-%]
Three months ended August 20, 2017: ¥ 567 million [(12.6) %]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
August 20, 2018	(4.61)	-
August 20, 2017	10.89	10.88

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
August 20, 2018	163,507	48,217	29.4
May 20, 2018	173,713	49,344	28.3

(Reference) Equity: As of August 20, 2018: ¥ 48,023 million
As of May 20, 2018: ¥ 49,161 million

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2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 20, 2018	-	18.00	-	18.00	36.00
Fiscal year ending May 20, 2019	-				
Fiscal year ending May 20, 2019 (Forecast)		18.00	-	18.00	36.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending May 20, 2019(May 21, 2018 to May 20, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	390,000	8.2	6,000	43.1	5,800	47.2	3,500	(25.4)	68.66

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the three months ended August 20, 2018

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

New - (Company name:)

Exclusion: - (Company name:)

(2) Accounting policies adopted specially for the preparation of 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 issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

August 20, 2018: 55,259,400 shares

May 20, 2018: 55,259,400 shares

2) Total number of treasury shares at the end of the period:

August 20, 2018: 4,282,459 shares

May 20, 2018: 4,286,859 shares

3) Average number of shares during the period:

Three months ended August 20, 2018: 50,975,200 shares

Three months ended August 20, 2017: 50,899,598 shares

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* This excerpt from the Summary of Consolidated Financial Results is not subject to quarterly review.

* Notes for using forecasted information and others

Earnings forecasts and other forward-looking statements contained in this document are based on the information ASKUL has obtained to date and on certain assumptions it considers reasonable. As such, these forecasts and statements are not intended as a commitment by the Company to achieve them. Note also that actual results and other future events may differ materially from these forecasts and statements due to a variety of factors.

For the assumptions on which earnings forecasts are based and notes and information on the use of earnings forecasts, see "1. Qualitative Information on Financial results (3) Explanation of Consolidated Forecasts and Other Forward-looking Information" on Page 3 of Attached Materials.

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1. Qualitative Information on Financial Results

(1) Explanation of Operating Results

During the period under review (May 21, 2018 through August 20, 2018), Japan's economy was on a moderate recovery path, with corporate earnings and the employment environment continuing to show improvement.

Competition in the e-commerce market, in which the Group operates, has been intensifying with an increase in tie-ups between retailers and leading mail-order providers, although the market is expected to continue growing. In addition, the market is in an unpredictable state, due to an upward trend of delivery costs arising from a shortage of delivery drivers and other factors.

Under these circumstances, net sales for the period under review increased 15.9% year-on-year. In the B-to-B business of the mainstay e-commerce business, sales grew steadily by 6.6% year-on-year. In the B-to-C business, sales increased 97.5% year-on-year, due to the recovery from a fire accident in the LOHACO service and the consolidation effects of Charm Co., Ltd. becoming a Group subsidiary at the end of the same period of the preceding fiscal year, which continued through the period under review.

Gross profit-net increased, due to the growth in net sales with gross profit margin remaining at a high level from the preceding fiscal year. Meanwhile, selling, general and administrative expenses increased, due to a rise in logistics variable expenses as a result of the increase in net sales, as well as an increase in fixed costs, including rents, depreciation, and other expenses for ASKUL Value Center Kansai ("AVC Kansai"), which was established during the preceding fiscal year, and a net increase in costs of Charm Co., Ltd., which became a consolidated subsidiary of the Group. The increase in fixed costs and the increase in costs of Charm Co., Ltd. were largely covered by the growth in net sales. However, the rise in delivery costs as a result of our accepting phased increases in delivery expenses incurred by leading delivery companies in the second quarter of the preceding fiscal year and thereafter had a significant adverse effect on operating income for the period under review. Accordingly, operating income declined sharply from the same period of the preceding fiscal year.

As a consequence, the ASKUL Group posted net sales of 93,972 million yen, a 15.9% increase year-on-year, operating loss of 111 million yen (operating income of 1,155 million yen for the same period of the preceding fiscal year), ordinary loss of 146 million yen (ordinary income of 1,014 million yen for the same period of the preceding fiscal year), and loss attributable to owners of parent of 234 million yen (profit attributable to owners of parent of 554 million yen for the same period of the preceding fiscal year). As described above, the Group posted an operating loss and an ordinary loss; however, the earnings for the period under review were roughly in line with our projections made at the beginning of the period. We will continue to make steady improvements toward achieving the full-year earnings targets.

Operating results of each business are as follows.

<E-commerce business>

In the B-to-B business, the mainstay business of the Group, we are steadily taking steps toward further growth. Specifically, the Group implemented measures to have our website ranked high when customers with no purchasing history with us search for products on search engines (Search Engine Optimization, or SEO) and to strengthen web advertising, thereby successfully acquiring new customers. In addition, the Group conducted efficient and effective sales promotion activities using big data, made improvements to search functions on the website, and took other measures. As a result, we were able to promote shopping around by customers who have used the Group's services, resulting in increases in both the number of items purchased and the average purchase per customer. In terms of

product category, living supplies including daily consumable goods and disposable papers, which are used frequently in stores, etc., and beverages consumed in offices, were the major driving forces behind sales growth, while sales of MRO supplies (note) and products used at health and nursing care facilities also expanded. Furthermore, there was a contribution from sales growth of long-tail products, our focus area, and other factors. Consequently, the B-to-B business posted net sales of 76,359 million yen, an increase of 4,735 million yen, or up 6.6% year-on-year.

In the B-to-C business, net sales of the LOHACO service declined following the fire accident in February 2017, but recovered to the level before the fire at the end of the preceding fiscal year, and sales continued on a solid growth path during the period under review. In order to accelerate growth of the LOHACO service, we launched the LOHACO store on Yahoo! Shopping site on May 21, 2018 in a bid to acquire new customers. In addition, we steadily extended the range of regular products available and the line of original products. Consequently, net sales of the LOHACO service stood at 12,589 million yen, an increase of 4,513 million yen, or up 55.9% year-on-year. Net sales in the B-to-C business as a whole grew 7,873 million yen, or up 97.5% year-on-year, to 15,948 million yen, reflecting the consolidation effects of Charm Co., Ltd., which became a subsidiary of the Group during the preceding fiscal year. Regarding the LOHACO service, we are stepping up our efforts to increase the range of products available, strengthening our line of original products through collaborations with manufacturers, and expanding areas covered by the Group's unique delivery service, "Happy On Time," with the aim of simultaneously addressing the Group's challenges of achieving high growth of net sales and improving profitability.

As a result, net sales of the e-commerce business, combining the two businesses above, stood at 92,307 million yen, a 15.8% increase year-on-year. Gross profit-net amounted to 21,590 million yen, up 14.6% year-on-year, mainly due to a rise in sales of office amenities, MRO supplies, and others, as well as other factors including expansion of the range of our profitable original products.

Selling, general and administrative expenses stood at 21,629 million yen, a 23.0% increase year-on-year. The main factor behind the increase, despite improved labor productivity at distribution centers and other factors, was the rise in delivery costs. In addition, there were effects from the increase in fixed costs associated with the launch of AVC Kansai and the net increase in costs due to the conversion of Charm Co., Ltd. into a consolidated subsidiary of the Group at the end of the first quarter of the preceding fiscal year.

Due to the significant impact of the rise in delivery expenses, operating loss of the e-commerce business for the period under review amounted to 38 million yen (operating income of 1,255 million yen for the same period of the preceding fiscal year).

<Logistics Business>

ASKUL LOGIST CO., LTD. achieved sales growth, due to an expansion of logistics operations contracted out by companies outside the Group. Although the logistics business as a whole posted an operating loss because the business restructuring of ecohai Co., Ltd. is still underway, profit and losses of the business are improving due to an expansion of contracted-out logistics operations.

As a result, the logistics business posted net sales of 1,430 million yen, up 20.5% year-on-year, and operating loss of 96 million yen for the period under review (operating loss of 106 million yen for the same period of the preceding fiscal year).

<Others>

Net sales in the Others segment increased, due to strong sales of bottled water manufactured by Tsumagoimeisui Corporation mainly on the LOHACO site. In addition, LOHACO Water, a new bottled water product, put on sale on July 18, 2018, which is label-less to reduce work when sorting waste and comes in a 410 mL on-the-go-size bottle, is enjoying popularity, and its initial sales have been promising. The Company is working to expand sales as well as reduce costs by taking measures, such as building our own warehouse to reduce logistics costs following the growth in production volume, in an effort to strengthen earning power.

Net sales of the Others segment stood at 369 million yen, up 57.8% year-on-year, and operating income amounted to 36 million yen, up 319.7% year-on-year, for the period under review.

Note: MRO is the abbreviation for Maintenance, Repair, and Operations. The term "MRO supplies" denotes indirect materials including consumables and repair supplies for use at factories, construction sites, and other workplaces.

(2) Explanation of Financial Position

(Assets)

Total assets stood at 163,507 million yen at the end of the period under review, a decrease of 10,206 million yen from the end of the preceding fiscal year. The main factors behind the decrease were declines of 5,606 million yen in cash and deposits, 1,743 million yen in notes and accounts receivable-trade, and 839 million yen in accounts receivable-other, due mainly to a decrease in electronically recorded obligations-operating.

(Liabilities)

Total liabilities stood at 115,289 million yen at the end of the period under review, a decrease of 9,079 million yen from the end of the preceding fiscal year. The primary factor behind the increase was an increase of 812 million yen in notes and accounts payable-trade. The main factors behind the decline were decreases of 8,016 million yen in electronically recorded obligations-operating and 1,819 million yen in accounts payable-other, mainly because electronically recorded obligations-operating with a settlement date at the end of the fiscal year was included in the outstanding balance at the end of the preceding fiscal year due to the preceding fiscal year-end falling on a holiday for financial institutions.

(Net Assets)

Net assets stood at 48,217 million yen at the end of the period under review, a decrease of 1,126 million yen from the end of the preceding fiscal year. The primary factor behind the decrease was a decline of 1,152 million yen in retained earnings, which resulted from the payment of dividends of 917 million yen and loss attributable to owners of the parent of 234 million yen.

Consequently, the capital adequacy ratio was 29.4% (28.3% at the end of the preceding fiscal year).

From the beginning of the period under review, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018). In the explanation of financial position, comparisons and analyses of figures between the period under review and the preceding fiscal year were conducted using figures after retroactively applying the accounting standard, etc.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Information

The biggest management challenge ASKUL foresees now is improving the ratio of net sales to delivery expenses, which has risen due to the impacts of the “parcel delivery crisis,” such as increased delivery expenses incurred by leading delivery companies, to an appropriate level. The Company is steadily taking steps to reform logistics through the measures described below. Accordingly, no revision has been made to the consolidated forecasts announced on July 4, 2018.

- | | |
|-----------------------|---|
| Short-term measures: | <ul style="list-style-type: none">(1) Reduce delivery costs and improve delivery efficiency using cardboard boxes of appropriate sizes when packaging purchased items according to the quantity purchased.(2) Reduce delivery costs by bringing parcels to distribution centers of leading delivery companies ourselves.(3) Reduce dependence on leading delivery companies in the B-to-C business by shifting to in-house operations for deliveries between distribution centers (trunk lines) and using local partner delivery companies. |
| Medium-term measures: | Accelerate the shift to in-house delivery operations in the B-to-C business by expanding area covered by the Group's unique delivery service, “Happy On Time,” and other measures. |
| Long-term measures: | Expand “Open Platform by ASKUL,” a new service for providing the Group's logistics platform to other companies, to reduce distribution costs by sharing logistics and delivery, and other measures. |

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2. Consolidated Financial Statements and Important Notes

(1) Consolidated Balance Sheets

(Million yen)

	As of May 20,2018	As of August 20,2018
Assets		
Current assets		
Cash and deposits	62,187	56,581
Notes and accounts receivable - trade	41,309	39,566
Merchandise and finished goods	14,188	13,663
Raw materials and supplies	238	174
Costs on uncompleted construction contracts	24	59
Accounts receivable - other	8,032	7,192
Other	2,644	1,605
Allowance for doubtful accounts	(23)	(18)
Total current assets	128,601	118,824
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,417	7,496
Accumulated depreciation	(2,284)	(2,338)
Buildings and structures, net	5,133	5,157
Land	65	95
Leased assets	17,734	17,629
Accumulated depreciation	(2,915)	(3,244)
Leased assets, net	14,819	14,384
Other	12,171	11,593
Accumulated depreciation	(6,125)	(5,721)
Other, net	6,046	5,872
Construction in progress	67	269
Total property, plant and equipment	26,133	25,779
Intangible assets		
Software	5,080	5,049
Software in progress	1,834	1,955
Goodwill	2,699	2,487
Other	22	20
Total intangible assets	9,636	9,512
Investments and other assets		
Investment securities	214	264
Deferred tax assets	2,815	2,846
Other	6,380	6,374
Allowance for doubtful accounts	(68)	(94)
Total investments and other assets	9,342	9,390
Total non-current assets	45,111	44,682
Total assets	173,713	163,507

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	(Million yen)	
	As of May 20,2018	As of August 20,2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	44,066	44,879
Electronically recorded obligations - operating	24,402	16,386
Short-term loans payable	1,080	1,080
Current portion of long-term loans payable	1,786	1,725
Accounts payable - other	10,555	8,736
Income taxes payable	387	308
Accrued consumption taxes	331	588
Provision	816	733
Other	3,511	3,708
Total current liabilities	86,938	78,145
Non-current liabilities		
Long-term loans payable	16,340	15,945
Lease obligations	13,736	13,314
Net defined benefit liability	3,085	3,159
Asset retirement obligations	2,219	2,239
Other	2,049	2,484
Total non-current liabilities	37,430	37,143
Total liabilities	124,369	115,289
Net assets		
Shareholders' equity		
Capital stock	21,189	21,189
Capital surplus	23,605	23,600
Retained earnings	21,380	20,227
Treasury shares	(16,991)	(16,974)
Total shareholders' equity	49,183	48,043
Accumulated other comprehensive income		
Deferred gains or losses on hedges	(1)	(1)
Foreign currency translation adjustment	25	24
Remeasurements of defined benefit plans	(46)	(41)
Total accumulated other comprehensive income	(22)	(19)
Subscription rights to shares	19	19
Non-controlling interests	163	174
Total net assets	49,344	48,217
Total liabilities and net assets	173,713	163,507

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(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

First Three-month Period

(Million yen)

	For the three months ended August 20,2017	For the three months ended August 20,2018
Net sales	81,065	93,972
Cost of sales	62,115	72,085
Gross profit	18,950	21,887
Reversal of provision for sales returns	28	39
Provision for sales returns	28	34
Gross profit - net	18,950	21,892
Selling, general and administrative expenses	17,795	22,003
Operating profit (loss)	1,155	(111)
Non-operating income		
Interest income	5	7
Electricity sales income	10	-
Rental income	-	26
Other	13	29
Total non-operating income	29	63
Non-operating expenses		
Interest expenses	21	65
Depreciation of inactive non-current assets	135	-
Rent expenses	-	24
Other	13	8
Total non-operating expenses	170	97
Ordinary profit (loss)	1,014	(146)
Extraordinary income		
Gain on donation of non-current assets	-	30
Total extraordinary income	-	30
Extraordinary losses		
Loss on retirement of non-current assets	21	26
Other	-	1
Total extraordinary losses	21	27
Profit (loss) before income taxes	992	(143)
Income taxes - current	162	114
Income taxes - deferred	269	(33)
Total income taxes	432	80
Profit (loss)	560	(224)
Profit attributable to non-controlling interests	6	10
Profit (loss) attributable to owners of parent	554	(234)

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Consolidated Statements of Comprehensive Income

First Three-month Period

(Million yen)

	For the three months ended August 20,2017	For the three months ended August 20,2018
Profit (loss)	560	(224)
Other comprehensive income		
Valuation difference on available-for-sale securities	0	-
Deferred gains or losses on hedges	(1)	0
Foreign currency translation adjustment	1	(1)
Remeasurements of defined benefit plans, net of tax	6	4
Total other comprehensive income	6	3
Comprehensive income	567	(221)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	560	(231)
Comprehensive income attributable to non-controlling interests	6	10

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(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Material changes in shareholders' equity)

Not applicable.

(Additional Information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" and others)

From the beginning of the period under review, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) and others. Accordingly, deferred tax assets are classified as investments and other assets and deferred tax liabilities as non-current liabilities.

(Segment Information, etc.)

[Segment Information]

I First Quarter of Fiscal Year Ended May 2017 (May 21, 2017 through August 20, 2017)

Information on net sales and income (loss) by segment

(Unit: million yen)

	Reporting Segment			Others (Note 1)	Total	Adjustments (Note 2)	Amount reported on Consolidated Statements of Income (Note 3)
	E- commerce business	Logistics business	Total				
Net sales							
Sales to external customers	79,699	1,187	80,886	179	81,065	—	81,065
Intra-segment sales or transfers	—	—	—	54	54	(54)	—
Total	79,699	1,187	80,886	233	81,120	(54)	81,065
Segment income (loss)	1,255	(106)	1,149	8	1,157	(2)	1,155

(Notes) 1. "Others" represents business segments that do not fall under the Reporting Segment and includes the manufacturing business.

2. The adjustment of minus 2 million yen to segment income (loss) represents the elimination of inter-segment transactions of minus 2 million yen.

3. Segment income (loss) is adjusted with operating income reported in the Consolidated Statements of Income.

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II First Quarter of Fiscal Year Ended May 2018 (May 21, 2018 through August 20, 2018)

Information on net sales and income (loss) by segment

(Unit: million yen)

	Reporting Segment			Others (Note 1)	Total	Adjustments (Note 2)	Amount reported on Consolidated Statements of Income (Note 3)
	E- commerce business	Logistics business	Total				
Net sales							
Sales to external customers	92,307	1,430	93,738	233	93,972	—	93,972
Inter-segment sales or transfers	—	—	—	135	135	(135)	—
Total	92,307	1,430	93,738	369	94,107	(135)	93,972
Segment income (loss)	(38)	(96)	(134)	36	(97)	(13)	(111)

(Notes) 1. "Others" represents business segments that do not fall under the Reporting Segment and includes the manufacturing business.

2. The adjustment of minus 13 million yen to segment income (loss) represents the elimination of inter-segment transactions of minus 13 million yen.

3. Segment income (loss) is adjusted with operating income reported in the Consolidated Statements of Income.

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3. Supplementary Information

Details of Selling, General and Administrative Expenses (Consolidated)

Item	First Quarter of Fiscal Year Ended May 2018 (May 21, 2017 through August 20, 2017)		First Quarter of Fiscal Year Ended May 2019 (May 21, 2018 through August 20, 2018)			(Reference) Fiscal Year Ended May 2018 (May 21, 2017 through May 20, 2018)	
	Amount (million yen)	Ratio to Sales (%)	Amount (million yen)	Ratio to Sales (%)	Year-on-Year Change (%)	Amount (million yen)	Ratio to Sales (%)
Personnel expenses *1	4,217	5.2	4,906	5.2	116.3	18,890	5.2
Delivery expenses *2	4,495	5.5	6,205	6.6	138.0	20,220	5.6
Provision for sales promotion expenses	129	0.2	148	0.2	114.7	530	0.1
Subcontract expenses	788	1.0	879	0.9	111.5	3,355	0.9
Business consignment expenses	3,015	3.7	2,840	3.0	94.2	12,290	3.4
Rents *3	1,921	2.4	2,403	2.6	125.1	9,113	2.5
Provision of allowance for doubtful accounts	(16)	(0.0)	23	0.0	—	(10)	(0.0)
Depreciation *4	454	0.6	939	1.0	206.8	2,949	0.8
Amortization of software	437	0.5	452	0.5	103.3	1,774	0.5
Other expenses *5	2,351	2.9	3,205	3.4	136.3	12,209	3.6
Total	17,795	22.0	22,003	23.4	123.7	81,323	22.6

Notes: *1 Personnel expenses for the period under review rose from the same period of the preceding fiscal year. This was mainly due to the conversion of Charm Co., Ltd. into a consolidated subsidiary of the Group and an increase in the number of personnel.

*2 Delivery expenses for the period under review rose from the same period of the preceding fiscal year. This was mainly due to increases in net sales and delivery expenses.

*3 Rents for the period under review increased from the same period of the preceding fiscal year. The primary factor for the increase was the establishment of AVC Kansai.

*4 Depreciation for the period under review increased from the same period of the preceding fiscal year. The primary factor for the increase was the launch of operations at ASKUL Value Center Hidaka and AVC Kansai.

*5 Other expenses for the period under review increased from the same period of the preceding fiscal year. The primary factor for the increase was an increase in sales and promotion expenses due to provision of additional T points for purchases made in LOHACO.