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On **November 15, 2018,** RVH Inc. announced revisions to full-year FY03/19 earnings forecasts.

Revisions to full-year FY03/19 earnings forecasts

- Sales: JPY57.3bn (previous forecast of JPY58.3bn)
- Operating profit: JPY255mn (JPY2.1bn)
- Recurring profit: JPY265mn (JPY2.1bn)
- Net loss*: JPY711mn (net income of JPY760mn)
- Loss per share: JPY36.78 (EPS of JPY39.32)

*Net loss/income refers to net loss/income attributable to parent company shareholders.

When the company announced the booking of an extraordinary loss (provision of allowance for doubtful accounts) and revisions to full-year earnings forecasts on November 14, 2018, the company left the revised numerical targets as undecided. It has since disclosed the numerical targets, and the amount and rate of change given above are in comparison to the initial targets announced on May 15, 2018.

Reasons for the revision

As a result of aggressive spending on advertising and promotional activities to acquire new customers for the Ladies' Services business, the number of new customer contracts and product sales increase YoY. However, product sales fell short of the initial forecast by about JPY304mn. Further, beauty treatment sales and registration fee revenue from the membership scheme with benefits are expected to fall below initial expectations, undershooting the initial target by about JPY708mn.

Regarding expenses, although RVH plans to cut advertising volume in 2H (October 2018–March 2019), advertising and promotional expenses are expected to exceed the initial budget by about JPY407mn. Further, the company forecasts its policy to strengthen hiring of salon staff to cause recruitment-related expenses and labor expenses for new staff and trainees to exceed initial plan by about JPY399mn. As a result, overall expenses including other expenses are expected to go over the initial forecast by roughly JPY872mn.

The anticipated decline in operating profit is attributed to the abovementioned drop in sales (negative impact of roughly JPY902mn), increased expenses, and the sale of shares in consolidated subsidiary Legal Vision Co., Ltd. announced on November 15, 2018. As a result of the share transfer, Legal Vision and its subsidiaries Career Agency and Tokyo House Partner will be excluded from the scope of consolidation, which is estimated to result in a roughly JPY110mn drop in operating profit. Recurring profit is also expected to fall short of initial plan due to the decline in operating profit.

The company forecasts net income attributable to parent company shareholders to undershoot the initial target by JPY1.5bn as a result of the decline in recurring profit and the booking of JPY405mn in provisions for doubtful accounts at Lovely Queen Co., Ltd. as an extraordinary loss (announced on November 14, 2018), and after taking into account tax effects.

This note is the most recent addition to the full report.

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