

This PDF document is an updated note on the company. A comprehensive version of the report on the company, including this latest update, is available on [our website](#) and various professional platforms.

On **February 14, 2019**, RVH Inc. announced earnings results for Q3 FY03/19.

Cumulative (JPYmm)	FY03/17				FY03/18				FY03/19				FY03/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	10,585	20,999	31,046	41,533	13,016	26,734	39,794	53,006	15,017	30,487	44,877		76.7%	58,500
YoY	310.5%	314.1%	313.7%	129.8%	23.0%	27.3%	28.2%	27.6%	15.4%	14.0%	12.8%			10.4%
Gross profit	8,064	16,053	23,609	32,347	10,847	22,289	32,532	43,880	12,331	24,827	36,952			
YoY	1192.7%	1281.6%	1294.7%	261.1%	34.5%	38.8%	37.8%	35.7%	13.7%	11.4%	13.6%			
GPM	76.2%	76.4%	76.0%	77.9%	83.3%	83.4%	81.8%	82.8%	82.1%	81.4%	82.3%			
SG&A expenses	6,632	14,097	21,371	29,718	10,958	21,928	31,673	43,143	13,020	25,693	37,849			
YoY	1986.5%	2572.1%	2482.7%	384.3%	65.2%	55.6%	48.2%	45.2%	18.8%	17.2%	19.5%			
SG&A ratio	62.7%	67.1%	68.8%	71.6%	84.2%	82.0%	79.6%	81.4%	86.7%	84.3%	84.3%			
Operating profit	1,432	1,957	2,238	2,629	-110	360	859	737	-716	-865	-897		-	-1,018
YoY	367.9%	208.4%	158.6%	-6.8%	-	-81.6%	-61.6%	-72.0%	-	-	-			-
OPM	13.5%	9.3%	7.2%	6.3%	-	1.3%	2.2%	1.4%	-	-	-			-
Recurring profit	1,475	2,080	2,369	2,797	-95	436	961	912	-699	-816	-795		-	-936
YoY	370.9%	222.3%	171.1%	-2.1%	-	-79.0%	-59.4%	-67.4%	-	-	-			-
RPM	13.9%	9.9%	7.6%	6.7%	-	1.6%	2.4%	1.7%	-	-	-			-
Net income	848	1,137	1,077	841	-312	-262	-94	317	-922	-1,606	-2,745		-	-3,145
YoY	719.3%	186.0%	86.7%	-59.7%	-	-	-	-62.3%	-	-	-			-
Net margin	8.0%	5.4%	3.5%	2.0%	-	-	-	0.6%	-	-	-			-
Quarterly (JPYmm)	FY03/17				FY03/18				FY03/19					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	10,585	10,414	10,047	10,487	13,016	13,718	13,060	13,212	15,017	15,470	14,390			
YoY	310.5%	317.9%	312.9%	-0.7%	23.0%	31.7%	30.0%	26.0%	15.4%	12.8%	10.2%			
Gross profit	8,064	7,989	7,555	8,738	10,847	11,442	10,243	11,348	12,331	12,496	12,125			
YoY	1192.7%	1384.7%	1323.2%	20.3%	34.5%	43.2%	35.6%	29.9%	13.7%	9.2%	18.4%			
GPM	76.2%	76.7%	75.2%	83.3%	83.3%	83.4%	78.4%	85.9%	82.1%	80.8%	84.3%			
SG&A expenses	6,632	7,464	7,274	8,347	10,958	10,970	9,745	11,470	13,020	12,673	12,156			
YoY	1986.5%	3459.8%	2325.5%	57.2%	65.2%	47.0%	34.0%	37.4%	18.8%	15.5%	24.7%			
SG&A ratio	62.7%	71.7%	72.4%	79.6%	84.2%	80.0%	74.6%	86.8%	86.7%	81.9%	84.5%			
Operating profit	1,432	525	281	391	-110	470	499	-122	-716	-149	-32			
YoY	367.9%	59.9%	21.8%	-80.0%	-	-10.4%	77.4%	-	-	-	-			
OPM	13.5%	5.0%	2.8%	3.7%	-	3.4%	3.8%	-	-	-	-			
Recurring profit	1,475	604	289	428	-95	531	525	-49	-699	-117	21			
YoY	370.9%	82.1%	26.4%	-78.4%	-	-12.1%	81.7%	-	-	-	-96.0%			
RPM	13.9%	5.8%	2.9%	4.1%	-	3.9%	4.0%	-	-	-	-			
Net income	848	289	-60	-235	-312	50	168	411	-922	-684	-1,139			
YoY	719.3%	-1.8%	-	-	-	-82.7%	-	-	-	-	-			
Net margin	8.0%	2.8%	-	-	-	0.4%	1.3%	3.1%	-	-	-			

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Segments (cumulative) (JPYmm)	FY03/17				FY03/18				FY03/19				FY03/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	10,585	20,999	31,046	41,533	13,016	26,734	39,794	53,006	15,017	30,487	44,877		76.7%	58,500
YoY	310.5%	314.1%	313.8%	129.8%	23.0%	27.3%	28.2%	27.6%	15.4%	14.0%	12.8%			10.4%
Ladies' Services	8,379	16,737	24,545	33,370	11,718	24,191	36,014	47,871	13,539	27,659	41,595			na
YoY	-	-	-	304.6%	39.8%	44.5%	46.7%	43.5%	15.5%	14.3%	15.5%			
% of sales	79.2%	79.7%	79.1%	80.3%	90.0%	90.5%	90.5%	90.3%	90.2%	90.7%	92.7%			
Media Consulting	2,000	3,808	5,845	7,191	1,060	2,045	3,040	4,132	1,246	2,332	2,518			na
YoY	-15.9%	-17.5%	-14.2%	-19.6%	-47.0%	-46.3%	-48.0%	-42.5%	17.5%	14.0%	-17.2%			
% of sales	18.9%	18.1%	18.8%	17.3%	8.1%	7.6%	7.6%	7.8%	8.3%	7.6%	5.6%			
System Development	205	455	656	972	236	497	740	1,002	231	494	756			na
YoY	2.9%	-0.3%	-4.9%	10.9%	15.1%	9.2%	12.7%	3.1%	-2.3%	-0.6%	2.2%			
% of sales	1.9%	2.2%	2.1%	2.3%	1.8%	1.9%	1.9%	1.9%	1.5%	1.6%	1.7%			
Operating profit	1,432	1,957	2,238	2,629	-110	360	859	737	-716	-865	-897		-	-1,018
YoY	367.9%	208.4%	158.6%	-6.8%	-	-81.6%	-61.6%	-72.0%	-	-	-			-
Ladies' Services	1,263	1,739	1,830	2,214	-233	194	692	731	-698	-908	-947			na
YoY	-	-	-	27.4%	-	-88.8%	-62.2%	-67.0%	-	-	-			
% of operating profit	88.2%	88.9%	81.8%	84.2%	-	53.9%	80.6%	99.2%	-	-	-			
OPM	15.1%	10.4%	7.5%	6.6%	-2.0%	0.8%	1.9%	1.5%	-	-	-			
Media Consulting	228	389	605	594	126	146	130	-41	-24	5	-3			na
YoY	-38.3%	-48.8%	-40.7%	-47.1%	-44.7%	-62.5%	-78.5%	-	-	-	-			
% of operating profit	15.9%	19.9%	27.0%	22.6%	-	40.6%	15.1%	-5.6%	-	-	-			
OPM	11.4%	10.2%	10.4%	8.3%	11.9%	7.1%	4.3%	-1.0%	-	-	-			
System Development	-50	-62	-69	-37	-9	0	4	12	-5	-5	1			na
YoY	-	-	-	-	-	-	-	-	-	-	-			
% of operating profit	-3.5%	-3.2%	-3.1%	-1.4%	-	0.0%	0.5%	1.6%	-	-	-			
OPM	-	-	-	-	-	0.0%	0.5%	1.2%	-	-	-			
Adjustments	-9	-110	-128	-142	5	20	31	35	12	42	52			na
% of operating profit	-0.6%	-5.6%	-5.7%	-5.4%	-	5.6%	3.6%	4.7%	-	-	-			
Segments (quarterly) (JPYmm)	FY03/17				FY03/18				FY03/19					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	10,585	10,414	10,047	10,487	13,016	13,718	13,060	13,212	15,017	15,470	14,390			
YoY	310.5%	317.9%	312.9%	-0.7%	23.0%	31.7%	30.0%	26.0%	15.4%	12.8%	10.2%			
Ladies' Services	8,379	8,357	7,808	8,825	11,718	12,473	11,823	11,857	13,539	14,120	13,936			
YoY	-	-	-	7.0%	39.8%	49.2%	51.4%	34.4%	15.5%	13.2%	17.9%			
% of sales	79.2%	80.2%	77.7%	84.2%	90.0%	90.9%	90.5%	89.7%	90.2%	91.3%	96.8%			
Media Consulting	2,000	1,807	2,038	1,346	1,060	985	995	1,092	1,246	1,086	186			
YoY	-15.9%	-19.2%	-7.3%	-36.9%	-47.0%	-45.5%	-51.2%	-18.9%	17.5%	10.3%	-81.3%			
% of sales	18.9%	17.4%	20.3%	12.8%	8.1%	7.2%	7.6%	8.3%	8.3%	7.0%	1.3%			
System Development	205	250	201	315	236	261	243	262	231	263	262			
YoY	2.9%	-2.7%	-14.0%	70.1%	15.1%	4.3%	20.7%	-16.9%	-2.3%	0.9%	7.8%			
% of sales	1.9%	2.4%	2.0%	3.0%	1.8%	1.9%	1.9%	2.0%	1.5%	1.7%	1.8%			
Operating profit	1,432	525	281	391	-110	470	499	-122	-716	-149	-32			
Ladies' Services	1,263	476	90	384	-233	427	498	39	-698	-210	-39			
YoY	-	-	-	-77.9%	-	-10.4%	451.0%	-89.8%	-	-	-			
% of operating profit	88.2%	90.7%	32.1%	98.2%	-	90.8%	99.8%	-	-	-	-			
OPM	15.1%	5.7%	1.2%	4.4%	-2.0%	-	4.2%	0.3%	-	-	-			
Media Consulting	228	162	216	-11	126	20	-16	-171	-24	29	-8			
YoY	-38.3%	-58.7%	-17.2%	-	-44.7%	-87.6%	-	-	-	45.0%	-			
% of operating profit	15.9%	30.8%	76.6%	-2.8%	-	4.3%	-3.2%	-	-	-	-			
OPM	11.4%	8.9%	10.6%	-	-	2.0%	-	-	-	2.7%	-			
System Development	-50	-12	-7	32	-9	9	4	8	-5	0	6			
YoY	-	-	-	1446.5%	-	-	-	-	-	-	-			
% of operating profit	-3.5%	-2.3%	-2.5%	8.2%	-	1.9%	0.8%	-	-	-	-			
OPM	-	-	-	10.2%	-	3.5%	1.6%	-	-	-	-			
Adjustments	-9	-101	-18	-14	5	15	11	4	12	30	10			
% of operating profit	-0.6%	-19.2%	-6.3%	-3.6%	-	3.2%	2.2%	-	-	-	-			

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Note: From Q1 FY03/19, the name of the Beauty business was changed to Ladies' Services.

Earnings seasonality: The RVH group's Beauty business tends to capture the bulk of new customers during the summer season and around the New Year. During these periods, the company strengthens its advertising activities and spending. However, the amount received at the time a customer signs a contract is booked as an advance received, and the relevant portion is later moved to sales when the customer is actually provided with the contracted service. Since customer visits are typically spread throughout the year, sales from services provided are also spread fairly evenly throughout the year. For this reason, in Q2 and Q4, when the bulk of contracts are completed, the expenses-to-sales ratio tends to be significantly larger.

Q3 FY03/19 earnings

▷ For cumulative Q3 FY03/19, the company reported sales of JPY44.9bn (+12.8% YoY), EBITDA of JPY1.4bn (-57.2% YoY), an operating loss of JPY897mn (versus year-earlier profit of JPY859mn), a recurring loss of JPY795mn (versus year-earlier profit of JPY961mn), and a net loss attributable to parent company shareholders of JPY2.7bn (versus year-earlier loss of JPY94mn). The company also booked an additional extraordinary loss of JPY308mn in Q3 quarter (October to December 2018) in connection with provision of allowance for doubtful accounts (discussed in detail below). With the impact of steady growth in contract sign-up volume in the Ladies' Services segment, the balance of advances received as of end-Q3 was JPY44.2bn (up 16.5% YoY).

- ▷ Progress rate: In terms of progress, Q3 FY03/19 sales reached 76.7% of the revised* forecast for the full year (versus 75.1% in Q3 FY03/18 against full-year results).
- ▷ Sales up 12.8% YoY: The Ladies' Services segment reported sales of JPY41.6bn (+15.5% YoY; 92.7% of total sales), Media Consulting JPY2.5bn (-17.2% YoY; 5.6% of total sales), and Systems Development JPY756mn (+2.2% YoY; 1.7% of total sales).
- ▷ Operating loss of JPY897mn: Gross profit rose 13.6% YoY to JPY37.0bn, but failed to cover the JPY37.8bn in SG&A expenses (+19.5% YoY), resulting in an operating loss. The increase in SG&A expenses was primarily due to the concentrated placement of advertisements during the busy period of the hair removal department (period of securing contracts), increases in incentive payments stemming from higher product sales, and expenses arising from the addition of Lovely Queen as a consolidated subsidiary. The SG&A expense ratio of 84.3% was up 4.7pp versus the same period last year. The company also booked JPY791mn in corporate tax adjustments (versus JPY1.1bn in Q3 FY03/18) for previously deferred income taxes, most of which was related to the amortization of goodwill stemming from transfer of businesses at Musee Platinum from the former company, which had created a deferred tax asset (resulting from the losses recognized for tax purposes) but has now been utilized.
- ▷ FY03/19 company forecasts*: Along with the release of Q3 results, RVH lowered its forecasts at all profit lines from the revised forecasts announced on November 15, 2018

*Revised FY03/19 company forecasts

Along with the release of Q3 (October to December 2018) results, RVH announced extraordinary losses (provision for doubtful accounts) and also lowered its full-year FY03/19 forecasts at all profit lines from the revised forecasts announced on November 15, 2018 in light of the latest earnings trends.

- ▷ Sales: JPY58.5bn (previous forecast: JPY57.3bn)
- ▷ Operating loss: JPY1.0bn (previous forecast: operating profit of JPY255mn)
- ▷ Recurring loss: JPY936mn (previous forecast: recurring profit of JPY265mn)
- ▷ Net loss: JPY3.1bn (previous forecast: loss of JPY711mn)

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

Reasons for revision

- ▷ Sales: Tracking ahead of previous revised forecasts. Product sales and sales from memberships in reward program offering cosmetics discounts and other perks growing faster than previous forecast due to aggressive advertising to win new customers in the Ladies' Services business
- ▷ Operating profit and recurring profit: To be lower than previous forecast due to the following: increases in overall cost of sales (roughly JPY600mn), advertising expenses (roughly JPY830mn), and personnel expenses (roughly JPY707mn)
 - In the hair removal department, there was strong growth in contract numbers and contract amount due to rush demand ahead of the year-end finish of a special offer for underarm and V-line hair removal. RVH continued to invest in advertising in Q3. It also maintained its policy of hiring more salon staff and made provisions for employee incentives. There were also increased labor costs due to staff training accompanying store brand integration
 - The company reviewed its cost of sales and labor cost assumptions in view of latest trends in the beauty treatment department
 - In the apparel department, there were events and changes in the business environment such as reviews of provisions for returns unforeseen at the time of the previous revision
- ▷ Extraordinary losses

- In its announcement regarding provisions for doubtful accounts disclosed on November 14, 2018 in conjunction with revisions to full-year forecasts, RVH said it would conduct revaluations in Q3. As a result, it booked an additional extraordinary loss of JPY308mn. This represents the difference between the value of the loan to Old LQ and the market value of RVH shares Old LQ owned as of end-Q3
- In line with its November 15, 2018 announcement, accompanying the sale of shares in consolidated subsidiary Legal Vision Co., Ltd., RVH transferred claims including rights to all loans and receivables held in connection with Legal Vision. Under a special price variation agreement, an ex post facto change to the payment for the claims is possible. The company booked a loss on disposal of claims of JPY151mn following a revaluation of the payment in light of collection periods for receivables and other considerations

External environment

Although the beauty treatment market where RVH does most of its business has generally been flat in recent years, a shortage of beauticians due to the impact of lower birth rates and an aging population has continued, making securing personnel an important issue to be addressed. Competition has also grown fiercer with other industries, including peripheral beauty services such as hair salons and relaxation, and markets for cosmetics for general distribution, beauty appliances, and fitness gyms. As such, most chain beauty salons have either slowed their pace of salon openings, maintained their current numbers, or even consolidated some locations in order to secure profitability in existing salons. The series of natural disasters that hit Japan this year has also hurt the industry and the labor shortage worsened, making the operating environment even more difficult.

From Q1 FY03/19, the name of the Beauty business was changed to Ladies' services. This is only a name change and does not impact the segment information.

Segments results

Ladies' Services

The Ladies' Services segment accounted for 92.7% of total sales with Q3 sales of JPY41.6bn (+15.5% YoY). The segment reported an operating loss of JPY947mn (versus year-earlier profit of JPY692mn) and EBITDA of JPY1.3bn (-57.8% YoY). Product sales for each beauty brand and service sales for Colorée were strong. From the beginning of FY03/19, the results of Lovely Queen contributed in the apparel department. On the other hand, beauty treatment department services sales were sluggish due to the labor shortage seen across the industry. In contrast with operating profit recorded in Q3FY03/18, the segment posted an operating loss in cumulative Q3 FY03/19 due to an increase in advertising and promotional expenses incurred in relation to intensified ad placement.

There were 854 stores at the end of Q3 FY03/19 (a net increase of 11 stores over the end of FY03/18: 22 openings, 11 closures).

Ladies' Services business: Number of salons by brand

Brand	Category (stores; quarter-end)	FY03/18				FY03/19			QoQ		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Openings	Closures	Net
Musee Platinum	Hair removal salon	179	178	173	170	173	174	177	3	-	3
Takano Yuri Beauty Clinic	Beauty salon	105	103	103	91	90	88	83	-	-5	-5
Colorée	Full-body hair removal salon	64	62	60	60	60	60	57	-	-3	-3
Maquia	Eyelash salon	33	32	37	45	58	78	93	15	-	15
Lovely Queen	Formal dress	-	-	-	465	453	443	444	4	-3	1
Total		381	375	373	831	834	843	854	22	-11	11

Source: Shared Research based on company data

Note: Takano Yuri Beauty Clinic includes Re-beaute clinics, which offer hair and scalp treatments. Lovely Queen's store numbers include all stores that offer the brand, including general merchandise stores.

<Hair removal department>

At Musee Platinum, sales were up 3.5% YoY. Treatment service revenues were down 9.8%. There was strong growth in contract numbers and contract amount due to rush demand ahead of the year-end finish of a special offer for underarm and V-line hair removal, and an increase in contract counseling work in the salons. In 1H, Japan was hit by a series of natural disasters (including heavy rains, typhoons, and earthquakes) and this forced its call centers and some stores to shorten operating hours and/or totally suspend operations for a few days.

Sales of store-brand cosmetics with hair removal courses (which began in Q3 FY03/18) continued to rise, however, and this together with steady growth of the subscription purchasing plan launched in April 2018 (surpassed 50,000 subscriptions in December 2018) led to a 88.4% YoY rise in product sales. SG&A expenses were +8.6% YoY. Last fiscal year the company began implementing its store development plan aimed at making store operations more efficient, and this fiscal year it moved out of the store consolidation phase and into the new store opening phase, opening its Matsuyama store (Ehime prefecture) in November, and Kyoto Sakaimachidori store (Kyoto) and Aoen Hofu store (Yamaguchi) in December. This brought the store network to 177 stores (172 at end-Q3 FY03/18). . In 1H, Japan was hit by a series of natural disasters (including heavy rains, typhoons, and earthquakes) and this forced its call centers and some stores to shorten operating hours and/or totally suspend operations for a few days.

- ▷ Colorée sales were up 180.4% YoY. The company conducted a planned reduction of advertising placement volume from Q3, resulting in moderating growth in contract acquisition value and product sales. Meanwhile treatment service revenues rose both YoY and QoQ. SG&A expenses rose by 63.7% YoY due to aggressive investment in advertising in 1H. As announced on February 4, 2019, the entire Colorée brand store network will be rebranded as Musee Platinum as of April 1, 2019. The aim is to make the best and most efficient use of human resources in the hair removal department. RVH also aims for an early improvement in earnings and maximizing customer convenience by streamlining hair removal services and spending on advertising.
- ▷ Sales from the eyelash beauty salon Maquia were up 67.2% YoY. The company has been working to open new salons since Q3 FY03/18 in order to boost profitability, and opened 15 new stores in cumulative Q3 FY03/19. However, SG&A expenses were up 88.1% YoY due to increases in temporary expenses and personnel expenses stemming from salon openings.
- ▷ In the beauty salon department, sales at Takano Yuri Beauty Clinic fell 3.9% YoY. Treatment service revenues fell by 12.2% YoY due to a smaller salon network and personnel shortage. Product sales were up a solid 8.7% YoY. RVH continued to rationalize its salon network while carrying out recruitment activities and strengthening its human resources policies to ensure a steady stream of new hires. The department closed five salons, and reopened a renovated Aoyama main shop, for a total network of 83 salons (91 at end-Q3 FY03/18). It also launched sales of its own new cosmetics including GD Oil Serum, Milky Lotion V1, and all-in-one foundation Jewelry Pact SP. The company constrained costs through thorough product management and reduced costs of advertising and other areas, so brand profit rose YoY and QoQ. Although the department recorded an operating loss of JPY164mn in 1H FY03/19, it also posted quarterly operating profit in Q2 thanks to cost of sales control through thorough salon management and cost reduction measures aimed at limiting advertising and promotional and other expenses.

<Apparel department>

After making Lovely Queen a subsidiary at the end of FY03/18, the company began operating a business to plan, design, manufacture, and sell ladies' wear, primarily black formal wear and color formal wear, as the apparel department of the Ladies' Services segment. While this is a restructuring project, closing of unprofitable stores and review of the cost structure have been completed. RVH relaunched its revamped e-commerce website TISEE in Q3, ahead of the busy Q4 season, and conducted marketing activities to boost the number of stores that carry its products. Sales and brand profit were below forecasts. The department made provisions for product returns, sales of winter casual wear were below expectations due to a warm winter, and the opening of the e-commerce website was behind schedule.

Media Consulting

The Media Consulting segment accounted for 5.6% of total sales with Q3 sales of JPY2.5bn (-17.2% YoY). It recorded an operating loss of JPY3mn (operating profit of JPY130mn in Q3 FY03/18). EBITDA was JPY54mn (-71.9% YoY). Marketing services for external clients and web advertising services for internal group clients remained firm. On November 30, 2018, the company sold all of its shares in Legal Vision (see section following) so from Q3, Legal Vision (which acts as the company's advertising agency department) as well as its subsidiaries Career Agency and Tokyo House Partner were excluded from the scope of consolidation.

Systems Development

The Systems Development segment accounted for 1.7% of total sales with Q3 sales of 756mn (+2.2% YoY). The segment reported an operating profit of JPY1mn (versus year-earlier operating profit of JPY4mn) and EBITDA of JPY13mn (-36.1% YoY). Although the company expects the majority of sales and earnings to be booked in 2H, as it is in most years, SG&A spending continued to rise during the period as personnel costs increased on the back of new hiring to support the company's medium/long-term growth plans and one-time expenditures related to the upgrade of its FVT-air medical imaging software.

Sale of subsidiary, Legal Vision

In November 2018, RVH sold its subsidiary, Legal Vision, to Trust Finantec K.K. for JPY1.4bn*.

*The share transfer agreement covering this transaction contains a price adjustment clause, which stipulates that the transfer price is subject to ex post facto change depending on Legal Vision's progress on recovery of accounts receivable as of April 30, 2020. Based on this price adjustment clause, the maximum possible transfer price is JPY1.4bn and the minimum is JPY200mn. Trust Finantec K.K. made a cash payment of JPY200mn on the share transfer date. Any remaining balance is scheduled to be paid in cash in April 2020.

Furthermore, RVH transferred rights to all loans and receivables held in connection with Legal Vision to TRUSTBAIL Ltd., a wholly owned subsidiary of Trust Finantec K.K., for their book value as of November 30, 2018 (JPY1.8bn). Based on a special price change agreement established within the claim transfer contract with TRUSTBAIL, the price of this transfer of claims could change ex post facto to JPY833mn depending on Legal Vision's progress on recovery of accounts receivable as of April 30, 2020.

Background of share transfer

Both companies reached a share transfer agreement based on the determination that it would contribute to mutually raising their medium- to long-term corporate value. The transfer enables RVH to reduce burdens it carried managing the business of subsidiary Legal Vision and concentrate its corporate resources on its mainstay Ladies' Services segment. The agreement will also enable Legal Vision to manage its business independently while it receives support from Trust Finantec, the counterparty of the share transfer agreement.

Legal Vision operated an ad agency business that specialized in advertising for professional legal practices and served as the advertising agency department in the RVH Group's Media Consulting segment. Specifically, since its establishment Legal Vision handled many advertising projects related to customer protection against overcharged loan interest. However, in preparation for a decline in such projects (accompanying a drop in debtors who can claim overpaid interest), Legal Vision has been working to expand projects for debt settlement and legal practices dealing with issues such as hepatitis B, inheritance and wills, and traffic accidents. The initiative also helps Legal Vision aim for higher medium- to long-term earnings.

In this business, Legal Vision holds contracted projects that take more than six months from receipt of order to bill collection. Orders of this type require the company to bear a temporary cash burden up until bill collection as associated expenses such as procurement cost and personnel expenses have to be paid usually on a monthly cycle. In the event that sales involving these projects increase, Legal Vision will require a certain amount of working capital.

Full-year company forecast

(JPYmn)	FY03/18			FY03/19		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	26,734	26,272	53,006	30,487	28,013	58,500
Cost of sales	4,445	4,681	9,125	2,686		
Gross profit	22,289	21,591	43,880	24,827		
GPM	83.4%	82.2%	82.8%	81.4%		
SG&A expenses	21,928	21,215	43,143	25,693		
SG&A ratio	82.0%	80.8%	81.4%	84.3%		
Operating profit	360	377	737	-865	-153	-1,018
OPM	1.3%	1.4%	1.4%	-	-	-
Recurring profit	436	476	912	-816	-120	-936
RPM	1.6%	1.8%	1.7%	-	-	-
Net income	-262	579	317	-1,606	-1,539	-3,145
Net margin	-1.0%	2.2%	0.6%	-	-	-

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Company forecast for FY03/19

Overview

On February 14, 2019, the company announced revisions to its full-year earnings forecasts (see below). For FY03/19, the company forecasts (revised targets) sales of JPY58.5bn (+10.4% YoY), operating loss of JPY1.0bn (operating profit of JPY737mn in FY03/18), recurring loss of JPY936mn (recurring profit of JPY912mn), and net loss attributable to parent company shareholders of JPY3.1bn (net income of JPY317mn in FY03/18).

*Revisions to full-year FY03/19 earnings forecasts (announced on February 14, 2019)

Along with the release of Q3 (October to December 2018) results, RVH announced extraordinary losses (provision for doubtful accounts) and also lowered its full-year FY03/19 forecasts at all profit lines from the revised forecasts announced on November 15, 2018 in light of the latest earnings trends.

- ▷ Sales: JPY58.5bn (previous forecast: JPY57.3bn)
- ▷ Operating profit: JPY1.0bn (previous forecast: JPY255mn)
- ▷ Recurring profit: JPY936mn (previous forecast: JPY265mn)
- ▷ Net loss*: JPY3.1bn (previous forecast: net loss of JPY711mn)

Reasons for revision

- ▷ Sales: Tracking ahead of previous revised forecasts. Product sales and sales from memberships in reward program offering cosmetics discounts and other perks growing faster than previous forecast due to aggressive advertising to win new customers in the Ladies' Services business
- ▷ Operating profit and recurring profit: To be lower than previous forecast due to the following: increases in overall cost of sales (roughly JPY600mn), advertising expenses (roughly JPY830mn), and personnel expenses (roughly JPY707mn)
 - In the hair removal department, there was strong growth in contract numbers and contract amount due to rush demand ahead of the year-end finish of a special offer for underarm and V-line hair removal. RVH continued to invest in advertising in Q3. It also maintained its policy of hiring more salon staff and made provisions for employee incentives. There were also increased labor costs due to staff training accompanying store brand integration
 - The company reviewed its cost of sales and labor cost assumptions in view of latest trends in the beauty treatment department
 - In the apparel department, there were events and changes in the business environment such as reviews of provisions for returns unforeseen at the time of the previous revision
- ▷ Extraordinary losses

- In its announcement regarding provisions for doubtful accounts disclosed on November 14, 2018 in conjunction with revisions to full-year forecasts, RVH said it would conduct revaluations in Q3. As a result, it booked an additional extraordinary loss of JPY308mn. This represents the difference between the value of the loan to Old LQ and the market value of RVH shares Old LQ owned as of end-Q3
- In line with its November 15, 2018 announcement, accompanying the sale of shares in consolidated subsidiary Legal Vision Co., Ltd., RVH transferred claims including rights to all loans and receivables held in connection with Legal Vision. Under a special price variation agreement, an ex post facto change to the payment for the claims is possible. The company booked a loss on disposal of claims of JPY151 mn following a revaluation of the payment in light of collection periods for receivables and other considerations

This note is the most recent addition to the [full report](#).

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <http://www.sharedresearch.jp>.

Disclaimer

This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report.

The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report's objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer

The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion by us that could influence investment decisions in the company, such opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.

Contact Details

Shared Research Inc.

3-31-12 Sendagi Bunkyo-ku Tokyo, Japan

<https://sharedresearch.jp>

Phone: +81 (0)3 5834-8787

Email: info@sharedresearch.jp