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Consolidated Financial Results for the Three Months Ended November 30, 2020 [Japanese GAAP]

January 14, 2021

Company name: Valuence Holdings Inc.

Stock exchange listing: Tokyo Stock Exchange

Securities code: 9270

URL: <https://www.valuence.inc/>

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Scheduled date for filing January 14, 2021
quarterly securities report:

Scheduled date for commencing dividend payments: —

Preparation of supplementary quarterly financial results briefing materials : Yes

Holding of quarterly financial results briefing : No

(Amounts of less than one million yen are truncated.)

1. Consolidated financial results for the three months ended November 30, 2020 (September 1, 2020 to November 30, 2020)

(1) Consolidated operating results (cumulative) (% indicates year-over-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended November 30, 2020	11,823	1.8	464	(37.8)	450	(37.8)	217	(53.5)
Three months ended November 30, 2019	11,613	29.6	746	20.3	724	15.5	467	10.7

Note: Comprehensive income: Three months ended November 30, 2020 214 million yen [-54.9%]
Three months ended November 30, 2019 474 million yen [11.4%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended November 30, 2020	16.53	16.28
Three months ended November 30, 2019	36.64	35.20

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio
	Million yen	Million yen	%
As of November 30, 2020	17,593	6,655	37.8
As of August 31, 2020	15,378	6,735	43.8

(Reference only) Equity Three months ended November 30, 2020 6,655 million yen
Fiscal year ended in August 2020 6,735 million yen

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended in August 2020	—	0.00	—	25.00	25.00
Fiscal year ending in August 2021	—				
Fiscal year ending August 2021 (forecast)		0.00	—	35.00	35.00

(Note) Revision to the dividend forecast announced most recently: None

3. Consolidated financial results forecast for the fiscal year ending in August 2021 (September 1, 2020 to August 31, 2021) (% indicates year-over-year change)

	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	58,000	52.9	2,500	296.0	2,450	293.9	1,500	390.8	114.05

(Note) Revision to the financial results forecast announced most recently: None

* Notes

(1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in the changes in the scope of consolidation): None

(2) Accounting treatments adopted specially for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatements

1) Changes in accounting policies due to application of new or revised accounting standards : None

2) Changes in accounting policies other than 1) above : None

3) Changes in accounting estimates : None

4) Retrospective restatements : None

(4) Number of shares of common stock issued

1) Number of shares issued at the end of the period (including treasury stock)

2) Number of shares of treasury stock at the end of the period

3) Average number of shares of common stock during the period (cumulative)

As of November 30, 2020	13,213,950 shares	Fiscal year ended in August 2020	13,183,160 shares
As of November 30, 2020	59,424 shares	Fiscal year ended in August 2020	49,590 shares
Three months ended November 30, 2020	13,145,150 shares	Three months ended November 30, 2019	12,757,209 shares

* These quarterly financial results are not subject to quarterly review procedures to be performed by certified public accountants or an audit firm.

* Explanation on appropriate use of financial results forecasts and other matters of note

Financial results forecasts and other forward-looking statements provided in these materials are based on information available to the Company and certain other assumptions deemed reasonable as of the date of publication of this document, and do not represent any guarantee that the Company will achieve these results. Actual financial results and other aspects of business performance may differ significantly from these forecasts owing to various factors. Please refer to “1. (3) Explanation of consolidated financial results forecast and other forward-looking information” on page 3 of the attached materials for conditions forming the basis for financial results forecasts, notes regarding the use of financial results forecasts, and other information.

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1. Qualitative information on quarterly financial results

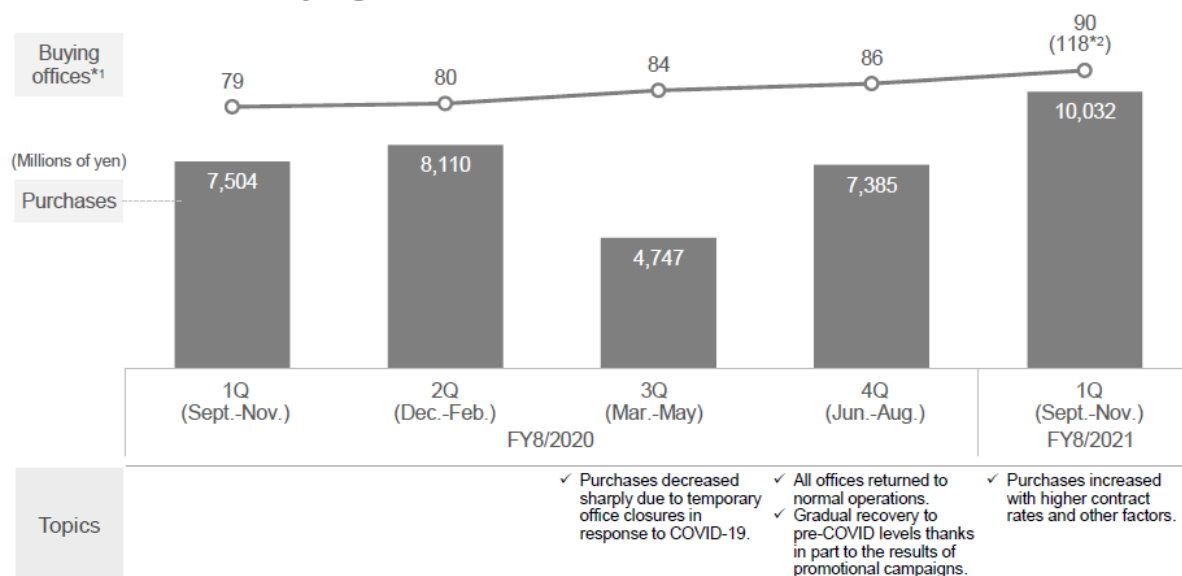
(1) Explanation of business results

The Company Group formulated its VG1000 mid-term management plan for the period through the fiscal year ending in August 2025 and announced the plan on October 15, 2020. The Company Group will transform itself into a recurring revenue model to achieve sustainable growth by becoming a Global Reuse Platformer, providing partners (“partner” referring hereinafter to a reuse business operator in an auction) around the world with one-stop support in the buying and selling of luxury articles.

Based on this plan, the Company Group carried out the following initiatives in the three months under review.

With respect to buying operations, in order to expand the amount of products purchased directly from its own account, the Company Group opened four new *Nanboya* offices in Japan and one overseas office in Singapore, and furthermore added 28 offices of *NEOSTA* to the Japanese office network as a result of the consolidation of NEO-STANDARD Co., Ltd. as a subsidiary. Meanwhile, one office was closed during this period, bringing the total number of buying offices operated by the Company Group as of the end of the three months under review to 115 in Japan and three overseas (as consolidation took effect at the end of the period, the financial contribution of the 28 offices of *NEOSTA* will be included from the second quarter). Progress was made on several fronts, including office renovations and employee training, in preparation for the rebranding of *NEOSTA* to *Nanboya* on December 1. In this way, the Company Group strengthened in-office buying by expanding its overall office network and improving the rates of successful transactions. On top of that, it has also increased its focus on purchases via in-home buying and delivery through efforts that have included upgrading its structure.

Purchases and Buying Offices

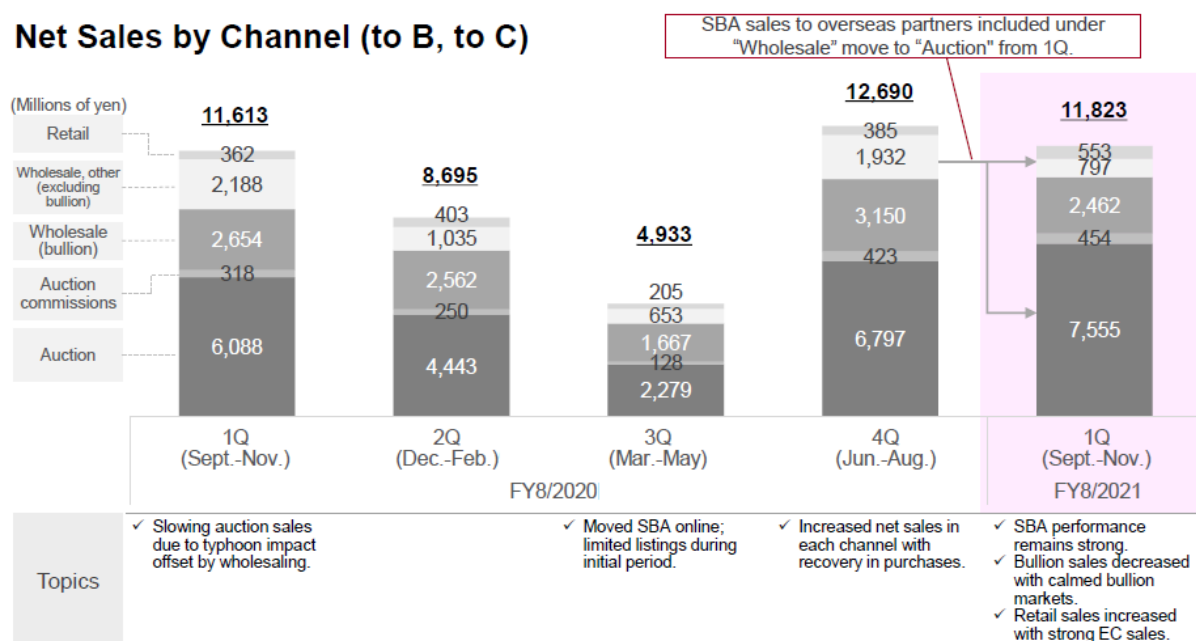


*1 Numbers of buying offices include overseas buying offices.

*2 Figures in parentheses indicate numbers of buying offices, including NEO-STANDARD. Since NEO-STANDARD was added to the scope of consolidation at the end of the term, it will impact financial results beginning from 2Q.

With respect to selling operations, the frequency that the STAR BUYERS AUCTION (“SBA”) is held was increased to twice each month from October, and the Company Group worked toward expanding the number of products purchased directly from its own account and through consignment sales. It has also gradually expanded consignment sales, seeking to boost the gross merchandise volume (GMV) of its auctions while improving its profit margin through increased consignment fees. The number of partners participating in SBAs has steadily grown as a result of continuing activities at overseas sites, having increased by 155 companies from the end of the previous consolidated fiscal year to a total of 757 companies (549 in Japan and 208 overseas) as of the end of November. A diamond auction was also held once in November in Hong Kong. With respect to retail as well, the Company Group has worked to expand sales channels and build recognition through initiatives that include opening a global site for online sales by ALLU.

Net Sales by Channel (to B, to C)



In the three months ended November 30, 2020, sales at the Company Group’s own auctions were bolstered as a result of strong purchases that enabled it to secure an ample supply of products to be sold. In the meantime, although market prices of bullion remained high, there has also been on a downward trend since reaching the highest prices seen in several decades in August 2020, and the ratio of sales provided by bullion has shrunk. The Company Group’s gross profit ratio was improved through initiatives such as shifting toward online auctions, and gradually increasing consignment sales to expand commission revenues. On the other hand, personnel expenses also increased driven by business expansion through efforts to open more offices and accelerating development overseas. Furthermore, there was an increase in subcontracting costs associated with the active development of computer systems for auction platforms, etc.

The Company Group’s financial results for the three months ended November 30, 2020 were as follows.

The Company Group has only one business segment—reuse business involving brand name products, antiques, works of art, and other items. Thus, information by segment is omitted.

Net sales	11,823 million yen	(Up 1.8% from the previous corresponding period)
Operating profit	464 million yen	(Down 37.8% from the previous corresponding period)
Ordinary profit	450 million yen	(Down 37.8% from the previous corresponding period)
Profit attributable to owners of parent	217 million yen	(Down 53.5% from the previous corresponding period)

(2) Explanation of financial conditions

(Assets)

Current assets as of the end of the three months under review were 13,208 million yen, up 1,948 million yen from the end of the previous consolidated fiscal year, due mainly to an increase of 1,348 million yen in merchandise resulting from strong buying operations and an increase of 457 million yen in cash and deposits resulting from an increase of borrowings as purchasing funds for business expansion, etc. Non-current assets were 4,385 million yen, up 266 million yen from the end of the previous consolidated fiscal year, due mainly to an increase of 88 million yen in buildings and structures (net) resulting from the opening of new buying offices and the acquisition of buying offices from M&A, and an increase of 118 million yen in guarantee deposits in response to the opening of offices. Total assets were 17,593 million yen, up 2,214 million yen from the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities as of the end of the three months under review were 9,856 million yen, up 2,210 million yen from the end of the previous consolidated fiscal year, due to an increase of 1,610 million yen in short-term loans payable for covering purchasing funds, etc., an increase of 161 million yen in provision for bonuses, and an increase of 102 million yen in accrued income taxes. Non-current liabilities were 1,082 million yen, up 85 million yen from the end of the previous consolidated fiscal year, due mainly to a decrease of 47 million yen in long-term loans payable on the one hand and an increase of 114 million yen in asset retirement obligations on the other. Total liabilities were 10,938 million yen, up 2,295 million yen from the end of the previous consolidated fiscal year.

(Net assets)

Net assets as of the end of the three months under review were 6,655 million yen, down 80 million yen from the end of the previous consolidated fiscal year, due mainly to an increase of 6 million yen each in capital stock and in capital surplus resulting from the exercise of stock options on the one hand and a decrease of 89 million yen in retained earnings resulting from cash dividends paid on the other.

(3) Explanation of consolidated financial results forecast and other forward-looking information

No changes have been made to the consolidated financial results forecast for the fiscal year ending in August 2021 announced on October 15, 2020.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (August 31, 2020)	Three months under review (November 30, 2020)
Assets		
Current assets		
Cash and deposits	6,276,732	6,734,201
Accounts receivable - trade	298,141	214,015
Merchandise	4,011,028	5,359,639
Other	849,157	1,067,210
Allowance for doubtful accounts	(175,039)	(166,915)
Total current assets	11,260,021	13,208,151
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,657,504	1,745,966
Other, net	342,167	358,837
Total property, plant and equipment	1,999,671	2,104,804
Intangible assets		
Goodwill	219,406	182,482
Other	253,750	278,926
Total intangible assets	473,157	461,408
Investments and other assets		
Guarantee deposits	1,137,651	1,256,088
Other	509,039	564,337
Allowance for doubtful accounts	(810)	(1,158)
Total investments and other assets	1,645,880	1,819,267
Total non-current assets	4,118,709	4,385,481
Total assets	15,378,731	17,593,632

(Unit: thousand yen)

	Previous consolidated fiscal year (August 31, 2020)	Three months under review (November 30, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	35,328	80,508
Short-term loans payable	6,343,288	7,954,150
Current portion of long-term loans payable	231,242	219,443
Income taxes payable	253,259	356,249
Provision for bonuses	203,916	365,542
Asset retirement obligations	1,699	717
Other	577,224	879,678
Total current liabilities	7,645,959	9,856,288
Non-current liabilities		
Long-term loans payable	340,868	292,895
Provision for directors' retirement benefits	66,400	58,092
Asset retirement obligations	580,214	694,310
Other	9,385	36,727
Total non-current liabilities	996,867	1,082,025
Total liabilities	8,642,827	10,938,313
Net assets		
Shareholders' equity		
Capital stock	1,117,032	1,123,105
Capital surplus	1,104,809	1,110,882
Retained earnings	4,581,888	4,492,552
Treasury shares	(59,830)	(59,989)
Total shareholders' equity	6,743,900	6,666,551
Accumulated other comprehensive income		
Foreign currency translation adjustment	(7,995)	(11,232)
Total accumulated other comprehensive income	(7,995)	(11,232)
Total net assets	6,735,904	6,655,318
Total liabilities and net assets	15,378,731	17,593,632

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income

For the three months ended November 30

(Unit: thousand yen)

	Previous three-month period (from September 1, 2019 to November 30, 2019)	Three months under review (from September 1, 2020 to November 30, 2020)
Sales	11,613,180	11,823,642
Cost of sales	8,720,950	8,712,972
Gross profit	2,892,230	3,110,670
Selling, general and administrative expenses	2,146,126	2,646,561
Operating profit	746,103	464,109
Non-operating income		
Interest income	14	0
Gain on valuation of derivatives	4,109	-
Benefits	-	9,670
Other	6,231	3,772
Total non-operating income	10,354	13,442
Non-operating expenses		
Interest expenses	8,280	9,565
Commission fee	375	379
Foreign exchange losses	4,275	5,667
Loss on extinguishment of share-based remuneration expenses	14,427	7,172
Other	4,510	4,335
Total non-operating expenses	31,869	27,119
Ordinary profit	724,588	450,432
Extraordinary income		
Gains on negative goodwill incurred	-	69,486
Total extraordinary income	-	69,486
Extraordinary losses		
Impairment loss	3,290	-
Loss on cancellation of rental contracts	-	6,596
Total extraordinary losses	3,290	6,596
Profit before income taxes	721,298	513,322
Income taxes - current	288,888	358,612
Income taxes - deferred	(35,019)	(62,645)
Total income taxes	253,868	295,967
Profit	467,429	217,354
Profit attributable to owners of parent	467,429	217,354

Quarterly consolidated statement of comprehensive income
For the three months ended November 30

(Unit: thousand yen)

	Previous three-month period (from September 1, 2019 to November 30, 2019)	Three months under review (from September 1, 2020 to November 30, 2020)
Profit	467,429	217,354
Other comprehensive income		
Foreign currency translation adjustment	7,208	(3,236)
Total other comprehensive income	7,208	(3,236)
Comprehensive income	474,638	214,118
Comprehensive income attributable to:		
Owners of parent	474,638	214,118

(3) Notes on quarterly consolidated financial statements

(Notes regarding going concern assumptions)

Not applicable

(Notes in the case of significant changes in amount of shareholders' equity)

Not applicable

(Change in scope of consolidation or equity method application)

Effective from the end of the consolidated first quarter period, the scope of consolidation newly includes NEO-STANDARD Co., Ltd. because Valence Japan Inc., a consolidated Company subsidiary, has acquired the company's shares.

(Additional information)

There are no significant changes to the assumptions provided under “(Additional Information)” in the Securities Report for the previous consolidated fiscal year concerning accounting estimates related to the effect of the spread of COVID-19.

(Important subsequent events)

(Issue of stock acquisition rights as stock options)

At the November 20, 2020 Board of Directors' meeting, the Company passed a resolution concerning the issue of stock acquisition rights to Directors and employees of the Company and to Directors and employees of Company subsidiaries, and issued the stock acquisition rights on December 23, 2020.

(1) Purpose of and reason for granting the stock acquisition rights

The stock acquisition rights were issued to strengthen the motivation of Directors and employees of the Company and Directors and employees of Company subsidiaries to contribute to medium- to long-term growth in Group corporate value through actions consistent with the interests of shareholders.

(2) Guidelines on issuing stock acquisition rights

1) Date of the issue of stock acquisition rights

December 23, 2020

2) Classification and number of eligible individuals

Director of the Company	1 person
Employees of the Company	39 persons
Directors of Company subsidiaries	2 persons
Employees of Company subsidiaries	85 persons

3) Number of stock acquisition rights issued

1,706 units

4) Amount to be paid per stock acquisition right

244,846 yen per stock acquisition right (2,448.46 yen per share)

The paid-in amount per stock acquisition right shall be the fair value of the stock acquisition rights, calculated by a fair method, including Black-Scholes model, as of the date of allocation of the stock acquisition rights.

This paid-in amount shall be offset against claims of the recipient of the stock acquisition rights on the Company for monetary compensation in the same amount (or claims of Director or employee of Company subsidiary on that subsidiary for monetary compensation, the resulting obligations for which are underwritten by the Company).

- 5) Class and number of shares to be subject to stock acquisition rights
170,600 shares of Company's common stock
- 6) Payment upon exercise of stock acquisition rights
460,500 yen per stock acquisition right (4,605 yen per share)
- 7) The increase in capital and capital reserves on issue of shares through the exercise of the stock acquisition rights
- The increase in capital on issue of shares through the exercise of the stock acquisition rights shall be equal to one-half of the Maximum Amount of Increase in Stated Capital calculated in accordance with Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction less than one yen resulting from such calculation shall be rounded up.
 - The increase in capital reserves on the issue of shares through the exercise of the stock acquisition rights shall be the Maximum Amount of Increase in Stated Capital under a. above minus the amount of the increase in capital described under a. above.
- 8) Conditions on exercise of stock acquisition rights
- A holder of the stock acquisition rights must be a Director, Auditor, or employee of the Company or a Director, Auditor, or employee of an affiliate of the Company (referring to an affiliate as defined in the Ordinance on the Terminology, Forms, and Preparation Methods of Financial Statements, etc.) at the time of exercise of the stock acquisition rights, unless he or she has resigned upon the termination of his or her term of office, retired upon mandatory retirement age, or has other good reason to be exempt from this condition.
 - An heir to a holder of the stock acquisition rights may not exercise the stock acquisition rights.
 - Stock acquisition rights may not be exercised if the exercise of stock acquisition rights would cause the Company's total number of shares issued to exceed its authorized total number of shares to be issued at that time.
 - A stock acquisition right may not be exercised fractionally.
 - A stock acquisition right may not be exercised in violation of the Agreement on Stock Acquisition Rights.
- 9) Period during which the stock acquisition rights may be exercised
From November 21, 2022 to November 19, 2030 (or the preceding banking business day if November 19, 2030 is not a banking business day)
- 10) Restrictions on acquisition of stock acquisition rights through transfer
Approval by resolution of the Company Board of Directors is required to acquire stock acquisition rights through transfer.