

Consolidated Financial Results for the Nine Months Ended May 31, 2021 [Japanese GAAP]



July 9, 2021

Company name: CURVES HOLDINGS Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange Section 1
 Stock code: 7085
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 Scheduled date of filing quarterly securities report: July 13, 2021
 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Nine Months Ended May 31, 2021 (September 1, 2020 to May 31, 2021)

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|-------------------|-------------|-------|------------------|--------|-----------------|--------|---|--------|
| Nine months ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| May 31, 2021 | 18,170 | (7.1) | 1,314 | (23.9) | 1,421 | (18.0) | 824 | (26.5) |
| May 31, 2020 | 19,559 | - | 1,728 | - | 1,732 | - | 1,122 | - |

(Note) Comprehensive income: Nine months ended May 31, 2021: 1,197 million yen [down 3.5%]
 Nine months ended May 31, 2020: 1,241 million yen [-%]

| | Earnings per share | Diluted earnings per share |
|-------------------|--------------------|----------------------------|
| Nine months ended | Yen | Yen |
| May 31, 2021 | 8.79 | - |
| May 31, 2020 | 13.09 | - |

(Note) Changes from the previous corresponding period for nine months ended May 31, 2020 are not available due to the quarterly consolidated statements having started to be published since the 1st quarter of FY 8/2020.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|-----------------|--------------|-------------|--------------|
| As of | Million yen | Million yen | % |
| May 31, 2021 | 36,488 | 8,871 | 24.3 |
| August 31, 2020 | 36,837 | 8,142 | 22.1 |

(Reference) Equity: As of May 31, 2021: 8,871 million yen
 As of August 31, 2020: 8,142 million yen

2. Dividends

| | Annual dividends | | | | |
|---|------------------|-----------------|-----------------|----------|-------|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended August 31, 2020 | - | 0.00 | - | 5.00 | 5.00 |
| Fiscal year ending August 31, 2021 | - | 0.00 | - | | |
| Fiscal year ending August 31, 2021 (Forecast) | | | | 4.00 | 4.00 |

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2021 (September 1, 2020 to August 31, 2021)

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Earnings per share |
|-----------|-------------|-------|------------------|------|-----------------|------|---|------|--------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 24,400 | (2.7) | 1,500 | 28.5 | 1,590 | 36.5 | 953 | 24.6 | 10.15 |

(Note) Revision to the financial results forecast announced most recently: Yes

For the consolidated financial results forecast, please see the “Notice of Revisions to the Full-Year Financial Results Forecast and the Forecast for Dividends” released today (July 9, 2021).

* Notes:

(1) Changes in significant subsidiaries during the nine months ended May 31, 2021 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

Newly added: — (Name:) Excluded: — (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 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) Restatements: No

(4) Total number of issued shares (common shares)

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

May 31, 2021: 93,857,493 shares

August 31, 2020: 93,857,493 shares

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

May 31, 2021: 121 shares

August 31, 2020: 121 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

Nine months ended May 31, 2021: 93,857,372 shares

Nine months ended May 31, 2020: 85,766,037 shares

* This summary of the quarterly financial results is outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

(Note on forward-looking statements, etc.)

The financial results forecast and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. Such forward-looking statements are not intended to represent a commitment on the part of the Company to achieve them. Actual results may vary significantly due to various factors. Please refer to “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information,” on page 4 of the attached material for the assumptions used in the financial results forecast, as well as precautions for using the financial results forecast.

(How to obtain supplementary briefing material on the financial results)

The supplementary briefing material on the financial results for this quarter is posted on TDnet and the Company’s website (<https://www.curvesholdings.co.jp/>).

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operations Results

The Group (the Company and consolidated subsidiaries, hereinafter referred to as the “Group”) has been striving to contribute to the extension of health life expectancy through its core business, “Curves,” a 30-minute fitness club for women. The Group has endeavored to enhance the satisfaction of its members and expand membership by strengthening customer services as “community-oriented health infrastructure” that contributes to solving social issues.

It is the Group’s understanding that the market environment during and after the COVID-19 pandemic will change dramatically in the following two ways:

(i) Growth of the health market: The pandemic forced people to focus on their lives and health, and the trend toward taking care of their own health will gain momentum in the medium and long term. This is a golden opportunity for the growth of the health market.

(ii) Growing demand for contactless services: Extending beyond the end of the COVID-19 pandemic, consumer sentiment, society and the economy will remain “scared” by COVID-19, and qualitative changes will occur, such as an increase in demand for non-contact services.

Under these operating conditions, the Group aims to achieve business recovery and establish business models in the new management environments by the end of 2022, in other words, in around two years’ time, and is pursuing strategies positioning the fiscal year ending August 31, 2021 (from September 1, 2020 to August 31, 2021) as the fiscal year for getting firmly on track towards this goal.

In the third quarter of the fiscal year under review (March 2021 to May 2021), the Group actively carried out media mix marketing, including TV commercials launched in April 2021 and web advertising, aiming to achieve a rapid recovery in membership, the top priority issue. Moreover, it launched the online fitness program, Ouchi de Curves (Curves at Home), as part of its initiatives to create new business models that combine online platforms with bricks-and-mortar facilities.

The number of new members recovered steadily, despite the state of emergency declared by the government on April 23, 2021, and the attrition rate was reduced to below the level before the COVID-19 pandemic. As a result, membership (including online members) increased by 39K, from 641K recorded at the end of the first six months of the fiscal year under review, to 681K. However, progress toward achieving the projection announced on April 9, 2021 of 700K members (excluding online members) at the end of the fiscal year ending August 31, 2021 has been delayed, as the number of new members fell short of the plan.

Because of the impact of the state of emergency, there were club closures in some large-scale facilities subject to administrative requests for a suspension of operations (a maximum of 31 facilities). However, approximately 70% of the members of said clubs continued with their exercise routines by using nearby facilities or the online fitness program, Ouchi de Curves (Curves at Home), and refund of membership fees and other impact were minimal.

The Group also proceeded with the closure and merging of the clubs that have been severely affected by COVID-19, and more than 70% of the members of closed and merged clubs have moved to other clubs.

Accordingly, the number of Curves facilities (excluding Men’s Curves) and membership in Japan as of May 31, 2021 were as follows.

1. Number of Curves facilities in Japan

| | As of August 31, 2020 | As of February 28, 2021 | As of May 31, 2021 | | |
|--|--------------------------|----------------------------|--------------------|--|--------|
| | | | | Compared to the end of the second quarter | |
| Number of facilities | 2,020 facilities | 1,988 facilities | 1,974 facilities | A decrease of 14 facilities | (0.7)% |
| Of which, number of corporate operated facilities | 70 facilities | 75 facilities | 75 facilities | – | – |
| Number of franchisee facilities | 1,950 facilities | 1,913 facilities | 1,899 facilities | A decrease of 14 facilities | (0.7)% |

2. Curves membership in Japan

| | As of August 31, 2020 | As of February 28, 2021 | As of May 31, 2021 | | |
|--|--------------------------|----------------------------|--------------------|--|------|
| | | | | Compared to the end of the second quarter | |
| Active memberships excluding absentee members | 600K | 641K | 681K | 39K | 6.2% |

- (Notes) 1. In the third quarter of the fiscal year under review, the number of new club opening was 3 and the number of clubs closed and merged was 17.
2. Special Absentee Program ended as of March 31, 2021.
3. Curves membership in Japan include the number of members of online fitness program, Ouchi de Curves (Curves at Home).

With regard to “Men’s Curves” for men, the Group opened the seventh location in May.

In overseas business, the Group considers Europe where it acquired the franchiser operations in July 2019 to be its priority market. As of the end of the third quarter of the consolidated fiscal year under review (March 31, 2021 (two-month lag due to difference in fiscal year end)), there were 159 Curves facilities in Europe (UK, Italy, Spain and five other countries, all facilities are franchisees’ facilities), of which 108 facilities were closed due to government directives, including lockdowns.

In terms of costs, SGA expenses in the third quarter of the fiscal year under review decreased 258 million yen compared to the first quarter, mainly due to a decrease in financial aid to franchisees associated with closures and absentees, while marketing expenses were aggressively allocated, taking the current market environment into account. Compared to the second quarter when marketing expenses were significantly contained, however, SGA expenses increased by 686 million yen.

As a result, net sales for the first nine months of the fiscal year under review were 18,170 million yen (down 7.1% year on year), leading to operating profit of 1,314 million yen (down 23.9% year on year). Ordinary profit was 1,421 million yen (down 18.0% year on year) due to the generation of foreign exchange gains at Curves International, Inc., which did not have an impact on changes in cash. Profit attributable to owners of parent was 824 million yen (down 26.5% year on year) mainly due to the recording of income taxes - current of 835 million yen.

The Ad Fund (collected from franchisees) that was included in net sales up to the previous fiscal year is not included in net sales as from the first quarter of the current fiscal year. When compared with net sales for the previous corresponding period excluding the ad fund sales, net sales for the nine months ended May 31, 2021 are 1.7% down year-on-year. This change was necessitated due to a revision in the franchise agreement to the effect that any excess of advertising expenses Curves Japan has spent over the total ad funds income actually collected from franchisees would not be additionally charged to franchisees, but be recorded as SGA expenses.

Since the Group operates in a single business segment, the Curves business, the segment information is omitted.

(2) Explanation of Financial Position

(Assets)

Total assets as of May 31, 2021 decreased by 349 million yen, compared to the end of the previous fiscal year to 36,488 million yen (down 0.9% from the end of the previous fiscal year).

Current assets decreased by 304 million yen to 14,970 million yen (down 2.0% year on year). This was mainly due to a decrease of 279 million yen in merchandise.

Property, plant and equipment increased by 164 million yen to 491 million yen (up 50.6% year on year).

Intangible assets decreased by 339 million yen to 20,449 million yen (down 1.6% year on year). This was mainly due to decreases of 285 million yen in trademark right, 147 million yen in other intangible assets and 24 million yen in goodwill.

Investments and other assets increased by 130 million yen to 577 million yen (up 29.2% year on year).

Total non-current assets decreased by 44 million yen to 21,518 million yen (down 0.2% year on year).

(Liabilities)

Current liabilities increased by 1,289 million yen to 8,552 million yen (up 17.8% year on year). This was mainly due to an increase of 937 million yen in the current portion of long-term borrowings.

Non-current liabilities decreased by 2,367 million yen to 19,065 million yen (down 11.0% year on year). This was mainly due to a decrease of 2,317 million yen in long-term borrowings.

Total liabilities decreased by 1,077 million yen to 27,617 million yen (down 3.8% year on year).

(Net assets)

Net assets increased by 728 million yen to 8,871 million yen (up 8.9% year on year). This was mainly due to an increase of 355 million yen in retained earnings resulting from the recording of profit attributable to owners of parent of 824 million yen, which was partly offset by the payment of dividends of 469 million yen.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

Consolidated financial results forecast has been revised as announced in the “Notice of Revisions to the Full-Year Financial Results Forecast and the Forecast for Dividends” as of July 9, 2021. In the revised full-year consolidated financial results forecast, the Company expects net sales of 24.4 billion yen (down 2.7% year on year), operating profit of 1.5 billion yen (up 28.5% year on year), ordinary profit of 1.59 billion yen (up 36.5% year on year) and profit attributable to owners of parent of 953 million yen (up 24.6% year on year).

Details are as follows.

The Group aims to achieve a business recovery and establish business models in the new management environments by the end of 2022, in other words, in around two years' time, and executes strategies positioning the current fiscal year (from September 1, 2020 to August 31, 2021) as the fiscal year for getting firmly on track to accomplish this goal.

During the first nine months of the fiscal year under review, the Group achieved profits that exceeded expectations, although a rapid recovery of membership, the top priority issue, is yet to be achieved fully and the current economic environment is still unclear and unstable. The Group recognizes that in order to early achieve business recovery and establish business models in the new management environments in these circumstances, the following measures continue to be important.

(i) Further improve customer satisfaction and protect and foster our operating base, including the stabilization of franchisee management.

(ii) Recover membership by strengthening marketing and actively using funds.

(iii) Quickly get new business models such as the online fitness program, Ouchi de Curves (Curves at Home) on track.

We plan to continue to reinforce marketing and other strategic investment in the current fourth quarter.

(Japan)

- The Group plans to open 17 new facilities and to close or merge 79 franchisee facilities that have been significantly affected by COVID-19 during the fiscal year ending August 31, 2021. The number of facilities is forecast to be 1,958 at the end of the period, at a net decrease of 62 facilities.
- Membership increased in the third quarter of the fiscal year under review, but the progress toward achieving the projection announced on April 9, 2021 of 700K members (excluding online members) at the end of the current fiscal year has been delayed. Accordingly, the forecast for membership for the current fiscal year ending August 31, 2021 has been revised to 680K (including online members).
- To achieve business recovery and establish business models in the new management environments by the end of 2022, the quick recovery of membership is a priority issue. For that purpose, the Group plans to actively push forward with strategic investment in marketing.

(Overseas)

- In Europe, the focus area, (UK, Italy, Spain, etc.), the clubs in each country are steadily reopening their facilities. However, a significant recovery in demand will likely take more time so that the assumption for overseas financial results forecasts remains unchanged. The Group plans to formulate and implement strategies adapted to the changing management environment, while experimenting with new business models including provision of online fitness, gradually starting from regions where socio-economic conditions have quieted down.

Any further revisions to the financial results forecast necessitated by changes in the business environment due to future COVID-19 conditions and other factors will be promptly disclosed.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

| | As of August 31, 2020 | As of May 31, 2021 |
|--|-----------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 9,533,587 | 9,819,563 |
| Notes and accounts receivable - trade | 3,243,741 | 3,662,807 |
| Merchandise | 1,511,593 | 1,231,699 |
| Raw materials and supplies | 6,116 | 5,512 |
| Other | 1,127,615 | 409,242 |
| Allowance for doubtful accounts | (147,384) | (158,092) |
| Total current assets | 15,275,269 | 14,970,732 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 220,379 | 222,616 |
| Vehicles, tools, furniture and fixtures, net | 105,807 | 268,552 |
| Total property, plant and equipment | 326,187 | 491,168 |
| Intangible assets | | |
| Goodwill | 1,392,773 | 1,368,566 |
| Trademark right | 17,997,264 | 17,711,972 |
| Software | 666,101 | 783,427 |
| Other | 733,374 | 585,661 |
| Total intangible assets | 20,789,513 | 20,449,628 |
| Investments and other assets | | |
| Investment securities | 20,000 | 71,200 |
| Leasehold and guarantee deposits | 253,498 | 269,206 |
| Deferred tax assets | 155,771 | 222,622 |
| Other | 21,166 | 17,874 |
| Allowance for doubtful accounts | (3,492) | (3,527) |
| Total investments and other assets | 446,943 | 577,376 |
| Total non-current assets | 21,562,644 | 21,518,173 |
| Total assets | 36,837,913 | 36,488,905 |

(Thousands of yen)

| | As of August 31, 2020 | As of May 31, 2021 |
|---|-----------------------|--------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 1,562,764 | 1,692,581 |
| Current portion of long-term borrowings | 1,840,000 | 2,777,500 |
| Accounts payable - other | 919,875 | 980,835 |
| Accrued expenses | 291,399 | 336,176 |
| Income taxes payable | 364,394 | 691,172 |
| Provision for bonuses | 223,835 | 121,438 |
| Provision for point card certificates | 44,320 | 67,842 |
| Provision for shareholder benefit program | 30,622 | - |
| Deposits received | 1,653,990 | 1,659,928 |
| Other | 331,404 | 224,545 |
| Total current liabilities | 7,262,606 | 8,552,020 |
| Non-current liabilities | | |
| Long-term borrowings | 17,420,000 | 15,102,500 |
| Deferred tax liabilities | 3,887,324 | 3,830,387 |
| Asset retirement obligations | 125,377 | 132,727 |
| Total non-current liabilities | 21,432,701 | 19,065,615 |
| Total liabilities | 28,695,308 | 27,617,636 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 848,666 | 848,666 |
| Capital surplus | 828,666 | 828,666 |
| Retained earnings | 6,328,053 | 6,683,699 |
| Treasury shares | (76) | (76) |
| Total shareholders' equity | 8,005,310 | 8,360,957 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | - | 33,489 |
| Foreign currency translation adjustment | 137,294 | 476,822 |
| Total accumulated other comprehensive income | 137,294 | 510,312 |
| Total net assets | 8,142,605 | 8,871,269 |
| Total liabilities and net assets | 36,837,913 | 36,488,905 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

Nine Months Ended May 31, 2021

(Thousands of yen)

| | For the nine months ended May 31, 2020 | For the nine months ended May 31, 2021 |
|--|---|---|
| Net sales | 19,559,007 | 18,170,734 |
| Cost of sales | 12,163,357 | 10,503,608 |
| Gross profit | 7,395,649 | 7,667,126 |
| Selling, general and administrative expenses | 5,667,164 | 6,352,310 |
| Operating profit | 1,728,485 | 1,314,815 |
| Non-operating income | | |
| Interest income | 135 | 128 |
| Foreign exchange gains | 50,396 | 86,700 |
| Subsidy income | 1,242 | 26,151 |
| Compensation income | - | 30,000 |
| Other | 9,016 | 19,066 |
| Total non-operating income | 60,790 | 162,045 |
| Non-operating expenses | | |
| Interest expenses | 41,385 | 50,097 |
| Other | 15,356 | 5,641 |
| Total non-operating expenses | 56,742 | 55,738 |
| Ordinary profit | 1,732,533 | 1,421,122 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 4,249 | 1,503 |
| Total extraordinary losses | 4,249 | 1,503 |
| Profit before income taxes | 1,728,283 | 1,419,618 |
| Income taxes - current | 746,343 | 835,902 |
| Income taxes - deferred | (141,033) | (241,217) |
| Total income taxes | 605,310 | 594,685 |
| Profit | 1,122,973 | 824,933 |
| Profit attributable to owners of parent | 1,122,973 | 824,933 |

Quarterly Consolidated Statement of Comprehensive Income
 Nine Months Ended May 31, 2021

(Thousands of yen)

| | For the nine months ended May 31, 2020 | For the nine months ended May 31, 2021 |
|--|---|---|
| Profit | 1,122,973 | 824,933 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | - | 33,489 |
| Foreign currency translation adjustment | 118,506 | 339,528 |
| Total other comprehensive income | 118,506 | 373,018 |
| Comprehensive income | 1,241,480 | 1,197,951 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 1,241,480 | 1,197,951 |
| Comprehensive income attributable to non-controlling interests | - | - |

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(Additional information)

There are no significant changes to our assumptions regarding the spread of COVID-19 pandemic and the time it will end that we stated in the securities report of the previous fiscal year as additional information.