

February 7, 2022

Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2021

[Japanese GAAP]

Company name: Arte Salon Holdings, Inc. Listings: Tokyo Stock Exchange
 Stock Code: 2406 URL: <https://www.arte-hd.com/>
 Representative: Shigeyoshi Yoshimura, President and Representative Director
 Contact: Mitsuharu Sakaguchi, Executive Officer and General Manager of Corporate Planning Department
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Expected date of Annual General Meeting of Shareholders: March 29, 2022
 Expected date of commencing dividend payments: March 30, 2022
 Expected date of filing Annual Securities Report: March 30, 2022
 Availability of supplementary materials for financial results: Yes
 Holding of financial results meetings/ briefing: Yes (for institutional investors and analysts)

(Amounts under one million yen have been rounded down.)

1. Consolidated financial results for the fiscal year ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(1) Consolidated operating results (Percentages indicate year-on-year changes)

	Net Sales		Operating profit		Ordinary Profit		Profit Attributable to owners of Parent	
Fiscal Year Ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2021	8,639	9.8	570	362.2	636	109.6	274	-
December 31, 2020	7,867	(7.4)	123	(76.0)	303	(42.2)	(196)	-

	Earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal Year Ended	Yen	Yen	Yen	%	%
December 31, 2021	27.71	-	9.8	7.3	6.6
December 31, 2020	(19.87)	-	(7.0)	3.6	1.6

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
December 31, 2021	9,121	2,926	32.1	295.65
December 31, 2020	8,347	2,673	32.0	270.00

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal Year Ended	Million yen	Million yen	Million yen	Million yen
December 31, 2021	1,377	(661)	(31)	1,879
December 31, 2020	339	(665)	(53)	1,195

2. Cash dividends

	Annual dividends per share					Total dividends	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal Year Ended December. 31, 2020	-	0.00	-	2.00	2.00	19	-	0.7
Fiscal Year Ended December. 31, 2021	-	0.00	-	5.00	5.00	49	18.0	1.8
Fiscal Year Ending December. 31, 2022 (Forecast)	-	-	-	-	-		-	

Note: The dividend forecast for the fiscal year ending December 31, 2022 is not provided because the Company's shares are scheduled to be delisted due to the implementation of a tender offer ("Tender Offer") for the Company's issued common shares by Genesis Co., Ltd. ("Offeror") and a series of subsequent procedures, as announced in the press release "Notice of Implementation of MBO and Recommendation of Tender Acceptance" dated February 7, 2022.

3. Consolidated Earnings Forecast for the fiscal year ending December 31, 2022 (January 1, 2022 – December 31, 2022)

The earnings forecast for the fiscal year ending December 31, 2022 is not provided because the Company's shares are scheduled to be delisted due to the implementation of Tender Offer by Offeror and a series of subsequent procedures, as announced in the press release "Notice of Implementation of MBO and Recommendation of Tender Acceptance" dated February 7, 2022.

*** Notes**

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

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

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

3) Changes in accounting-based estimates: Yes

4) Restatements: None

(3) Number of issued shares (common shares)

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

As of December 31, 2021	10,300,000 shares	As of December 31, 2020	10,300,000 shares
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Number of treasury shares at the end of the period

As of December 31, 2021	399,781 shares	As of December 31, 2020	399,743 shares
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Average number of shares outstanding during the period

Fiscal Year Ended December 31, 2021	9,900,249 shares	Fiscal Year Ended December 31, 2020	9,900,257 shares
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[Reference] Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes)

	Net Sales		Operating profit		Ordinary Profit		Profit Attributable to owners of Parent	
Fiscal Year Ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2021	2,389	(5.9)	101	94.4	143	(18.0)	15	-
December 31, 2020	2,539	1.7	52	(67.6)	175	(24.5)	(70)	-

	Earnings per share	Diluted earnings per share
Fiscal Year Ended	Yen	Yen
December 31, 2021	1.55	-
December 31, 2020	(7.17)	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
December 31, 2021	5,552	1,852	33.4	187.12
December 31, 2020	5,518	1,857	33.6	187.58

2. Non-consolidated Earnings Forecast for the fiscal year ending December 31, 2022 (January 1, 2022 – December 31, 2022)

The earnings forecast for the fiscal year ending December 31, 2022 is not provided because the Company's shares are scheduled to be delisted due to the implementation of Tender Offer by Offeror and a series of subsequent procedures, as announced in the press release "Notice of Implementation of MBO and Recommendation of Tender Acceptance" dated February 7, 2022.

***Cautionary statement with respect to financial forecasts and other special notes**

(Cautionary note regarding forward-looking statements)

The earnings forecast for the fiscal year ending December 31, 2022 is not provided because the Company's shares are scheduled to be delisted due to the implementation of Tender Offer by Offeror and a series of subsequent procedures, as announced in the press release "Notice of Implementation of MBO and Recommendation of Tender Acceptance" dated February 7, 2022.

(How to obtain supplementary explanatory materials for financial results and contents of financial results briefing)

From the perspective of preventing the spread of novel coronavirus infection, the Company plans to distribute a video presentation of its financial results for institutional investors and analysts on its website on February 9, 2022, in place of a financial results briefing. The supplementary explanatory materials for the financial results will be disclosed on TDnet and the Company's website on the same day.

Overview of business results

During the consolidated fiscal year under review (January 1, 2021 to December 31, 2021), the Japanese economy showed signs of recovery as the severe situation caused by the novel coronavirus infection gradually eased. While the recovery trend is expected to continue, supported by the effects of various policies, attention should be paid to the impact of the infection, including its variant, on the domestic and overseas economies and the effects of fluctuations in financial and capital markets.

Although the beauty salon industry was affected by the repeated issuance and extension of state of emergency declarations, demand for services has been solid, and the chain store sales of the Group have been recovering to the level before the COVID-19 related crisis. However, the outlook for the future infection status, including the spread of the variant, remains uncertain and the situation does not allow for optimism.

Under these circumstances, the Arte Group (“the Group”) has been thoroughly implementing anti-infection measures in accordance with the current situation of each store, including workplace vaccination for employees, placing top priority on the safety and health of customers and employees.

Based on a long-term portfolio strategy, we have developed multiple brands to meet the diverse needs of customers in each of our operating companies. With design-oriented salons such as Ash and New York • New York, which provide high-quality services, at the core of our operations, we are also opening maintenance salons under Choki Peta brand, which provide cut and color services at reasonable prices against the backdrop of growing demand for regular hair maintenance.

We conduct our business activities based on thorough hygiene management at each of our operating companies and brands to ensure the safety and security of our stores. At the same time, under the management philosophy of “providing beauty, health, and youthfulness to customers in the community and aiming to build companies that can establish a society of well-being with everyone involved in the Group,” we are implementing various measures to strengthen the unity of the Group, improve management efficiency, and build the best stores in the region.

In response to the prolonged impact of the novel coronavirus, we are focusing on measures to increase sales per customer, such as proposing value-added menus and strengthening the sales of salon retail products. At the same time, we are accelerating the digitalization and smartification of all aspects, including store operations, sales promotion, and technical training, to improve productivity and strengthen the earnings base that will support further growth of the Group in anticipation of the eventual digital transformation (DX) of the beauty industry.

For design-oriented salons, we are developing web marketing strategies for each salon by stylists with marketing skills, working to strengthen the counseling and proposal skills of our staff with the aim of retaining customers, and enhancing the latest hair care products and menus targeting customers with high sense of beauty, to provide high-value-added services.

Furthermore, we are also developing various private brands, including “ennic” series, a new line of original hair and skin care products containing people- and environment-friendly natural ingredients, to raise brand awareness.

As for Choki Peta, maintenance salons, we are mainly opening stores in commercial facilities to offer quick haircut and color services at reasonable prices during shopping, enhancing convenience and providing services tailored to customers’ lifestyles.

As a result of the above, the chain store sales of the Company's major subsidiaries for the fiscal year under review were as follows: Ash Co., Ltd. (“Ash”), 111.3% of the same period in the previous year; New York • New York Co., Ltd. (“NYNY”), 108.5%; Style Designer Inc. (“SD”), 104.6%; and C&P Co., Ltd. (“C&P”), 121.6%. The number of customers of the Company's major subsidiaries was 107.8% of the same period in the previous year. Accordingly, net sales at all chain stores of the Group totaled 18,611 million yen (110.3%).

During the fiscal year under review, the number of stores operated by the Group's consolidated subsidiaries totaled 336 (Ash, 130 stores; NYNY, 42 stores; SD, 99 stores; C&P, 56 stores; and Diamond Eyes Co., Ltd., 9 stores). Including one overseas store (Republic of Singapore), the number of stores in the Group reached 337. The number of Choki Peta stores in the Kansai region operated by NYNY was 10, and the total number of franchise stores in the Group totaled 229 (Ash, 106 stores; NYNY, 22 stores; SD, 99 stores; and C&P, 2 stores).

As a result, consolidated earnings for the fiscal year under review were as follows: Net sales amounted to 8,639 million yen (109.8% of the same period in the previous year), operating profit was 570 million yen (462.2 % of the same period in the previous year), ordinary profit was 636 million yen (209.6 % of the same period in the previous year), and profit attributable to owners of parent came to 274 million yen (compared with a loss attributable to owners of parent of 196 million yen for the same period in the previous year).

The description by segment is omitted because the Company Group engages in a single segment of beauty salon chain business.

Outlook

The earnings forecast for the fiscal year ending December 31, 2022 is not provided because the Company's shares are scheduled to be delisted due to the implementation of Tender Offer by Offeror and a series of subsequent procedures, as announced in the press release “Notice of Implementation of MBO and Recommendation of Tender Acceptance” dated February 7, 2022.

Consolidated financial statements

Consolidated balance sheets

(Thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	1,195,214	1,879,777
Accounts receivable - trade	422,352	473,706
Merchandise	145,259	153,336
Supplies	14,701	10,859
Advances paid	528,195	592,259
Other	426,048	318,486
Allowance for doubtful accounts	(5,024)	(5,496)
Total current assets	2,726,749	3,422,929
Non-current assets		
Property, plant and equipment		
Buildings	6,479,813	6,938,718
Accumulated depreciation and impairment	(3,647,405)	(3,908,842)
Buildings, net	2,832,408	3,029,876
Vehicles	26,623	26,861
Accumulated depreciation	(16,306)	(19,599)
Vehicles, net	10,316	7,261
Tools, furniture and fixtures	1,409,650	1,477,519
Accumulated depreciation and impairment	(963,983)	(1,049,971)
Tools, furniture and fixtures, net	445,667	427,548
Land	136,182	136,182
Leased assets	18,021	18,021
Accumulated depreciation	(3,754)	(7,696)
Leased assets, net	14,267	10,324
Construction in progress	367	60
Total property, plant and equipment	3,439,209	3,611,254
Intangible assets		
Goodwill	211,186	145,650
Other	69,421	41,338
Total intangible assets	280,607	186,989
Investments and other assets		
Investment securities	24,542	22,754
Long-term loans receivable	84,380	64,480
Leasehold and guarantee deposits	1,408,276	1,395,581
Deferred tax assets	183,776	211,644
Other	204,830	209,394
Allowance for doubtful accounts	(5,353)	(3,826)
Total investments and other assets	1,900,453	1,900,029
Total non-current assets	5,620,270	5,698,272
Total assets	8,347,019	9,121,202

(Thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	98,446	108,053
Short-term borrowings	150,000	150,000
Current portion of long-term borrowings	532,455	1,151,280
Accounts payable - other	1,722,424	1,744,856
Lease obligations	3,243	3,243
Income taxes payable	46,214	170,565
Provision for bonuses	4,128	—
Provision for shareholder benefit program	28,815	20,566
Asset retirement obligations	17,410	25,733
Other	190,861	349,059
Total current liabilities	2,794,000	3,723,359
Non-current liabilities		
Long-term borrowings	2,040,030	1,412,950
Lease obligations	12,434	9,191
Retirement benefit liability	72,279	71,531
Long-term leasehold and guarantee deposits received	163,927	137,068
Asset retirement obligations	549,855	799,337
Provision for shareholder benefit program	3,262	2,482
Other	38,125	38,292
Total non-current liabilities	2,879,914	2,470,853
Total liabilities	5,673,915	6,194,213
Net assets		
Shareholders' equity		
Share capital	498,000	498,000
Capital surplus	860,292	860,292
Retained earnings	1,426,357	1,680,929
Treasury shares	(113,425)	(113,447)
Total shareholders' equity	2,671,223	2,925,774
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,880	1,214
Total accumulated other comprehensive income	1,880	1,214
Total net assets	2,673,103	2,926,989
Total liabilities and net assets	8,347,019	9,121,202

Consolidated statements of income

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales	7,867,546	8,639,175
Cost of sales	5,868,727	6,269,808
Gross profit	1,998,819	2,369,366
Selling, general and administrative expenses	1,875,354	1,798,669
Operating profit	123,465	570,696
Non-operating income		
Interest income	2,216	1,276
Dividend income	53	53
Insurance claim income	235	1,611
Commission income	26,571	8,236
Reversal of allowance for doubtful accounts	3,460	1,389
Compensation income	—	7,170
Subsidy income	154,880	58,797
Other	16,392	11,754
Total non-operating income	203,810	90,289
Non-operating expenses		
Interest expenses	19,563	17,520
Other	4,181	7,416
Total non-operating expenses	23,745	24,937
Ordinary profit	303,530	636,048
Extraordinary income		
Gain on sale of non-current assets	687	—
Gain on termination of franchise agreement	—	3,847
Compensation income	—	15,184
Subsidy income	79,873	5,389
Total extraordinary income	80,561	24,421
Extraordinary losses		
Loss on retirement of non-current assets	2,178	2,384
Loss on valuation of investment securities	20,000	—
Loss on store closings	17,882	8,527
Impairment losses	119,113	166,951
Differences between the asset retirement liability balance and the actual retirement	50,435	15,412
Infectious disease-related losses	339,125	12,168
Other	725	—
Total extraordinary losses	549,461	205,445
Profit (loss) before income taxes	(165,369)	455,024
Income taxes - current	89,232	208,196
Income taxes - deferred	(58,998)	(27,544)
Income taxes - correction	1,162	—
Total income taxes	31,395	180,652
Profit (loss)	(196,765)	274,372
Profit (loss) attributable to owners of parent	(196,765)	274,372

Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	(165,369)	455,024
Depreciation	515,377	546,351
Impairment losses	119,113	166,951
Amortization of guarantee deposits	3,682	—
Amortization of goodwill	68,494	63,086
Depreciation and amortization on other	1,015	3,845
Increase (decrease) in retirement benefit liability	(824)	(748)
Increase (decrease) in allowance for doubtful accounts	(3,034)	(1,055)
Increase (decrease) in provision for bonuses	(671)	(4,128)
Increase (decrease) in provision for shareholder benefit program	27,691	(9,028)
Interest and dividend income	(2,269)	(1,330)
Subsidy income	(234,754)	(64,187)
Interest expenses	19,563	17,520
Foreign exchange losses (gains)	279	(438)
Loss (gain) on sale of property, plant and equipment	(687)	—
Gain on termination of franchise agreement	—	(4,507)
Compensation income	—	(22,354)
Insurance claim income	(235)	(1,611)
Loss on retirement of non-current assets	2,178	2,384
Loss on store closings	17,882	8,527
Differences between the asset retirement liability balance and the actual retirement	50,435	14,886
Infectious disease-related losses	339,125	12,168
Loss (gain) on valuation of investment securities	20,443	395
Decrease (increase) in trade receivables	59,034	(51,354)
Decrease (increase) in inventories	(62,845)	(4,234)
Decrease (increase) in advances paid	26,491	(64,064)
Decrease (increase) in other assets	(52,425)	65,987
Increase (decrease) in trade payables	3,193	9,607
Increase (decrease) in accounts payable - other	(49,763)	75,424
Increase (decrease) in accrued consumption taxes	(66,876)	115,892
Increase (decrease) in other liabilities	15,339	34,775
Subtotal	649,584	1,363,788
Interest and dividends received	2,312	1,320
Interest paid	(19,596)	(17,398)
Proceeds from compensation	—	22,354
Proceeds from insurance income	235	1,611
Income taxes paid	(163,690)	(83,845)
Subsidies received	197,534	101,407
Infectious disease-related loss payments	(327,116)	(11,813)
Net cash provided by (used in) operating activities	339,262	1,377,424

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from investing activities		
Purchase of property, plant and equipment	(574,215)	(629,449)
Proceeds from sale of property, plant and equipment	15,830	—
Purchase of intangible assets	(22,351)	(8,740)
Payments for asset retirement obligations	(57,210)	(20,089)
Purchase of investment securities	(204)	(166)
Proceeds from Refund of investment in partnerships	—	569
Loan advances	(27,864)	(13,368)
Proceeds from collection of loans receivable	97,749	35,449
Purchase of insurance funds	(6,966)	(6,888)
Payments of leasehold and guarantee deposits	(75,239)	(74,254)
Proceeds from refund of leasehold and guarantee deposits	85,947	86,530
Refund of guarantee deposits received	(7,016)	(24,894)
Guarantee deposits received	18,610	4,210
Acquisition of goodwill	(113,000)	(10,500)
Net cash provided by (used in) investing activities	(665,929)	(661,590)
Cash flows from financing activities		
Proceeds from short-term borrowings	3,150,000	3,000,000
Repayments of short-term borrowings	(3,150,000)	(3,000,000)
Proceeds from long-term borrowings	600,000	560,000
Repayments of long-term borrowings	(576,580)	(568,255)
Repayments of lease obligations	(3,243)	(3,243)
Purchase of treasury shares	—	(21)
Dividends paid	(74,124)	(19,751)
Net cash provided by (used in) financing activities	(53,948)	(31,271)
Net increase (decrease) in cash and cash equivalents	(380,615)	684,562
Cash and cash equivalents at beginning of period	1,575,830	1,195,214
Cash and cash equivalents at end of period	1,195,214	1,879,777