

Consolidated Financial Results for the Six Months Ended February 28, 2022 [Japanese GAAP]



April 8, 2022

Company name: CURVES HOLDINGS Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange Prime Market
 Stock code: 7085
 URL: <https://www.curvesholdings.co.jp/>
 Representative: Takeshi Masumoto, Representative Director and President
 Contact: Shinya Matsuda, Director and General Manager, Administration Division
 Tel: +81-3-5418-9922
 Scheduled date of filing quarterly securities report: April 12, 2022
 Scheduled date of commencing dividend payments: May 12, 2022
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Scheduled

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

1. Consolidated Financial Results for the Six Months Ended February 28, 2022 (September 1, 2021 to February 28, 2022)

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|-------------------|-------------|--------|------------------|--------|-----------------|--------|---|--------|
| Six months ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| February 28, 2022 | 13,443 | 13.0 | 1,729 | 98.4 | 1,850 | 176.5 | 1,207 | 247.5 |
| February 28, 2021 | 11,891 | (17.6) | 871 | (70.8) | 669 | (78.0) | 347 | (83.1) |

(Note) Comprehensive income: Six months ended February 28, 2022: 1,706 million yen [-%]
 Six months ended February 28, 2021: (121) million yen [-%]

| | Earnings per share | Diluted earnings per share |
|-------------------|--------------------|----------------------------|
| Six months ended | Yen | Yen |
| February 28, 2022 | 12.90 | - |
| February 28, 2021 | 3.70 | - |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|-------------------|--------------|-------------|--------------|
| As of | Million yen | Million yen | % |
| February 28, 2022 | 34,559 | 9,153 | 26.5 |
| August 31, 2021 | 36,284 | 9,163 | 25.3 |

(Reference) Equity: As of February 28, 2022: 9,153 million yen
 As of August 31, 2021: 9,163 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, 2021 | - | 0.00 | - | 5.00 | 5.00 |
| Fiscal year ending August 31, 2022 | - | 3.50 | | | |
| Fiscal year ending August 31, 2022 (Forecast) | | | - | 3.50 | 7.00 |

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2022 (September 1, 2021 to August 31, 2022) (% 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 | 26,550 | 7.6 | 2,500 | 54.1 | 2,450 | 42.7 | 1,598 | 41.5 |
| | | | | | | | | 17.20 |

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Changes in significant subsidiaries during the six months ended February 28, 2022 (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 restatements

1) Changes in accounting policies due to the revision of accounting standards: Yes

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):

February 28, 2022: 93,857,493 shares

August 31, 2021: 93,857,493 shares

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

February 28, 2022: 1,800,121 shares

August 31, 2021: 121 shares

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

Six months ended February 28, 2022: 93,600,229 shares

Six months ended February 28, 2021: 93,857,372 shares

(Note) The total number of treasury shares at the end of the period include shares of the Company (1,800,000 shares on February 28, 2022 and 0 shares on August 31, 2021) held by Custody Bank of Japan, Ltd. (Trust Account E). In addition, shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account E) are included in treasury shares that are subtracted in calculating the average number of shares during the period. (257,143 shares during the six months ended February 28, 2022 and 0 shares during the six months ended February 28, 2021)

* 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. See “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” in the section, “1. Qualitative Information on Quarterly Financial Results for the Period under Review,” on page 4 of the attached material for the assumptions used in the financial results forecast and precautions for using the financial results forecast.

(How to obtain supplementary briefing materials on the financial results and the content of the financial results briefing session)

In light of the COVID-19 pandemic, the Company’s results briefing will be held by posting video recorded in advance on its website (<https://www.curvesholdings.co.jp/>) on Friday, April 15, 2022.

The Company will post supplementary briefing material on annual financial results featured in the video on TDnet and the Company’s website on the same day.

Table of Contents

| | |
|--|----|
| 1. Qualitative Information on Quarterly Financial Results for the Period under Review | 2 |
| (1) Explanation of Operations Results | 2 |
| (2) Explanation of Financial Position | 3 |
| (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information | 4 |
| 2. Quarterly Consolidated Financial Statements and Primary Notes | 6 |
| (1) Quarterly Consolidated Balance Sheets | 6 |
| (2) Quarterly Consolidated Statements of Income and Comprehensive Income | 8 |
| (3) Quarterly Consolidated Statement of Cash Flows | 10 |
| (4) Notes to Quarterly Consolidated Financial Statements | 11 |
| (Notes on going concern assumption) | 11 |
| (Notes in the case of significant changes in shareholders' equity) | 11 |
| (Changes in accounting policies) | 11 |
| (Additional information) | 12 |

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-based 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 over the medium- to long-term, promoting substantial growth of the disease-prevention and 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.

In this management environment, the Group aims to achieve a business recovery and establish business models in the new management environment by the end of December 2022. It is pursuing strategies positioning the fiscal year ending August 31, 2022 (from September 1, 2021, to August 31, 2022) as the fiscal year for ensuring that such goals are achieved.

The net increase in the number of members, the most important indicator of the Group’s business recovery, was 25K from 693K as of the end of the previous fiscal year and totaled 718K (including online members).

Due to seasonal factors, the number of new members remains low and membership declines during the second quarter (the period from December through February) every year.

During the second quarter of the fiscal year under review (from December 2021 to February 2022), COVID-19 quasi-emergency measures (priority preventative measures) were in place in some areas in response to the spread of the Omicron variant, which slightly affected new membership acquisition. However, the monthly membership attrition rate held below the pre-COVID-19 level, reflecting service quality improvement measures that the Group continued to take to raise customer satisfaction. In addition, the Group worked to expand sales of merchandise such as protein through diet consultations for members.

Despite the prolonged COVID-19 pandemic, the Group continued working to increase customer satisfaction by improving the quality of services provided to members. As a result, the Group was ranked first in the fitness club category in the Japanese Customer Satisfaction Index (JCSI) survey, which was conducted by the Service Productivity & Innovation for Growth (SPRING) of the Japan Productivity Center, for seven consecutive years (during 2014 to 2021, excluding 2020 when the survey of five industries including fitness clubs was not conducted in consideration of the impact of the COVID-19 pandemic). The Group is the first in the fitness club industry to be ranked first in the survey for seven or more consecutive years.

The Group proceeded with the closure and merging of the clubs that have been severely affected by COVID-19, and approximately 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 February 28, 2022 were as follows.

Number of Curves facilities (excluding Men's Curves) and membership in Japan

| Number of Curves facilities (excluding Men's Curves) and membership in Japan | | | | | |
|--|--------------------------|-------------------------|---|--------|---|
| | As of August 31, 2021 | As of February 28, 2022 | | | * Reference: Numbers before COVID-19 As of February 29, 2020 |
| | | | Changes from end of previous fiscal year | | |
| Number of facilities | 1,958 facilities | 1,951 facilities | A decrease of 7 facilities | (0.4)% | 2,014 facilities |
| Of which, number of corporate operated facilities | 75 facilities | 75 facilities | — | — | 65 facilities |
| Number of franchisee facilities | 1,883 facilities | 1,876 facilities | A decrease of 7 facilities | (0.4)% | 1,949 facilities |
| Membership | 693K | 718K | 25K | 3.6% | 832K |

(Notes) 1. In the second quarter of the fiscal year under review, the number of new club opening was zero and the number of clubs closed and merged was 2.

2. Curves membership in Japan includes the number of members of online fitness program, Ouchi de Curves (Curves at Home).

The fitness club for men, Men's Curves, opened two new locations, making the total number of clubs to nine.

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 first six months of the fiscal year under review (December 31, 2021 (two-month lag due to difference in fiscal year end)), there were 152 Curves facilities in Europe (UK, Italy, Spain and five other countries, all facilities are franchisees' facilities).

Selling, general and administrative expenses decreased 496 million yen from the first quarter of the fiscal year under review due in part to the containment of marketing expenses reflecting seasonal factors. Compared to the second quarter of the previous fiscal year, when the state of emergency was in place, both marketing expenses and ordinary expenses increased, up 266 million yen year on year.

As a result, net sales for the first six months of the fiscal year under review were 13,443 million yen (up 13.0% year on year), leading to operating profit of 1,729 million yen (up 98.4% year on year). Ordinary profit was 1,850 million yen (up 176.5% 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 1,207 million yen (up 247.5% year on year) mainly due to the posting of income taxes - current of 748 million yen.

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 February 28, 2022 decreased by 1,725 million yen, compared to the end of the previous fiscal year to 34,559 million yen (down 4.8% from the end of the previous fiscal year).

Current assets decreased by 1,829 million yen to 13,131 million yen (down 12.2% year on year). This was mainly due to a decrease of 2,450 million yen in cash and deposits.

Property, plant and equipment decreased by 12 million yen to 493 million yen (down 2.4% year on year).

Intangible assets increased by 136 million yen to 20,264 million yen (up 0.7% year on year). This was primarily due to an increase of 158 million yen in trademark right, which resulted from currency exchange fluctuations.

Investments and other assets decreased by 20 million yen to 669 million yen (down 3.0% year on year).

Total non-current assets increased by 104 million yen to 21,427 million yen (up 0.5% year on year).

(Liabilities)

Current liabilities decreased by 206 million yen to 8,723 million yen (down 2.3% year on year). This was

primarily due to a decrease of 554 million yen in accounts payable - other, which more than offset an increase of 342 million yen in notes and accounts payable - trade.

Non-current liabilities decreased by 1,508 million yen to 16,682 million yen (down 8.3% year on year). This was mainly due to a decrease of 1,545 million yen in long-term borrowings.

Total liabilities decreased by 1,715 million yen to 25,405 million yen (down 6.3% year on year).

(Net assets)

Net assets decreased by 9 million yen to 9,153 million yen (down 0.1% year on year). This was mainly because treasury shares stood at 1,247 million yen as a result of the purchase of treasury shares associated with the introduction of Employee Stock Ownership Plan (J-ESOP and Board Benefit Trust, or BBT), which was partly offset by an increase of 738 million yen in retained earnings that resulted from the recording of profit attributable to owners of parent of 1,207 million yen and payment of dividends of 469 million yen.

(Status of cash flows)

The balance of cash and cash equivalents (hereinafter referred to as “net cash”) as of February 28, 2022 was 7,045 million yen, a decrease of 2,715 million yen compared with the end of the previous fiscal year.

(Cash flows from operating activities)

As a result of operating activities during the six months ended February 28, 2022, net cash provided by operating activities increased by 931 million yen (from 1,628 million yen in the same period of the previous fiscal year). This was mainly attributable to profit before income taxes of 1,849 million yen, depreciation of 377 million yen, amortization of trademark right of 527 million yen, and income taxes paid of 793 million yen.

(Cash flows from investing activities)

As a result of investing activities during the six months ended February 28, 2022, net cash used in investing activities stood at 420 million yen (as compared to 251 million yen in the same period of the previous fiscal year). This was mainly attributable to purchase of intangible assets of 231 million yen and purchase of property, plant and equipment of 183 million yen.

(Cash flows from financing activities)

As a result of financing activities during the six months ended February 28, 2022, net cash used in financing activities stood at 3,261 million yen (as compared to 1,389 million yen in the same period of the previous fiscal year). This was caused by repayments of long-term borrowings of 1,545 million yen, 1,247 million yen spent for the purchase of treasury shares, and dividends paid of 469 million yen.

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

The Group aims to achieve a business recovery and establish business models in the new management environment by the end of December 2022. It is pursuing strategies positioning the fiscal year ending August 31, 2022 (from September 1, 2021, to August 31, 2022) as the year for ensuring that such goals are achieved.

During the second quarter of the fiscal year under review (from December 2021 to February 2022), COVID-19 quasi-emergency measures (priority preventative measures) were in place in some areas in response to the spread of the Omicron variant, which slightly affected new membership acquisition. However, the monthly membership attrition rate was held below the pre-COVID-19 level, reflecting service quality improvement measures that the Group continued to take to raise customer satisfaction. In addition, the Group worked to expand sales of merchandise such as protein through diet consultations for members.

However, the Group's first priority, an early recovery of membership, was yet to be achieved and the business environment continues to be unclear and unstable. The Group recognizes that in order to early achieve business recovery and establish business models in the new management environment in these circumstances, the following measures continue to be important.

(i) Further improve customer satisfaction and protect and foster the Group's 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. Consequently, the Group plans to continue to strengthen its marketing and other strategic investments.

The Group's outlook for the full-year consolidated results for the fiscal year ending August 31, 2022 has not changed since the announcement on October 8, 2021. The Group expects net sales of 26,550 million yen (up 7.6% year on year), operating profit of 2,500 million yen (up 54.1% year on year), ordinary profit of 2,450 million yen (up 42.7% year on year), and profit attributable to owners of parent of 1,598 million yen (up 41.5% year on year).

Details of the outlook for the full-year consolidated results as of October 8, 2021 are provided below.

Assumptions about the Business Environment

The financial forecasts have been prepared on the assumption of a case in which the impact of the COVID-19 pandemic gradually eases thanks to an increase in the vaccination rate, progress in medical systems for COVID-19 treatment, and other improvements, and gradual resumption of normal daily life while still taking preventive measures.

While another surge in infections caused by new variants, a decrease in hospital availability, and other changes may cause a significant impact on the social and economic activities again, the financial forecasts in this report do not assume such a case.

Domestic Business

- Regarding the number of facilities in the fiscal year ending August 31, 2022, the Group has continued to close and merge franchisee facilities that have been significantly affected by COVID-19. The number of facilities is forecast to be 1,933 at the end of the period, a net decrease of 25 facilities from the end of the previous fiscal year.
- The number of members was 832K as of February 29, 2020, decreased to 545K (excluding absent members) by May 31, 2020, due to the pandemic, and recovered to 693K by August 31, 2021. During the fiscal year ending August 31, 2022, the Group expects a recovery in new membership as a result of appealing promotional campaigns carried out three times in the year and other efforts to achieve an early recovery. It forecasts that the number of members at the end of the fiscal year will be 798K (including online members).
- The number of subscriptions and sales volume of merchandise sales to members are expected to rise in line with the increase in membership.
- To achieve business recovery and establish business models in the new management environments by the end of 2022 (December 31, 2022), the quick recovery of membership is a priority issue. To this end, the Group plans to actively spend on marketing and continue its strategic investment in new business development.

Overseas Business

- The Group's fitness clubs in Europe, a key area of focus (UK, Italy, Spain, etc.), are resuming business activities and the number of members is also recovering. The Group will develop and implement strategies adapted to the changing management environment while experimenting with new business models including the sale of online fitness programs, gradually starting from regions where the social and economic impact has subsided. For this reason, the Group forecasts that the full-year operating result will continue to be a deficit.

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, 2021 | As of February 28, 2022 |
|--|-----------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 9,760,075 | 7,309,617 |
| Notes and accounts receivable - trade | 3,857,456 | 4,031,275 |
| Merchandise | 1,092,413 | 1,590,823 |
| Raw materials and supplies | 4,249 | 6,101 |
| Other | 423,056 | 388,711 |
| Allowance for doubtful accounts | (176,103) | (195,192) |
| Total current assets | 14,961,146 | 13,131,335 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 208,262 | 208,951 |
| Vehicles, tools, furniture and fixtures, net | 297,468 | 284,651 |
| Total property, plant and equipment | 505,730 | 493,603 |
| Intangible assets | | |
| Goodwill | 1,346,271 | 1,356,834 |
| Trademark right | 17,431,010 | 17,589,677 |
| Software | 815,317 | 875,731 |
| Other | 535,473 | 442,523 |
| Total intangible assets | 20,128,072 | 20,264,767 |
| Investments and other assets | | |
| Investment securities | 60,200 | 28,000 |
| Leasehold and guarantee deposits | 291,474 | 294,549 |
| Deferred tax assets | 288,275 | 294,278 |
| Other | 53,529 | 57,037 |
| Allowance for doubtful accounts | (3,561) | (4,391) |
| Total investments and other assets | 689,917 | 669,474 |
| Total non-current assets | 21,323,720 | 21,427,844 |
| Total assets | 36,284,867 | 34,559,180 |

(Thousands of yen)

| | As of August 31, 2021 | As of February 28, 2022 |
|---|-----------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 1,690,879 | 2,033,050 |
| Current portion of long-term borrowings | 3,090,000 | 3,090,000 |
| Accounts payable - other | 868,646 | 313,680 |
| Accrued expenses | 324,313 | 266,030 |
| Income taxes payable | 694,617 | 618,166 |
| Provision for bonuses | 238,117 | 242,416 |
| Provision for point card certificates | 69,880 | 90,708 |
| Provision for shareholder benefit program | 19,810 | - |
| Deposits received | 1,731,552 | 1,766,679 |
| Other | 202,056 | 302,269 |
| Total current liabilities | 8,929,876 | 8,723,001 |
| Non-current liabilities | | |
| Long-term borrowings | 14,330,000 | 12,785,000 |
| Deferred tax liabilities | 3,728,604 | 3,764,659 |
| Asset retirement obligations | 132,778 | 132,879 |
| Total non-current liabilities | 18,191,383 | 16,682,538 |
| Total liabilities | 27,121,259 | 25,405,540 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 848,666 | 848,666 |
| Capital surplus | 828,666 | 828,666 |
| Retained earnings | 6,988,449 | 7,726,552 |
| Treasury shares | (76) | (1,247,476) |
| Total shareholders' equity | 8,665,706 | 8,156,409 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 26,294 | 5,232 |
| Foreign currency translation adjustment | 471,607 | 991,997 |
| Total accumulated other comprehensive income | 497,902 | 997,230 |
| Total net assets | 9,163,608 | 9,153,640 |
| Total liabilities and net assets | 36,284,867 | 34,559,180 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

Six Months Ended February 28, 2022

(Thousands of yen)

| | For the six months ended February 28, 2021 | For the six months ended February 28, 2022 |
|--|---|---|
| Net sales | 11,891,843 | 13,443,422 |
| Cost of sales | 6,928,218 | 7,537,888 |
| Gross profit | 4,963,625 | 5,905,533 |
| Selling, general and administrative expenses | 4,092,037 | 4,176,314 |
| Operating profit | 871,587 | 1,729,219 |
| Non-operating income | | |
| Interest income | 89 | 104 |
| Foreign exchange gains | - | 126,378 |
| Subsidy income | 16,825 | 11,148 |
| Other | 11,023 | 11,365 |
| Total non-operating income | 27,937 | 148,997 |
| Non-operating expenses | | |
| Interest expenses | 33,338 | 27,572 |
| Foreign exchange losses | 196,793 | - |
| Other | 187 | 157 |
| Total non-operating expenses | 230,319 | 27,729 |
| Ordinary profit | 669,205 | 1,850,487 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 181 | 643 |
| Total extraordinary losses | 181 | 643 |
| Profit before income taxes | 669,024 | 1,849,843 |
| Income taxes - current | 527,082 | 748,040 |
| Income taxes - deferred | (205,469) | (105,587) |
| Total income taxes | 321,613 | 642,453 |
| Profit | 347,411 | 1,207,389 |
| Profit attributable to owners of parent | 347,411 | 1,207,389 |

Quarterly Consolidated Statement of Comprehensive Income
Six Months Ended February 28, 2022

(Thousands of yen)

| | For the six months ended February 28, 2021 | For the six months ended February 28, 2022 |
|--|---|---|
| Profit | 347,411 | 1,207,389 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | - | (21,062) |
| Foreign currency translation adjustment | (468,499) | 520,390 |
| Total other comprehensive income | (468,499) | 499,328 |
| Comprehensive income | (121,088) | 1,706,718 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (121,088) | 1,706,718 |
| Comprehensive income attributable to non-controlling interests | - | - |

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

| | For the six months ended February 28, 2021 | For the six months ended February 28, 2022 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 669,024 | 1,849,843 |
| Depreciation | 284,359 | 377,393 |
| Amortization of goodwill | 39,422 | 41,936 |
| Amortization of trademark right | 494,401 | 527,245 |
| Increase (decrease) in allowance for doubtful accounts | (6,311) | 13,049 |
| Increase (decrease) in provision for bonuses | 1,867 | 3,832 |
| Interest and dividend income | (89) | (104) |
| Interest expenses | 33,338 | 27,572 |
| Foreign exchange losses (gains) | 196,749 | (126,410) |
| Decrease (increase) in trade receivables | (313,774) | (153,386) |
| Decrease (increase) in inventories | 226,560 | (498,955) |
| Increase (decrease) in trade payables | 92,098 | 339,352 |
| Loss on retirement of property, plant and equipment | 181 | 643 |
| Decrease (increase) in prepaid expenses | (35,608) | 14,428 |
| Increase (decrease) in accounts payable - other | (334,972) | (439,750) |
| Increase (decrease) in accrued expenses | 55,434 | (59,501) |
| Other | 135,238 | (164,419) |
| Subtotal | 1,537,921 | 1,752,768 |
| Interest and dividends received | 89 | 104 |
| Interest paid | (33,338) | (27,572) |
| Income taxes refund (paid) | 124,249 | (793,572) |
| Net cash provided by (used in) operating activities | 1,628,921 | 931,729 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (46,268) | (183,415) |
| Purchase of intangible assets | (189,067) | (231,549) |
| Payments of guarantee deposits | (15,186) | (3,465) |
| Proceeds from refund of guarantee deposits | 432 | 390 |
| Other | (1,453) | (2,245) |
| Net cash provided by (used in) investing activities | (251,543) | (420,285) |
| Cash flows from financing activities | | |
| Repayments of long-term borrowings | (920,000) | (1,545,000) |
| Purchase of treasury shares | - | (1,247,400) |
| Dividends paid | (469,286) | (469,286) |
| Net cash provided by (used in) financing activities | (1,389,286) | (3,261,686) |
| Effect of exchange rate change on cash and cash equivalents | (6,603) | 35,185 |
| Net increase (decrease) in cash and cash equivalents | (18,511) | (2,715,057) |
| Cash and cash equivalents at beginning of period | 9,533,587 | 9,760,075 |
| Cash and cash equivalents at end of period | 9,515,075 | 7,045,017 |

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Because the Company has introduced an Employee Stock Ownership Plan ("J-ESOP") and a Board Benefit Trust (BBT) during the second quarter of the fiscal year under review, Mizuho Trust & Banking Co., Ltd. as the trustee acquired 1,800,000 shares of the Company for 1,247,400,000 yen. As a result, treasury shares were 1,247,476,000 yen as of February 28, 2022.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 dated March 31, 2020; hereinafter, "Revenue Recognition Accounting Standard"), etc. at the beginning of the first three months of the fiscal year under review. Under this standard, revenue is recognized, when the Company transfers the control of a promised good or service to a customer, in an amount that the Company expects to receive in exchange for such good or service.

As a result, while the Company had previously recognized franchise fees as revenues at a single point in time, the Company made a switch to the method of estimating the degree of progress concerning obligation performance and recognizing revenues over a fixed period based on the degree of progress.

The Company applies the Revenue Recognition Accounting Standard, etc. pursuant to the transitional treatment provided for in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. However, adopting the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the Company does not apply the new accounting policies retroactively to contracts prior to the beginning of the first quarter wherein almost all revenues are recognized in accordance with the previous treatment.

As a result, the effect of the application of the above accounting standard on the profit and loss of the first six months of the fiscal year under review is insignificant. There is also no impact on the balance of retained earnings at the beginning of the fiscal year under review.

In accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue from contracts with customers for the first six months of the previous fiscal year is not stated.

(Application of accounting standard for fair value measurement, etc.)

The Company has decided to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter the "Fair Value Measurement Accounting Standard"), etc. from the beginning of the first three months of the fiscal year under review and to continue to apply the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. according to the provisional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application has no impact on the quarterly consolidated financial statements.

(Additional information)

(Accounting estimates on the impact of the COVID-19 pandemic)

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.

(Transactions of delivering the Company's shares to employees, etc. through the trust)

Based on the resolution passed by the Board of Directors on October 18, 2021, the Company introduced an Employee Stock Ownership Plan (J-ESOP; hereinafter, the "Plan"), an incentive plan under which the Company's stock is granted to employees of the Company and its subsidiaries (hereinafter, "Eligible Employees"), on January 31, 2022.

(i) Overview of transactions

The Plan is a system that provides benefits in the form of the Company's stock to Eligible Employees who meet certain requirements set forth in the Stock Benefit Regulations that were established by the Company when it introduced the Plan.

To acquire stock to grant in the future, the Company has entrusted money as trust assets under the Plan to Custody Bank of Japan, Ltd. (Trust Account E), which has acquired the Company's stock by using the entrusted money.

(ii) Treasury shares remaining in the trust

The Company's shares remaining in the trust are recorded at the book value (excluding all incidental expenses) in the section of net assets as treasury shares in the trust. The book value and number of these treasury shares were 1,074,150,000 yen and 1,550,000 shares as of February 28, 2022.

(Transactions of delivering the Company's shares to directors, etc. through the trust)

Based on the resolution passed at the General Shareholders Meeting that was held on November 25, 2021, the Company introduced on January 31, 2022 the Board Benefit Trust (hereinafter, "BBT"), a new stock compensation plan for the Company's directors (excluding directors who are Audit and Supervisory Committee members and other directors who are outside directors; the same applies hereinafter unless otherwise noted), the Company's executive officers, directors of the Company's subsidiaries (excluding outside directors; the same applies hereinafter unless otherwise noted), and executive officers of the Company's subsidiaries (hereinafter, directors and executive officers of the Company and its subsidiaries are collectively referred to as "Eligible Officers").

(i) Overview of transactions

Under BBT, the Company's stock is granted to Eligible Officers who meet beneficiary requirements set forth in the Officer Stock Benefit Regulations that were established by the Company when it introduced BBT.

To acquire stock to grant in the future, the Company has entrusted money as trust asset under BBT to Custody Bank of Japan, Ltd. (Trust Account E), which has acquired the Company's stock by using the entrusted money.

(ii) Treasury shares remaining in the trust

The Company's shares remaining in the trust are recorded at the book value (excluding all incidental expenses) in the section of net assets as treasury shares in the trust. The book value and number of these treasury shares were 173,250,000 yen and 250,000 shares as of February 28, 2022.