AOKI Holdings

August 7, 2019

Summary of Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2020 (Three Months Ended June 30, 2019)

[Japanese GAAP]

Company name: AOKI Holdings Inc.
Listings: TSE First Section
Stock code: 8214
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Scheduled date of filing of Quarterly Report: August 8, 2019
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on August 7, 2019 at 15:00 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2019 (April 1, 2019 – June 30, 2019)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2019	43,334	(3.9)	228	(66.1)	(125)	-	(288)	-
Three months ended Jun. 30, 2018	45,113	(3.0)	673	(28.7)	165	(80.8)	(296)	-

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2019: (434) (-%)
Three months ended Jun. 30, 2018: (289) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2019	(3.35)	-
Three months ended Jun. 30, 2018	(3.43)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2019	231,210	142,568	61.6
As of Mar. 31, 2019	232,056	145,671	62.7

Reference: Shareholders' equity (million yen) As of Jun. 30, 2019: 142,497 As of Mar. 31, 2019: 145,595

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/19	-	29.00	-	31.00	60.00
FY3/20	-				
FY3/20 (forecasts)		23.00	-	23.00	46.00

Note: Revisions to the most recently announced dividend forecast: None
Breakdown of 2Q-end dividends for FY3/19: Ordinary dividends: 22.00 yen; Commemorative dividends: 7.00 yen
Breakdown of Year-end dividends for FY3/19: Ordinary dividends: 23.00 yen; Commemorative dividends: 8.00 yen

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	194,050	(0.5)	12,300	(8.8)	11,750	(1.2)	5,400	17.3	62.85

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

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

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) 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:	None
4) Restatements:	None

(4) Number of shares outstanding (common shares)

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

As of Jun. 30, 2019:	90,649,504 shares	As of Mar. 31, 2019:	90,649,504 shares

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

As of Jun. 30, 2019:	4,724,448 shares	As of Mar. 31, 2019:	4,724,330 shares

3) Average number of shares outstanding during the period

Three months ended Jun. 30, 2019:	85,925,130 shares	Three months ended Jun. 30, 2018:	86,501,449 shares

Note 1: The current quarterly summary report is not subject to quarterly review by certified public accountants or auditing firms.

Note 2: Cautionary statement with respect to forecasts and other matters

Cautionary statement with respect to forward-looking statements

Forecasts and forward-looking statements in these materials are based on assumptions judged to be valid and information available to the Company at the time the materials were created. These materials are not promises by the Company regarding future performance. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to “(3) Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 3 of the attachments regarding preconditions or other related matters for the forecast shown above.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In prior years, rent income of real estate and the rent cost of real estate were included in non-operating income, selling, general and administrative expenses, and non-operating expenses. Beginning with the first quarter of the current fiscal year, rent income of real estate and the rent cost of real estate are instead included in sales and cost of sales. Comparisons and analysis using results of operations in the first quarter of the previous fiscal year are based on figures that have been restated to conform with this change.

In the first quarter of the current fiscal year, the Japanese economy continued to recover slowly due to improvements in the labor market and personal income and other reasons. However, the economic outlook remains unclear because of increasing uncertainty about global events, including the effects of U.S.-China trade friction that began around the end of the previous fiscal year.

The AOKI Group implemented various measures in all business segments as explained below. Sales decreased 3.9% year-on-year to 43,334 million yen, operating profit decreased 66.1% to 228 million yen. There was an ordinary loss of 125 million yen compared with a profit of 165 million yen one year earlier. Loss attributable to owners of parent was 288 million yen compared with a loss of 296 million yen one year earlier).

Operating results by segment are as follows.

As AOKI revised its reportable segments in the first quarter of the current fiscal year, a comparative analysis of segment performance is presented based on the revised segments.

Fashion Business

At AOKI, there were activities to provide customers with new ideas involving personal order suits as well as an expansion of the lineup of Cool Biz apparel featuring a variety of functions for comfort during the spring and summer. AOKI stores also increased activities involving set-up suits (set of jacket, pants and skirts) both for men and women that can be easily mixed and matched. Three AOKI stores were opened during the first quarter and 39 stores were closed, including stores closed for relocation or conversion to complex cafés and other formats. These closings are the result of examinations of stores from the standpoint of profitability and AOKI's dominant areas. At the end of the first quarter, there were 530 AOKI stores compared with 566 at the end of the previous fiscal year.

ORIHICA enlarged its lineup of No-Iron Series and strengthened the selection and styling of Cool Biz apparel. In addition, THE THIRD SUITS brand, now in its fifth year, has been expanded to encompass apparel for going to and from work and for business travel. There were 131 stores at the end of the first quarter as no stores were opened or closed.

First quarter sales in this segment decreased 6.5% from one year earlier to 24,181 million yen. This was mainly the result of the smaller number of stores and sluggish sales at existing stores because of a shift in preferences for styles of business apparel. The first quarter operating loss was 395 million yen compared with a 204 million yen loss one year earlier.

Anniversaire and Bridal Business

ANNIVERSAIRE INC., which operates guesthouse-style wedding and reception facilities, took many actions to attract more customers. This company increased bridal fair activities and expanded its collection of original wedding dresses. ANNIVERSAIRE also increased the use of social networking services by distributing an official app and setting up official accounts. Despite these actions, the number of weddings was lower than one year earlier mainly because of the smaller number of wedding and reception locations and changing market conditions.

Sales decreased 14.7% to 5,592 million yen and there was an operating loss of 35 million yen compared with a profit of 417 million yen one year earlier.

Entertainment Business

KAIKATSU CLUB, a chain of café complexes, completed renovations of 30 locations during the first quarter. Improvements include a reconfigured booth layout, the addition of karaoke rooms, no-smoking booths and showers, and other changes. In addition, more cafés now offer a free breakfast buffet and other actions were taken to meet the needs of customers.

A new business format has been launched by combining a KAIKATSU CLUB with a FiT24 fitness center, which uses a self-service format and is open 24 hours. Combining a café complex with fitness equipment clearly differentiates these unique locations from the operations of competitors.

COTE D’AZUR karaoke locations are installing karaoke units with the latest technologies, high-resolution speakers and making other improvements in order to make existing locations more appealing.

During the first quarter, 13 KAIKATSU CLUBs and three FiT24 fitness centers were opened. Including COTE D’AZUR, this business segment had 515 locations at the end of the first quarter compared with 499 at the end of the previous fiscal year.

Sales increased 6.6% to 13,261 million yen due to contributions from new facilities and strong existing-store sales, and operating profit increased 150.4% to 463 million yen.

Real Estate Leasing Business

Segment sales increased 10.4% to 846 million yen as COTE D’AZUR karaoke locations that were closed in the previous fiscal year were subleased and other factors. Operating profit decreased 30.8% to 122 million yen due in part to subleasing losses.

(2) Explanation of Financial Position

Balance sheet position

Assets

Total assets at the end of the first quarter under review decreased 846 million yen from the end of the previous fiscal year to 231,210 million yen due to seasonal factors.

Current assets decreased 1,698 million yen from the end of the previous fiscal year. There was a decrease of 5,613 million yen in accounts receivable-trade due to seasonal factors while cash in hand and in banks increased 3,118 million yen due to recovery. Fixed assets increased 852 million yen from the end of the previous fiscal year as tangible fixed assets increased 410 million yen due to new store openings and other factors.

Liabilities

Current liabilities increased 2,269 million yen from the end of the previous fiscal year. Accounts payable-trade decreased 3,396 million yen mainly due to seasonal factors while there was a short-term debt of 4,000 million yen and an increase in current portion of long-term debt of 1,000 million yen. There was no big change in long-term liabilities.

Net assets

Net assets decreased 3,102 million yen from the end of the previous fiscal year. There was a decrease of 2,951 million yen in retained earnings due to a loss attributable to owners of parent and dividend from surplus.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

In the first quarter of the current fiscal year, sales were less than planned because of slow existing store sales in the fashion business. But the operating profit was generally consistent with the forecast overall due to contributions from the strong existing store sales in the entertainment business and cost cutting measures in all businesses. There are no changes to the forecast that was announced on May 10, 2019.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY3/19 (As of Mar. 31, 2019)	First quarter of FY3/20 (As of Jun. 30, 2019)
Assets		
Current assets		
Cash in hand and in banks	26,558	29,676
Accounts receivable-trade	11,793	6,180
Inventories	25,574	25,352
Other current assets	9,061	10,076
Allowance for doubtful accounts	(38)	(35)
Total current assets	72,948	71,250
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	60,933	61,275
Land	36,941	36,941
Other, net	12,083	12,152
Total tangible fixed assets	109,958	110,368
Intangible fixed assets	5,932	6,140
Investments and other assets		
Guarantee deposits	7,881	7,912
Leasehold deposit	20,536	20,502
Other investments and other assets	14,838	15,075
Allowance for doubtful accounts	(40)	(40)
Total investments and other assets	43,216	43,450
Total fixed assets	159,107	159,959
Total assets	232,056	231,210
Liabilities		
Current liabilities		
Accounts payable-trade	18,162	14,765
Short-term debt	-	4,000
Current portion of long-term debt	2,650	3,650
Accrued income taxes	579	138
Accrued bonuses for employees	2,078	932
Accrued bonuses for directors and statutory auditors	83	21
Other current liabilities	13,624	15,939
Total current liabilities	37,177	39,447
Long-term liabilities		
Long-term debt	34,825	34,825
Accrued costs for customer point program	872	824
Retirement benefit liability	1,094	1,113
Asset retirement obligations	6,466	6,483
Other long-term liabilities	5,949	5,947
Total long-term liabilities	49,208	49,193
Total liabilities	86,385	88,641

(Millions of yen)

	FY3/19 (As of Mar. 31, 2019)	First quarter of FY3/20 (As of Jun. 30, 2019)
Net assets		
Shareholders' equity		
Common stock	23,282	23,282
Capital surplus	27,846	27,846
Retained earnings	100,488	97,536
Treasury stock	(6,302)	(6,302)
Total shareholders' equity	145,315	142,363
Accumulated other comprehensive income		
Unrealized gain on securities	370	209
Remeasurements of defined benefit plans	(89)	(75)
Total accumulated other comprehensive income	280	133
Stock acquisition rights	75	71
Total net assets	145,671	142,568
Total liabilities and net assets	232,056	231,210

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income
(For the Three-month Period)

(Millions of yen)

	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)	First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)
Sales	45,113	43,334
Cost of sales	26,726	26,101
Gross profit	18,386	17,233
Selling, general and administrative expenses	17,713	17,005
Operating profit	673	228
Non-operating profit		
Interest income	28	24
Dividend income	26	27
Other	47	49
Total non-operating profit	102	101
Non-operating expenses		
Interest expenses	78	68
Loss on disposal of fixed assets	289	222
Other	242	164
Total non-operating expenses	610	455
Ordinary profit (loss)	165	(125)
Extraordinary gains		
Gain on sale of fixed assets	-	50
Gain on reversal of stock acquisition rights	7	3
Total extraordinary gains	7	53
Extraordinary losses		
Impairment loss	643	220
Total extraordinary losses	643	220
Loss before income taxes	(470)	(292)
Current income taxes	190	112
Deferred income taxes	(364)	(116)
Total income taxes	(173)	(4)
Loss	(296)	(288)
Loss attributable to owners of parent	(296)	(288)

Quarterly Consolidated Statement of Comprehensive Income
(For the Three-month Period)

(Millions of yen)

	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)	First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)
Loss	(296)	(288)
Other comprehensive income		
Unrealized gain on securities	(9)	(160)
Remeasurements of defined benefit plans, net of tax	16	13
Total other comprehensive income	7	(146)
Comprehensive income	(289)	(434)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(289)	(434)
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

No reportable information.

Significant Changes in Shareholders' Equity

First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)

No reportable information.

Additional Information

Reclassifications

In prior years, rent income of real estate and the rent cost of real estate were included in non-operating income, selling, general and administrative expenses, and non-operating expenses. Beginning with the first quarter of the current fiscal year, rent income of real estate and the rent cost of real estate are instead included in sales and cost of sales.

This change was made to more properly incorporate the real estate leasing business in the financial statements. Real estate leasing is now positioned as one of the major businesses of AOKI Holdings. Rent income of real estate is a consistent source of earnings and more growth of this income is expected as the number of leased properties increases. In addition, the profitability of this business has been properly managed by the relevant department. Consolidated financial statements for the first quarter of the previous fiscal year have been restated to reflect these reclassifications.

Accordingly, "rental income on real estate" under "non-operating profit" of 129 million yen, "rent cost of real estate" under "non-operating expenses" of 96 million yen and real estate-related expenses, which was included in "selling, general and administrative expenses," of 7 million yen in the consolidated statement of income for the first three months of the previous fiscal year has been reclassified. As a result, sales and cost of sales increased 279 million yen and 253 million yen, respectively.

Segment and Other Information

First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)

1. Information related to sales and profit/loss for each reportable segment

(Millions of yen)

	Reportable segment					Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Fashion	Anniversaire and Bridal	Entertainment	Real Estate Leasing	Total		
Sales							
External sales	25,851	6,542	12,439	279	45,113	-	45,113
Inter-segment sales and transfers	1	10	0	487	499	(499)	-
Total	25,852	6,553	12,440	766	45,613	(499)	45,113
Segment profit (loss)	(204)	417	185	176	574	98	673

Notes: 1. The 98 million yen adjustment to segment profit (loss) includes 890 million yen in elimination for inter-segment transactions, and -791 million yen in company-wide costs that cannot be allocated to any specific reportable segments. Company-wide costs mainly include administration expenses of the Company that cannot be attributed to reportable segments.

2. Segment profit (loss) is adjusted with operating profit on the quarterly consolidated statement of income.

2. Information related to impairment losses on fixed assets, or goodwill, etc. for each reportable segment

Material impairment losses related to fixed assets

In the Fashion Business and the Entertainment Business, impairment losses were recognized for operating stores set to be closed, rebuilt or converted for which there is little expectation of recovery and subleasing stores expected to remain in the red; impairment losses of 81 million yen and 561 million yen were booked respectively in the first three months of FY3/19.

First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)

1. Information related to sales and profit/loss for each reportable segment

(Millions of yen)

	Reportable segment					Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Fashion	Anniversaire and Bridal	Entertainment	Real Estate Leasing	Total		
Sales							
External sales	24,181	5,588	13,261	302	43,334	-	43,334
Inter-segment sales and transfers	0	3	0	544	547	(547)	-
Total	24,181	5,592	13,261	846	43,882	(547)	43,334
Segment profit (loss)	(395)	(35)	463	122	154	73	228

Notes: 1. The 73 million yen adjustment to segment profit (loss) includes 1,052 million yen in elimination for inter-segment transactions, and -979 million yen in company-wide costs that cannot be allocated to any specific reportable segments. Company-wide costs mainly include administration expenses of the Company that cannot be attributed to reportable segments.

2. Segment profit (loss) is adjusted with operating profit on the quarterly consolidated statement of income.

2. Information related to impairment losses on fixed assets, or goodwill, etc. for each reportable segment

Material impairment losses related to fixed assets

In the Fashion Business, the Entertainment Business and the Real Estate Leasing Business, impairment losses were recognized for operating stores set to be closed or converted for which there is little expectation of recovery and subleasing stores expected to remain in the red; impairment losses of 167 million yen, 37 million yen and 14 million yen were booked respectively in the first three months of FY3/20.

3. Information related to revisions for reportable segments

In the first quarter of FY3/20, the Karaoke Facility Operations Business and Café Complex Operations Business were combined to reflect the reorganization of management and the increasing diversity of the operations. The combined business was renamed the Entertainment Business.

As noted in the section “Additional Information, Reclassifications,” the business related to real estate leasing is reclassified and presented as a separate segment titled “Real Estate Leasing Business.”

The segment information for the first three months of FY3/19 is prepared and disclosed based on the reportable segments after the revision.

** This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*