AOKI Holdings

August 4, 2017

# Summary of Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2018 (Three Months Ended June 30, 2017)

**[Japanese GAAP]**

Company name: AOKI Holdings Inc. Listings: TSE First Section
Stock code: 8214 URL: http://www.aoki-hd.co.jp/
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Scheduled date of filing of Quarterly Report: August 7, 2017
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 4, 2017 at 15:30 (GMT +9).*

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

## 1. Consolidated Financial Results for the Three Months Ended June 30, 2017 (April 1, 2017 – June 30, 2017)

(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, 2017 | 46,254 | (0.1) | 914 | (44.6) | 862 | (47.1) | 325 | (62.6) |
| Three months ended Jun. 30, 2016 | 46,314 | 2.5 | 1,650 | (36.6) | 1,629 | (37.7) | 870 | (52.9) |

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2017: 418 (down 29.1%)
Three months ended Jun. 30, 2016: 590 (down 71.1%)

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| Three months ended Jun. 30, 2017 | 3.74 | - |
| Three months ended Jun. 30, 2016 | 9.75 | - |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---|---|---|---|
| | Million yen | Million yen | % |
| As of Jun. 30, 2017 | 234,697 | 142,016 | 60.5 |
| As of Mar. 31, 2017 | 234,681 | 143,906 | 61.3 |

Reference: Shareholders' equity (million yen) As of Jun. 30, 2017: 141,929 As of Mar. 31, 2017: 143,818

## 2. Dividends

| | Dividend per share | | | | |
|---|---|---|---|---|---|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| FY3/17 | - | 21.00 | - | 22.00 | 43.00 |
| FY3/18 | - | | | | |
| FY3/18 (forecasts) | | 22.00 | - | 22.00 | 44.00 |

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

## 3. Consolidated Forecast for the Fiscal Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(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 | 200,550 | 3.4 | 14,500 | 0.4 | 14,000 | 0.8 | 7,600 | 3.3 | 87.34 |

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, 2017: | 90,649,504 shares | As of Mar. 31, 2017: | 90,649,504 shares |

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

| | | | |
|---|---|---|---|
| As of Jun. 30, 2017: | 3,678,480 shares | As of Mar. 31, 2017: | 3,404,290 shares |

3) Average number of shares outstanding during the period

| | | | |
|---|---|---|---|
| Three months ended Jun. 30, 2017: | 87,121,313 shares | Three months ended Jun. 30, 2016: | 89,301,220 shares |

Note 1: The current quarterly summary report is not subject to quarterly review procedures.

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

Cautionary statement with respect to forecasts

Forecasts regarding future performance 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 the first quarter of the current fiscal year, the slow recovery of the Japanese economy continued due to an improvement in jobs and for other reasons. Consumer spending has been firm but was nevertheless somewhat sluggish mainly because of a strong desire among consumers to hold back on purchases.

During the first quarter, the AOKI Group implemented various measures in all business segments as discussed below. Sales decreased 0.1% year-on-year to 46,254 million yen, but operating profit decreased 44.6% to 914 million yen. Ordinary profit decreased 47.1% to 862 million yen and profit attributable to owners of parent decreased 62.6% to 325 million yen.

Operating results by segment are as follows.

**Fashion Business**

At AOKI, the men’s and women’s lineups of Truly Washable Suits, which can be stretched vertically and horizontally to maximize ease of movement, was expanded to meet the diverse needs and wants of customers. For the CAFÉ SOHO casual apparel brand, AOKI added new Cool Biz business-to-casual styles that target mainly customers between the ages of 30 and 50. During the first quarter, AOKI opened seven stores including two stand-alone Size MAX stores, which specialize in plus-size apparel. Five stores were closed to improve the efficiency of AOKI’s operations. As a result, there were 575 stores at the end of the first quarter compared with 573 stores at the end of the previous fiscal year.

ORIHICA enlarged the selection of apparel using THE 3rd SUITS brand, giving this brand a new look by adding new functions, fabrics and color schemes. ORIHICA also strengthened the lineup of Washable BIZ Style apparel, including Super No-Iron Shirts, that feature functions and materials that are ideal for summer weather. Two new stores were opened during the first quarter, raising the number of stores from 145 to 147 at the end of the first quarter.

Sales at existing stores in this segment were lower. One reason was a decline following the strong sales during the special sales events in 2016 at AOKI stores that reopened after remodeling. As a result, sales decreased 3.8% to 27,169 million yen and operating profit decreased 71.9% to 157 million yen.

**Anniversaire and Bridal Business**

ANNIVERSAIRE INC. operates guesthouse-style wedding and reception facilities. There were more sales promotion and other marketing activities that emphasized the distinctive theme of each location and the powerful ANNIVERSAIRE brand. Wedding and reception facilities also continued to strengthen the Proposal Plan and other services that can create new channels for attracting customers.

Sales increased 1.8% to 6,902 million yen and operating profit decreased 2.5% to 640 million yen.

**Karaoke Facility Operations Business**

The karaoke business of VALIC Co., Ltd. increased the number of limited-time-only menu items for spring and summer and conducted a marketing campaign using tie-ups with popular characters. In addition, 10 locations were remodeled for improvements that include more “concept rooms” as VALIC continued to take actions aimed at reinvigorating existing karaoke facilities. During the first quarter, the number of locations decreased by one to 184 as we opened two karaoke facilities and closed three facilities.

As a result, sales decreased slightly to 4,203 million yen and there was an operating loss of 192 million yen compared with a loss of 146 million yen one year earlier.

**Café Complex Operations Business**

The café complex business of VALIC Co., Ltd. remodeled 14 cafés by adding sections exclusively for women, installing showers and making other improvements. In a move to reinvigorate existing cafés, the selection of food items was expanded. VALIC opened 10 facilities, including its first locations in Ehime, and closed one facility during the first three months. As a result, there were 355 café complexes at the end of the first quarter compared with 346 at the end of the previous fiscal year.

Sales increased 12.5% to 7,983 million yen due to strong sales at existing facilities, but operating profit decreased 77.2% to 89 million yen because of higher expenses for new café openings and renovation.

### (2) Explanation of Financial Position

**Balance sheet position**

**Assets**

Total assets at the end of the first quarter under review increased 16 million yen from the end of the previous fiscal year to 234,697 million yen.

Current assets decreased 677 million yen from the end of the previous fiscal year. Although cash in hand and in banks increased 3,187 million yen due to short-term debt among other factors, accounts receivable-trade decreased 4,364 million yen due to seasonal reasons and other factors. Fixed assets increased 693 million yen from the end of the previous fiscal year as tangible fixed assets increased 956 million yen due to new store openings and other factors.

**Liabilities**

Current liabilities increased 1,310 million yen from the end of the previous fiscal year. Short-term debt increased 5,000 million yen, while there was a decrease of 3,673 million yen in accounts payable-trade resulting from a decrease in procurement and seasonal reasons. Long-term liabilities increased 595 million yen due to an increase of 475 million yen in other long-term liabilities including lease obligations.

**Net assets**

Net assets decreased 1,889 million yen from the end of the previous fiscal year. There was a decrease of 1,593 million yen in retained earnings due to a profit attributable to owners of parent and dividend from surplus, and an increase of 388 million yen in treasury stock due to the purchase.

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

First quarter sales were somewhat below the outlook because of slow sales at existing stores in the Fashion Business. However, operating profit was in line with the fiscal year forecast due to cost cutting at all group companies. As a result, there are no revisions to the forecast that was announced on May 11, 2017.

## 2. Quarterly Consolidated Financial Statements and Notes

### (1) Quarterly Consolidated Balance Sheet

(Millions of yen)

| | FY3/17 (As of Mar. 31, 2017) | First quarter of FY3/18 (As of Jun. 30, 2017) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash in hand and in banks | 28,608 | 31,795 |
| Accounts receivable-trade | 10,508 | 6,143 |
| Inventories | 26,905 | 25,468 |
| Other current assets | 8,974 | 10,908 |
| Allowance for doubtful accounts | (32) | (30) |
| Total current assets | 74,963 | 74,285 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures, net | 61,568 | 62,125 |
| Land | 36,953 | 36,953 |
| Other tangible fixed assets, net | 13,164 | 13,564 |
| Total tangible fixed assets | 111,686 | 112,642 |
| Intangible fixed assets | 6,301 | 6,154 |
| Investments and other assets | | |
| Guarantee deposits | 8,259 | 8,309 |
| Leasehold deposit | 21,066 | 20,938 |
| Other investments and other assets | 12,444 | 12,406 |
| Allowance for doubtful accounts | (40) | (40) |
| Total investments and other assets | 41,730 | 41,614 |
| Total fixed assets | 159,718 | 160,411 |
| Total assets | 234,681 | 234,697 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 19,159 | 15,486 |
| Short-term debt | - | 5,000 |
| Current portion of long-term debt | 4,150 | 4,150 |
| Accrued income taxes | 1,603 | 321 |
| Accrued bonuses for employees | 1,647 | 941 |
| Accrued bonuses for directors and statutory auditors | 89 | 29 |
| Other current liabilities | 12,546 | 14,579 |
| Total current liabilities | 39,197 | 40,507 |
| Long-term liabilities | | |
| Long-term debt | 37,125 | 37,125 |
| Accrued retirement benefits for directors and statutory auditors | 1,949 | 1,971 |
| Accrued costs for customer point program | 1,069 | 1,052 |
| Net defined benefit liability | 976 | 1,006 |
| Asset retirement obligations | 5,513 | 5,598 |
| Other long-term liabilities | 4,943 | 5,419 |
| Total long-term liabilities | 51,577 | 52,172 |
| Total liabilities | 90,774 | 92,680 |

(Millions of yen)

| | FY3/17 (As of Mar. 31, 2017) | First quarter of FY3/18 (As of Jun. 30, 2017) |
|---|---|---|
| Net assets | | |
| Shareholders’ equity | | |
| Common stock | 23,282 | 23,282 |
| Capital surplus | 27,833 | 27,833 |
| Retained earnings | 96,753 | 95,159 |
| Treasury stock | (4,325) | (4,713) |
| Total shareholders’ equity | 143,544 | 141,562 |
| Accumulated other comprehensive income | | |
| Unrealized gain on securities | 576 | 642 |
| Remeasurements of defined benefit plans | (302) | (276) |
| Total accumulated other comprehensive income | 274 | 366 |
| Stock acquisition rights | 87 | 87 |
| Total net assets | 143,906 | 142,016 |
| Total liabilities and net assets | 234,681 | 234,697 |

## (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 FY3/17 (Apr. 1, 2016 – Jun. 30, 2016) | First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017) |
|---|---|---|
| Sales | 46,314 | 46,254 |
| Cost of sales | 26,365 | 26,937 |
| Gross profit | 19,948 | 19,316 |
| Selling, general and administrative expenses | 18,298 | 18,402 |
| Operating profit | 1,650 | 914 |
| Non-operating profit | | |
| Interest income | 27 | 27 |
| Dividend income | 59 | 25 |
| Rental income on real estate | 152 | 141 |
| Other | 46 | 44 |
| Total non-operating profit | 285 | 239 |
| Non-operating expenses | | |
| Interest expenses | 78 | 86 |
| Expenses on sub-leased real estate | 126 | 114 |
| Other | 101 | 90 |
| Total non-operating expenses | 307 | 291 |
| Ordinary profit | 1,629 | 862 |
| Extraordinary gains | | |
| Gain on sales of investment securities | 29 | - |
| Total extraordinary gains | 29 | - |
| Extraordinary losses | | |
| Impairment loss | 68 | 197 |
| Loss on disaster | 95 | - |
| Total extraordinary losses | 164 | 197 |
| Profit before income taxes | 1,494 | 664 |
| Current income taxes | 357 | 298 |
| Deferred income taxes | 266 | 40 |
| Total income taxes | 624 | 338 |
| Profit | 870 | 325 |
| Profit attributable to owners of parent | 870 | 325 |

## Quarterly Consolidated Statement of Comprehensive Income

## (For the Three-month Period)

(Millions of yen)

| | First three months of FY3/17 (Apr. 1, 2016 – Jun. 30, 2016) | First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017) |
|---|---|---|
| Profit | 870 | 325 |
| Other comprehensive income | | |
| Unrealized gain on securities | (309) | 66 |
| Remeasurements of defined benefit plans, net of tax | 29 | 26 |
| Total other comprehensive income | (280) | 92 |
| Comprehensive income | 590 | 418 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 590 | 418 |
| 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 FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)

Purchase of treasury stock

The Company has purchased 273,000 shares of its treasury stock pursuant to the resolution of the Board of Directors on February 9, 2017. As a result, treasury stock increased 388 million yen during the first three months of FY3/18 to 4,713 million yen at the end of the first quarter of FY3/18.

### Segment and Other Information

First three months of FY3/17 (Apr. 1, 2016 – Jun. 30, 2016)

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 | Karaoke Facility Operations | Café Complex Operations | Total | | |
| Sales | | | | | | | |
| External sales | 28,235 | 6,777 | 4,203 | 7,098 | 46,314 | - | 46,314 |
| Inter-segment sales and transfers | 1 | 4 | 1 | - | 6 | (6) | - |
| Total | 28,236 | 6,781 | 4,205 | 7,098 | 46,321 | (6) | 46,314 |
| Segment profit (loss) | 560 | 657 | (146) | 393 | 1,464 | 185 | 1,650 |

Notes: 1. The 185 million yen adjustment to segment profit (loss) includes 1,090 million yen in elimination for inter-segment transactions, and -905 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, impairment losses were recognized for operating stores set to be rebuilt for which there is little expectation of recovery. Impairment losses of 68 million yen was booked in the first three months of FY3/17.

First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)

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 | Karaoke Facility Operations | Café Complex Operations | Total | | |
| Sales | | | | | | | |
| External sales | 27,168 | 6,899 | 4,202 | 7,983 | 46,254 | - | 46,254 |
| Inter-segment sales and transfers | 1 | 2 | 0 | - | 4 | (4) | - |
| Total | 27,169 | 6,902 | 4,203 | 7,983 | 46,259 | (4) | 46,254 |
| Segment profit (loss) | 157 | 640 | (192) | 89 | 695 | 218 | 914 |

Notes: 1. The 218 million yen adjustment to segment profit (loss) includes 1,063 million yen in elimination for inter-segment transactions, and -844 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 ANNIVERSAIRE and Bridal Business, the Karaoke Facility Operations Business and the Café Complex Operations Business, impairment losses were recognized for operating stores set to be closed or rebuilt for which there is little expectation of recovery; impairment losses of 87 million yen, 4 million yen, 99 million yen and 6 million yen were booked respectively in the first three months of FY3/18.

** 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.*