

Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending March 31, 2021
(Six Months Ended September 30, 2020)

[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:

November 9, 2020

Scheduled date of payment of dividend:

December 2, 2020

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting:

Yes (for institutional investors and analysts)

Note: The original disclosure in Japanese was released on November 6, 2020 at 15:00 (GMT +9).

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2020

(April 1, 2020 – September 30, 2020)

(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	%
Six months ended Sep. 30, 2020	55,952	(32.4)	(11,885)	-	(12,397)	-	(9,661)	-
Six months ended Sep. 30, 2019	82,795	(2.0)	377	(75.8)	(496)	-	(988)	-

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2020: (9,694) (-%)

Six months ended Sep. 30, 2019: (1,176) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2020	(114.04)	-
Six months ended Sep. 30, 2019	(11.51)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2020	242,278	127,756	52.6
As of Mar. 31, 2020	229,843	139,209	60.5

Reference: Shareholders' equity (million yen)

As of Sep. 30, 2020: 127,416

As of Mar. 31, 2020: 138,981

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/20	-	23.00	-	23.00	46.00
FY3/21	-	10.00	-	-	-
FY3/21 (forecasts)	-	-	-	13.00	23.00

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(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	151,300	(16.0)	(2,000)	-	(3,000)	-	(5,350)	-	(63.12)

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

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|---|------|
| 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 Sep. 30, 2020:	90,649,504 shares	As of Mar. 31, 2020:	90,649,504 shares
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2) Number of shares of treasury stock at the end of the period

As of Sep. 30, 2020:	5,852,968 shares	As of Mar. 31, 2020:	5,974,058 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2020:	84,727,303 shares	Six months ended Sep. 30, 2019:	85,926,755 shares
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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 4 of the attachments regarding preconditions or other related matters for the forecast shown above.

Disclosure of the information meeting materials

The Company plans to hold a financial results meeting for institutional investors and analysts by telephone conference on Friday, November 20, 2020. Materials to be distributed at this event will be available on the Company’s website on the morning of the meeting.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, the COVID-19 pandemic continued to severely impact the Japanese economy, holding down corporate earnings and consumer spending even after the end of the state of emergency. The outlook for the economy remains uncertain because there are still no signs of when this crisis will end and the economy will start recovering.

The AOKI Group took the actions explained in the business segment section to prevent the COVID-19 infection during the first half, but this crisis still had a big negative impact on sales and earnings. Sales decreased 32.4% year-on-year to 55,952 million yen, and operating loss was 11,885 million yen compared with a profit of 377 million yen one year earlier. There was an ordinary loss of 12,397 million yen compared with a loss of 496 million yen one year earlier. Loss attributable to owners of parent was 9,661 million yen compared with a loss of 988 million yen one year earlier.

Operating results by segment are as follows.

Fashion Business

The New Biz Style line of apparel includes mix-and-match apparel sets and jackets, business polo shirts and other clothing for remote work and other new styles of doing jobs. The Fashion Business also sells easy-to-mix-and-match sets of apparel for working women. In addition, we started selling a series of antibacterial and washable masks that were an immediate hit with customers. As the need for online shopping grows, we further increased links between e-commerce and physical stores. We expanded the STAFF START service that gives customers styling proposals online and ORIHICA started a service to allow customers to pick up at stores merchandise purchased online. To make online shopping even more convenient, we started a multi-language service. Three ORIHICA stores were opened and five AOKI stores and two ORIHICA stores were closed following examinations of the profitability of stores. As a result, there were 634 stores at the end of the first half compared with 638 at the end of the previous fiscal year.

Although there were many activities during the fiscal year's first half in this business, performance was affected by the growth of teleworking, the prolonged period of restrictions on outings from home, and the downturn in weddings, funerals and other ceremonies. The decline in sales of business suits, formal wear and other heavy clothing was particularly severe. As a result, sales in this segment decreased 26.1% to 31,480 million yen and there was an operating loss of 4,797 million yen compared with a 1,377 million yen loss one year earlier.

Anniversaire and Bridal Business

This business restarted wedding and reception operations on June 1 while strictly following guidelines for preventing the spread of COVID-19. Weddings incorporate safety measures that match today's new life style. We also started new types of weddings such as online weddings and weddings where guests are served meals in ceremonial multi-tier boxes.

Despite numerous measures to attract customers, the performance of this business was down significantly as the number of couples married fell sharply due to wedding and reception postponements because of the prolonged COVID-19 crisis. As a result, sales fell 85.1% to 1,679 million yen and there was an operating loss of 2,640 million yen compared with a 34 million yen loss one year earlier.

Entertainment Business

This business has taken many steps to protect customers from COVID-19, such as by using highly effective ventilation systems, using configurations with adequate distance adjacent seats, and installing automatic entrance/exit control systems. In addition, KAIKATSU CLUB café complexes provide many services for customers using a café for teleworking, such as web camera rentals and the introduction of online meeting apps. These services increase the appeal of cafés for use as a type of shared workspace. During the first half, we opened 49 KAIKATSU CLUBs and 17 FiT24 locations, all of which were approved prior to the COVID-19 outbreak. Eight locations were

closed to improve the efficiency of this business. As a result, there were 660 locations in this segment at the end of the first half compared with 602 at the end of the previous fiscal year.

Despite these activities, the performance of this business was affected by temporary closings, reduced operating hours and the need to stay home as much as possible due to the state of emergency and by higher expenses because of the addition of new locations. Sales decreased 21.8% to 22,156 million yen and operating loss was 4,984 million yen compared with a 1,427 million yen profit one year earlier.

Real Estate Leasing Business

Segment sales increased 11.8% to 1,930 million yen mainly because of an increase in the subleasing of stores and other facilities that were closed in the other three businesses. Operating profit increased 15.6% to 372 million yen.

(2) Explanation of Financial Position

1) Balance sheet position

Assets

Total assets at the end of the second quarter increased 12,434 million yen from the end of the previous fiscal year to 242,278 million yen mainly due to new store openings and other factors.

Current assets increased 1,761 million yen from the end of the previous fiscal year. There were decreases of 4,359 million yen in accounts receivable-trade due to seasonal factors and 1,528 million yen in inventories due to a decrease in procurement and other factors. There was an increase of 9,937 million yen in cash in hand and in banks due to proceeds from borrowings. Fixed assets increased 10,673 million yen from the end of the previous fiscal year as there were increases of 5,720 million yen in tangible fixed assets due to new store openings and other factors and 4,983 million yen in other under deferred tax assets (investments and other assets).

Liabilities

Current liabilities increased 16,152 million yen from the end of the previous fiscal year. There were a decrease of 5,268 million yen in accounts payable-trade mainly due to seasonal factors and proceeds from short-term borrowings of 16,000 million yen and an increase of 4,922 million yen in electronically recorded obligations-operating. Long-term liabilities increased 7,735 million yen. There was an increase of long-term borrowings of 6,916 million yen mainly due to a 11,000 million yen of new loan and scheduled repayment.

Net assets

Net assets decreased 11,453 million yen from the end of the previous fiscal year. There was a decrease of 11,609 million yen in retained earnings due to a loss attributable to owners of parent and dividend from surplus.

2) Cash flow position

Cash and cash equivalents (hereafter "net cash") at the end of the second quarter increased 9,937 million yen over the end of the previous fiscal year to 33,781 million yen.

Cash flows from operating activities

Net cash used in operating activities increased 12,872 million yen to 8,719 million yen on a year-on-year basis. The principal factors were depreciation and amortization of 4,381 million yen, a decrease in trade receivables of 4,359 million yen and a decrease in inventories of 1,528 million yen, while there were loss before income taxes of 14,429 million yen and a decrease in trade payables of 5,268 million yen.

Cash flows from investing activities

Net cash used in investing activities decreased 3,156 million yen to 2,839 million yen on a year-on-year basis. This was mainly due to payments for the acquisition of tangible fixed assets of 2,641 million yen for new store openings,

renewals and other factors.

Cash flows from financing activities

Net cash provided by financing activities increased 19,913 million yen to 21,496 million yen on a year-on-year basis. This was mainly due to proceeds from short-term borrowings of 16,000 million yen and long-term borrowings of 11,000 million yen, while there were scheduled repayment of long-term borrowings of 2,409 million yen, cash dividends paid of 1,945 million yen and repayments of lease obligations of 1,148 million yen.

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

There is no change in the fiscal year forecast announced on September 23, 2020 that incorporates the effects of COVID-19. During the current fiscal year, our plan is to open three stores in the Fashion Business, all of which are now operating, and 68 locations in the Entertainment Business, all but two of which are now operating.

Business segment forecasts are as follows.

Business segment forecasts for the fiscal year ending March 31, 2021

	Fashion	Anniversaire and Bridal	Entertainment	Real Estate Leasing	Consolidated
	(Million yen)	(Million yen)	(Million yen)	(Million yen)	(Million yen)
Sales	87,600	9,300	53,150	3,920	151,300
YoY change (%)	89.1	41.8	91.0	108.2	84.0
Segment profit (loss)	800	(3,000)	(500)	750	(2,000)
YoY change (%)	27.7	-	-	112.1	-

Note: Segment profit is operating profit (loss). Total segment profit differs from consolidated operating profit because of other and consolidation adjustments.

* These forecasts are based on judgments made in accordance with information available to the management at the time these materials were prepared. Actual results may differ substantially from these forecasts for a number of reasons.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Millions of yen)

	FY3/20 (As of Mar. 31, 2020)	Second quarter of FY3/21 (As of Sep. 30, 2020)
Assets		
Current assets		
Cash in hand and in banks	23,843	33,781
Accounts receivable-trade	8,455	4,096
Inventories	24,181	22,653
Other current assets	8,851	6,565
Allowance for doubtful accounts	(36)	(38)
Total current assets	65,297	67,058
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	66,501	71,166
Land	36,138	36,138
Other, net	14,893	15,948
Total tangible fixed assets	117,533	123,254
Intangible assets	5,631	5,518
Investments and other assets		
Guarantee deposits	7,740	7,572
Leasehold deposit	20,653	20,903
Other investments and other assets	13,028	18,011
Allowance for doubtful accounts	(40)	(40)
Total investments and other assets	41,382	46,447
Total fixed assets	164,546	175,220
Total assets	229,843	242,278

	(Millions of yen)	
	FY3/20 (As of Mar. 31, 2020)	Second quarter of FY3/21 (As of Sep. 30, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	14,563	9,295
Electronically recorded obligations-operating	-	4,922
Short-term borrowings	-	16,000
Current portion of long-term borrowings	3,493	5,168
Accrued income taxes	407	421
Accrued bonuses for employees	1,357	934
Accrued bonuses for directors (and other officers)	39	42
Other current liabilities	12,727	11,956
Total current liabilities	<u>32,587</u>	<u>48,740</u>
Long-term liabilities		
Long-term borrowings	40,332	47,248
Accrued costs for customer point program	695	558
Retirement benefit liability	1,276	1,313
Asset retirement obligations	7,591	7,725
Other long-term liabilities	8,150	8,936
Total long-term liabilities	<u>58,046</u>	<u>65,781</u>
Total liabilities	<u>90,634</u>	<u>114,522</u>
Net assets		
Shareholders' equity		
Share capital	23,282	23,282
Capital surplus	27,823	27,747
Retained earnings	96,298	84,689
Treasury stock	(7,592)	(7,438)
Total shareholders' equity	<u>139,812</u>	<u>128,280</u>
Accumulated other comprehensive income		
Unrealized gain on securities	(726)	(791)
Remeasurements of defined benefit plans	(105)	(72)
Total accumulated other comprehensive income	<u>(831)</u>	<u>(863)</u>
Stock acquisition rights	228	339
Total net assets	<u>139,209</u>	<u>127,756</u>
Total liabilities and net assets	<u>229,843</u>	<u>242,278</u>

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Six-month Period)**

(Millions of yen)

	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Sales	82,795	55,952
Cost of sales	50,563	42,187
Gross profit	32,231	13,765
Selling, general and administrative expenses	31,854	25,651
Operating profit (loss)	377	(11,885)
Non-operating profit		
Interest income	39	32
Dividend income	44	16
Penalty income	-	45
Other	88	78
Total non-operating profit	173	172
Non-operating expenses		
Interest expenses	138	173
Loss on disposal of fixed assets	551	317
Other	356	193
Total non-operating expenses	1,047	685
Ordinary loss	(496)	(12,397)
Extraordinary gains		
Gain on sale of fixed assets	55	-
Gain on sales of investment securities	145	4
Gain on reversal of stock acquisition rights	4	-
Subsidies for employment adjustment	-	563
Total extraordinary gains	205	568
Extraordinary losses		
Impairment loss	789	539
Loss on valuation of investment securities	72	70
Loss due to temporary closure	-	1,989
Total extraordinary losses	861	2,599
Loss before income taxes	(1,153)	(14,429)
Current income taxes	323	268
Deferred income taxes	(487)	(5,035)
Total income taxes	(164)	(4,767)
Loss	(988)	(9,661)
Loss attributable to owners of parent	(988)	(9,661)

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

	(Millions of yen)	
	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Loss	(988)	(9,661)
Other comprehensive income		
Unrealized gain on securities	(215)	(64)
Remeasurements of defined benefit plans, net of tax	27	32
Total other comprehensive income	(188)	(32)
Comprehensive income	(1,176)	(9,694)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,176)	(9,694)
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Cash flows from operating activities		
Loss before income taxes	(1,153)	(14,429)
Depreciation and amortization	4,246	4,381
Impairment loss	789	539
Loss due to temporary closure	-	1,989
Increase (decrease) in accrued costs for customer point program	(138)	(136)
Increase (decrease) in retirement benefit liability	81	85
Interest and dividend income	(84)	(49)
Interest expenses	138	173
Loss (gain) on sales of investment securities	(145)	(4)
Decrease (increase) in trade receivables	7,054	4,359
Decrease (increase) in inventories	(280)	1,528
Increase (decrease) in trade payables	(6,000)	(5,268)
Increase (decrease) in accrued consumption taxes	(676)	(664)
Other	478	(749)
Subtotal	4,308	(8,244)
Interest and dividend income received	81	39
Interests paid	(137)	(164)
Income taxes paid	(1,564)	(616)
Income taxes refund	1,465	1,933
Payments for loss due to temporary closure	-	(1,667)
Net cash provided by (used in) operating activities	4,153	(8,719)
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(5,900)	(2,641)
Payments for acquisition of intangible fixed assets	(672)	(321)
Payments for leasehold and guarantee deposits	(880)	(709)
Proceeds from sales of investment securities	836	69
Net decrease (increase) in trust beneficiary rights	787	1,050
Other	(167)	(287)
Net cash used in investing activities	(5,996)	(2,839)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	5,000	16,000
Proceeds from long-term borrowings	2,000	11,000
Repayments of long-term borrowings	(1,325)	(2,409)
Repayments of lease obligations	(1,029)	(1,148)
Payments for purchase of treasury stock	(194)	(0)
Dividends paid	(2,662)	(1,945)
Other	(205)	-
Net cash provided by (used in) financing activities	1,583	21,496
Effect of exchange rate change on cash and cash equivalents	0	0
Increase (decrease) in cash and cash equivalents	(259)	9,937
Cash and cash equivalents at beginning of period	26,558	23,843
Cash and cash equivalents at end of period	26,298	33,781

(4) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

No reportable information.

Significant Changes in Shareholders' Equity

First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)

No reportable information.

Additional Information

Accounting-based Estimates

At present, the COVID-19 pandemic is continuing to have a significant negative impact on the business operations of the AOKI Group.

The effects of COVID-19 are likely to continue to increase somewhat in all regions of Japan where the businesses of the AOKI Group operate stores and other facilities. The sales and operating profit of these stores and other facilities may decline due to restrictions on their operations, lower demand and other reasons until the pandemic winds down and economic activity in Japan recovers. We expect sales in these businesses in the fiscal year ending in March 2021 to decline from the previous fiscal year due to the effects of the COVID-19. Sales are likely to be down 5%-25% in the Fashion Business, approximately 40%-60% in the ANNIVERSAIRE and Bridal Business, and about 35% in the Entertainment Business.

There is no significant change in the AOKI Group's policy for assumptions, including how much the COVID-19 pandemic will continue to spread, when this crisis will end and other upcoming events. Our best estimate is that a recovery of economic activity in Japan to pre-pandemic levels may not be completed until March 2022 at the latest. We will use the outlook for the fiscal year ending in March 2021 as the basis for decisions about the need for the impairment of fixed assets. For some accounting estimates, including estimates for the recognition and determination of fixed asset impairment charges and the recoverability of deferred tax assets, amounts posted on the financial statements are calculated by using the expected value method.

Segment Information

First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)

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

	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	42,578	11,278	28,327	611	82,795	-	82,795
Inter-segment sales and transfers	1	3	0	1,115	1,120	(1,120)	-
Total	42,580	11,282	28,327	1,727	83,916	(1,120)	82,795
Segment profit (loss)	(1,377)	(34)	1,427	322	337	40	377

Notes: 1. The 40 million yen adjustment to segment profit (loss) includes 2,105 million yen in elimination for inter-segment transactions, and -2,065 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 278 million yen, 404 million yen and 106 million yen were booked respectively in the first six months of FY3/20.

First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)

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

(Millions of yen)

	Reportable segment					Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Fashion	Anniversaire and Bridal	Enter- tainment	Real Estate Leasing	Subtotal				
Sales									
External sales	31,480	1,678	22,156	575	55,891	61	55,952	-	55,952
Inter-segment sales and transfers	0	0	-	1,355	1,355	-	1,355	(1,355)	-
Total	31,480	1,679	22,156	1,930	57,247	61	57,308	(1,355)	55,952
Segment profit (loss)	(4,797)	(2,640)	(4,984)	372	(12,049)	46	(12,002)	116	(11,885)

Notes: 1. The “others” classification refers to businesses not included in reportable segments such as advertising-related business.

2. The 116 million yen adjustment to segment profit (loss) includes 2,164 million yen in elimination for inter-segment transactions, and -2,047 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.

3. Segment profit (loss) is adjusted with operating loss 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 or converted for which there is little expectation of recovery and expected to remain in the red; impairment losses of 117 million yen and 422 million yen were booked respectively in the first six months of FY3/21.

** 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.*