

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending October 31, 2020 (Japanese GAAP)

May 28, 2020

Listed on: First Section of the Tokyo Stock Exchange

Name of Listed Company: IKK Inc.

Securities code: 2198

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Scheduled date of filing quarterly financial report: June 11, 2020

Scheduled date of starting dividends distribution: -

Supplementary quarterly materials prepared: Yes

Quarterly results information meeting held: Yes (for securities analysts and institutional investors)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the second quarter of the FY ending October 31, 2020 (Nov. 1, 2019 - Apr. 30, 2020)

(1) Consolidated operating results (cumulative)

(Percentage figures show changes from the same period in the previous fiscal year.)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q of FY ending Oct. 31, 2020	7,376	(18.3)	(589)	-	(575)	-	(436)	-
2Q of FY ended Oct. 31, 2019	9,031	(1.4)	418	(18.4)	429	(18.4)	281	(18.7)

Note: Comprehensive income: 2Q of FY ending Oct. 31, 2020: (424) million yen (-%); 2Q of FY ended Oct. 31, 2019: 283 million yen (down 15.4%)

	Net Income per Share		Diluted Net Income per Share	
	Yen		Yen	
2Q of FY ending Oct. 31, 2020	(14.67)		-	
2Q of FY ended Oct. 31, 2019	9.49		-	

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
2Q of FY ending Oct. 31, 2020	18,521	12,148	65.4
FY ended Oct. 31, 2019	21,539	12,916	59.8

Reference: Equity capital: 2Q of FY ending Oct. 31, 2020: 12,104 million yen; FY ended Oct. 31, 2019: 12,879 million yen

2. Dividends

	Dividends per share				
	1Q End	2Q End	3Q End	FY End	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended Oct. 31, 2019	-	0.00	-	12.00	12.00
FY ending Oct. 31, 2020	-	0.00			
FY ending Oct. 31, 2020 (forecast)			-	-	-

Note: Revisions to the latest projected dividends: Yes

There is no forecast for the fiscal year ending October 31, 2020. For more information, please refer to "Notice of Differences between First Half Consolidated Forecast and Results of Operations and Revisions to Consolidated Forecast and Dividends" (Japanese version only) that was announced today (May 28, 2020).

3. Consolidated financial forecast for the FY ending October 31, 2020 (Nov. 1, 2019 - Oct. 31, 2020)

(Percentage figures show changes from the same period in the previous fiscal year.)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	-	-	-	-	-	-	-	-	-

Note: Revisions to the latest projected financial results: Yes

The consolidated financial forecast for the fiscal year ending October 31, 2020 has not been determined at this time. For more information, please refer to "Notice of Differences between First Half Consolidated Forecast and Results of Operations and Revisions to Consolidated Forecast and Dividends" (Japanese version only) that was announced today (May 28, 2020).

* Notes

(1) Significant changes to subsidiaries during the period (transfer of specific subsidiaries accompanying changes in scope of consolidation): No

Newly added: - Company name: - Excluded: - Company name: -

(2) Application of specific accounting policies for preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, accounting estimates and restatement

1) Changes in accounting policies due to revision of accounting standards, etc.: No

2) Changes in accounting policies other than 1): No

3) Changes in accounting estimates: No

4) Restatement: No

(4) Number of shares issued (common stock)

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

2Q of FY ending Oct. 31, 2020	29,956,800 shares	FY ended Oct. 31, 2019	29,956,800 shares
2) Number of treasury shares at the end of period	148,064 shares	FY ended Oct. 31, 2019	172,044 shares
3) Average number of shares outstanding during the period (quarterly cumulative)	29,770,528 shares	2Q of FY ended Oct. 31, 2019	29,645,487 shares

2) Number of treasury shares at the end of period

3) Average number of shares outstanding during the period (quarterly cumulative)

Note: Figures for treasury shares include 66,100 shares of the IKK stock held by the IKK Employee Stock Ownership Association Exclusive Trust at the end of the second quarter of the current fiscal year.

* The current quarterly financial report is not subject to audit by certified public accountants or auditing firms.

* Explanation of appropriate use of financial forecasts, other special remarks

Forecasts and other forward-looking statements included in this document are based on currently available information and assumptions deemed rational, and are not a guarantee of results by IKK. Actual results may vary substantially due to a variety of reasons. For notes and other cautionary statements related to assumptions behind and use of forecasts, please see "1. Qualitative Information on Quarterly Financial Results; (3) Explanation of Consolidated Forecast and Other Forward-looking Statements" (attachments, page 2).

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Results of Operations

In the first half of the current fiscal year (November 1, 2019 to April 30, 2020), Japan's economy was supported by slow increases in jobs and personal income and there were signs of an upturn in consumer sentiment. However, the global COVID-19 pandemic that began in February has severely restricted economic activity. The economies of Japan and other countries have contracted rapidly and there are concerns that a recession may begin. At this time, it is impossible to predict when an economic recovery will start.

The business climate for the wedding industry is extremely challenging. In response to COVID-19, the Japanese government declared a state of emergency and asking people to avoid closed spaces, crowded places and close-contact settings. As people stayed home as much as possible and took other actions, there were postponements of weddings, receptions and other events attended by many people.

Following the April 7 declaration of a state of emergency in Japan, all locations in areas covered by this declaration announced the suspension of weddings and receptions from April 8 to May 31 because the safety of customers and employees is the highest priority. As a result, there was a loss in the first half of the current fiscal year, which was the first loss at IKK since its inception.

First half net sales decreased 18.3% from one year earlier to 7,376 million yen. Operating loss was 589 million yen compared with a 418 million yen profit one year earlier, ordinary loss was 575 million yen compared with a 429 million yen profit one year earlier, and loss attributable to owners of parent was 436 million yen compared with a 281 million yen profit one year earlier.

Results by business segment are as follows:

a) Wedding Operations

The number of weddings decreased because of postponements of weddings and receptions due to COVID-19. As a result, sales decreased 17.7% from one year earlier to 7,114 million yen. Operating loss was 615 million yen compared with a 399 million yen profit one year earlier.

b) Nursing-care Operations

Sales increased 3.0% from one year earlier to 262 million yen and operating profit increased 29.3% to 25 million yen.

(2) Explanation of Financial Position

Total assets were 18,521 million yen at the end of the second quarter of the current fiscal year, 3,018 million yen less than at the end of the previous fiscal year. The main causes were decreases in cash and deposits of 2,825 million yen and buildings and structures of 267 million yen.

Liabilities decreased 2,249 million yen to 6,373 million yen. The main causes were decreases in accounts payable-trade of 804 million yen, long-term borrowings of 584 million yen, income taxes payable of 297 million yen and other current liabilities of 538 million yen.

Net assets decreased 768 million yen to 12,148 million yen. The main cause was loss attributable to owners of parent of 436 million yen and a decrease due to dividends from surplus of 359 million yen. As a result, compared with the end of the previous fiscal year, the equity ratio rose by 5.6 percentage points to 65.4%.

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

IKK is withdrawing the consolidated forecast announced on December 13, 2019 because the impact of the COVID-19 pandemic on business activities has made it difficult to make a reliable forecast. The forecast is therefore undecided at this stage. Once this becomes possible, a forecast will be announced promptly.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	Previous Consolidated FY (Oct. 31, 2019)	Current Consolidated FY, 2Q (Apr. 30, 2020)
Assets		
Current assets		
Cash and deposits	5,145,870	2,320,103
Accounts receivable-trade	303,837	114,424
Merchandise	168,047	218,733
Raw materials and supplies	120,551	80,185
Other	279,154	359,853
Allowance for doubtful accounts	(2,899)	(487)
Total current assets	6,014,563	3,092,812
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,690,714	9,423,622
Land	1,973,734	1,973,734
Other, net	430,011	440,642
Total property, plant and equipment	12,094,460	11,838,000
Intangible assets	157,602	149,058
Investments and other assets	3,273,083	3,441,582
Total non-current assets	15,525,146	15,428,641
Total assets	21,539,709	18,521,453
Liabilities		
Current liabilities		
Accounts payable-trade	936,604	132,008
Current portion of long-term borrowings	1,072,671	960,116
Income taxes payable	332,252	34,262
Provision for bonuses	275,990	277,546
Other	1,777,068	1,238,881
Total current liabilities	4,394,587	2,642,815
Non-current liabilities		
Long-term borrowings	2,703,109	2,231,538
Retirement benefit liability	39,224	38,283
Provision for point card certificates	16,118	16,568
Asset retirement obligations	924,789	930,182
Other	544,930	513,798
Total non-current liabilities	4,228,171	3,730,371
Total liabilities	8,622,759	6,373,186

(Thousands of yen)

	Previous Consolidated FY (Oct. 31, 2019)	Current Consolidated FY, 2Q (Apr. 30, 2020)
Net assets		
Shareholders' equity		
Share capital	351,655	351,655
Capital surplus	355,311	355,794
Retained earnings	12,289,849	11,493,585
Treasury shares	(116,350)	(102,032)
Total shareholders' equity	12,880,466	12,099,002
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	26,011	23,886
Foreign currency translation adjustment	(27,329)	(18,606)
Total accumulated other comprehensive income	(1,317)	5,280
Non-controlling interests	37,800	43,983
Total net assets	12,916,950	12,148,266
Total liabilities and net assets	21,539,709	18,521,453

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

(Thousands of yen)

	2Q of Previous Consolidated Period (Nov. 1, 2018 - Apr. 30, 2019)	2Q of Current Consolidated Period (Nov. 1, 2019 - Apr. 30, 2020)
Net sales	9,031,912	7,376,012
Cost of sales	4,097,261	3,422,025
Gross profit	4,934,650	3,953,986
Selling, general and administrative expenses	4,516,428	4,543,080
Operating profit (loss)	418,221	(589,093)
Non-operating income		
Interest income	9,720	11,034
Guarantee commission received	7,050	7,089
Other	6,728	6,181
Total non-operating income	23,499	24,305
Non-operating expenses		
Interest expenses	9,388	8,637
Other	2,766	2,547
Total non-operating expenses	12,155	11,184
Ordinary profit (loss)	429,564	(575,972)
Extraordinary income		
Subsidy income	-	6,028
Total extraordinary income	-	6,028
Extraordinary losses		
Loss on retirement of non-current assets	7,016	15,424
Total extraordinary losses	7,016	15,424
Profit (loss) before income taxes	422,548	(585,368)
Income taxes-current	133,120	17,137
Income taxes-deferred	4,142	(170,913)
Total income taxes	137,263	(153,775)
Profit (loss)	285,284	(431,592)
Profit attributable to non-controlling interests	4,001	5,211
Profit (loss) attributable to owners of parent	281,283	(436,803)

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

(Thousands of yen)

	2Q of Previous Consolidated Period (Nov. 1, 2018 - Apr. 30, 2019)	2Q of Current Consolidated Period (Nov. 1, 2019 - Apr. 30, 2020)
Profit (loss)	285,284	(431,592)
Other comprehensive income		
Remeasurements of defined benefit plans, net of tax	(2,029)	(2,123)
Foreign currency translation adjustment	-	9,691
Total other comprehensive income	(2,029)	7,568
Comprehensive income	283,255	(424,024)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	279,250	(430,206)
Comprehensive income attributable to non-controlling interests	4,004	6,182

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	2Q of Previous Consolidated Period (Nov. 1, 2018 - Apr. 30, 2019)	2Q of Current Consolidated Period (Nov. 1, 2019 - Apr. 30, 2020)
Cash flows from operating activities		
Profit (loss) before income taxes	422,548	(585,368)
Depreciation	519,695	532,460
Increase (decrease) in allowance for doubtful accounts	5,081	2,345
Increase (decrease) in provision for bonuses	(6,049)	1,545
Increase (decrease) in retirement benefit liability	(5,441)	(4,010)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(22,869)	(299,559)
Increase (decrease) in provision for point card certificates	2,292	450
Loss on retirement of non-current assets	7,016	15,424
Interest income	(9,720)	(11,034)
Interest expenses	9,388	8,637
Decrease (increase) in trade receivables	(164,424)	181,800
Decrease (increase) in inventories	(92,856)	(10,311)
Increase (decrease) in trade payables	(124,122)	(802,862)
Increase (decrease) in accounts payable-other	112,379	(38,396)
Other, net	66,693	(303,461)
Subtotal	719,612	(1,312,340)
Interest received	4,497	7,242
Interest paid	(8,768)	(8,322)
Income taxes refund	48	40
Income taxes paid	(520,565)	(297,025)
Other, net	-	6,028
Net cash provided by (used in) operating activities	194,823	(1,604,376)
Cash flows from investing activities		
Purchase of property, plant and equipment	(505,991)	(294,807)
Purchase of intangible assets	(12,306)	(406)
Other, net	33,243	(3,147)
Net cash provided by (used in) investing activities	(485,054)	(298,361)
Cash flows from financing activities		
Proceeds from long-term borrowings	500,000	-
Repayments of long-term borrowings	(507,910)	(584,126)
Purchase of treasury shares	-	(63,575)
Proceeds from sales of treasury shares	74,972	71,430
Dividends paid	(358,929)	(358,919)
Other, net	(452)	-
Net cash provided by (used in) financing activities	(292,318)	(935,190)
Effect of exchange rate change on cash and cash equivalents	-	10,160
Net increase (decrease) in cash and cash equivalents	(582,549)	(2,827,767)
Cash and cash equivalents at beginning of period	5,200,196	5,067,870
Cash and cash equivalents at end of period	4,617,647	2,240,103

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Premise of Going Concern)

No related information.

(Notes on Significant Fluctuation in Amounts of Shareholders' Equity)

No related information.

(Additional Information)

Due to Japan's declaration of a state of emergency on April 7 because of COVID-19, IKK has temporarily closed all business locations for as long as this declaration remains in effect.

It is impossible to predict when the COVID-19 crisis will end. Based on information currently available and other factors, IKK has recorded a non-current asset impairment loss and calculated estimates for the amount of deferred tax assets that can be recovered and other items by using the assumption that the effects of COVID-19 will continue until the end of 2020.

(Material Subsequent Events)

(Current account overdraft agreement and loan)

The IKK Board of Directors approved a resolution on May 15, 2020 for a current account overdraft agreement and a loan as follows.

1. Reason for the current account overdraft agreement and loan

The purpose is to preserve a stable base of operations by maintaining ample liquidity in order to be prepared in case the COVID-19 crisis continues for a long time.

2. Current account overdraft agreement

(1) Lenders:	Five financial institutions that IKK uses
(2) Credit available:	9 billion yen
(3) Contract signed:	May 2020
(4) Contract Period	One year starting on the contract signing date (will be reviewed every year)
(5) Interest rate:	Standard rate of each bank + Spread
(6) Collateral:	No collateral or guarantee

3. Loan

(1) Lenders:	Two financial institutions that IKK uses
(2) Amount borrowed:	1.1 billion yen
(3) Borrowing date:	June 2020 (tentative)
(4) Tenor:	8 to 10 years
(5) Interest rate:	Standard rate of each bank + Spread
(6) Collateral:	No collateral or guarantee