

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

August 28, 2020

Listed on: First Section of the Tokyo Stock Exchange

Name of listed company: IKK Inc.

Securities code: 2198

URL: <https://www.ikk-grp.jp/>

Representative: Hiroki Murata, President and Representative Director

Contact: Yoshihiko Tanaka, Executive Officer, Manager of Management Division TEL: +81-92-937-7030

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

Scheduled date of starting dividends distribution: -

Supplementary quarterly materials prepared: Yes

Quarterly results information meeting held: No

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

1. Consolidated financial results for the third quarter of the FY ending October 31, 2020 (Nov. 1, 2019 - Jul. 31, 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	%
3Q of FY ending Oct. 31, 2020	7,659	(45.9)	(2,527)	-	(2,510)	-	(1,793)	-
3Q of FY ended Oct. 31, 2019	14,158	(0.2)	912	(10.9)	928	(10.9)	630	(9.3)

Note: Comprehensive income: 3Q of FY ending Oct. 31, 2020: (1,830) million yen (-%); 3Q of FY ended Oct. 31, 2019: 640 million yen (down 4.7%)

	Net Income per Share		Diluted Net Income per Share	
	Yen		Yen	
3Q of FY ending Oct. 31, 2020	(60.38)		-	
3Q of FY ended Oct. 31, 2019	21.24		-	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
3Q of FY ending Oct. 31, 2020	19,107		10,386		54.2	
FY ended Oct. 31, 2019	21,539		12,916		59.8	

Reference: Equity capital: 3Q of FY ending Oct. 31, 2020: 10,347 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: No

The dividend forecast for the fiscal year ending October 31, 2020 has not been determined at this time.

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: No

The consolidated financial forecast for the fiscal year ending October 31, 2020 has not been determined at this time.

* 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)

3Q 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	777,464 shares	FY ended Oct. 31, 2019	172,044 shares
3) Average number of shares outstanding during the period (quarterly cumulative)	29,697,926 shares	3Q of FY ended Oct. 31, 2019	29,668,823 shares

2) Number of treasury shares at the end of period

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

Note: The Board of Directors of the Company approved a resolution on June 12, 2020 to reintroduce the Trust-Type Employee Stock Ownership Incentive Plan. Figures for treasury shares include 695,500 shares of the IKK stock held by the IKK Employee Stock Ownership Association Exclusive Trust at the end of the third 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).

Attachments (Table of Contents)

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	2
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	2
2. Quarterly Consolidated Financial Statements and Notes	3
(1) Quarterly Consolidated Balance Sheet	3
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	5
Quarterly Consolidated Statement of Income	
For the Nine-month Period	5
Quarterly Consolidated Statement of Comprehensive Income	
For the Nine-month Period	6
(3) Notes to Quarterly Consolidated Financial Statements	7
Notes on Premise of Going Concern	7
Notes on Significant Fluctuation in Amounts of Shareholders' Equity	7
Additoinal Information	7
Material Sebsequent Events	7

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year (November 1, 2019 to July 31, 2020), requests for business suspensions and for people to refrain from going out became widespread following the declaration of a state of emergency due to the spread of COVID-19 pandemic. As a result, personal consumption, corporate profits and business sentiment deteriorated sharply. Although economic activity has gradually resumed since the lifting of the declaration of a state of emergency, the outlook remains extremely uncertain due to concerns about a second wave of the COVID-19 pandemic.

The business climate for the wedding industry remained extremely challenging. In response to COVID-19, people avoided closed spaces, crowded places and close-contact settings. As they also 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 declaration of a state of emergency in Japan, all locations in areas covered by this declaration were temporarily closed because the safety of customers and employees is the highest priority. Even after the lifting of the declaration, the safety and security of customers and employees remains the highest priority for us. Therefore, with the approval of customers, we postponed weddings and receptions up to the end of August. Consequently, the number of weddings and receptions decreased, resulting in lower sales and profits.

Net sales for the first nine months of the current fiscal year decreased 45.9% from one year earlier to 7,659 million yen. Operating loss was 2,527 million yen compared with a 912 million yen profit one year earlier, ordinary loss was 2,510 million yen compared with a 928 million yen profit one year earlier, and loss attributable to owners of parent was 1,793 million yen compared with a 630 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 46.6% from one year earlier to 7,262 million yen. Operating loss was 2,570 million yen compared with a 902 million yen profit one year earlier.

b) Nursing-care Operations

Sales increased 3.1% from one year earlier to 397 million yen and operating profit increased 48.3% to 42 million yen.

(2) Explanation of Financial Position

Total assets were 19,107 million yen at the end of the third quarter of the current fiscal year, 2,432 million yen less than at the end of the previous fiscal year. The main causes were decreases in cash and deposits of 3,467 million yen and buildings and structures of 304 million yen, and increases in other current assets of 560 million yen and investments and other assets of 856 million yen.

Liabilities increased 97 million yen to 8,720 million yen. The main causes were decreases in accounts payable-trade of 861 million yen, income taxes payable of 322 million yen and other current liabilities of 400 million yen, and increases in short-term borrowings of 1,000 million yen and long-term borrowings of 680 million yen.

Net assets decreased 2,530 million yen to 10,386 million yen. The main causes were loss attributable to owners of parent of 1,793 million yen, a decrease due to dividends from surplus of 359 million yen and a net increase in treasury shares of 341 million yen as the reintroduced Trust-Type Employee Stock Ownership Incentive Plan conducted purchase and disposal of treasury shares. As a result, compared with the end of the previous fiscal year, the equity ratio fell by 5.6 percentage points to 54.2%.

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

As announced on May 28, 2020, the consolidated forecast for the fiscal year ending October 31, 2020 has not been determined at this time because the impact of the COVID-19 pandemic on business activities has made it difficult to make a reliable forecast. 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, 3Q (Jul. 31, 2020)
Assets		
Current assets		
Cash and deposits	5,145,870	1,677,876
Accounts receivable-trade	303,837	107,784
Merchandise	168,047	302,611
Raw materials and supplies	120,551	68,106
Other	279,154	839,999
Allowance for doubtful accounts	(2,899)	(1,174)
Total current assets	6,014,563	2,995,203
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,690,714	9,386,040
Land	1,973,734	1,973,734
Other, net	430,011	478,366
Total property, plant and equipment	12,094,460	11,838,142
Intangible assets	157,602	144,098
Investments and other assets	3,273,083	4,129,675
Total non-current assets	15,525,146	16,111,915
Total assets	21,539,709	19,107,119
Liabilities		
Current liabilities		
Accounts payable-trade	936,604	74,892
Short-term borrowings	-	1,000,000
Current portion of long-term borrowings	1,072,671	937,387
Income taxes payable	332,252	10,014
Provision for bonuses	275,990	162,649
Other	1,777,068	1,376,822
Total current liabilities	4,394,587	3,561,766
Non-current liabilities		
Long-term borrowings	2,703,109	3,518,479
Retirement benefit liability	39,224	38,206
Provision for point card certificates	16,118	16,893
Asset retirement obligations	924,789	1,025,155
Other	544,930	559,997
Total non-current liabilities	4,228,171	5,158,732
Total liabilities	8,622,759	8,720,498

(Thousands of yen)

	Previous Consolidated FY (Oct. 31, 2019)	Current Consolidated FY, 3Q (Jul. 31, 2020)
Net assets		
Shareholders' equity		
Share capital	351,655	351,655
Capital surplus	355,311	355,794
Retained earnings	12,289,849	10,137,215
Treasury shares	(116,350)	(457,592)
Total shareholders' equity	12,880,466	10,387,073
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	26,011	22,810
Foreign currency translation adjustment	(27,329)	(62,219)
Total accumulated other comprehensive income	(1,317)	(39,409)
Non-controlling interests	37,800	38,957
Total net assets	12,916,950	10,386,620
Total liabilities and net assets	21,539,709	19,107,119

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

(Thousands of yen)

	3Q of Previous Consolidated Period (Nov. 1, 2018 - Jul. 31, 2019)	3Q of Current Consolidated Period (Nov. 1, 2019 - Jul. 31, 2020)
Net sales	14,158,829	7,659,251
Cost of sales	6,379,339	3,857,025
Gross profit	7,779,489	3,802,226
Selling, general and administrative expenses	6,866,997	6,330,062
Operating profit (loss)	912,492	(2,527,836)
Non-operating income		
Interest income	14,736	14,283
Guarantee commission received	10,634	11,941
Other	9,415	9,151
Total non-operating income	34,786	35,377
Non-operating expenses		
Interest expenses	14,052	13,495
Other	4,884	4,085
Total non-operating expenses	18,936	17,580
Ordinary profit (loss)	928,342	(2,510,040)
Extraordinary income		
Subsidy income	-	6,028
Total extraordinary income	-	6,028
Extraordinary losses		
Loss on retirement of non-current assets	8,376	26,571
Total extraordinary losses	8,376	26,571
Profit (loss) before income taxes	919,965	(2,530,583)
Income taxes-current	250,526	21,319
Income taxes-deferred	34,031	(763,760)
Total income taxes	284,558	(742,441)
Profit (loss)	635,406	(1,788,142)
Profit attributable to non-controlling interests	5,232	5,031
Profit (loss) attributable to owners of parent	630,174	(1,793,173)

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

(Thousands of yen)

	3Q of Previous Consolidated Period (Nov. 1, 2018 - Jul. 31, 2019)	3Q of Current Consolidated Period (Nov. 1, 2019 - Jul. 31, 2020)
Profit (loss)	635,406	(1,788,142)
Other comprehensive income		
Remeasurements of defined benefit plans, net of tax	(3,081)	(3,200)
Foreign currency translation adjustment	8,336	(38,767)
Total other comprehensive income	5,254	(41,967)
Comprehensive income	640,661	(1,830,109)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	634,595	(1,831,265)
Comprehensive income attributable to non-controlling interests	6,065	1,156

(3) 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 the spread of the COVID-19 pandemic and Japan's declaration of a state of emergency, all locations in areas covered by this declaration were temporarily closed because the safety of customers and employees is the highest priority.

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)

(Transition to a Holding Company Structure)

The IKK Board of Directors approved a resolution on August 28, 2020 to establish a new company to prepare for divestiture and to transition to a holding company structure by means of a corporate divestiture), while maintaining its listed status.

The transition to a holding company structure is subject to the approval of the related agenda at the Ordinary General Meeting of Shareholders to be held on January 28, 2021.

1. Purpose of the transition to a holding company structure

IKK has decided to transition to a holding company structure to implement agile business strategies, and to be able to recruit and develop excellent human resources and thus achieve Vision 2035: "Create a new global company where everyone takes on new challenges as leaders in many fields."

2. Overview of the divestiture preparatory company to be established

- | | |
|-----------------------|--|
| (1) Company name: | IKK Divestiture Preparatory Company Ltd. |
| (2) Location: | 3-6-5 Katamine, Kasuyagun Shimemachi, Fukuoka Prefecture |
| (3) Representative: | To be announced |
| (4) Capital: | 50 million yen |
| (5) Business: | Wedding business |
| (6) Establishment: | November 2, 2020 (tentative) |
| (7) Investment ratio: | IKK 100% |

3. Method for transition to a holding company structure

IKK will transition to a holding company structure by means of a corporate divestiture, while maintaining its listed status.

IKK will conduct an absorption divestiture, with IKK as the divesting company and the Divestiture Preparatory Company the successor company.

4. Schedule

Meeting of the Board of Directors to approve the establishment of Divesture Preparatory Company:	August 28, 2020
Establishment of Divesture Preparatory Company:	November 2, 2020 (tentative)
Meeting of the Board of Directors for the conclusion of the absorption-type divesture agreement:	December 22, 2020 (tentative)
Conclusion of absorption-type divesture agreement:	December 22, 2020 (tentative)
General Meeting of Shareholders to approve the absorption-type divesture agreement:	January 28, 2021 (tentative)
Transition to a holding company structure:	May 1, 2021 (tentative)

(Establishment of Subsidiary)

The IKK Board of Directors approved a resolution on August 28, 2020 to establish a subsidiary.

1. Purpose of the establishment

IKK will develop a food business by establishing a subsidiary founded on the basis of the cuisine development capabilities cultivated in the wedding business.

2. Overview of the subsidiary

(1) Company name:	IKK Foods Inc. (tentative)
(2) Location:	3-6-5 Katamine, Kasuyagun Shimemachi, Fukuoka Prefecture
(3) Representative:	Katsushi Kaneko, President and Representative Director
(4) Capital:	25 million yen
(5) Business:	Food business
(6) Establishment:	October 2020 (tentative)
(7) Investment ratio:	IKK 95.0%