Consolidated Financial Results for the Fiscal Year Ended October 31, 2013
(Japanese GAAP)

Dec. 13, 2013
Listed on: First Section of the Tokyo Stock Exchange

Name of Listed Company: IKK, Inc.
Securities code: 2198 URL: http://www.ikk-grp.jp/
Representative: Katsushi Kaneko, President and Representative Director
Contact: Akira Toda, Managing Director, Division COO, Management Div. TEL +81-92-937-7030
Scheduled date of Annual General Meeting of stockholders: Jan. 29, 2014
Scheduled date of start dividends distribution: Jan. 30, 2014
Filing date of financial statements: Jan. 29, 2014
Supplementary quarterly materials prepared: Yes
Quarterly results information meeting held: Yes (for analysts)

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

1. Consolidated financial results for the FY ended October 31, 2013 (Nov. 1, 2012-Oct. 31, 2013)

(1) Consolidated operating results (cumulative)

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY ended Oct. 31, 2013	14,510	6.7	1,948	1.4	1,916	3.9	1,388	49.3
FY ended Oct. 31, 2012	13,594	11.9	1,921	44.3	1,844	45.1	929	333.2

Note: Comprehensive income: FY ended Oct. 31, 2013: 1,388 million yen (49.3%); FY ended Oct. 31, 2012: 929 million yen (333.2%)

	Net Income per Share	Diluted Net Income per Share	ROE (%)	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
FY ended Oct. 31, 2013	97.41	96.99	21.3	14.1	13.4
FY ended Oct. 31, 2012	65.53	65.20	16.9	14.7	14.1

Reference: Equity in earnings of affiliated companies: FY ended Oct. 31, 2013: — million yen; FY ended Oct. 31, 2012: — million yen

Notes:

1. On April 1, 2012, the Company's common stock was split 2-for-1. However, net income/diluted net income per share was calculated assuming stock division at the beginning of the previous fiscal year.
2. On April 1, 2013, the Company's common stock was split 2-for-1. However, net income/diluted net income per share was calculated assuming stock division at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
FY ended Oct. 31, 2013	14,375	7,213	50.2	502.38
FY ended Oct. 31, 2012	12,905	5,840	45.3	412.03

Reference: Equity capital: FY ended Oct. 31, 2013: 7,213 million yen; FY ended Oct. 31, 2012: 5,840 million yen

Notes:

1. On April 1, 2012, the Company's common stock was split 2-for-1. However, net assets per share was calculated assuming stock division at the beginning of the previous fiscal year.
2. On April 1, 2013, the Company's common stock was split 2-for-1. However, net assets per share was calculated assuming stock division at the beginning of the previous fiscal year.

(3) Consolidated cash flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at the End of the Year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY ended Oct. 31, 2013	2,549	(1,239)	(914)	3,026
FY ended Oct. 31, 2012	2,553	(628)	(902)	2,630

2. Dividends

	Yearly Dividends					Total Amount of Cash Dividends	Dividends Payout Ratio (Consolidated)	Dividends on Net Assets (Consolidated)
	1Q End	2Q End	3Q End	FY End	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY ended Oct. 31, 2012	—	0.00	—	15.00	15.00	111	11.4	2.0
FY ended Oct. 31, 2013	—	0.00	—	20.00	20.00	298	20.5	4.4
FY ending Oct. 31, 2014 (forecast)	—	0.00	—	20.00	20.00		26.2	

Note:
Breakdown of the FY ended October 31, 2013 dividends: Regular dividends: 10.00 yen; Commemorative dividends: 10.00 yen

On April 1, 2013, the Company's common stock was split 2-for-1. Figures for dividends for the FY ended October 31, 2012 are before the split is applied. For details on end of year dividends adjusted to reflect the split, please see "Retroactive Adjustment of Dividends According to Stock Split."

3. Consolidated financial forecast for the FY ending October 31, 2014 (Nov. 1, 2013-Oct. 31, 2014)

(Percentage figures show changes from the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Half year	7,275	9.2	860	5.4	840	5.1	460	(18.6)	31.96
Full year	15,370	5.9	2,000	2.6	1,960	2.3	1,100	(20.8)	76.26

***Notes**

(1) Significant changes to subsidiaries during the term (transfer of specific subsidiaries accompanying changes in scope of consolidation): Yes
Newly added: 1 company, Company name: I Care, Inc. Excluded: — Company name:

(2) Changes in accounting policies, accounting estimates and restatement
1) Changes in accounting policies due to revision of accounting standards, etc.: Yes
2) Changes in accounting polices other than 1): No
3) Changes in accounting estimates: Yes
4) Restatement: No

Note:
As of the consolidated fiscal year under review, the depreciation method changed to correspond to "Changes in accounting policies which are difficult to distinguish from changes in accounting estimates." For details, see "3. Consolidated Financial Statements, (5) Notes to Consolidated Financial Statements (Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)" on page 16 of the attached materials.

(3) Number of shares issued (common stock):

1) Number of shares issued as of end of term (including treasury stock)	FY ended Oct. 31, 2013	14,939,200 shares	FY ended Oct. 31, 2012	14,874,000 shares
2) Number of treasury stock as of end of term	FY ended Oct. 31, 2013	579,772 shares	FY ended Oct. 31, 2012	699,672 shares
3) Average number of shares over period	FY ended Oct. 31, 2013	14,251,219 shares	FY ended Oct. 31, 2012	14,185,422 shares

Notes:
1. On April 1, 2012, the Company's common stock was split 2-for-1. However, average number of shares over period for the FY ended October 31, 2012 was calculated assuming stock division at the beginning of the previous consolidated fiscal year.
2. On April 1, 2013, the Company's common stock was split 2-for-1. However, number of shares issued as of end of term, number of treasury stock as of end of term and average number of shares over period were calculated assuming stock division at the beginning of the previous consolidated fiscal year. Furthermore, figures for treasury stock include 578,900 shares held in employee stock holdings trust at the end of this quarterly consolidated period.

(Reference) Nonconsolidated Financial Results for the FY ended October 31, 2013 (Nov. 1, 2012-Oct. 31, 2013)

(1) Non-consolidated operating results (cumulative)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY ended Oct. 31, 2013	13,812	6.6	1,922	2.4	1,898	5.1	1,403	55.7
FY ended Oct. 31, 2012	12,962	9.8	1,876	35.1	1,806	35.6	901	232.7

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
FY ended Oct. 31, 2013	98.48	98.05
FY ended Oct. 31, 2012	63.56	63.24

Notes:

1. On April 1, 2012, the Company's common stock was split 2-for-1. However, net income/diluted net income per share was calculated assuming stock division at the beginning of the previous fiscal year.
2. On April 1, 2013, the Company's common stock was split 2-for-1. However, net income/diluted net income per share was calculated assuming stock division at the beginning of the previous fiscal year.

(2)Non-consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
FY ended Oct. 31, 2013	14,138	7,174	50.7	499.61
FY ended Oct. 31, 2012	12,651	5,785	45.7	408.14

Reference: Equity capital: FY ended Oct. 31, 2013: 7,174 million yen; FY ended Oct. 31, 2012: 5,785 million yen

Notes:

1. On April 1, 2012, the Company's common stock was split 2-for-1. However, net assets per share was calculated assuming stock division at the beginning of the previous fiscal year.
2. On April 1, 2013, the Company's common stock was split 2-for-1. However, net assets per share was calculated assuming stock division at the beginning of the previous fiscal year

*Presentation of implementation status for audit procedures

The audit procedure based on the Financial Instruments and Exchange Act does not apply to this report. At the time of disclosure of this report, audit procedures for financial statements pursuant to the Financial Instruments and Exchange Act had not been completed. .

* 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 do not serve as a guarantee of results on the part of the company. Actual results may vary substantially due to a variety of reasons. For notes and other cautionary statements related to assumptions behind and use of forecasted results, please see "1. Analysis of Operating Results and Financial Position: (1) Analysis of Operating Results" (attachments, page 2).

Retroactive Adjustment of Dividends According to Stock Split

On April 1, 2013, the Company's common stock was split 2-for-1. The dividends assuming split at the beginning of previous consolidated fiscal year are as follows:

	Yearly Dividends				
	1Q End	2Q End	3Q End	FY End	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended Oct. 31, 2012	—	0.00	—	7.50	7.50
FY ended Oct. 31, 2013	—	0.00	—	20.00	20.00
FY ending Oct. 31, 2014(forecast)	—	0.00	—	20.00	20.00

Attachments (TOC)

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

1) Operating results for the year ended October 31, 2013 (FY2013)

The Japanese economy during the consolidated fiscal year under review (November 1, 2012 to October 31, 2013) was on a steady recovery trend. Although weakened by a decrease in the global economy, among other factors, expectations toward the economic policies and monetary easing measures implemented by the new Abe administration resulted in a weakened yen, increased stock prices and improved confidence among large companies, mostly in the manufacturing sector, along with revived consumer spending, where a trend towards autonomous recovery can also be seen.

In the wedding industry, the number of weddings in 2012 slightly increased over the previous year at 669,000 (661,000 in 2011), and demand for guesthouse-style wedding services has stabilized. On the other hand, competition within the industry remains fierce, with ceremonial hall and hotel renovations, intensification of price competition, diversification of customer needs and so on.

In response to these conditions, the IKK Group (the Group) has adopted a management philosophy, “To touch our customers’ hearts!” In order to offer more touching wedding services, we worked to formulate a framework to precisely meet diversifying customer needs through in-house and external group and stratified training, as well as analyses leveraging the Company’s own original business support system, among other measures.

As a result of these efforts, sales in the current consolidated period reached 14,510 million yen (a 6.7% increase over the previous year), operating income reached 1,948 million yen (a 1.4% increase), ordinary income reached 1,916 million yen (a 3.9% increase), and net income reached 1,388 million yen (a 49.3% increase) due to 537 million yen of compensation from Tokyo Electric Power Company, Inc.

Results by segment are as follows:

a) Wedding Operations

Together with full operation of “La La Chance Taiyo no Oka” (Kanazawa branch), which increased its number of venues in the previous consolidated fiscal year, conditions at existing branches turned favorable thanks to increased orders due to practical use of business databases, the effect of renovations and so on, leading to sales of 14,159 million yen (a 7.0% increase over the previous year). Operating income amounted to 1,985 million yen (a 5.2% increase over the previous fiscal year) due to the accounting of prepaid expenses for new branches relating to the opening of the Sasebo branch as well as reinforcements to the personnel structure to improve the level of service of ceremonies and receptions.

b) Funeral Operations

Sales were 348 million yen (a 3.1% decrease over the previous fiscal year), with a 32 million yen operating income (a 3.2% decrease).

c) Nursing-care Operations

Our nursing-care operations, which began during the consolidated fiscal year under review (our nursing-care facility opened in September 2013), recorded sales of 1 million yen and an operating loss of 71 million yen.

2) Forecast for the year ending October 31, 2014

Regarding forecasts for the next fiscal period, an increase in revenue is expected as a result of contributions in the fourth quarter resulting from an expansion of the Fukuoka branch and a full year of operations of the Sasebo branch, which opened in November 2013, however, because a branch expansion and prepaid expenses for new locations are planned, sales will likely amount to 15,370 million yen (a 5.9% increase over the consolidated fiscal year) with operating income at 2,000 million yen (a 2.6% increase), ordinary income at 1,960 million yen (a 2.3% increase) and net income at 1,100 million yen (a 20.8% decrease).

Note that the foregoing forecasts are based on currently available information and actual results may vary substantially due to various factors.

(2) Analysis of Financial Position

1) Assets, liabilities and net assets

a) Assets

Current assets increased by 513 million yen (a 16.0% increase) compared with the previous consolidated fiscal year end to 3,730 million yen. This was mainly attributable to a 395 million yen increase in cash and deposits.

Noncurrent assets increased by 956 million yen (a 9.9% increase) compared with the previous consolidated fiscal year end to 10,644 million yen. This is mainly attributable to an increase in property, plant and equipment of 730 million yen due to the new construction of the Sasebo branch and renewals, etc. of existing branches.

b) Liabilities

Current liabilities increased by 558 million yen (a 15.4% increase) compared with the previous consolidated fiscal year end to 4,171 million yen. This is mainly attributable to a 625 million yen increase in accounts payable-trade.

Noncurrent liabilities decreased by 461 million yen (a 13.4% decrease) compared with the previous consolidated fiscal year end to 2,989 million yen. This is mainly attributable to a 582 million yen decrease in long-term loans payable as a result of scheduled payments.

c) Net assets

Net assets increased by 1,373 million yen (a 23.5% increase) compared with the previous consolidated fiscal year end to 7,213 million yen. The main causes were an increase due to net income of 1,388 million yen and a decrease due to dividends from surplus of 106 million yen. As a result, compared to the end of the previous fiscal year, equity ratio rose by 4.9 points, to 50.2%.

2) Cash flows

Cash and cash equivalents (hereinafter, “cash”) for the consolidated fiscal year under review increased by 395 million yen (a 15.1% increase) compared to the previous consolidated fiscal year end to 3,026 million yen.

The following are cash flow conditions and factors for the consolidated fiscal year under review.

a) Cash flows from operating activities

Cash generated from operating activities was 2,549 million yen (a 0.1% decrease over the previous fiscal year) mainly attributable to revenues amounting to 2,427 million yen in net income before income taxes and 851 million yen in depreciation cost and expenses amounting to 1,041 million yen in income taxes payable.

b) Cash flows used by investment activities

Cash used by investment activities was 1,239 million yen (a 97.1% increase over the previous fiscal year) mainly attributable to 1,115 million yen in outlays from the new construction of nursing-case facilities and the Sasebo branch as well as the acquisition of property, plant and equipment for renewals, etc. of existing branches.

c) Cash flows used by financing activities

Cash used by financing activities was 914 million yen (a 1.3% increase over the previous fiscal year) mainly attributable to revenues amounting to 250 million yen from long-term loans for the new construction of nursing-care facilities and outlays of 1,070 million yen and 105 million yen for the repayment of long-term loans and payment of dividends, respectively.

(Reference) Cash flow indicator trends

	FY2009	FY2010	FY2011	FY2012	FY2013
Equity ratio (%)	29.8	37.1	42.3	45.3	50.2
Equity ratio at market value (%)	-	24.1	24.1	39.9	77.9
Ratio of interest-bearing debt to cash flows (year)	5.6	2.1	4.9	1.5	1.1
Interest coverage ratio (times)	14.6	33.4	14.7	57.3	81.5

Notes: Equity ratio: (Net assets – Minority interests) / Total assets
Equity ratio at market value: Market capitalization / Total assets
Ratio of interest-bearing debt to cash flows: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows from operating activities / Interest expense

1. The consolidated financial figures constitute the basis for calculating these indicators.
2. Market capitalization is calculated by multiplying the closing stock price at the end of the period by the number of shares outstanding at the end of the period (after the deduction of treasury stocks).
3. Regarding the mark-to-market based shareholders’ equity ratio, because the Company was not listed on an exchange in the fiscal year ended October 31, 2009, the mark-to-market share value cannot be determined and therefore not provided here.
4. The basis for calculating ratio of interest-bearing debt to cash flows is from operating activities in the consolidated statements of cash flows.
5. Interest-bearing debt includes all debts recorded on the consolidated balance sheets on which interest is paid.
6. The basis for interest expense is the amount of interest paid recorded in the consolidated statements of cash flows.

(3) Basic Policy Regarding Distributions of Surplus and Dividends for the Current and Next Fiscal Periods

The Company, aware that returning profits to shareholders is an important managerial issue, distributes dividends according to operating results while retaining internal reserves necessary for future business development and strengthening the management structure.

The dividend for the current fiscal period is 20 yen per share (10-yen regular dividend plus 10-yen commemorative dividend).

The dividend for the next fiscal period is 20 yen per share (20-yen regular dividend).

(4) Risks Associated with Business, etc.

The risk of possible effects on the Group’s operating results, financial position and others and change factors are provided below, however, the Group, recognizing the existence of such risk, continues to strive to avoid effects resulting from the occurrence of risk to the utmost of its ability.

1) The Business of the Company

a) Our Market

According to statistics published by the National Institute of Population and Social Security Research, the population at marriageable age in Japan is forecasted to continue on a decreasing trend and, due to changes in customer preference such as couples choosing not to hold a ceremony or reception and the tendency to marry late may result in the constriction of the ceremony and reception market scale. Under such circumstances, the Company is striving to further enhance its ability to serve customers and propose plans as well as provide moving ceremonies and receptions. However, should the market contract faster than estimated and the number of orders do not attain targets, the Group’s results may be negatively affected.

b) Our Competition

In the wedding industry to which the mainstay business of the Group belongs, growth in demand for guesthouse-style weddings is leading to the transformation of ceremonial halls into guesthouse formats in addition to hotel refurbishments and the intensification of price competition, among other factors that have exacerbated the business environment encompassing this industry year after year. This trend will likely continue going forward and, should major competitors open multiple locations in areas where the Company has a presence, competition will further intensify and negatively affect orders possibility having a detrimental effect on the Group’s results.

c) Wedding Styles

The Company, to meet the needs of the times, started its guesthouse-style wedding business in Tosu City, Saga Prefecture in September 2000 and has increased the number of locations ever since. Going forward, while it is the policy of the Company to understand and meet the needs and trends of the times, we expect changes in preferences and tastes with regard to wedding styles amongst age groups centered on young people in their 20s and 30s as well as a new wedding style to replace guesthouse-style weddings as the mainstream format. Any delay in our response to such changes in wedding style may negatively affect the Group’s results.

d) Securing and Training Human Resources

The Company recognizes that securing and training talented human resources is an important factor to differentiate itself from other companies and therefore proactively conducts training as well as new graduate and mid-career recruitment.

The Company is particularly working to fortify its human resource training by conducting systematic training based on its management principles. In doing so, the Group is strengthening its human resource securement and training efforts, however, should such efforts not progress as planned, our ability to compete may deteriorate and business expansion may be restricted leading to possible negative effects on the Group’s business and results.

e) New Store Openings

The Group engages in new store openings comprehensively examining the conditions of candidate locations, trends in commercial districts thereat, competitor trends, regional characteristics, profitability and required capital investments, among other factors, however, should we fail to find properties that match new store conditions, plans may come to a halt leading to possible negative effects on the Group’s results. Moreover, because prepaid expenses are incurred when opening new locations, in the event that multiple stores are developed at the same time, the Group’s results may be impacted over the short term. Should a new location of the Group suffer a substantial decrease in profitability and impairment losses are recognized, the financial position and operating results, among other aspects of the Group, may be negatively affected.

f) Nursing-care Business

The Group began its nursing-care business with the establishment of a subsidiary as part of its growth strategy, however, this sector is subject to the Public Care for the Aged Act, the Nursing Care Insurance Act and other regulations whose revisions may result in changes in systems or basic nursing-care compensation rates. Such a revision in the system or fee structure may negatively affect the Group's results, depending on the details thereof. Moreover, because the nursing-care business targets the elderly, any deterioration in brand image resulting from accidents or contagion at facilities that lead to a decrease in users may negatively affect the Group's results.

2) Legal Restrictions

a) Hygiene Management

The Company, because it provides food and drink at wedding ceremonies and receptions, is subject to restrictions provided for in the Food Sanitation Act and so works to ensure that systematic hygiene management is practiced on a companywide level through such measures as managing our staffers' daily physical health and cooking processes, conducting periodical intestinal bacteria exams and periodical disinfections and exams by external organizations. Under these circumstances, our Fukuoka branch acquired the international food safety management system standards ISO22000 accreditation in August 2009 and we have promoted the companywide, cross-sectional formulation of the same hygiene management system as that branch. Moreover, meals are also served in the nursing-care business and so the same hygiene management system as the Company's is in place to prevent food accidents from occurring.

As described above, the Group regards safe and secure food preparation as top priority and therefore strives to prevent the occurrence of food accidents, however, should an incident of food poisoning occur or other food-related accident, we may lose our business license or be ordered to suspend operations, suffer a deterioration in our credibility and become the target of claims for indemnification for damages that may negatively impact the Group's results.

b) Personal Information Management

The Group handles the personal information of grooms, brides, their family members and guests, mourners at funerals and their family members as well as residents of nursing-care facilities and their family members. With the aim of protecting this confidential information, we established our "Personal Information Management Rules" to ensure that all precautions are made when storing and handling personal information. But should such information be leaked to the outside, not only will our reputation suffer but, depending on the details, we may be subject to a citation, order or penalty from the authorities. If such a situation were to arise, the Group's results may be negatively affected as a result of the deterioration society's trust and claims for indemnification for damages, among other outcomes.

3) Others

a) Effects from Infectious Diseases

Aside from seasonal influenza outbreaks, new types of influenza viruses and other contagion are likely to spread widely even in Japan. Because a large, undetermined number of people visit our facilities, we urge that staffers rinse their mouths and wash their hands, get inoculated and stop coming to work should they contract an illness. Even at nursing-care facilities, because the elderly are the recipients of our services, staffers are required to strictly adhere to the work manual. In addition, the Group urges customers who visit us to use alcohol disinfectant agents and germicidal equipment made available at our facilities. In doing so, the Group is proactively implementing measures to prevent contagion, however, our results may be negatively affected should business be suspended due to a wide-area diffusion of a serious infectious disease in Japan or a widespread outbreak thereof at a nursing-care facility.

b) Natural Disasters

The Group engages in business activities in 13 cities and their environs in Japan. Any natural disaster such as an earthquake or flood impossible to foresee in any area where we operate a store would not only affect our facilities themselves but also force us to suspend business leading to the possibility of negative effects on the financial position and operating results of the Group. Moreover, although we are insured against damages from natural disasters, should the amount of damages exceed the insurance benefits, the Group's financial position and operating results may be negatively affected.

2. Management Policy

(1) Basic Management Policy

Based on our Group's mission statement, "Contributing to Society by Touching our Customers' Hearts," the following is our proud corporate philosophy.

・Sincerity, Trust, Reliance
・To touch our customers' hearts, we will create personalized weddings that warm people's hearts
・To touch our customers' hearts, we will do our best immediately in a sincere spirit of collaboration
・We will offer opportunities to talented personnel regardless of nationality, gender, age, or experience

To touch the hearts of our customers, we place sincerity, trust and reliability at the heart of our corporate philosophy, the articulation of serious management that aims to educate human resources in the art of stirring the emotions of our valued customers. The Group, conducting our management based on this philosophy, regards contributing to society by moving the hearts of customers as the basic management policy our aim to "a company that creates emotion"

The Group, armed with this basic policy, will labor to ensure the continuous development and enhancement of the corporate value of each group company by aiming to realize management that is able to train better human resources and meet the diversifying needs of customers all in hopes of meeting the high expectations of not only our customers and shareholders, but also our stakeholders.

(2) Target Management Indicators

The Group's policy is to work towards continuous growth. To achieve this, it is essential to improve profit margins through effective managerial resource allocation and build a solid financial foundation. Consequentially, the Group recognizes as crucial management indicators both the return on asset ratio, as a measure of profitability and investment efficiency, and the capital adequacy ratio to gauge the financial balance. The Group will strive to improve these indicators going forward.

(3) Medium to Long Term Management Strategy

The Group has provided ceremonies and receptions according to the wants of each and every customer while responding to changes in the wedding industry and analyzing the diversifying needs of customers. Going forward, we will strive to create a new customer base by formulating and executing strategy based on our corporate philosophy and, over the medium to long term, move into fields either in Japan or overseas where our strengths as a Group can be unleashed based on our wedding business.

In the area of internal management, the Group will further broaden and strengthen its corporate governance framework and internal control system to ensure that we are continuously well evaluated by the market as a sound company with a high level of transparency.

(4) Issues to be Faced by the Company

1) Recognizing current conditions

In the Japanese wedding industry, as the population at marriageable age drops and the tendency to marry late advances, among other factors, the number of ceremonies and receptions is expected to continue on a modest decreasing trend. However, thanks to a heightened inclination towards original ceremonies and receptions that move away from tradition and formalities, the guesthouse-style wedding market has steadily expanded. In light of this trend, ceremonial halls have switched to the guesthouse-style wedding format and hotels have made renewals and intensified cost competition, among other measures, pushing up the severity of competition in the market. In the nursing-care industry, services that meet the lifestyles and needs of the aged are sought and many new players are entering the market from various sectors.

Under such circumstances, the Group, fully taking into consideration changes in customer sentiment as well as industry and competitive trends, will provide services from the heart that will stir the emotions of our valued customers and in turn contribute to society by touching their hearts. To achieve this, we will face seven crucial issues, namely (1) securing and training talented human resources, (2) strengthening information collection and analysis capabilities, (3) strengthening customer safety measures, (4) maintaining and strengthening existing branch quality, (5) further improving customer service and plan proposal strengths, (6) implementing steady branch development and (7) strengthening corporate governance.

2) Handling Issues

a) Securing and Training Talented Human Resources

The entire Group, based on the concept that people are assets, employs the term "human resources," rather than the common term "personnel."

Aware that securing and training talented human resources is an important factor in differentiating ourselves from our rivals, the Group has been diligently focused on doing just that. Specifically, as human resource securement efforts, we have been conducting new-graduate hiring activities cross-country as well as mid-career hiring activities in the local areas of our branches proactively employing human resources with the latent skills and aptitudes our Group demands of its people. Our human resource training efforts are based on a composite training program consisting of philosophical training to instill our corporate philosophy, task-specific practical training aimed at increasing customer satisfaction and stratified training to enhance task knowledge and management skills, among other forms of training aimed at realizing growth. Going forward, the Group will continue working to secure and train talented human resources by expanding and fortifying our hiring activities and promoting training efforts both internally and externally based on our corporate philosophy.

b) Strengthening Information Collection and Analysis Capabilities

The Group, fully aware that responding to the changing environment is vital for the perpetuation of a company, regards the strengthening of our information collection and analysis capabilities as an important managerial issue. For this reason, the Group has promoted the sharing of information both within the parent organization as well as amongst group companies in parallel with efforts to expand information collection channels.

Going forward, the Group will work to increase our corporate value by fortifying information collection and analysis capabilities and making swift business decisions all to ensure that we proper respond to the changing needs of the market.

c) Strengthening Customer Safety Measures

In the wedding ceremony industry, the Group, with the aim of strengthening its safety measures with respect to customers, acquired international food safety management system standards ISO22000 accreditation in August 2009 for its Fukuoka branch and promoted the companywide formulation of the same hygiene management system as used at that branch on a cross-sectional basis. We also worked to buttress measures to prevent traffic accidents with our courtesy buses and leaks of confidential information. In the nursing-care industry, because we are providing services to the elderly, we strove to fortify our compliance framework and tirelessly conducted employee training based on manuals.

Going forward, the Group will revise its many regulations and manuals, strengthen its internal control system and push for further fortification of safety measures through partnerships with external specialists and government regulators all to meet the expectations of our valued customers.

d) Maintaining and Strengthening Existing Branch Quality

The Group recognizes the importance as a managerial issue of maintaining and enhancing the quality of existing locations to realize our objective of long-term and stable store operations. For this reason, the Group maintained and enhanced quality both tangibly, with maintenance and renewal efforts, and intangibly through alliances with famous chefs and bakers as well as internal and external training, among other measures. Going forward, in tandem with efforts to maintain and enhance the quality of our facilities through continuous maintenance and renewals that reflect customer needs, we will reflect customer comments, onsite comments and results of internal and external training on our operations and work to improve the quality of our wedding ceremonies and receptions and nursing-case services, among other activities.

e) Further Improving Customer Service and Plan Proposal Strengths

The Group worked to increase its “human strengths” through internal and external training based on our management principles, enhance the level of its hospitality through hands-on onsite practice and maintain and improve the level of the entire Group through information sharing that would lead to a more profound emotional experience by our customers.

Going forward, we will work to further enhance our ability to serve customers and propose plans in order to increase the level of customer satisfaction as “a company that creates emotion” and build “a leading brand” that enjoys the most support from among customers in any area where we have a presence.

f) Implementing Steady Branch Development

The Group, recognizing as an important managerial issue the long-term, stable operation of stores well-rooted in regional areas, has undertaken steady store development efforts mostly in regional urban areas. Going forward, we will continue to open new locations at the previous pace with an eye on maintaining a good personnel training balance with advances into the Tokyo Metropolitan Area on the horizon, however, over the medium to long term, the Group will proceed with plans to enter fields where our strengths can be leveraged based on our wedding ceremony business both in Japan and overseas.

g) Strengthening Corporate Governance

The Group has earned the trust of its stakeholders by establishing as our basic governance policy the improvement of our corporate value through the broadening of management oversight functions and internal control functions and thorough compliance management.

Based on this basic policy, the Group will place its energy on heightening the effectiveness and transparency of our management, maximizing our corporate value and ensuring continual growth and development.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	Previous Consolidated FY (Oct. 31, 2012)	Current Consolidated FY (Oct. 31, 2013)
Assets		
Current assets		
Cash and deposits	2,630,545	3,026,544
Accounts receivable-trade	209,691	236,553
Merchandise	91,552	113,928
Raw materials and supplies	66,071	101,448
Deferred tax assets	122,921	140,760
Other	98,657	114,876
Allowance for doubtful accounts	(2,140)	(3,291)
Total current assets	3,217,300	3,730,820
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	11,207,895	12,038,031
Accumulated depreciation and impairment loss	(4,412,167)	(4,978,522)
Buildings and structures, net	6,795,727	7,059,509
Machinery, equipment and vehicles	231,027	315,561
Accumulated depreciation	(182,388)	(213,142)
Machinery, equipment and vehicles, net	48,638	102,419
Land	1,643,983	1,792,965
Construction in progress	6,342	243,658
Other	1,477,191	1,605,689
Accumulated depreciation	(1,229,358)	(1,331,213)
Other, net	247,833	274,476
Total property, plant and equipment	8,742,525	9,473,028
Intangible assets	92,669	79,071
Investments and other assets		
Deferred tax assets	559,743	586,247
Other	298,928	513,897
Allowance for doubtful accounts	(6,071)	(7,945)
Total investments and other assets	852,600	1,092,199
Total noncurrent assets	9,687,796	10,644,299
Total assets	12,905,097	14,375,119

	Previous Consolidated FY (Oct. 31, 2012)	Current Consolidated FY (Oct. 31, 2013)
Liabilities		
Current liabilities		
Accounts payable-trade	632,911	721,102
Current portion of bonds	80,000	—
Current portion of long-term loans payable	1,026,125	788,472
Accounts payable - other	302,263	927,998
Income taxes payable	608,149	652,248
Provision for bonuses	173,487	207,105
Other	790,840	874,953
Total current liabilities	3,613,777	4,171,880
Noncurrent liabilities		
Long-term loans payable	2,605,378	2,022,866
Provision for retirement benefits	78,015	85,989
Provision for directors’ retirement benefits	233,695	264,490
Provision for point card certificates	51,480	57,260
Asset retirement obligations	276,117	344,584
Other	206,382	214,096
Total noncurrent liabilities	3,451,068	2,989,286
Total liabilities	7,064,846	7,161,166
Net assets		
Shareholders’ equity		
Capital stock	342,342	347,635
Capital surplus	354,909	412,786
Retained earnings	5,309,674	6,591,644
Treasury stock	(166,675)	(138,112)
Total shareholders’ equity	5,840,250	7,213,953
Total net assets	5,840,250	7,213,953
Total liabilities and net assets	12,905,097	14,375,119

(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(Thousands of yen)

	Previous Consolidated FY (Nov. 1, 2011-Oct. 31, 2012)	Current Consolidated FY (Nov. 1, 2012- Oct. 31, 2013)
Net sales	13,594,171	14,510,044
Cost of sales	6,043,633	6,418,591
Gross profit	7,550,538	8,091,453
Selling, general and administrative expenses	5,629,512	6,142,974
Operating income	1,921,025	1,948,478
Non-operating income		
Interest income	428	520
Commission fee	3,993	5,184
Other	5,256	2,753
Total non-operating income	9,679	8,459
Non-operating expenses		
Interest expenses	44,299	30,981
Going public expenses	26,187	—
Commission fee	10,674	4,209
Other	5,185	5,107
Total non-operating expenses	86,347	40,299
Ordinary income	1,844,357	1,916,639
Extraordinary income		
Compensation income	—	527,854
Total extraordinary income	—	527,854
Extraordinary loss		
Loss on retirement of noncurrent assets	15,177	17,363
Total extraordinary losses	15,177	17,363
Income before income taxes	1,829,179	2,427,130
Income taxes-current	896,121	1,083,195
Income taxes-deferred	3,484	(44,342)
Total income taxes	899,606	1,038,852
Income before minority interests	929,573	1,388,277
Net income	929,573	1,388,277

(Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	Previous Consolidated FY (Nov. 1, 2011-Oct. 31, 2012)	Current Consolidated FY (Nov. 1, 2012- Oct. 31, 2013)
Income before minority interests	929,573	1,388,277
Other comprehensive income		
Total other comprehensive income	—	—
Comprehensive income	929,573	1,388,277
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	929,573	1,388,277
Comprehensive income attributable to minority interests	—	—

(3) Consolidated Statements of Changes in Equity

(Thousands of yen)

	Previous Consolidated FY (Nov. 1, 2011-Oct. 31, 2012)	Current Consolidated FY (Nov. 1, 2012- Oct. 31, 2013)
Shareholders' equity		
Capital stock		
Balance at beginning of current period	336,568	342,342
Changes of items during period		
Issuance of new shares	5,774	5,293
Total changes of items during period	5,774	5,293
Balance at end of current period	342,342	347,635
Capital surplus		
Balance at beginning of current period	340,224	354,909
Changes of items during period		
Issuance of new shares	5,774	5,293
Disposal of treasury stock	8,911	52,583
Total changes of items during period	14,685	57,876
Balance at end of current period	354,909	412,786
Retained earnings		
Balance at beginning of current period	4,467,036	5,309,674
Changes of items during period		
Dividends from surplus	(86,935)	(106,307)
Net income	929,573	1,388,277
Total changes of items during period	842,638	1,281,970
Balance at end of current period	5,309,674	6,591,644
Treasury stock		
Balance at beginning of current period	(115)	(166,675)
Changes of items during period		
Purchase of treasury stock	(191,620)	—
Disposal of treasury stock	25,061	28,562
Total changes of items during period	(166,559)	28,562
Balance at end of current period	(166,675)	(138,112)
Total shareholder's equity		
Balance at beginning of current period	5,143,712	5,840,250
Changes of items during period		
Issuance of new shares	11,548	10,586
Dividends from surplus	(86,935)	(106,307)
Net income	929,573	1,388,277
Purchase of treasury stock	(191,620)	—
Disposal of treasury stock	33,972	81,146
Total changes of items during period	696,538	1,373,702
Balance at end of current period	5,840,250	7,213,953
Total net assets		
Balance at beginning of current period	5,143,712	5,840,250
Changes of items during period		
Issuance of new shares	11,548	10,586
Dividends from surplus	(86,935)	(106,307)
Net income	929,573	1,388,277
Purchase of treasury stock	(191,620)	—
Disposal of treasury stock	33,972	81,146
Total changes of items during period	696,538	1,373,702
Balance at end of current period	5,840,250	7,213,953

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous Consolidated FY (Nov. 1, 2011-Oct. 31, 2012)	Current Consolidated FY (Nov. 1, 2012- Oct. 31, 2013)
Cash flows from operating activities		
Income before income taxes	1,829,179	2,427,130
Depreciation and amortization	841,842	851,839
Increase (decrease) in allowance for doubtful accounts	(5,615)	3,024
Increase (decrease) in provision for bonuses	11,996	33,618
Increase (decrease) in provision for retirement benefits	8,605	7,974
Increase (decrease) in provision for directors' retirement benefits	23,035	30,795
Increase (decrease) in provision for point card certificates	5,589	5,780
Compensation income	—	(527,854)
Loss on retirement of noncurrent assets	15,177	17,363
Interest and dividends income	(432)	(524)
Interest expenses	44,299	30,981
Commission for syndicate loan	1,000	1,000
Decrease (increase) in notes and accounts receivable - trade	43,059	(31,553)
Decrease (increase) in inventories	(6,968)	(57,752)
Increase (decrease) in notes and accounts payable - trade	(5,252)	88,190
Increase (decrease) in accounts payable - other	71,685	129,805
Other, net	201,645	85,153
Subtotal	3,078,844	3,094,970
Interest and dividend income received	432	524
Interest expenses paid	(44,561)	(31,286)
Commission for syndicate loan	(1,050)	(1,050)
Proceeds from compensation	—	527,854
Income taxes refund	832	2
Income taxes paid	(481,375)	(1,041,151)
Net cash provided by (used in) operating activities	2,553,122	2,549,864
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(629,936)	(1,115,654)
Purchase of intangible assets	(2,475)	(2,579)
Other, net	3,637	(121,342)
Net cash provided by (used in) investing activities	(628,774)	(1,239,576)
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	594,000	250,000
Repayments of long-term loans payable	(1,194,210)	(1,070,165)
Redemption of bonds	(70,000)	(80,000)
Proceeds from issuance of common stock	11,548	10,586
Purchase of treasury stock	(191,620)	—
Proceeds from sales of treasury stock	33,972	81,146
Cash dividends paid	(86,646)	(105,857)
Net cash provided by (used in) financing activities	(902,956)	(914,289)
Net increase (decrease) in cash and cash equivalents	1,021,391	395,998
Cash and cash equivalents at beginning of period	1,609,153	2,630,545
Cash and cash equivalents at end of period	2,630,545	3,026,544

(5) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

No related information.

(Changes in Accounting Policies which are Difficult to Distinguish from Changes in Accounting Estimates)

As of the first quarter of the current consolidated period, our company and consolidated subsidiaries adopted the depreciation method pursuant to revisions to the Corporation Tax Law for property, plant and equipment acquired on or after November 1, 2012.

Effects on profit and loss due to this change were insignificant.

(Segment Information)

Previous Consolidated Fiscal Year (Nov. 1, 2011-Oct. 31, 2012)

The Group's reporting segments included wedding and funeral operations. However, as funeral operations constitute a very small proportion of total business segments its importance in terms of disclosure is limited. Accordingly, listing of segment information is abridged.

Current Consolidated Fiscal Year (Nov. 1, 2012-Oct. 31, 2013)

The Group's reporting segments include Wedding, Funeral and Nursing-care Operations. However, as Funeral and Nursing-care Operations constitute a very small proportion of total business segments their importance in terms of disclosure is limited. Accordingly, listing of segment information is abridged.

(Per share Information)

Previous Consolidated FY (Nov. 1, 2011-Oct. 31, 2012)		Current Consolidated FY (Nov. 1, 2012- Oct. 31, 2013)	
Net assets per share	412.03 yen	Net assets per share	502.38 yen
Net income per share	65.53 yen	Net income per share	97.41 yen
Diluted Net Income per Share	65.20 yen	Diluted Net Income per Share	96.99 yen

Notes

1. On April 1, 2012, the Company's common stock was split 2-for-1. However, net assets per share, net income and diluted net income per share was calculated assuming stock division at the beginning of the previous fiscal year.
2. On April 1, 2013, the Company's common stock was split 2-for-1. However, net assets per share, net income and diluted net income per share was calculated assuming stock division at the beginning of the previous fiscal year.
3. Basis for the calculation of net income per share and diluted net income per share are as follows.

		Previous Consolidated FY (Nov. 1, 2011-Oct. 31, 2012)	Current Consolidated FY (Nov. 1, 2012- Oct. 31, 2013)
Net income per share			
Net income on the statements of income	(Thousands of yen)	929,573	1,388,277
Net income associated with common shares	(Thousands of yen)	929,573	1,388,277
Amount not attributable to common shareholders	(Thousands of yen)	—	—
Average number common outstanding shares in the fiscal year	(Shares)	14,185,422	14,251,219
Diluted net income per share			
Adjustments to current net income	(Thousands of yen)	—	—
Number of additional common shares	(Shares)	72,049	63,005
Diluted net income per share has not been shown, as the Company does not have any latent shares with a dilutive effect.		—	—

The average number of common outstanding shares during the period excludes the Company's stocks owned by "IKK Employee Stock Ownership Association Exclusive Trust Account."

(Material Subsequent Events)

(Absorption-type Merger of Consolidated Subsidiaries)

At the board of directors' meeting held August 30, 2013, it was decided that the wholly-owned subsidiary, Suite Villa Garden Inc. ("Suite Villa Garden"), would be absorbed by IKK Inc. ("IKK"). A merger agreement was finalized that same day. Suite Villa Garden was absorbed into IKK on November 1, 2013.

1. The Outline of Business Combination

(1). Combined Entity and Details of Business

Combined entity: Suite Villa Garden Inc.
Business: Wedding industry

(2). Date of Business Combination

November 1, 2013

(3) Legal form of business combination

Absorption-type merger, with IKK as the surviving company and Suite Villa Garden dissolved.

(4) Name of the Company after Merger

IKK, Inc.

(5) Purpose of the Merger

Suite Villa Garden was established in April 2011 as reproduction stores to focus proprietary expertise. Since its founding, the company has shown favorable results.
The purpose of the merger is to capitalize on Suite Villa Garden's newly organized business model and IKK's business model, increasing the efficiency of IKK Group management and strengthening operational foundations.

Principles Businesses (as of October 31, 2013)

Business: Wedding industry
Net sales: 357 million yen
Net income: 26 million yen
Total assets: 317 million yen
Net assets: 80million yen

2. Overview of Planned Accounting Process

Based on "Accounting Standards for Business Combinations" (Corporate Accounting Standards No. 21, December 26, 2008) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Implementation Guidance on Corporate Accounting Standards No. 10, December 26, 2008), the merger was accounted for as a transaction under common control.

4. Additional Information

Change of Officers

(1) Change in Representatives

None

(2) Change in other officers

Retiring director

Director Yasunori Morooka

(Note) As of the conclusion of the Annual Meeting of Shareholders scheduled on January 29, 2014, the term of office will expire.