AOKI Holdings

February 9, 2017

Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2017 (Nine Months Ended December 31, 2016)

[Japanese GAAP]

Company name: AOKI Holdings Inc. — Listings: TSE First Section
Stock code: 8214 — URL: http://www.aoki-hd.co.jp/
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Scheduled date of filing of Quarterly Report: February 10, 2017
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on February 9, 2017 at 15:30 (GMT +9).

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

1. Consolidated Financial Results for the Nine Months Ended December 31, 2016 (April 1, 2016 – December 31, 2016)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Dec. 31, 2016	133,404	1.8	4,259	(48.7)	3,972	(51.3)	2,271	(51.9)
Nine months ended Dec. 31, 2015	131,030	2.8	8,311	(3.2)	8,164	(4.2)	4,720	(5.7)

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2016: 2,538 (down 46.5%)
Nine months ended Dec. 31, 2015: 4,744 (down 16.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2016	25.67	-
Nine months ended Dec. 31, 2015	52.19	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2016	229,935	139,375	60.6
As of Mar. 31, 2016	230,363	142,926	62.0

Reference: Shareholders' equity (million yen) As of Dec. 31, 2016: 139,287 As of Mar. 31, 2016: 142,838

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/16	-	20.00	-	20.00	40.00
FY3/17	-	21.00	-		
FY3/17 (forecasts)				22.00	43.00

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	196,270	4.1	15,800	(11.2)	15,500	(12.1)	8,800	(9.4)	99.73

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

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others:	Yes
2) Changes in accounting policies other than 1) above:	None
3) Changes in accounting-based estimates:	None
4) Restatements:	None

Note: Please refer to "2. Matters Related to Summary Information (Notes)" on page 4 for further information.

(4) Number of shares outstanding (common shares)

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

As of Dec. 31, 2016:	90,649,504 shares	As of Mar. 31, 2016:	90,649,504 shares

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

As of Dec. 31, 2016:	3,167,662 shares	As of Mar. 31, 2016:	984,762 shares

3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2016:	88,461,871 shares	Nine months ended Dec. 31, 2015:	90,439,736 shares

Note 1: Information regarding the implementation of quarterly review procedures

The current quarterly summary report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the review procedures for the quarterly consolidated financial statements have not been completed.

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

Cautionary statement with respect to forecasts

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time the materials were created. These materials are not promises by the Company regarding future performance. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to "(3) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 3 of the attachments regarding preconditions or other related matters for the forecast shown above.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year, the Japanese economy recovered slowly along with improvements in corporate earnings, jobs and personal income. However, consumer spending remained sluggish mainly because consumers are reluctant to spend money. The outlook for the economy is unclear in part due to overseas political and economic events.

During the first nine months, the AOKI Group implemented various measures in all business segments as discussed below. Sales increased 1.8% year-on-year to 133,404 million yen, but operating profit decreased 48.7% to 4,259 million yen. Ordinary income decreased 51.3% to 3,972 million yen and profit attributable to owners of parent decreased 51.9% to 2,271 million yen.

Operating results by segment are as follows.

Fashion Business

AOKI strengthened personal-order apparel operations, which use a new system, and expanded Size Max for selling apparel in large sizes. To further enlarge the lineup of apparel, AOKI introduced the New Jacket Biz Style ideal for almost any workplace environment, and the Elegance Line of women’s apparel. All these activities were aimed at increasing sales at existing stores. In addition, store reopening sales that attracted large numbers of customers were held at about 100 locations following the completion of major renovations. Twelve new stores were opened, while five stores were closed for relocation and other reasons. As a result, there were 574 stores at the end of the third quarter compared with 567 stores at the end of the previous fiscal year.

ORIHICA launched its second TV commercial, used social networking and gave its e-commerce website a new look in order to increase recognition of the ORIHICA brand. In addition, ORIHICA continued to develop original apparel, such as THE 3rd SUITS and the Platinum Line Series. Four new stores were opened while two stores were closed. As a result, there were 146 stores at the end of the third quarter compared with 144 stores at the end of the previous fiscal year.

Although new stores and sales at stores reopened after remodeling contributed to sales, earnings were impacted by a decline in the gross profit margin caused by these sales and by higher selling, general and administrative expenses caused by store renovations and other activities. As a result, sales increased 3.1% to 76,158 million yen and operating loss was 513 million yen, compared with a profit of 1,852 million yen in the same period of the previous fiscal year.

Anniversaire and Bridal Business

ANNIVERSAIRE INC. operates guesthouse-style wedding and reception facilities. To add more ways to attract customers, we are strengthening activities involving the Proposal Plan and conducting marketing activities that utilize the powerful ANNIVERSAIRE brand. In addition, we replaced our core IT system to improve operating efficiency. Despite all these activities, affected in part by adverse market conditions, the number of couples married at ANNIVERSAIRE wedding facilities decreased.

Sales decreased 11.1% to 20,901 million yen and operating profit decreased 32.4% to 2,371 million yen.

Karaoke Facility Operations Business

VALIC Co., Ltd., which operates karaoke facilities, offered a wide variety of party packages for the year-end party season, and conducted marketing campaigns using tie-ups with popular characters. Furthermore, the latest karaoke system was introduced to reinvigorate existing locations. During the first nine months, the number of locations increased by seven to 190 as we opened eight locations and closed one location.

Although the new locations contributed to sales, market conditions and intense competition impacted the performance of existing karaoke facilities. As a result, sales increased 1.7% to 13,969 million yen and operating profit decreased 49.7% to 591 million yen.

Café Complex Operations Business

VALIC Co., Ltd., which also operates café complexes, continued to work on improving the performance of existing locations. A number of cafés were renovated by adding sections exclusively for women and improving the booth configuration. In addition, personal computers at cafés were upgraded and Wi-Fi convenience was improved. We opened 33, including AOKI's first locations in Tottori and Okinawa, and closed one due to the termination of a contract during the first nine months, raising the number of cafés from 295 to 327 at the end of the third quarter.

Sales increased 12.1% to 22,389 million yen due to the newly opened cafés, but operating profit decreased 17.0% to 1,381 million yen because of higher expenses for new café openings.

(2) Explanation of Financial Position

Balance sheet position

Assets

Total assets at the end of the third quarter under review decreased 427 million yen from the end of the previous fiscal year to 229,935 million yen.

Current assets decreased 4,467 million yen from the end of the previous fiscal year. There were decreases of 5,534 million yen in cash in hand and in banks mainly due to capital expenditures and payment of income taxes, and 3,600 million yen in accounts receivable-trade due to seasonal reasons and other factors, while there were increases of 1,812 million yen in inventories due to new store openings, and 2,845 million yen in other current assets which include income taxes receivable. Fixed assets increased 4,040 million yen from the end of the previous fiscal year as tangible fixed assets increased 4,936 million yen due to new store openings, renewals and other factors, while other investments and other assets decreased 1,162 million yen due mainly to sales of investment securities.

Liabilities

Current liabilities increased 1,084 million yen from the end of the previous fiscal year. Short-term debt increased 5,000 million yen, while there were decreases of 2,319 million yen in accrued income taxes due to the payment of income taxes among other reasons, and 746 million yen in accrued bonuses for employees due to the payment of bonuses to employees among other reasons. Long-term liabilities increased 2,038 million yen due mainly to an increase of 1,175 million yen in long-term debt due to new loans, scheduled repayment and other factors.

Net assets

Net assets decreased 3,550 million yen from the end of the previous fiscal year. There was a decrease of 1,260 million yen in retained earnings due to a profit attributable to owners of parent and dividend from surplus, and an increase of 2,557 million yen in treasury stock due to the purchase.

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

Results of operations in the first nine months under review were less than the forecast. However, we have maintained the forecast that was announced on November 10, 2016, because of the tendency for the Fashion Business to record the majority of its earnings in the fourth quarter.

2. Matters Related to Summary Information (Notes)

Changes in Accounting Policies and Accounting-based Estimates, and Restatements

Changes in Accounting Policies

The Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, March 28, 2016) starting with the first quarter of the current fiscal year and partially revised its accounting method for determining the recoverability of deferred tax assets.

The Company has applied this implementation guidance in accordance with the transitional accounting treatments set forth in Paragraph 49 (4) of this implementation guidance. Accordingly, the differences between deferred tax assets and deferred tax liabilities determined by applying the applicable provisions of Paragraph 49 (3), Items 1 through 3 of the implementation guidance at the beginning of the first quarter of the current fiscal year and deferred tax assets and deferred tax liabilities at the end of the previous fiscal year are added to retained earnings at the beginning of the first quarter of the current fiscal year.

The result was an increase of 110 million yen each in deferred tax assets (investments and other assets) and retained earnings at the beginning of the first quarter of the current fiscal year.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY3/16 (As of Mar. 31, 2016)	Third quarter of FY3/17 (As of Dec. 31, 2016)
Assets		
Current assets		
Cash in hand and in banks	27,560	22,026
Accounts receivable-trade	9,437	5,836
Inventories	27,835	29,648
Other current assets	9,111	11,956
Allowance for doubtful accounts	(45)	(36)
Total current assets	73,899	69,431
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	58,900	63,079
Land	36,934	36,953
Other tangible fixed assets, net	12,010	12,749
Total tangible fixed assets	107,846	112,782
Intangible fixed assets	6,680	6,444
Investments and other assets		
Guarantee deposits	8,307	8,266
Leasehold deposit	20,576	21,120
Other investments and other assets	13,093	11,930
Allowance for doubtful accounts	(40)	(40)
Total investments and other assets	41,936	41,277
Total fixed assets	156,464	160,504
Total assets	230,363	229,935
Liabilities		
Current liabilities		
Accounts payable-trade	18,021	17,604
Short-term debt	-	5,000
Current portion of long-term debt	4,050	4,150
Accrued income taxes	2,669	349
Accrued bonuses for employees	1,708	961
Accrued bonuses for directors and statutory auditors	98	86
Other current liabilities	11,700	11,180
Total current liabilities	38,248	39,333
Long-term liabilities		
Long-term debt	36,275	37,450
Accrued retirement benefits for directors and statutory auditors	1,845	1,915
Accrued costs for customer point program	1,014	973
Net defined benefit liability	853	899
Asset retirement obligations	5,109	5,424
Other long-term liabilities	4,090	4,563
Total long-term liabilities	49,187	51,226
Total liabilities	87,436	90,560

(Millions of yen)

	FY3/16 (As of Mar. 31, 2016)	Third quarter of FY3/17 (As of Dec. 31, 2016)
Net assets		
Shareholders' equity		
Common stock	23,282	23,282
Capital surplus	27,833	27,833
Retained earnings	92,929	91,669
Treasury stock	(1,436)	(3,994)
Total shareholders' equity	142,609	138,791
Accumulated other comprehensive income		
Unrealized gain on securities	612	792
Remeasurements of defined benefit plans	(383)	(296)
Total accumulated other comprehensive income	229	496
Stock acquisition rights	87	87
Total net assets	142,926	139,375
Total liabilities and net assets	230,363	229,935

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

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

(Millions of yen)

	First nine months of FY3/16 (Apr. 1, 2015 – Dec. 31, 2015)	First nine months of FY3/17 (Apr. 1, 2016 – Dec. 31, 2016)
Sales	131,030	133,404
Cost of sales	71,854	76,374
Gross profit	59,175	57,030
Selling, general and administrative expenses	50,864	52,770
Operating profit	8,311	4,259
Non-operating profit		
Interest income	80	74
Dividend income	122	91
Rental income on real estate	456	458
Other	233	209
Total non-operating profit	893	834
Non-operating expenses		
Interest expenses	248	237
Expenses on sub-leased real estate	409	382
Loss on disposal of fixed assets	219	255
Other	163	245
Total non-operating expenses	1,040	1,121
Ordinary income	8,164	3,972
Extraordinary gains		
Gain on sales of investment securities	41	545
Total extraordinary gains	41	545
Extraordinary losses		
Impairment loss	390	471
Loss on disaster	-	102
Litigation settlement	439	-
Total extraordinary losses	829	574
Profit before income taxes	7,376	3,944
Current income taxes	2,019	1,783
Deferred income taxes	636	(110)
Total income taxes	2,656	1,673
Profit	4,720	2,271
Profit attributable to owners of parent	4,720	2,271

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

(Millions of yen)

	First nine months of FY3/16 (Apr. 1, 2015 – Dec. 31, 2015)	First nine months of FY3/17 (Apr. 1, 2016 – Dec. 31, 2016)
Profit	4,720	2,271
Other comprehensive income		
Unrealized gain on securities	(43)	179
Remeasurements of defined benefit plans, net of tax	66	87
Total other comprehensive income	23	267
Comprehensive income	4,744	2,538
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,744	2,538
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

No reportable information.

Significant Changes in Shareholders' Equity

First nine months of FY3/17 (Apr. 1, 2016 – Dec. 31, 2016)

Purchase of treasury stock

The Company has purchased 2,182,000 shares of its treasury stock pursuant to the resolution of the Board of Directors on February 15, 2016. As a result, treasury stock increased 2,557 million yen during the first nine months of FY3/17 to 3,994 million yen.

Segment and Other Information

First nine months of FY3/16 (Apr. 1, 2015 – Dec. 31, 2015)

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

(Millions of yen)

	Reportable segment					Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Fashion	Anniversaire and Bridal	Karaoke Facility Operations	Café Complex Operations	Total		
Sales							
External sales	73,837	23,496	13,728	19,967	131,030	-	131,030
Inter-segment sales and transfers	4	24	2	0	31	(31)	-
Total	73,842	23,520	13,730	19,968	131,061	(31)	131,030
Segment profit	1,852	3,508	1,175	1,663	8,200	110	8,311

Notes: 1. The 110 million yen adjustment to segment profit includes 3,290 million yen in elimination for inter-segment transactions, and -3,179 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 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 Karaoke Facility Operations Business and the Café Complex Operations Business, impairment losses were recognized for operating stores set to be closed for which there is little expectation of recovery and had remained in the red; impairment losses of 109 million yen, 133 million yen and 147 million yen were booked respectively in the first nine months of FY3/16.

First nine months of FY3/17 (Apr. 1, 2016 – Dec. 31, 2016)

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

(Millions of yen)

	Reportable segment					Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Fashion	Anniversaire and Bridal	Karaoke Facility Operations	Café Complex Operations	Total		
Sales							
External sales	76,157	20,892	13,965	22,389	133,404	-	133,404
Inter-segment sales and transfers	1	9	4	-	15	(15)	-
Total	76,158	20,901	13,969	22,389	133,420	(15)	133,404
Segment profit (loss)	(513)	2,371	591	1,381	3,831	428	4,259

Notes: 1. The 428 million yen adjustment to segment profit (loss) includes 3,268 million yen in elimination for inter-segment transactions, and -2,840 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 Karaoke Facility Operations Business and the Café Complex Operations Business, impairment losses were recognized for operating stores set to be closed or rebuilt for which there is little expectation of recovery and had remained in the red; impairment losses of 192 million yen, 206 million yen and 72 million yen were booked respectively in the first nine months of FY3/17.

Subsequent Events

The Company decided at a Board of Directors meeting held on February 9, 2017 to purchase its own shares to adopt timely and flexible financial strategies in response to changes in the operating environment and to increase shareholder value.

For details, please see “Notice of Decision to Acquire Treasury Shares” released the same day.