AOKI Holdings

May 20, 2020

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2020

[Japanese GAAP]

Company name: AOKI Holdings Inc. Listings: TSE First Section
Stock code: 8214 URL: https://www.aoki-hd.co.jp/
Representative: Akihiro Aoki, President
Contact: Haruo Tamura, Executive Vice President Tel: +81-45-941-1388
Scheduled date of Annual General Meeting of Shareholders: June 26, 2020
Scheduled date of filing of Annual Securities Report: June 26, 2020
Scheduled date of payment of dividend: June 5, 2020
Preparation of supplementary materials for financial results: Yes
Holding of financial results meeting: Yes (for institutional investors and analysts)

Note: The original disclosure in Japanese was released on May 20 2020 at 14:15 (GMT +9).

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

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019 – March 31, 2020)

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

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY3/20	180,220	(7.6)	6,649	(50.7)	5,501	(53.7)	447	(90.3)
FY3/19	195,054	(2.2)	13,491	(9.7)	11,890	(15.1)	4,602	(37.6)

Note: Comprehensive income (million yen) FY3/20: (664) (-%) FY3/19: 4,482 (down 40.3%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit on total assets	Operating profit to sales
	Yen	Yen	%	%	%
FY3/20	5.23	-	0.3	2.4	3.7
FY3/19	53.34	-	3.2	5.0	6.9

Reference: Equity in income of affiliates (million yen) FY3/20: - FY3/19: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2020	229,843	139,209	60.5	1,641.34
As of Mar. 31, 2019	232,056	145,671	62.7	1,694.45

Reference: Shareholders' equity (million yen) As of Mar. 31, 2020: 138,981 As of Mar. 31, 2019: 145,595

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY3/20	14,803	(16,418)	(1,098)	23,843
FY3/19	13,066	(9,152)	(9,532)	26,558

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY3/19	-	29.00	-	31.00	60.00	5,172	112.5	3.5
FY3/20	-	23.00	-	23.00	46.00	3,921	880.0	2.8
FY3/21 (forecasts)	-	-	-	-	-		-	

Note: Forecasts for the 2Q-end and year-end dividends for FY3/21 are undecided at this time.
Breakdown of 2Q-end dividends for FY3/19: Ordinary dividends: 22.00 yen; Commemorative dividends: 7.00 yen
Breakdown of Year-end dividends for FY3/19: Ordinary dividends: 23.00 yen; Commemorative dividends: 8.00 yen

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

There is no forecast for the fiscal year ending in March 2021 at this time. Determining a reliable forecast is not possible because of the difficulty of predicting the effects of the COVID-19 crisis on the performance of the AOKI Group.

An announcement will be made as soon as it becomes possible to determine a forecast.

*** Notes**

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

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

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: Yes

4) Restatements: None

Note: Please refer to "Changes in Accounting-based Estimates" on page 13 for further information.

(3) Number of shares outstanding (common shares)

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

As of Mar. 31, 2020:	90,649,504 shares	As of Mar. 31, 2019:	90,649,504 shares

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

As of Mar. 31, 2020:	5,974,058 shares	As of Mar. 31, 2019:	4,724,330 shares

3) Average number of shares outstanding during the period

Fiscal year ended Mar. 31, 2020:	85,577,316 shares	Fiscal year ended Mar. 31, 2019:	86,287,266 shares

(For reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019 – March 31, 2020)

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

	Operating revenue		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY3/20	6,523	15.3	646	(26.9)	5,737	(18.8)	4,878	(25.5)
FY3/19	5,660	5.2	885	12.0	7,063	32.9	6,547	30.2

	Net income per share	Diluted net income per share
	Yen	Yen
FY3/20	57.00	-
FY3/19	75.88	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2020	163,525	114,429	69.8	1,348.69
As of Mar. 31, 2019	157,174	116,447	74.0	1,354.34

Reference: Shareholders' equity (million yen) As of Mar. 31, 2020: 114,200 As of Mar. 31, 2019: 116,371

Note 1: This financial report is not subject to audit by certified public accountants or auditing firms.

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

Disclosure of the information meeting materials

The Company plans to hold a financial results meeting for institutional investors and analysts by telephone conference on Friday, June 5, 2020. Materials to be distributed at this event will be available on the Company's website on the day before the meeting.

Contents of Attachments

1. Overview of Results of Operations, etc.

(1) Results of Operations

In prior years, rent income of real estate and the rent cost of real estate were included in non-operating profit, selling, general and administrative expenses, and non-operating expenses. Beginning with the current fiscal year, rent income of real estate and the rent cost of real estate are instead included in sales and cost of sales. Comparisons and analysis using results of operations in the previous fiscal year are based on figures that have been restated to conform with this change.

In the fiscal year that ended on March 31, 2020, corporate earnings and the labor market continued to improve in Japan but the economy began showing increasing signs of stagnation following the October 2019 consumption tax hike. However, the economy slowed down rapidly due to the global outbreak of COVID-19 and the current economic environment is extremely challenging. The AOKI Group implemented various measures in all business segments as explained below. Despite these activities, sales and earnings were lower than in the previous fiscal year primarily because of the immense negative impact of COVID-19.

Sales	180,220 million yen	(down 7.6% year-on-year)
Operating profit	6,649 million yen	(down 50.7% year-on-year)
Ordinary profit	5,501 million yen	(down 53.7% year-on-year)
Profit attributable to owners of parent	447 million yen	(down 90.3% year-on-year)

Operating results by segment are as follows.

Fashion Business

AOKI conducted a Freshers Fair to target the so-called “freshers (freshman) market,” which consists mainly of new university graduates starting their first jobs. AOKI used advertising featuring Sexy Zone, a group of singers belonging to the same generation, and Ms. Mio Imada, an actress who has appeared in many TV dramas. In one step to respond to the change in business apparel styles, some stores and the AOKI e-commerce shop started selling the “nano.universe DESIGN” line of new business apparel. This apparel was created by nano.universe, a popular apparel retailer that handles the fashions of many companies. During the fiscal year, seven stores were opened and 54 stores were closed due to examinations of stores from the standpoints of profitability and AOKI’s dominant areas. These closings include stores closed for relocation and conversions to a café complex or other business format. As a result, there were 519 AOKI stores at the end of the fiscal year compared with 566 at the end of the previous fiscal year.

ORIHICA conducted a Freshers Fair by using Internet videos and social networking services, a Pre-School Ceremony Fair to give parents ideas for apparel to wear at ceremonies at a child’s nursery school or kindergarten, and other special campaigns. During the fiscal year, one ORIHICA store was opened and 13 stores were closed to improve the efficiency of operations. As a result, ORIHICA had 119 stores at the end of the fiscal year compared with 131 at the end of the previous fiscal year.

Although many actions were taken during the fiscal year, a warm winter and other unfavorable weather, the change in business apparel styles, and the October 2019 consumption tax hike all had a negative effect on the performance of ORIHICA stores. In addition, COVID-19 caused a big downturn in the number of customers in late February and the entire month of March, which is normally ORIHICA’s peak season. As a result, sales in this segment decreased 14.0% to 98,352 million yen and operating profit decreased 60.3% to 2,886 million yen.

Anniversaire and Bridal Business

ANNIVERSAIRE INC., which operates guesthouse-style wedding and reception facilities, promoted TREND COLLECTIONS, a new wedding format, and increased marketing activities by using social networking services in order to attract customers. Despite these actions, the number of weddings was much lower than one year earlier. The smaller number of wedding and reception locations at this company and changing market conditions were two reasons for this decline. In addition, many weddings and receptions were postponed starting in late February because of COVID-19. As a result, sales decreased 12.4% to 22,270 million yen and operating profit decreased 79.7% to 439 million yen.

Entertainment Business

KAIKATSU CLUB, a chain of café complexes, completed renovations of 76 locations during the fiscal year. Improvements include private rooms with locked doors, the addition of karaoke rooms, no-smoking booths and showers, and other changes. In addition, cafés increased activities for meeting customers' needs, such as by providing space for teleworking and by holding a Turkish Rice (pork cutlet, spaghetti and rice pilaf) Fair consisting of limited-time-only menu items. This business has started a new format that combines a KAIKATSU CLUB with a FiT24 fitness center, which uses a self-service format and is open 24 hours. The new format has been performing well by enabling customers to utilize the services and equipment of both a café club and fitness center.

In the COTE D'AZUR karaoke business, 16 locations were remodeled, karaoke units with the latest technologies were installed and there were many special event campaigns in order to make existing locations more appealing.

During the fiscal year, 85 KAIKATSU CLUBs and 28 FiT24 locations were opened and 10 karaoke locations were closed, including locations closed for conversion into café complexes to improve efficiency. As a result, there were 602 stores in this business segment at the end of the fiscal year compared with 499 at the end of the previous fiscal year.

Sales increased 7.9% to 58,388 million yen due to contributions from new facilities and strong existing-store sales. Operating profit decreased 16.0% to 2,672 million yen due to higher expenses related to new store openings and the impact of COVID-19.

Real Estate Leasing Business

Segment sales increased 16.3% to 3,624 million yen mainly because of an increase in the subleasing of closed properties in the Fashion Business and COTE D'AZUR karaoke business. Operating profit increased 4.8% to 668 million yen.

Impact of COVID-19 in March 2020

Segment	Change in existing-store performance vs. March 2019	Effects of the COVID-19 crisis
Fashion	Sales: down 32.9% Number of customers: down 35.0% Sales per customer: up 3.2%	− 29.3% decrease in "freshers" customers at AOKI because school graduation and entrance ceremonies were canceled − 36.6% decrease in the number of standard customers (excluding "freshers") at AOKI as people stayed home and switched to teleworking − 35.8% decrease in existing-store sales at ORIHICA because of temporary store closings and other reasons
Anniversaire and Bridal	Sales: down 53.3%	− The number of weddings was down by about 300 as couples rescheduled or canceled weddings
Entertainment	Sales: down 17.2% Number of customers: down 15.6% Sales per customer: down 1.9%	− 37.2% decrease in existing karaoke facility sales and 12.0% decrease in existing café complex sales because people stayed home and for other reasons − An increase in the number of people who canceled FiT24 fitness center memberships Cancellations of more than 2,500 memberships

(2) Financial Position

Balance sheet position

Assets

Total assets at the end of the fiscal year under review decreased 2,213 million yen from the end of the previous fiscal year to 229,843 million yen.

Current assets decreased 7,651 million yen from the end of the previous fiscal year. There were decreases of 2,714 million yen in cash in hand and in banks, 3,337 million yen in accounts receivable-trade mainly as a result of a decrease in sales, and 1,392 million yen in inventories due to a decrease in procurement and other factors. Fixed assets increased 5,438 million yen from the end of the previous fiscal year as tangible fixed assets increased 7,575 million yen due to new store openings and other factors, while investment securities decreased 1,502 million yen due mainly to sales.

Liabilities

Current liabilities decreased 4,590 million yen from the end of the previous fiscal year. There were decreases of 3,598 million yen in accounts payable-trade mainly due to a decrease in procurement and 720 million yen in accrued bonuses for employees. Long-term liabilities increased 8,838 million yen. There was an increase of long-term borrowings of 5,507 million yen mainly due to a 9,000 million yen of new loan and scheduled repayment, and increases of lease obligations and asset retirement obligations of 1,420 million yen and 1,124 million yen, respectively, due to new store openings and other factors.

Net assets

Net assets decreased 6,461 million yen from the end of the previous fiscal year. There was a decrease of 4,190 million yen in retained earnings due to a profit attributable to owners of parent and dividend from surplus, and an increase of 1,289 million yen in treasury stock due to stock repurchases.

(3) Cash Flows

Cash flow position

(Millions of yen)

	FY3/19	FY3/20
Cash flows from operating activities	13,066	14,803
Cash flows from investing activities	(9,152)	(16,418)
Cash flows from financing activities	(9,532)	(1,098)
Increase (decrease) in cash and cash equivalents	(5,617)	(2,714)
Cash and cash equivalents at beginning of period	32,175	26,558
Cash and cash equivalents at end of period	26,558	23,843

Cash and cash equivalents at the end of the fiscal year under review decreased 2,714 million yen from the end of the previous fiscal year to 23,843 million yen mainly due to a decrease in profit before income taxes and an increase in payments for acquisition of tangible fixed assets, while there were proceeds from long-term borrowings and a decrease in income taxes paid.

Net cash provided by operating activities increased 1,736 million yen to 14,803 million yen on a year-on-year basis. The principal factors were profit before income taxes of 1,707 million yen, depreciation and amortization of 8,807 million yen, and impairment loss of 3,710 million yen.

Net cash used in investing activities increased 7,266 million yen to 16,418 million yen on a year-on-year basis. This was mainly due to the payments of 13,959 million yen for the acquisition of tangible fixed assets for capital investment, 971 million yen for acquisition of intangible fixed assets, and 838 million yen for leasehold and guarantee deposits.

Net cash used in financing activities decreased 8,433 million yen to 1,098 million yen on a year-on-year basis. This was mainly due to scheduled repayment of long-term borrowings of 2,650 million yen, repayments of lease obligations of 2,013 million yen, and cash dividends paid of 4,636 million yen, while there were proceeds from long-term borrowings of 9,000 million yen for capital expenditure.

(4) Outlook

There is no forecast for the fiscal year ending in March 2021 at this time. As was explained in “Subsequent Events” on page 18, determining a reliable forecast is not possible because of the difficulty of predicting the length of the COVID-19 crisis and the effects of this crisis on the performance of the AOKI Group.

Risk factors involving COVID-19

The COVID-19 outbreak that began early in 2020 had a big impact on the AOKI Group as people stayed home and businesses reduced operating hours. The impact was especially severe in the Fashion Business because of the steep decline in sales that began in late February 2020, which is normally the start of the peak period for the number of customers at the AOKI Group’s apparel stores. Overall, the pandemic has caused consolidated sales to decline little over 4% year-on-year in the fiscal year that ended in March 2020. This crisis is likely to have a very big impact on the Japanese economy in the fiscal year ending in March 2021 due to the expected length of the state of emergency in Japan and the COVID-19 pandemic. Unemployment is high and consumer spending is lackluster. Furthermore, if AOKI Group stores need to continue to suspend operations or reduce operating hours, the resulting decline in sales may have a significant effect on results of operations.

2. Basic Approach for the Selection of Accounting Standards

The AOKI Group’s operations are located in Japan and the Group has little or no need of raising funds in overseas markets. Moreover, the percentage of shares held by foreign shareholders is relatively small. In view of the above factors the Company currently uses Japanese accounting standards for its financial statements.

The Company will consider using International Financial Reporting Standards (IFRS) if considered necessary by the future direction of the Group’s business development, the use of IFRS by other companies in Japan and other factors.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY3/19 (As of Mar. 31, 2019)	FY3/20 (As of Mar. 31, 2020)
Assets		
Current assets		
Cash in hand and in banks	26,558	23,843
Accounts receivable-trade	11,793	8,455
Inventories	25,574	24,181
Other current assets	9,061	8,851
Allowance for doubtful accounts	(38)	(36)
Total current assets	72,948	65,297
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	134,265	141,422
Accumulated depreciation	(73,332)	(74,921)
Buildings and structures, net	60,933	66,501
Machinery, vehicles, tools, furniture and fixtures	16,947	18,214
Accumulated depreciation	(9,366)	(9,963)
Machinery, vehicles, tools, furniture and fixtures, net	7,581	8,250
Land	36,941	36,138
Lease assets	13,841	16,497
Accumulated depreciation	(9,473)	(10,374)
Lease assets, net	4,367	6,122
Construction in progress	134	519
Total tangible fixed assets	109,958	117,533
Intangible fixed assets	5,932	5,631
Investments and other assets		
Investment securities	4,209	2,706
Guarantee deposits	7,881	7,740
Leasehold deposit	20,536	20,653
Deferred income tax assets	8,442	8,273
Other investments and other assets	2,186	2,048
Allowance for doubtful accounts	(40)	(40)
Total investments and other assets	43,216	41,382
Total fixed assets	159,107	164,546
Total assets	232,056	229,843

(Millions of yen)

	FY3/19 (As of Mar. 31, 2019)	FY3/20 (As of Mar. 31, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	18,162	14,563
Current portion of long-term borrowings	2,650	3,493
Lease obligations	1,709	2,024
Accounts payable-other	5,903	5,515
Accrued income taxes	579	407
Accrued bonuses for employees	2,078	1,357
Accrued bonuses for directors (and other officers)	83	39
Other current liabilities	6,010	5,187
Total current liabilities	37,177	32,587
Long-term liabilities		
Long-term borrowings	34,825	40,332
Lease obligations	3,216	4,636
Accrued costs for customer point program	872	695
Retirement benefit liability	1,094	1,276
Asset retirement obligations	6,466	7,591
Other long-term liabilities	2,733	3,513
Total long-term liabilities	49,208	58,046
Total liabilities	86,385	90,634
Net assets		
Shareholders' equity		
Share capital	23,282	23,282
Capital surplus	27,846	27,823
Retained earnings	100,488	96,298
Treasury stock	(6,302)	(7,592)
Total shareholders' equity	145,315	139,812
Accumulated other comprehensive income		
Unrealized gain on securities	370	(726)
Remeasurements of defined benefit plans	(89)	(105)
Total accumulated other comprehensive income	280	(831)
Stock acquisition rights	75	228
Total net assets	145,671	139,209
Total liabilities and net assets	232,056	229,843

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

Consolidated Statement of Income

(Millions of yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Sales	195,054	180,220
Cost of sales	111,380	107,737
Gross profit	83,673	72,483
Selling, general and administrative expenses	70,182	65,833
Operating profit	13,491	6,649
Non-operating profit		
Interest income	91	78
Dividend income	78	73
Insurance fee income	40	162
Compensation income	-	85
Other	177	159
Total non-operating profit	388	557
Non-operating expenses		
Interest expenses	299	282
Loss on disposal of fixed assets	558	839
Expenses for events to celebrate AOKI's 60th anniversary	450	-
Other	679	583
Total non-operating expenses	1,988	1,705
Ordinary profit	11,890	5,501
Extraordinary gains		
Gain on sale of fixed assets	175	65
Gain on sales of investment securities	27	100
Gain on reversal of stock acquisition rights	12	4
Total extraordinary gains	215	170
Extraordinary losses		
Impairment loss	4,153	3,710
Loss on liquidation of subsidiaries and associates	444	-
Loss on valuation of investment securities	-	84
Loss on disaster	71	169
Total extraordinary losses	4,669	3,964
Profit before income taxes	7,436	1,707
Current income taxes	2,670	818
Deferred income taxes	163	441
Total income taxes	2,834	1,260
Profit	4,602	447
Profit attributable to owners of parent	4,602	447

Consolidated Statement of Comprehensive Income

(Millions of yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Profit	4,602	447
Other comprehensive income		
Unrealized gain on securities	(218)	(1,096)
Remeasurements of defined benefit plans, net of tax	97	(15)
Total other comprehensive income	(120)	(1,112)
Comprehensive income	4,482	(664)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,482	(664)
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Shareholders' Equity

FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	23,282	27,833	100,299	(5,376)	146,039
Changes of items during period					
Dividend from surplus			(4,413)		(4,413)
Profit attributable to owners of parent			4,602		4,602
Purchase of treasury stock				(986)	(986)
Disposal of treasury stock		12		59	72
Net changes of items other than shareholders' equity					
Total changes of items during period	-	12	188	(926)	(724)
Balance at the end of current period	23,282	27,846	100,488	(6,302)	145,315

	Accumulated other comprehensive income			Stock acquisition rights	Total net assets
	Unrealized gain on securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	588	(187)	401	87	146,528
Changes of items during period					
Dividend from surplus					(4,413)
Profit attributable to owners of parent					4,602
Purchase of treasury stock					(986)
Disposal of treasury stock					72
Net changes of items other than shareholders' equity	(218)	97	(120)	(12)	(132)
Total changes of items during period	(218)	97	(120)	(12)	(857)
Balance at the end of current period	370	(89)	280	75	145,671

FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	23,282	27,846	100,488	(6,302)	145,315
Changes of items during period					
Dividend from surplus			(4,637)		(4,637)
Profit attributable to owners of parent			447		447
Purchase of treasury stock				(1,399)	(1,399)
Disposal of treasury stock		(22)		110	87
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(22)	(4,190)	(1,289)	(5,502)
Balance at the end of current period	23,282	27,823	96,298	(7,592)	139,812

	Accumulated other comprehensive income			Stock acquisition rights	Total net assets
	Unrealized gain on securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	370	(89)	280	75	145,671
Changes of items during period					
Dividend from surplus					(4,637)
Profit attributable to owners of parent					447
Purchase of treasury stock					(1,399)
Disposal of treasury stock					87
Net changes of items other than shareholders' equity	(1,096)	(15)	(1,112)	153	(958)
Total changes of items during period	(1,096)	(15)	(1,112)	153	(6,461)
Balance at the end of current period	(726)	(105)	(831)	228	139,209

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Cash flows from operating activities		
Profit before income taxes	7,436	1,707
Depreciation and amortization	8,229	8,807
Impairment loss	4,153	3,710
Increase (decrease) in retirement benefit liability	183	158
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(2,018)	-
Increase (decrease) in accrued costs for customer point program	(186)	(177)
Interest and dividend income	(170)	(151)
Interest expenses	299	282
Loss on liquidation of subsidiaries and associates	444	-
Decrease (increase) in accounts receivable-trade	(134)	3,337
Decrease (increase) in inventories	432	1,392
Increase (decrease) in accounts payable-trade	(1,649)	(3,598)
Increase (decrease) in accrued consumption taxes	(892)	(97)
Other	2,394	1,009
Subtotal	18,523	16,383
Interest and dividend income received	139	143
Interests paid	(300)	(276)
Income taxes paid	(6,170)	(2,953)
Income taxes refund	875	1,506
Net cash provided by operating activities	13,066	14,803
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(7,035)	(13,959)
Payments for acquisition of intangible fixed assets	(1,206)	(971)
Payments for leasehold and guarantee deposits	(965)	(838)
Proceeds from collection of leasehold and guarantee deposits	737	235
Net decrease (increase) in short-term borrowings	170	-
Net decrease (increase) in trust beneficiary rights	(36)	21
Other	(817)	(907)
Net cash used in investing activities	(9,152)	(16,418)
Cash flows from financing activities		
Proceeds from long-term borrowings	1,000	9,000
Repayments of long-term borrowings	(2,650)	(2,650)
Repayments of lease obligations	(2,484)	(2,013)
Payments for purchase of treasury stock	(986)	(1,399)
Dividends paid	(4,411)	(4,636)
Other	-	600
Net cash provided by (used in) financing activities	(9,532)	(1,098)
Effect of exchange rate change on cash and cash equivalents	(0)	0
Increase (decrease) in cash and cash equivalents	(5,617)	(2,714)
Cash and cash equivalents at beginning of period	32,175	26,558
Cash and cash equivalents at end of period	26,558	23,843

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

No reportable information.

Reclassifications

Consolidated Statement of Income

In prior years, rent income of real estate and the rent cost of real estate were included in non-operating profit, selling, general and administrative expenses, and non-operating expenses. Beginning with the current fiscal year, rent income of real estate and the rent cost of real estate are instead included in sales and cost of sales.

This change was made to more properly incorporate the Real Estate Leasing Business in the financial statements. Real estate leasing is now positioned as one of the major businesses of AOKI Holdings. Rent income of real estate is a consistent source of earnings and more growth of this income is expected as the number of leased properties increases. In addition, the profitability of this business has been properly managed by the relevant department. Consolidated financial statements for the previous fiscal year have been restated to reflect these reclassifications.

Accordingly, "rental income of real estate" under "non-operating profit" of 524 million yen, "rent cost of real estate" under "non-operating expenses" of 415 million yen and real estate-related expenses, which was included in "selling, general and administrative expenses," of 27 million yen in the consolidated statement of income for the previous fiscal year has been reclassified. As a result, sales and cost of sales increased 1,135 million yen and 1,054 million yen, respectively.

"Insurance fee income," included in "other" under "non-operating profit" in the previous fiscal year, is reclassified and presented as a separate line item in the current fiscal year since the amount exceeded 10/100 of total non-operating profit. Consolidated financial statements for the previous fiscal year have been restated to reflect this reclassification.

Accordingly, "other" under "non-operating profit" of 218 million yen in the consolidated statement of income for the previous fiscal year is reclassified and divided into "insurance fee income" of 40 million yen and "other" of 177 million yen.

Changes in Accounting-based Estimates

Changes in Accounting-based Estimates for Asset Retirement Obligations

AOKI Holdings has recorded asset retirement obligations for returning leased space to its original condition in association with real estate leasing contracts for stores and other properties. According to the store closure and other information, the Company changed its accounting-based estimates for restoration expenses which will be required for store closures. As a result of this change, an increase of 650 million yen is added to asset retirement obligations before the change. The effect of this change on profit/loss is insignificant.

Additional Information

Accounting-based Estimates

As of May 20, 2020, the COVID-19 pandemic is continuing to have a significant negative impact on the business operations of the AOKI Group. Many estimates for accounting purposes are used by the AOKI Group for the preparation of the consolidated financial statements. To incorporate the effects of COVID-19 in these estimates, we have used primarily the following assumptions.

The following information is based on estimates and judgments that the Company believes are reasonable based on current market conditions and available information. Actual results of operations may differ from this information in this extremely uncertain environment because of the inability to predict how much the COVID-19 pandemic will continue to spread, when this crisis will end and other upcoming events.

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

Determining a forecast is difficult because of the inability to foresee when the COVID-19 crisis will end. To establish the best possible estimates, based on the assumption that the crisis will wind down by the end of June 2020 at the soonest and at the end of March 2021 at the latest, the expected value method is used for some estimates for accounting purposes that are utilized for the calculation of the amounts shown on the financial statements.

The AOKI Group’s businesses fall in three categories – Fashion Business, the ANNIVERSAIRE and Bridal Business and Entertainment Business. The Fashion Business handles products closely linked with the daily necessities of domestic consumers. The ANNIVERSAIRE and Bridal Business operates non-lifestyle facilities for special occasions where stable demand is expected. The Entertainment Business offers services that are steadily becoming a part of consumer lifestyles. As a result, once the COVID-19 crisis ends, we believe that demand for our products and services is very likely to return to about the same level as it was prior to the start of this crisis.

The following are the details of the accounting-based estimates with high uncertainty used in the preparation of consolidated financial statements of the Group.

1. Impairment losses on fixed assets

For the determination of signs of impairment and the calculation of the amounts that can be recovered as of March 31, 2020, the Company estimated the negative effect of COVID-19 on future cash flows. Estimates of future cash flows reflect the effects of the spread of these infections and the assumption that these infections will continue to increase to some degree in all regions where the AOKI Group operates stores and other facilities. Predicting when this crisis will end is impossible. We have established a number of scenarios based on the premise that this crisis may end at some point three months to one year from now. We then used the expected value method in order to establish estimates of future cash flows.

2. Recoverability of deferred tax assets

To estimate the amount of deferred tax assets to recognize, the AOKI Group estimates future taxable income and tax-deductible losses carried forward by using forecasts for results of operations that are based on reasonable assumptions. The forecast as of March 31, 2020 incorporates the negative effects of the COVID-19 crisis and of the assumption that there may be a further increase in these infections in all regions of Japan where the AOKI Group operates stores and other facilities. Predicting when this crisis will end is impossible. Consequently, we determined estimates by using a number of scenarios based on the premise that this crisis may end at some point three months to one year from now.

Segment and Other Information

Segment information

1. Overview of reportable segment

The Group defines reportable segments as businesses for which financial details can be compiled; the Board of Directors will review this information on a periodic basis in order to assist with decisions about allocating resources and evaluating the performance.

AOKI Holdings, as a pure holding company, supports the businesses of the various companies in the Group. AOKI Holdings and each business company proposes and executes comprehensive strategies for the products and services they sell in Japan.

The products and services of AOKI Holdings and the business companies are divided into segments. The four reportable segments are the Fashion Business, the ANNIVERSAIRE and Bridal Business, the Entertainment Business, and the Real Estate Leasing Business. AOKI and ORIHICA are both included in one business segment, the Fashion Business, because they fit all the conditions for grouping including similarities in economic and product characteristics.

The Fashion Business plans and sells men's and women's wear; the ANNIVERSAIRE and Bridal Business operates wedding halls; the Entertainment Business operates KAIKATSU CLUB, which provides services and spaces for a variety of experiences that match the current needs and preferences of consumers, karaoke facilities, and fitness centers; and the Real Estate Leasing Business leases real estate of the AOKI Group, including space previously occupied by stores and other businesses that were closed, within the Group and to other companies.

2. Calculation methods for sales, profits/losses, assets, liabilities and other items for each reportable segment

The accounting treatment methods for reportable segments are generally the same as accounting principles and procedures used for the preparation of the consolidated financial statements.

Profits for reportable segments are generally operating profit figures. Profits on and transfer amounts of inter-segment transactions within the Group are based on current market prices.

3. Information related to sales, profits/losses, assets, liabilities and other items for each reportable segment

FY3/19 (Apr. 1, 2018 – Mar. 31, 2019) (Millions of yen)

	Reportable segment					Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Fashion	Anniversaire and Bridal	Entertainment	Real Estate Leasing	Total		
Sales							
External sales	114,401	25,413	54,102	1,135	195,054	-	195,054
Inter-segment sales and transfers	2	19	0	1,980	2,002	(2,002)	-
Total	114,404	25,433	54,102	3,116	197,056	(2,002)	195,054
Segment profit	7,263	2,169	3,182	638	13,253	237	13,491
Segment assets	113,200	39,451	43,529	1,198	197,379	34,677	232,056
Other items							
Depreciation and amortization	2,994	1,507	3,409	52	7,963	176	8,140
Amortization of goodwill	-	-	13	-	13	-	13
Increase in tangible fixed assets and intangible fixed assets	4,307	542	5,360	67	10,278	1,128	11,406

Notes: 1. The above adjustments include the following items.

(1) The 237 million yen adjustment to segment profit includes 3,753 million yen in elimination for inter-segment transactions, and -3,515 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) The 34,677 million yen adjustment to segment assets includes -33,229 million yen in elimination of the offsetting receivables from subsidiaries, and company-wide assets of 67,907 million yen that cannot be allocated to any specific reportable segments. Company-wide assets consist mainly of the Company's land and building and structures of the head office that cannot be attributed to reportable segments.

(3) The 1,128 million yen adjustment to an increase in tangible and intangible fixed assets mainly includes investment in building and structures related to extension and reconstruction of the head office.

2. Segment profit is adjusted to be consistent with operating profit on the consolidated statement of income.

FY3/20 (Apr. 1, 2019 – Mar. 31, 2020) (Millions of yen)

	Reportable segment					Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Fashion	Anniversaire and Bridal	Entertainment	Real Estate Leasing	Total		
Sales							
External sales	98,351	22,260	58,388	1,220	180,220	-	180,220
Inter-segment sales and transfers	1	9	0	2,403	2,415	(2,415)	-
Total	98,352	22,270	58,388	3,624	182,636	(2,415)	180,220
Segment profit	2,886	439	2,672	668	6,667	(17)	6,649
Segment assets	102,989	37,315	56,929	1,468	198,704	31,139	229,843
Other items							
Depreciation and amortization	2,919	1,438	3,956	62	8,376	346	8,723
Amortization of goodwill	-	-	3	-	3	-	3
Increase in tangible fixed assets and intangible fixed assets	2,116	401	17,569	29	20,116	250	20,367

Notes: 1. The above adjustments include the following items.

(1) The -17 million yen adjustment to segment profit includes 4,281 million yen in elimination for inter-segment transactions, and -4,299 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) The 31,139 million yen adjustment to segment assets includes -42,725 million yen in elimination of the offsetting receivables from subsidiaries, and company-wide assets of 73,865 million yen that cannot be allocated to any specific reportable segments. Company-wide assets consist mainly of the Company’s land and building and structures of the head office that cannot be attributed to reportable segments.

(3) The 250 million yen adjustment to an increase in tangible and intangible fixed assets mainly includes investment in company-wide systems.

2. Segment profit is adjusted to be consistent with operating profit on the consolidated statement of income.

4. Information related to revisions for reportable segments

In FY3/20, the Karaoke Facility Operations Business and Café Complex Operations Business were combined to reflect the reorganization of management and the increasing diversity of the operations. The combined business was renamed the Entertainment Business.

As noted in the section “Reclassifications,” the business related to real estate leasing is reclassified and presented as a separate segment titled “Real Estate Leasing Business.”

The segment information for FY3/19 is prepared and disclosed based on the reportable segments after the revision.

Per Share Information

(Yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Net assets per share	1,694.45	1,641.34
Net income per share	53.34	5.23

Notes: 1. Diluted net income per share is not presented since the Company has no potential stock with dilutive effects.

2. The following is a reconciliation of net income per share

(Millions of yen)

Item	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Net income per share		
Profit attributable to owners of parent	4,602	442
Profit not attributable to common shareholders	-	-
Profit attributable to owners of parent applicable to common shares	4,602	442
Average number of common shares outstanding during the period (Thousand shares)	86,287	85,577
Summary of potential stock not included in the calculation of diluted net income per share since there was no dilutive effect	Stock acquisition rights issued pursuant to the Board of Directors' resolution on November 18, 2015 Stock Acquisition Rights No. 5 Number of stock acquisition rights: 7,750	Stock acquisition rights issued pursuant to the Board of Directors' resolution on November 18, 2015 Stock Acquisition Rights No. 5 Number of stock acquisition rights: 7,300 Stock acquisition rights issued pursuant to the Board of Directors' resolution on June 27, 2019 Stock Acquisition Rights No. 6 Number of stock acquisition rights: 11,345

3. The following is a reconciliation of net assets per share

(Millions of yen)

Item	FY3/19 (As of Mar. 31, 2019)	FY3/20 (As of Mar. 31, 2020)
Total net assets	145,671	139,209
Deduction on total net assets	75	228
[of which stock acquisition rights]	[75]	[228]
Net assets applicable to common shares	145,595	138,981
Number of common shares used in calculation of net assets per share (Thousand shares)	85,925	84,675

Subsequent Events

Effects of temporary store closings and other actions in April 2020 and afterward due to COVID-19

Due to COVID-19 and the Japanese government's declaration of a state of emergency on April 7, 2020, the stores and other facilities of all AOKI Group businesses have reduced operating hours or temporarily closed. In addition, the openings of some new locations have been postponed or canceled. All of these events are having a negative effect on sales.

In the Fashion Business, starting on April 8, the operating hours of about 500 stores were reduced and about 120 stores have suspended operations for at least one month. In the ANNIVERSAIRE and Bridal Business, all 13 locations suspended wedding and reception operations starting on April 7. In the Entertainment Business, about 200 KAIKATSU CLUB cafés suspended operations starting on April 11 for at least 10 days, and COTE D'AZUR karaoke locations have suspended operations as necessary, and about 100 locations stopped operating on April 9 for at least one month. In addition, we have postponed or canceled plans for some new stores and other locations in the Fashion Business and Entertainment Business.

In all businesses, there are declines in sales and some variable expenses at locations where operations have been reduced or suspended but still some fixed expenses.

As of May 20, it is impossible to foresee when the COVID-19 crisis will end and how much consumer demand will recover after this crisis. This crisis is expected to have a significant effect on the AOKI Group's financial condition, results of operations and cash flows in the fiscal year ending in March 2021 and afterward. At this time, it is not possible to determine a reliable estimate of the monetary impact of this crisis.

4. Other

Changes in Directors (to be effective June 26, 2020)

(1) Candidate for corporate auditor

Corporate auditor Hiroshi Kurita (Current Managing Executive Officer)

(2) Retiring corporate auditor

Corporate auditor Masaya Enomoto

** This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*