

Consolidated Financial Results for the Three Months Ended May 31, 2022 [Japanese GAAP]



July 11, 2022

Company name: Takihyo Co., Ltd.

Code number: 9982

URL: <https://www.takihyo.co.jp>

Stock exchange listing: Tokyo Stock Exchange (First Section), Nagoya Stock Exchange (First Section)

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Scheduled date of commencing dividend payments: –

Scheduled date for filing of quarterly securities report: July 14, 2022

Availability of supplementary briefing material on quarterly results: None

Schedule of quarterly results briefing session: None

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended May 31, 2022 (March 1, 2022 to May 31, 2022)

(1) Consolidated Results of Operations (cumulative)

(% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Three months ended May 31, 2022	14,676	4.8	(87)	–	24	(87.6)	(36)	–
Three months ended May 31, 2021	14,009	–	126	–	197	–	135	–

(Note) Comprehensive income: Three months ended May 31, 2022: ¥818 million [164.8%]

Three months ended May 31, 2021: ¥309 million [–%]

	Earnings per share	Diluted earnings per share
	yen	yen
Three months ended May 31, 2022	(4.02)	–
Three months ended May 31, 2021	14.57	14.37

Effective the beginning of the first quarter of the fiscal year ending February 28, 2023, the Company has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related accounting standards. Therefore, the figures for the three months ended May 31, 2021 are retrospectively restated to reflect these accounting standards and percentage changes from the previous corresponding period are not provided.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of May 31, 2022	48,959	29,849	60.7	3,227.92
As of February 28, 2022	47,087	29,151	61.4	3,151.49

(Reference) Equity: As of May 31, 2022: ¥29,721 million

As of February 28, 2022: ¥28,919 million

Effective the beginning of the first quarter of the fiscal year ending February 28, 2023, the Company has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related accounting standards. Therefore, the figures as of February 28, 2022 are retrospectively restated to reflect these accounting standards.

2. Dividends

	Annual Dividends				
	1st quarter end	2nd quarter end	3rd quarter end	Year end	Total
Fiscal year ended February 28, 2022	yen –	yen 10.00	yen –	yen 10.00	yen 20.00
Fiscal year ending February 28, 2023	–				
Fiscal year ending February 28, 2023 (Forecast)		10.00	–	10.00	20.00

(Note) Revision of dividends forecast from recently announced figures: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2023 (March 1, 2022 to February 28, 2023)

(% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	54,300	–	(700)	–	(500)	–	(600)	–	(65.25)

(Note) Revision of forecast results from recently announced figures: None

Effective the beginning of the fiscal year ending February 28, 2023, the Company has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related accounting standards. Therefore, the above forecasts represent figures after the adoption of these accounting standards, and percentage changes from the previous fiscal year are not provided. If the accounting standards same as for the fiscal year ended February 28, 2022 are applied, the increase in net sales for the fiscal year ending February 28, 2023 would be 1.0%.

***Notes**

(1) Significant changes of subsidiaries during the period under review (affecting specified subsidiaries resulting in changes in scope of consolidation): No

(2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and restatements

- 1) Changes in accounting policies due to the revision of accounting standards: Yes
- 2) Any changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No
- 4) Restatements: No

(4) Total number of issued shares (common stock)

1) Total number of issued shares at the end of the period (including treasury shares):

May 31, 2022	9,500,000 shares
February 28, 2022	9,500,000 shares

2) Total number of treasury shares at the end of the period:

May 31, 2022	292,338 shares
February 28, 2022	323,438 shares

3) Average number of shares during the period (cumulative):

Three months ended May 31, 2022	9,181,462 shares
Three months ended May 31, 2021	9,265,859 shares

* These consolidated quarterly financial results are outside the scope of the quarterly review by certified public accountants or audit firms.

* Explanation of the proper use of performance forecast and other notes

(Note on the forward-looking statements)

The earnings projections and other forward-looking statements herein are based on available information and certain assumptions deemed reasonable at the time of the release of this document, and do not constitute a promise by the Company to achieve those projections. In addition, actual results may differ significantly from the projections due to various factors.

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1. Qualitative Information on Financial Results for the Period under Review

(1) Qualitative Information on Results of Operations

Regarding consumer spending in Japan during the three months ended May 31, 2022, due to the lifting of quasi-emergency measures since April, the impact of the prolonged the coronavirus disease (COVID-19) are gradually being mitigated. On the other hand, the outbreak of the Ukraine crisis has spurred the rise of raw material prices, and the sharp depreciation of the yen since March has made the rise in retail prices centered on food products clearer, while wages have been sluggish and consumer sentiment has stagnated.

Profitability in clothing will remain in harsh conditions due to factors such as failure to pass on prices to customers and delays in delivery arising from lockdown in China, which is the main production area, while raw material prices and sea freight rates remain high. We also believe that the sharp depreciation of the yen will have a significant impact on future purchase prices.

As a result, for the three months ended May 31, 2022, the Company registered net sales of ¥14,676 million (4.8% increase from the previous corresponding period). However, the Company registered an operating loss of ¥87 million (an operating profit of ¥126 million in the previous corresponding period), an ordinary profit of ¥24 million (87.6% decrease from the previous corresponding period) and loss attributable to owners of parent of ¥36 million (profit of ¥135 million in the previous corresponding period). This was primarily due to a decline in gross profit margin.

Under these circumstances, for the existing wholesale business, which is the Company's core segment, we are strengthening negotiations with customers to secure appropriate profits for each product number from the order-taking stage and expects recovery in profitability from orders for autumn/winter products. In addition, the Company has accelerated the endeavor to reduce fixed costs. Along with the start of the offer of voluntary retirement from May 30, we have taken steps to further reduce space rent through the reduction in Head Office space to half and the relocation of Tokyo Branch Office. Currently, we are considering the consolidation and abolition of overseas bases, the transfer of sales functions to Tokyo, the partial abolition of business, and the reorganization from item-based organization to customer-based organization, and we intend to materialize them as soon as possible. On the other hand, exports of high-value-added textile to luxury brands in Europe and the United States are already returning to the level before the coronavirus pandemic, and the retail business of three golf clothing brands continues to increase sales. Therefore, we intend to promote the shift of management resources to such businesses.

(2) Qualitative Information on Financial Position

1) Assets

Current assets increased by ¥1,802 million compared with the end of the previous fiscal year, to ¥23,441 million, due primarily to increases of ¥632 million in notes and accounts receivable - trade, and ¥1,180 million in derivatives.

Non-current assets increased by ¥69 million compared with the end of the previous fiscal year, to ¥25,518 million, due primarily to an increase of ¥90 million in property, plant and equipment.

As a result, total assets increased by ¥1,871 million compared with the end of the previous fiscal year, to ¥48,959 million.

2) Liabilities

Liabilities increased by ¥1,173 million compared with the end of the previous fiscal year, to ¥19,110 million, due primarily to increases of ¥779 million in notes and accounts payable - trade and ¥361 million in deferred tax liabilities.

3) Net assets

Net assets increased by ¥697 million compared with the end of the previous fiscal year, to ¥29,849 million, due primarily to an increase of ¥796 million in deferred gains or losses on hedges.

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

The financial results forecast has not changed since its earlier announcement on April 14, 2022.

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2022	As of May 31, 2022
Assets		
Current assets		
Cash and deposits	4,533	4,649
Notes and accounts receivable - trade	11,025	11,657
Inventories	4,600	4,552
Other	1,494	2,585
Allowance for doubtful accounts	(15)	(4)
Total current assets	<u>21,638</u>	<u>23,441</u>
Non-current assets		
Property, plant and equipment		
Land	16,875	16,875
Other, net	3,931	4,021
Total property, plant and equipment	<u>20,806</u>	<u>20,896</u>
Intangible assets	67	68
Investments and other assets		
Investment securities	3,205	3,197
Other	1,441	1,422
Allowance for doubtful accounts	(72)	(66)
Total investments and other assets	<u>4,574</u>	<u>4,553</u>
Total non-current assets	<u>25,449</u>	<u>25,518</u>
Total assets	<u>47,087</u>	<u>48,959</u>

(Millions of yen)

	As of February 28, 2022	As of May 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,222	4,001
Short-term borrowings	7,000	7,000
Current portion of long-term borrowings	1,925	1,875
Income taxes payable	70	61
Provisions	139	201
Other	2,199	2,494
Total current liabilities	14,556	15,633
Non-current liabilities		
Long-term borrowings	1,350	1,200
Retirement benefit liability	55	63
Provision for retirement benefits for directors (and other officers)	157	11
Asset retirement obligations	171	200
Other	1,646	2,002
Total non-current liabilities	3,379	3,476
Total liabilities	17,936	19,110
Net assets		
Shareholders' equity		
Share capital	3,622	3,622
Capital surplus	4,148	4,148
Retained earnings	20,315	20,182
Treasury shares	(630)	(550)
Total shareholders' equity	27,455	27,402
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,051	1,049
Deferred gains or losses on hedges	303	1,100
Revaluation reserve for land	0	0
Foreign currency translation adjustment	49	113
Remeasurements of defined benefit plans	58	55
Total accumulated other comprehensive income	1,463	2,319
Share acquisition rights	231	127
Total net assets	29,151	29,849
Total liabilities and net assets	47,087	48,959

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

(Millions of yen)

	For the three months ended May 31, 2021	For the three months ended May 31, 2022
Net sales	14,009	14,676
Cost of sales	11,142	11,921
Gross profit	2,867	2,755
Selling, general and administrative expenses	2,740	2,843
Operating profit (loss)	126	(87)
Non-operating income		
Interest income	1	1
Dividend income	14	15
Dividend income of insurance	13	7
Foreign exchange gains	24	85
Other	33	15
Total non-operating income	87	126
Non-operating expenses		
Interest expenses	9	13
Commission expenses	5	-
Other	1	0
Total non-operating expenses	16	13
Ordinary profit	197	24
Extraordinary income		
Gain on sale of investment securities	-	2
Total extraordinary income	-	2
Extraordinary losses		
Loss on retirement of non-current assets	-	5
Loss on sales of investments in capital	-	15
Total extraordinary losses	-	21
Profit before income taxes	197	5
Income taxes	62	42
Profit (loss)	135	(36)
Profit (loss) attributable to owners of parent	135	(36)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the three months ended May 31, 2021	For the three months ended May 31, 2022
Profit (loss)	135	(36)
Other comprehensive income		
Valuation difference on available-for-sale securities	64	(2)
Deferred gains or losses on hedges	59	796
Foreign currency translation adjustment	51	63
Remeasurements of defined benefit plans, net of tax	(0)	(2)
Total other comprehensive income	<u>174</u>	<u>855</u>
Comprehensive income	<u>309</u>	<u>818</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	309	818

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Adoption of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”) and other related accounting standards from the beginning of the first quarter of the fiscal year ending February 28, 2023. The Company recognizes revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

The main changes due to the adoption of accounting standard for revenue recognition, etc., are as follows.

(1) Consideration payable to customers

The Company has changed to a method whereby consideration payable to customers previously recorded in selling, general and administrative expenses, is subtracted from net sales.

(2) Agent transactions

For some sales transactions, the Company has changed to a method whereby the total amount of consideration received from customers previously recognized as revenue, is recognized in net amount for transactions that correspond to agents.

(3) Transactions that a certain amount of return is expected

For “provision for sales returns” that was previously recorded as current liabilities based on the amount equivalent to the expected gross profit of the returned goods portion, the Company has changed to a method whereby the net sales and amount equivalent to cost of sales that are expected to be returned are not recognized. Refund liabilities are included in “Other” of current liabilities and returned assets are included in “Other” of current assets.

(4) Buy-sell transactions

For buy-sell transactions which the Company is obligated to buy them back, the Company has changed to a method whereby the items that it supplied for a fee are not derecognized at the time of transfer, is continued to be recognized as inventories.

In principle, these changes in accounting policies are applied retrospectively, including the quarterly consolidated financial statements and the consolidated financial statements for the previous year's quarter and the previous fiscal year, which have been adjusted retrospectively, provided the following methods are applied as stipulated in Paragraph 85 (1) of the Revenue Recognition Standard.

- Comparative information is not retrospectively restated for contracts where substantially all the revenue amounts have been recognized prior to the beginning of the previous fiscal year in accordance with the previous treatment

As a result of this change, compared with the figures before the retrospective application, for the three months ended May 31, 2021, net sales decreased by ¥641 million, cost of sales decreased by ¥418 million, selling, general and administrative expenses decreased by ¥223 million, and operating profit, ordinary profit, and profit before income taxes increased by ¥2 million, respectively. The cumulative impact of this change has been reflected on net assets at the beginning of the previous fiscal year. As a result, the beginning balance of

retained earnings of the previous fiscal year increased by ¥5 million.

(Accounting Standard for Fair Value Measurement)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the first quarter of the fiscal year ending February 28, 2023, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This does not affect the quarterly consolidated financial statements.

(Additional Information)

(Accounting estimates with regard to COVID-19)

There are no significant changes to the content described in (Additional Information) (Accounting estimates with regard to COVID-19) in the annual securities report for the fiscal year ended February 28, 2022.

(Offer of Voluntary Retirement)

Based on the resolution of the Board of Directors meeting held on May 25, 2022, the Company offered voluntary retirement as follows.

1. Reason for offering voluntary retirement

Continued effects of the clothing market stagnation, prices of raw materials and fares staying at a high level, and the depreciation of the yen are expected to continue for the time being. Therefore, we decided to offer voluntary retirement from the view that it is necessary to streamline workforces in order to continue our business.

2. Overview of voluntary retirement offer

(1) Persons applicable	Managerial, general office, and temporary employees (excluding sales staff) who are 40 years of age or older
(2) Number of offers	About 150 employees
(3) Offer period	From May 30, 2022 to June 30, 2022
(4) Retirement date	September 30, 2022
(5) Preferential treatment	Additional special retirement allowance, reemployment support services, etc.

3. Future prospects

With the offer of voluntary retirement, extraordinary losses arising out of costs for special retirement allowances are expected to be recorded. Since the voluntary retirees are confirmed based on the resolution of the Board of Directors, etc., the number of voluntary retirees and their breakdown are not yet confirmed as of the submission date of the results, and it is difficult to reasonably calculate the amount of impact.

3. Others

(Significant Events on Going Concern Assumption)

The Group continues to record operating losses (for three consecutive terms) in the previous fiscal year. Even during the three months ended May 31, 2022, the Company experienced a decline in gross profit margin due to rising raw material prices, further depreciation of the yen, rising sea freight rates, and increased wages at production consignment factories. As a result of continued harsh earnings conditions, operating loss were recorded.

In light of the above, the Group recognizes that there are events or situations that raise significant doubts about the going concern assumption.

In order to resolve this situation as soon as possible, the Group has been tackling not only medium-term challenges such as “recovery of the existing wholesale business” and “planning and proposal of distinctive product lines,” but also securing appropriate profits for each product number from the order-taking activity stage while working to reduce fixed costs by restructuring the business.

In terms of funds, the Group has cash and deposits of ¥4,649 million as of May 31, 2022. In order to efficiently raise operating funds, we have concluded an overdraft agreement with our bank to secure the necessary funds. In addition, the Group owns investment securities of ¥3,197 million and land that is not pledged of ¥16,875 million. Furthermore, as the Group has a sufficient financial base with a net asset balance of ¥29,849 million, it believes that there is no significant uncertainty regarding a going concern assumption.