Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2020 [IFRS] (Consolidated)

May 15, 2020

Company name: QB Net Holdings Co., Ltd.
Listed on: Tokyo Stock Exchange
Code number: 6571
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Scheduled date for quarterly report submission: May 15, 2020
Scheduled date for commencement of dividend payment: —
Supplementary explanatory materials for quarterly financial results: Yes
Quarterly financial results briefings: No

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year ending June 30, 2020 (July 1, 2019 to March 31, 2020)

(1) Consolidated Operating Results (Cumulative) (Percentages indicate changes from the same quarter of the previous year.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%
Q3 FYE June 2020	16,162	6.2	1,353	3.5	1,252	0.1	829	(0.6)	829	(0.6)	830	(1.5)
Q3 FYE June 2019	15,212	7.0	1,307	17.5	1,250	19.0	834	12.3	834	12.3	842	24.9

	Basic earnings per share	Diluted earnings per share
	yen	yen
Q3 FYE June 2020	66.01	62.10
Q3 FYE June 2019	67.37	62.83

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent
	million yen	million yen	million yen	%
Q3 FYE June 2020	29,430	10,469	10,469	35.6
FYE June 2019	24,282	9,797	9,797	40.3

2. Dividends

	Annual dividends				
	End-Q1	End-Q2	End-Q3	Year-end	Total
	yen	yen	yen	yen	yen
FYE June 2019	—	0.00	—	19.00	19.00
FYE June 2020	—	0.00	—		
FYE June 2020 (Forecast)				0.00	0.00

(Note) 1. Revision from the last announcement of dividend forecast: Yes
2. For the revision of year-end dividend forecast, please refer to the “Notice of Revision of Earnings and Dividend Forecasts” announced today (May 15, 2020).

3. Consolidated Earnings Forecast for the Fiscal Year ending June 2020 (July 1, 2019 - June 30, 2020)

(Percentages indicate changes from the previous year)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	18,672	(10.5)	194	(90.2)	47	(97.5)	49	(96.2)	49	(96.2)	3.88

(Note) 1. Revision from the last announcement of earnings forecast: Yes
2. For the revision of earnings forecast, please refer to the “Notice of Revision of Earnings and Dividend Forecasts” announced today (May 15, 2020).

*Notes

(1) Changes in significant subsidiaries during the period: No
(Changes in specific subsidiaries with changes in the scope of consolidation)
Newly consolidated - companies (Company names) -, Excluded - companies (Company names) -

(2) Changes in accounting policies and accounting estimates
(i) Changes in accounting policies required by IFRS: Yes
(ii) Changes in accounting policies other than (i): No
(iii) Changes in accounting estimates: No

(Note) For details, see "2. Condensed Quarterly Consolidated Financial Statements and Main Notes, (6) Notes on the Condensed Quarterly Consolidated Financial Statements (Changes in accounting policies)" on page 12 of the Attachment.

(3) Number of shares outstanding (common stock)

(i) Number of shares outstanding at the end of the period (including treasury shares)	Q3 FYE June 2020	12,657,100 shares	FYE June 2019	12,488,000 shares
(ii) Number of treasury shares at the end of the period	Q3 FYE June 2020	123 shares	FYE June 2019	123 shares
(iii) Average number of shares outstanding during the period (cumulative)	Q3 FYE June 2020	12,570,840 shares	Q3 FYE June 2019	12,391,978 shares

* Quarterly financial results are not subject to quarterly review by certified public accountants or audit firms

* Explanation on the appropriate use of earnings forecasts and other special notes
(Notes on forward-looking statements)
Forward-looking statements and others included in this document, including earnings forecasts, are based on information currently available to and certain premises deemed to be rational by the Company, which is not committed to achieving them. Actual earnings and others may vary due to various factors. For matters related to earnings forecasts, please refer to "1. Qualitative Information Regarding the Quarterly Financial Results Under Review, (3) Explanation of Information on Future Forecasts including Consolidated Earnings Forecast" on page 5 of the Attachment.

(How to obtain supplementary explanatory materials for financial results)
Supplementary explanatory materials for financial results will be disclosed on TDnet on May 19, 2020. They will also be posted on the Company website.

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1. Qualitative Information Regarding the Quarterly Financial Results Under Review

(1) Explanation of Operating Results

(Earnings of quarterly financial results under review)

Revenue for the first half of the fiscal year under review (July 1, 2019 to December 31, 2019) increased by 1,019 million year on year, due to favorable revenue at existing stores in Japan exceeding the same period of the previous year's, as well as a rise in the unit price of service because of price revisions at all QB HOUSE stores in Japan and Hong Kong. In the third quarter under review (January 1, 2020 to March 31, 2020), revenue decreased by 70 million yen year on year due to a decline in the number of customers as a result of shortened operating hours at some stores and consumers' self-restraint on going out because of the spread of the novel coronavirus. As a result, in the cumulative third quarter under review (July 1, 2019 to March 31, 2020), revenue increased by 949 million yen year on year.

Cost of sales increased by 770 million yen year on year due to an increase in personnel expenses resulting from an increase in store staff in Japan and overseas, as well as improvements in working conditions for store staff in Japan.

Selling, general and administrative expenses increased by 95 million yen year on year mainly due to an increase in the provision for year-end allowances in Japan.

As a result, for earnings in the cumulative third quarter under review, revenue was 16,162 million yen (up 6.2% year on year), operating profit was 1,353 million yen (up 3.5%), profit before tax was 1,252 million yen (up 0.1%), and profit attributable to owners of parent was 829 million yen (down 0.6%).

Regarding the opening of stores, we opened 35 stores. As for store opening regions, we opened 26 stores in Japan, two in Singapore, five in Hong Kong and one each in Taiwan and the United States. Moreover, since we closed 17 stores mainly due to renovation of shopping centers and stations, we had 712 stores as of the end of the third quarter under review.

The description by segment is omitted because the Company Group engages in a single segment of haircut business.

(2) Explanation of Financial Position

(i) Assets, liabilities and equity

Assets, liabilities and equity at the end of the third quarter under review were as follows:

Current assets decreased by 488 million yen from the end of the previous consolidated fiscal year to 3,494 million yen. This was mainly due to a decrease of 118 million yen in cash and cash equivalents and a decrease of 363 million yen in trade and other receivables. Non-current assets increased by 5,636 million yen from the end of the previous year to 25,935 million yen. This was mainly due to the inclusion of right-of-use assets in application with IFRS 16 "Leases" (Hereinafter referred to as "IFRS 16"). As a result, assets increased by 5,147 million yen from the end of the previous year to 29,430 million yen.

Current liabilities increased by 1,615 million yen from the end of the previous consolidated fiscal year to 4,801 million yen. This was mainly due to an increase in lease obligations in application of IFRS 16. Non-current liabilities increased by 2,860 million yen from the end of the previous year to 14,159 million yen. This was mainly due to an increase in lease obligations in application of IFRS 16. As a result, liabilities increased by 4,475 million yen from the end of the previous year to 18,960 million yen.

Equity increased by 672 million yen from the end of the previous consolidated fiscal year to 10,469 million yen. This was mainly due to a decrease in capital surplus of 188 million yen and an increase in retained earnings of 800 million yen.

(ii) Cash flows

Cash and cash equivalents (hereinafter referred to as "Cash") at the end of the third quarter under review decreased by 118 million yen from the end of the previous consolidated fiscal year to 2,370 million yen. Individual cash flows for the cumulative third quarter under review and the factors behind them are as follows:

(Cash flows from operating activities)

Cash provided by operating activities was 3,052 million yen (1,236 million yen in the same period of the previous year). This was mainly attributable to increasing factors of Cash, such as profit before tax of 1,252 million yen and depreciation and amortization, including depreciation of right-of-use assets recognized through the application of IFRS 16, of 2,392 million yen (577 million yen in the same period of the previous year), against a decrease in Cash, such as income taxes paid of 821 million yen.

(Cash flows from investing activities)

Cash used in investing activities was 652 million yen (801 million yen in the same period of the previous year). This was mainly attributable to decreasing factors of Cash, such as purchase of property, plant and equipment of 533 million yen and payment of security deposits of 96 million yen.

(Cash flows from financing activities)

Cash used in financing activities was 2,518 million yen (480 million yen in the same period of the previous year). This was mainly attributable to decreasing factors of Cash, such as repayments of lease obligations, including the effect of IFRS 16 application, of 1,930 million yen (150 million yen in the same period of the previous year), repayments of long-term borrowings of 525 million yen, and dividends paid of 237 million yen.

(3) Explanation of Information on Future Forecasts Including Consolidated Earnings Forecast

The Company Group has temporarily closed all of its stores in Japan in response to a state of emergency declared by the government following the spread of novel coronavirus. We have revised our full-year consolidated earnings forecast and dividend forecast for the fiscal year ending June 30, 2020, announced on August 13, 2019, taking into account the decline in revenue and other factors. For details, please refer to the “Notice of Revision of Earnings and Dividend Forecasts” announced today (May 15, 2020).

2. Condensed Quarterly Consolidated Financial Statements and Main Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(unit: million yen)

	Previous consolidated fiscal year (June 30, 2019)	Consolidated Q3 under review (March 31, 2020)
Assets		
Current assets		
Cash and cash equivalents	2,489	2,370
Trade and other receivables	1,160	796
Inventories	116	126
Other current assets	215	200
Total current assets	3,982	3,494
Non-current assets		
Property, plant and equipment	2,327	1,934
Right-of-use assets	—	5,936
Goodwill	15,430	15,430
Intangible assets	150	151
Other financial assets	1,773	1,839
Deferred tax assets	519	543
Other non-current assets	98	99
Total non-current assets	20,299	25,935
Total assets	24,282	29,430
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	273	348
Borrowings	755	758
Lease obligations	161	2,285
Income taxes payable	503	105
Other financial liabilities	168	100
Other current liabilities	1,323	1,202
Total current liabilities	3,185	4,801
Non-current liabilities		
Borrowings	10,498	9,983
Lease obligations	304	3,650
Other financial liabilities	117	107
Deferred tax liabilities	19	23
Provisions	348	371
Other non-current liabilities	11	21
Total non-current liabilities	11,299	14,159
Total liabilities	14,484	18,960
Equity		
Share capital	1,137	1,186
Capital surplus	4,914	4,726
Retained earnings	3,811	4,611
Treasury shares	(0)	(0)
Other components of equity	(66)	(54)
Total equity attributable to owners of parent	9,797	10,469
Total equity	9,797	10,469
Total liabilities and equity	24,282	29,430

(2) Condensed Quarterly Consolidated Statement of Profit or Loss

(unit: million yen)

	Previous consolidated cumulative Q3 (From July 1, 2018 to March 31, 2019)	Consolidated cumulative Q3 under review (From July 1, 2019 to March 31, 2020)
Revenue	15,212	16,162
Cost of sales	(11,843)	(12,613)
Gross profit	3,369	3,548
Other operating income	41	8
Selling, general and administrative expenses	(2,083)	(2,179)
Other operating expenses	(19)	(23)
Operating profit	1,307	1,353
Finance income	11	12
Finance costs	(68)	(114)
Profit before tax	1,250	1,252
Income tax expense	(415)	(422)
Profit	834	829
Profit attributable to		
Owners of parent	834	829
Profit	834	829
Earnings per share		
Basic earnings per share (yen)	67.37	66.01
Diluted earnings per share (yen)	62.83	62.10

(3) Condensed Quarterly Consolidated Statement of Comprehensive Income

(unit: million yen)

	Previous consolidated cumulative Q3 (From July 1, 2018 to March 31, 2019)	Consolidated cumulative Q3 under review (From July 1, 2019 to March 31, 2020)
Profit	834	829
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	7	0
Total of items that may be reclassified to profit or loss	7	0
Total other comprehensive income	7	0
Comprehensive income	842	830
Comprehensive income attributable to		
Owners of parent	842	830
Comprehensive income	842	830

(4) Condensed Quarterly Consolidated Statement of Changes in Equity

Previous consolidated cumulative Q3 (From July 1, 2018 to March 31, 2019)

(unit: million yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity		
					Exchange differences on translation of foreign operations	Share acquisition rights	Total
Balance at July 1, 2018	1,103	5,103	2,538	—	(134)	85	(49)
Profit	—	—	834	—	—	—	—
Other comprehensive income	—	—	—	—	7	—	7
Total comprehensive income	—	—	834	—	7	—	7
Share-based remuneration expenses	—	—	—	—	—	33	33
Dividends of surplus	—	(223)	—	—	—	—	—
Purchase of treasury shares	—	—	—	(0)	—	—	—
Total transactions with owners	—	(223)	—	(0)	—	33	33
Balance at March 31, 2019	1,103	4,880	3,373	(0)	(126)	119	(7)

(unit: million yen)

	Total equity attributable to owners of parent	Total equity
Balance at July 1, 2018	8,695	8,695
Profit	834	834
Other comprehensive income	7	7
Total comprehensive income	842	842
Share-based remuneration expenses	33	33
Dividends of surplus	(223)	(223)
Purchase of treasury shares	(0)	(0)
Total transactions with owners	(189)	(189)
Balance at March 31, 2019	9,349	9,349

Consolidated cumulative Q3 under review (From July 1, 2019 to March 31, 2020)

(unit: million yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity		
					Exchange differences on translation of foreign operations	Share acquisition rights	Total
Balance at July 1, 2019	1,137	4,914	3,811	(0)	(175)	109	(66)
Effect of changes in accounting policies	—	—	(29)	—	—	—	—
Restated balance at July 1, 2019	1,137	4,914	3,781	(0)	(175)	109	(66)
Profit	—	—	829	—	—	—	—
Other comprehensive income	—	—	—	—	0	—	0
Total comprehensive income	—	—	829	—	0	—	0
Issuance of new shares	48	48	—	—	—	(9)	(9)
Share-based remuneration expenses	—	—	—	—	—	20	20
Dividends of surplus	—	(237)	—	—	—	—	—
Total transactions with owners	48	(188)	—	—	—	11	11
Balance at March 31, 2020	1,186	4,726	4,611	(0)	(175)	120	(54)

(unit: million yen)

	Total equity attributable to owners of parent	Total equity
Balance at July 1, 2019	9,797	9,797
Effect of changes in accounting policies	(29)	(29)
Restated balance at July 1, 2019	9,767	9,767
Profit	829	829
Other comprehensive income	0	0
Total comprehensive income	830	830
Issuance of new shares	88	88
Share-based remuneration expenses	20	20
Dividends of surplus	(237)	(237)
Total transactions with owners	(128)	(128)
Balance at March 31, 2020	10,469	10,469

(5) Condensed Quarterly Consolidated Statement of Cash Flows

(unit: million yen)

	Previous consolidated cumulative Q3 (From July 1, 2018 to March 31, 2019)	Consolidated cumulative Q3 under review (From July 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Profit before tax	1,250	1,252
Depreciation and amortization	577	2,392
Impairment losses	14	17
Finance income	(11)	(12)
Finance costs	68	114
Decrease (increase) in trade and other receivables	(69)	401
Decrease (increase) in inventories	(42)	(9)
Increase (decrease) in trade and other payables	24	0
Other	5	(181)
Subtotal	1,818	3,974
Interest received	3	4
Interest paid	(61)	(104)
Income taxes paid	(523)	(821)
Cash flows from operating activities	1,236	3,052
Cash flows from investing activities		
Purchase of property, plant and equipment	(678)	(533)
Purchase of intangible assets	(24)	(21)
Payments of guarantee deposits	(115)	(96)
Proceeds from refund of guarantee deposits	28	26
Other	(11)	(26)
Cash flows from investing activities	(801)	(652)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	300	—
Repayments of long-term borrowings	(525)	(525)
Proceeds from sale and leaseback transactions	160	85
Repayments of lease obligations	(150)	(1,930)
Proceeds from exercise of share acquisition rights	—	88
Dividends paid	(221)	(237)
Other	(44)	—
Cash flows from financing activities	(480)	(2,518)
Exchange differences of cash and cash equivalents	5	(0)
Net increase (decrease) in cash and cash equivalents	(39)	(118)
Cash and cash equivalents at beginning of period	2,018	2,489
Cash and cash equivalents at end of period	1,978	2,370

(6) Notes on the Condensed Quarterly Consolidated Financial Statements

(Notes on going concern assumptions)

There are no applicable items.

(Changes in accounting policies)

Significant accounting policies applied by the Company Group in the consolidated financial statements for the fiscal year under review are the same as those applied in the consolidated financial statements for the previous fiscal year, except for the changes set forth below.

The income tax expense for the consolidated cumulative third quarter under review was calculated based on the estimated annual effective tax rate.

(IFRS 16 “Leases”)

The Company Group adopted IFRS 16, “Leases” (Published in January 2016) (hereinafter referred to as “IFRS 16”) effective from the first quarter of the consolidated fiscal year.

IFRS 16 is the standard replacing the existing IAS 17 “Leases” (hereinafter referred to as “IAS 17”) and IFRIC 4 “Determining whether an Arrangement Contains a Lease” (hereinafter referred to as “IFRIC 4”). This new standard requires that a single accounting model be used to recognize, in principle, for all leases of the lessee, right-of-use assets representing the right to use the underlying assets and lease obligations representing the obligation to pay the lease payments in the consolidated statement of financial position.

In applying IFRS 16, we have adopted the method of recognizing the cumulative effect of the application of this standard at the commencement date of application, which is allowed as a transitional measure.

Upon transition to IFRS 16, the Company has selected the practical expedient of IFRS 16 C3 as to whether leases are included in arrangements, and succeeding the judgment under IAS 17 and IFRIC 4. We have been determining in accordance with provisions of IFRS 16 since the effective date of application.

Leases as the lessee that had been classified as operating leases under IAS 17 in the past were recognized as right-of-use assets and lease obligations on the effective date of application, with the exception of short-term leases and small asset leases. Lease payments under short-term leases and small asset leases are recognized as expenses over the lease period by the straight-line method.

The lease period is determined by considering the non-cancelable period for leases as well as the periods for which the extension is reasonably certain and for which no cancelation is reasonably certain.

Right-of-use assets are depreciated regularly over the lease period.

Lease obligations are measured at present value, the residual lease payments discounted using the lessee’s incremental borrowing rate of interest or the lessor's implicit rate of interest the effective date of application. The weighted average of the incremental borrowing rate of interest is 1.3%.

The adjustments table for the non-cancelable operating lease agreements to which IAS 17 was applied at the end of the previous fiscal year and the lease obligations recognized in the condensed quarterly consolidated statement of financial position as of the effective date of application is as follows:

(unit: million yen)

Non-cancelable operating lease agreements (June 30, 2019)	5,396
Amount affected by changes in lease period estimates	567
Amount discounted using the borrowing rate of interest as of the effective date of application	(127)
Finance lease obligations (June 30, 2019)	465
Lease obligations (July 1, 2019)	6,303

As a result, compared to the amount that would have been reported if the previous accounting standard had been applied, the right-of-use assets, deferred tax assets, and lease obligations at beginning of the consolidated first quarter increased by 5,794 million yen, 12 million yen, and 5,837 million yen, respectively, while retained earnings decreased by 29 million yen. Since lease obligations, which had been included in “Other financial liabilities” in the previous consolidated fiscal year, became increasingly significant in value, they were set down separately from the first quarter and the consolidated statement of financial position for the previous consolidated fiscal year was reclassified.

In the condensed quarterly consolidated statement of cash flows, cash flows relating to leases of the lessee that had been previously reported as operating leases were included in cash flows from operating activities. However, excluding short-term leases and leases of small assets that are not included in the measurement of lease obligations, cash flows relating to leases of the lessee that had been previously reported as operating leases are presented as “Repayments of lease obligations” under cash flows from financing activities, including the repayments of lease obligations that were previously reported as finance leases.

(Segment information)

The description is omitted because the Company Group engages in a single segment of haircut business.

(Earnings per share)

Basis of the calculation of basic and diluted earnings per share is as follows:

	Previous consolidated cumulative Q3 (From July 1, 2018 to March 31, 2019)	Consolidated cumulative Q3 under review (From July 1, 2019 to March 31, 2020)
Profit attributable to owners of parent (million yen)	834	829
Average number of common shares outstanding during the period (shares)	12,391,978	12,570,840
Number of common shares with dilutive effects		
Increase due to share options (shares)	896,794	791,717
Diluted average number of common shares outstanding during the period (shares)	13,288,772	13,362,557
Basic earnings per share (yen)	67.37	66.01
Diluted earnings per share (yen)	62.83	62.10

(Significant subsequent events)

(Conclusion of commitment line agreements and execution of borrowing)

At the Board of Directors' Meeting held on April 15, 2020, it was resolved that the Company would conclude commitment-line agreements totaling 3 billion yen with MUFG Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation, and concluded the agreements outlined below. Based on the agreements, the Company undertook the following borrowings:

(1) Objective of setting commitment lines

We aim to secure flexible and stable funding sources while further strengthening our financial base in the face of major social changes.

(2) Overview of commitment line agreements

(i) Financial institutions	MUFG Bank, Ltd.	Mizuho Bank, Ltd.	Sumitomo Mitsui Banking Corporation
(ii) Amount of credit lines	1,000 million yen	1,000 million yen	1,000 million yen
(iii) Date of conclusion of agreements	April 23, 2020	April 24, 2020	April 28, 2020
(iv) Term of agreements	One year	One year	One year
(v) Interest rate	JBA TIBOR + 0.5%	Mizuho Bank TIBOR + 0.5%	JBA TIBOR + 0.5%

(3) Details of the executed borrowings

(i) Financial institutions	MUFG Bank, Ltd.	Mizuho Bank, Ltd.	Sumitomo Mitsui Banking Corporation
(ii) Date of borrowings	April 28, 2020	April 30, 2020	April 30, 2020
(iii) Amount of borrowings	1,000 million yen	1,000 million yen	1,000 million yen
(iv) Restrictive financial covenants	• Maintain the consolidated net assets for each fiscal year from FYE June 2020 at 80% or more of the greater of the consolidated net assets as of the end of FYE June 2019 or the end of the previous fiscal year. • Maintain the consolidated net assets for each interim fiscal year from the interim fiscal year ending December 2020 at 80% or more of the greater of the consolidated net assets as of the interim fiscal year ended December 2019 or the end of the previous interim fiscal year. • Maintain at least 8,695 million yen in net assets on the consolidated balance sheets for each fiscal year and interim fiscal year from the fiscal year ending June 2020 onward.	• Maintain the consolidated net assets for each fiscal year from FYE June 2020 at 80% or more of those as of the end of the previous fiscal year. • Consolidated ordinary profit and loss for each fiscal year from the year ending June 2020 onward shall not be in the red for two years in a row.	None