QB Net Holdings Co., Ltd.

Q3 FYE June 2020
Financial Results Briefing Material
May 19, 2020



I Results for Q3 FYE June 2020

II Impact of Spread of Novel Coronavirus on Earnings of the Company

Consolidated Group Earnings for Q3 FYE June 2020 (Summary)

- Despite the impact of price revisions and the novel coronavirus, revenues and profits generally increased in the third quarter.
- However, the full-year earnings forecast was revised downward mainly due to the impact of temporary closures, while the dividend forecast was revised to no dividend.

Full-year consolidated group earnings (Summary)

	Q3 FYE June 2020			Full year FYE June 2020			
Unit: million yen	Actual	Sales ratio	Year on year	Initial forecast	Revised forecast	Changes	Percentage changes
Revenue	16,162	100.0%	106.2%	22,342	18,672	-3,671	-16.4%
Operating profit	1,353	8.4%	103.5%	2,200	194	-2,006	-91.2%
Profit before tax	1,252	7.7%	100.1%	2,112	47	-2,065	-97.8%
Profit	829	5.1%	99.4%	1,403	49	-1,354	-96.5%
Basic earnings per share	66.01 yen			112.42 yen	3.88 yen		
Dividends per share	–			19.00 yen	0.00 yen		

Initiatives Taken up to the Q3 FYE June 2020 (Summary)

Japan

- Opened 19 new QB HOUSE salons, relocated 6 salons, renovated 16 salons, added seats at 8 salons, closed 13 salons mainly due to the lessor's circumstances, and changed agreements to bring **21** outsourced salons to company-owned (direct employment)
- Opened QB PREMIUM Otemachi Metro pia, the first in Japan, on March 26
- **Opened LogiTHcut Sendai school in July 2019 (Fifth school in Japan)**
- Improved working conditions for stylists from August 2019 after price revisions
- When the consumption tax was increased in October 2019, QB HOUSE kept the tax-inclusive price unchanged, while FaSS changed the tax-inclusive price from 2,160 yen to 2,200 yen

Overseas

- Hong Kong: Opened 4 new QB HOUSE salons, relocated 1 salon, closed 2 salons (of which one was temporarily closed due to the developer's circumstances) and repriced from HK$60 to HK$70 (up 16.7%) from July 2019

	Price before revision	Price after revision
Price revision in Hong Kong	HK$60 (Approximately 840 yen)	HK$70 (Approximately 980 yen)

- Singapore: Opened 1 QB HOUSE Premium salon, the 8th, in August 2019, relocated 1 salon, and closed 1 salon due to the relocation
- Taiwan: Opened 1 new salon, and closed 1 salon due to the commercial facility's circumstances
- U.S.: Opened 4 new salons in January 2020

New Salons and Increased Seats in Japan

New salons (in Japan)

[Shopping centers and commercial facilities]

- AEON MALL Kawaguchi Maekawa (Saitama)
- Tsudanuma PARCO (Chiba)
- Terrace Mall Matsudo (Chiba)
- In front of Moto-Yawata Station (Chiba)
- Park City Musashi-koyama THE MALL (Tokyo)
- Ito Yokado Kokuryo (Tokyo)
- Grandberry Park Minami-machida (Kanagawa)
- Daigo Plaza (Kanagawa)
- LaLaport Numazu (Shizuoka)
- AEON Fujiidera Shopping Center (Osaka)
- CRYSTA Nagahori (Osaka)
- CampusSquare (Hyogo)
- BRANCH Hakata Papillon Garden (Fukuoka)
- SAN-A Gushikawa MAIN CITY (Okinawa)

[Stations]

- atré Gotanda (Tokyo)
- QB PREMIUM Otemachi Metro pia (Tokyo)
- Kintetsu Fuse Station (Osaka)

[Roadside salons]

- In front of Shimo-Kitazawa Station (Tokyo)
- Takatsuki Center-Gai (Osaka)
- Hakata Ekimae-dori (Fukuoka)

Increased seats (in Japan)

- Grand Emio Tokorozawa (Saitama)
- mozo WONDER CITY (Aichi)
- AEON MALL Kyoto Gojo (Kyoto)
- CARINO ESAKA (Osaka)
- AEON SENRITO (Osaka)
- AEON MALL Osaka Dome City (Osaka)
- youme Town Kure (Hiroshima)
- Hakata Marui (Fukuoka)

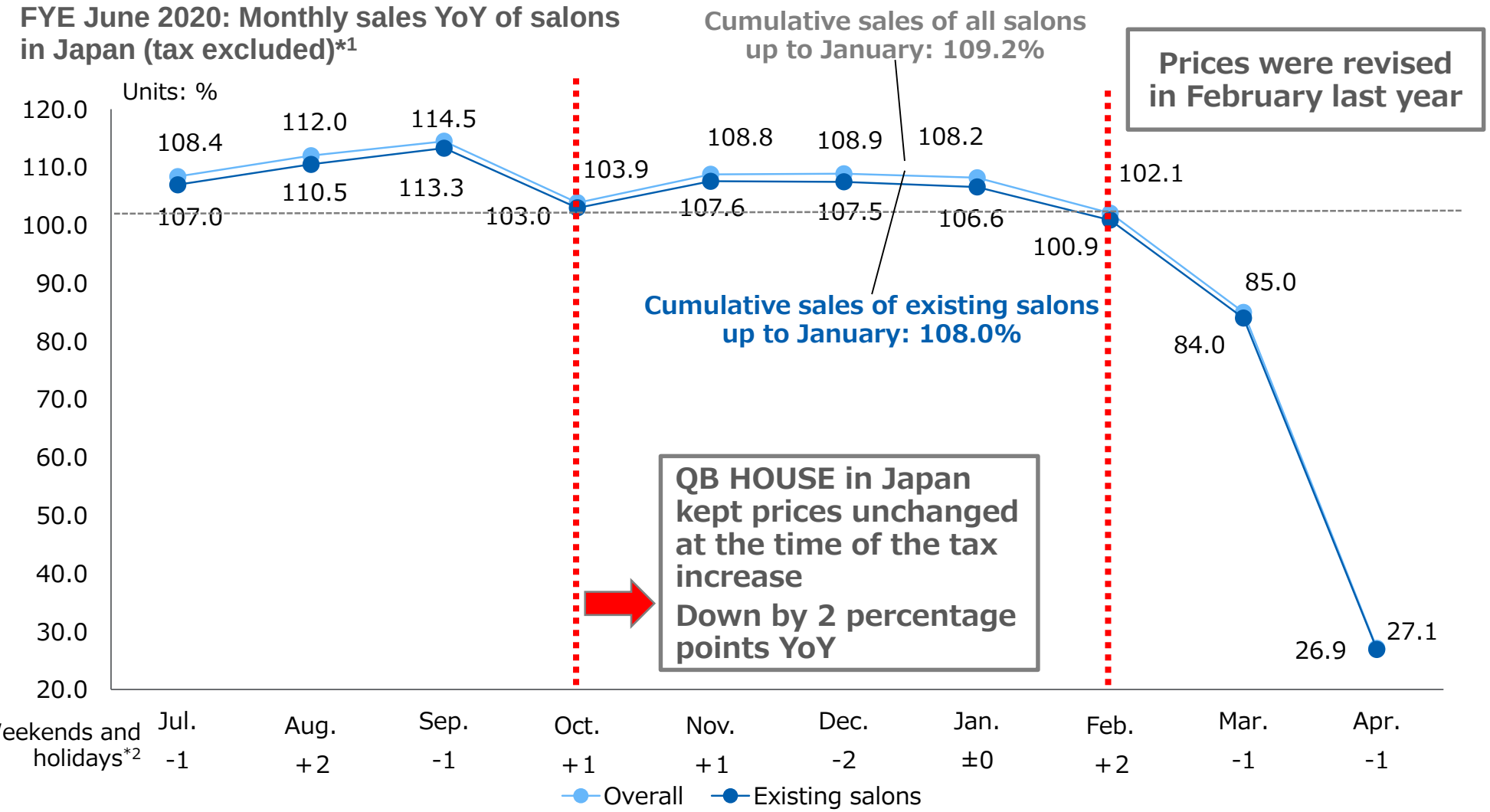
QB PREMIUM Otemachi Metro pia (Opened on March 26)



* The orange color indicates new salons and salons with more seats in Q3.

Trends of Monthly Sales YoY for Salons in Japan (Tax Excluded)

- **Sales in March were mainly influenced by the reduction of working hours. In April, following the declaration of a state of emergency in Japan, we temporarily closed salons in 7 prefectures from April 10, and closed salons nationwide from April 18, resulting in a sharp decrease in sales YoY.**



*1 Existing salons are salons that operated throughout the year from the beginning to the end of the previous fiscal year, and are also operating in the current fiscal year. Data for salons in Japan (including FC salons and FaSS), excluding overseas salons

*2 The number of weekends and national holidays compared to the same month in FYE June 2019. February 2020 had a positive leap year impact.

Track Records of New, Relocated, and Closed Salons

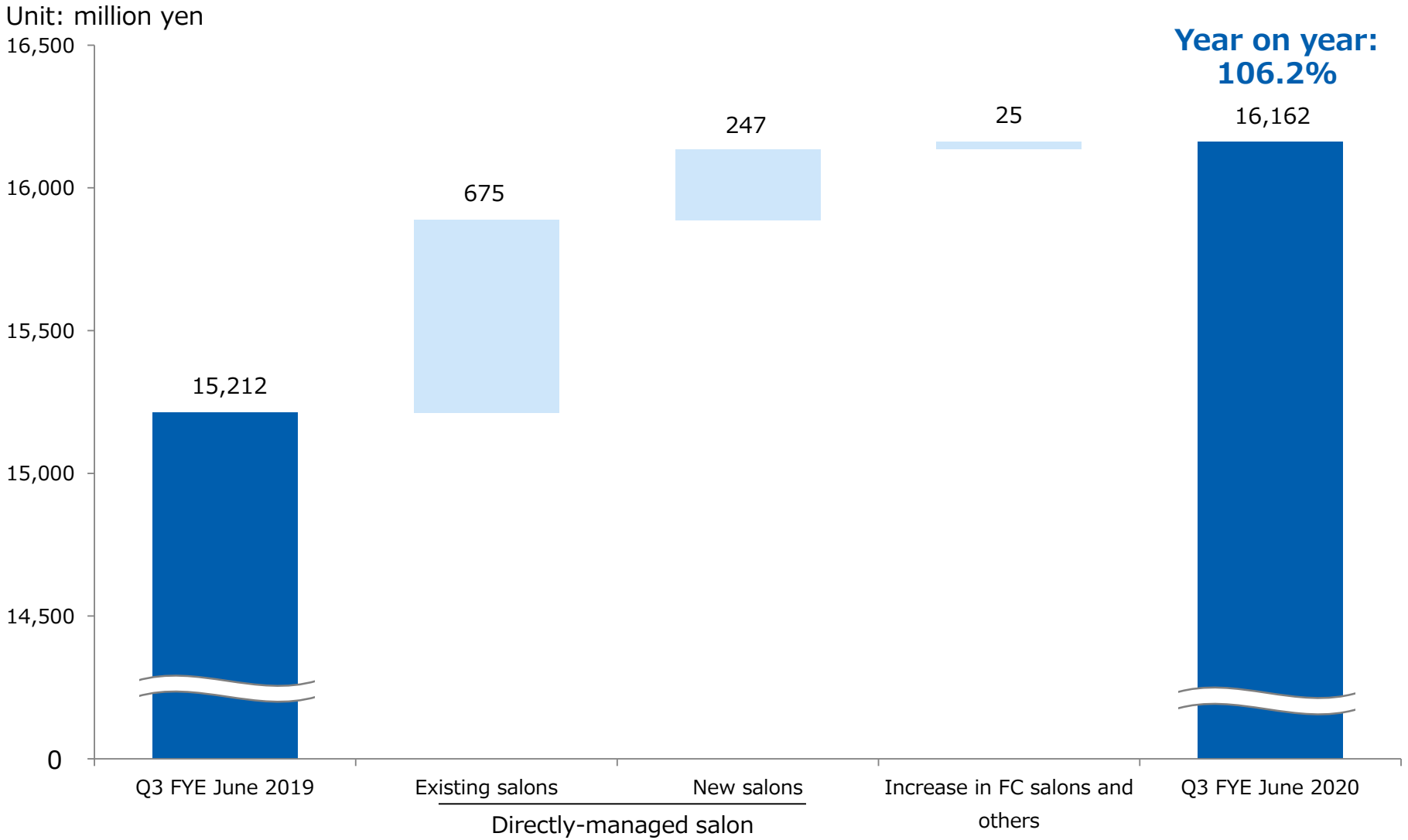
- 27 new salons, 8 relocated salons, and 17 closed salons (including closing due to relocation)
- The closing of salons was mainly due to the closure of facilities associated with station renovations and shopping center scraps and builds. Focusing on relocating salons in the neighborhood.

Unit: salon	Business format	End-FYE June 2019	New salon	Relocation	Closure (*1)	Change	End-Q3
Japan	QB HOUSE	554	19	6	-13	12	566
	QB PREMIUM	0	1	0	0	1	1
	FaSS	13	0	0	0	0	13
Subtotal in Japan		**567**	**20**	**6**	**-13**	**13**	**580**
Singapore	QB HOUSE (*2)	26	0	1	0	1	27
	QB HOUSE Premium	7	1	0	-1	0	7
	Kids	3	0	0	0	0	3
Hong Kong	QB HOUSE	60	4	1	-2	3	63
	QB PREMIUM	1	0	0	0	0	1
Taiwan	QB HOUSE	27	1	0	-1	0	27
U.S.	QB HOUSE	3	1	0	0	1	4
Subtotal of overseas		**127**	**7**	**2**	**-4**	**5**	**132**
Consolidated group total		**694**	**27**	**8**	**-17**	**18**	**712**

(*1) The number of closed salons includes those due to relocation.
(*2) The 1 relocated salon in Singapore was opened in August after closing in the previous fiscal year (June 2019).

Analysis of Changes in Revenue

– **Revenue increased 949 million yen due to new salon openings and price revisions at QB HOUSE in Japan and Hong Kong, despite the impact of the novel coronavirus on some salons in the third quarter.**



* New salons are those less than 13 months since opening

Composition of Revenue

– **Directly-managed salons account for 96.2% of revenue while overseas for 15.8%.**

Composition of revenue by type of operation

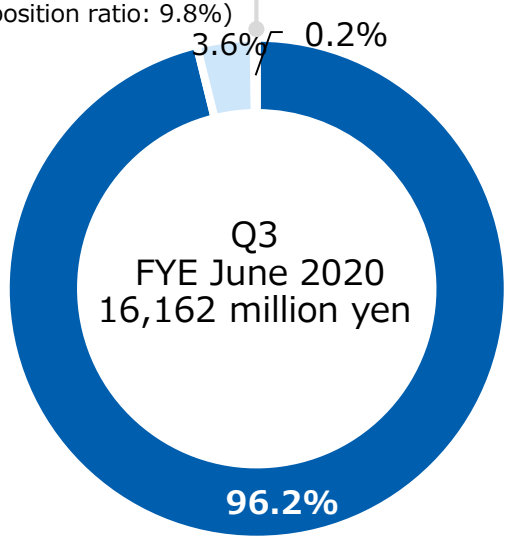
FC salon

Revenue : 582 million yen
(Composition ratio: 3.6%)

Number of salons at end of period : 70 salons
(Composition ratio: 9.8%)

Other

Revenue : 29 million yen
(Composition ratio: 0.2%)



Directly-managed salon

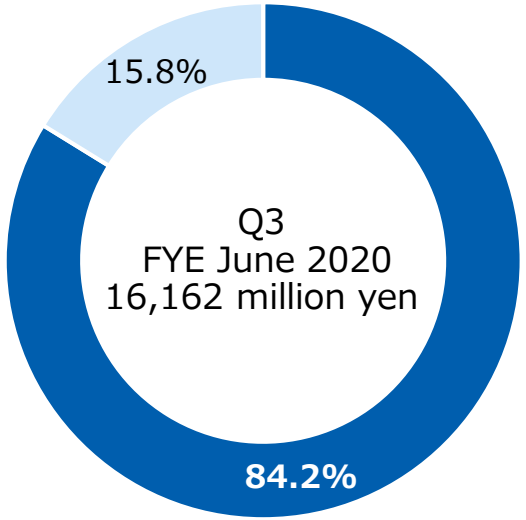
Revenue : 15,550 million yen
(Composition ratio: 96.2%)

Number of salons at end of period : 642 salons
(Composition ratio: 90.2%)

Composition of revenue by region

Overseas

Revenue : 2,559 million yen

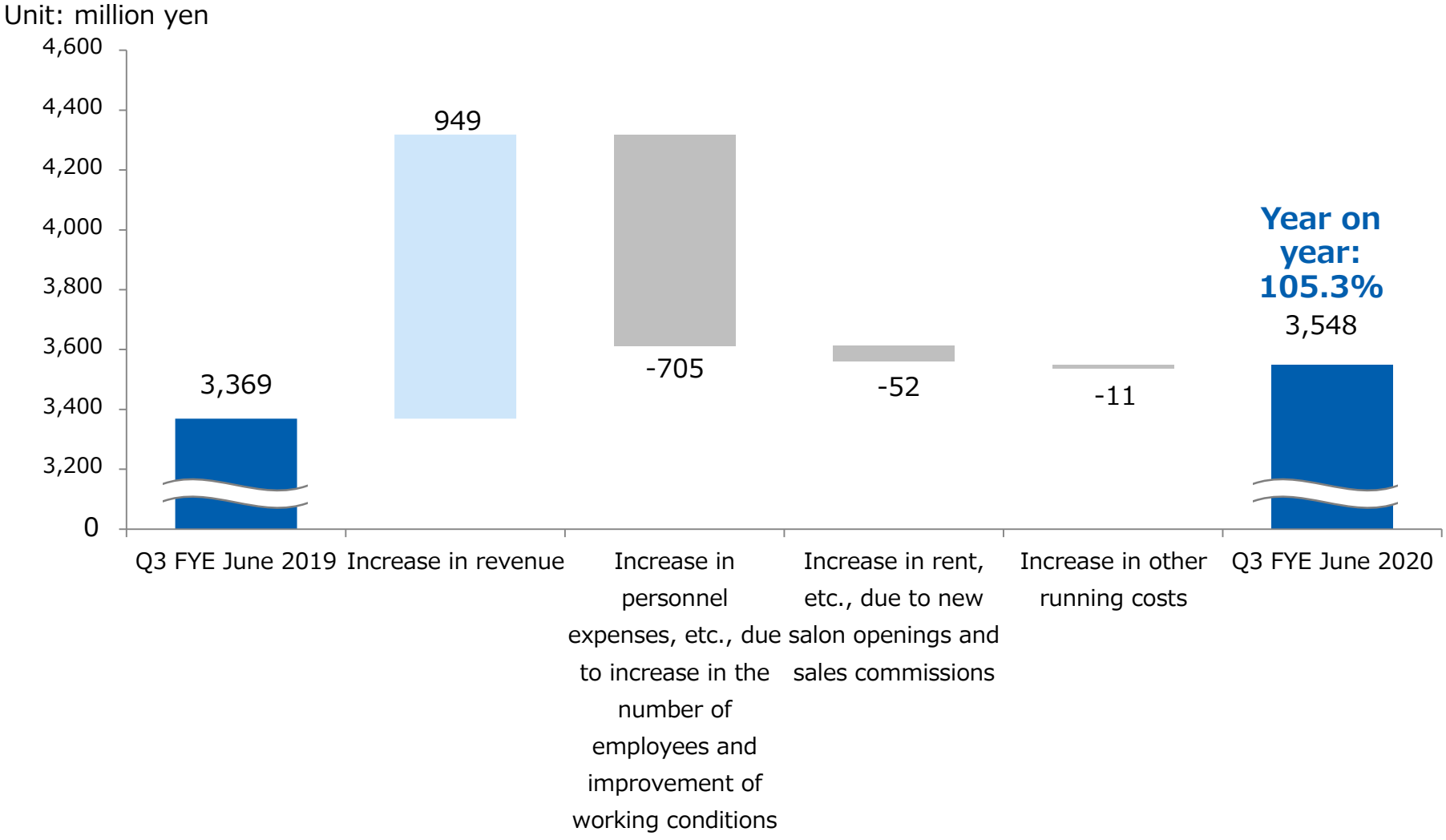


Japan

Revenue : 13,602 million yen

Analysis of Changes in Gross Profit (Gross Margin)

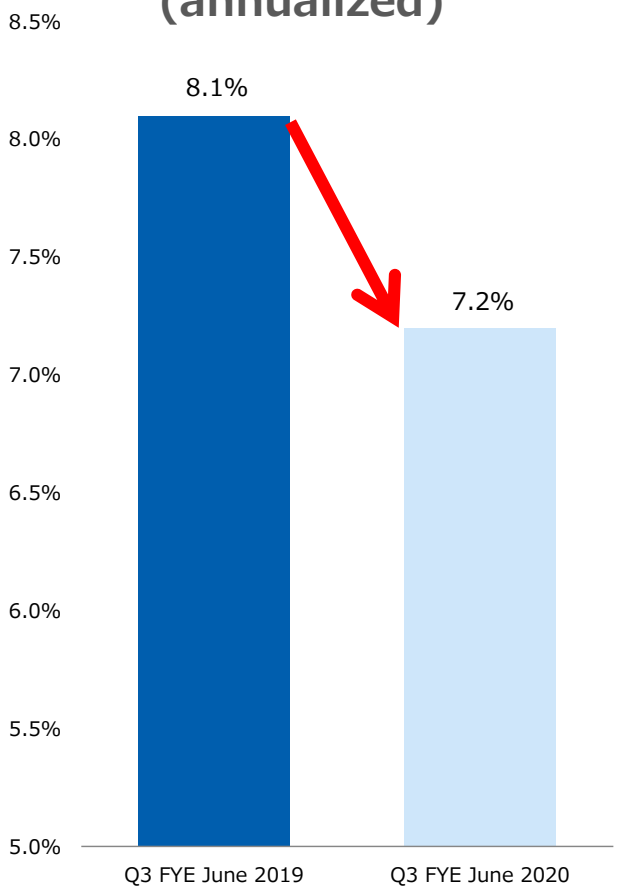
- **Gross margin increased by 179 million yen due to an increase in revenue, against an increase in cost of sales as a result of an increase in personnel expenses, etc., associated with an increase in the number of employees and improvement of working conditions, and an increase in rent, etc., associated with new salons and sales commissions.**



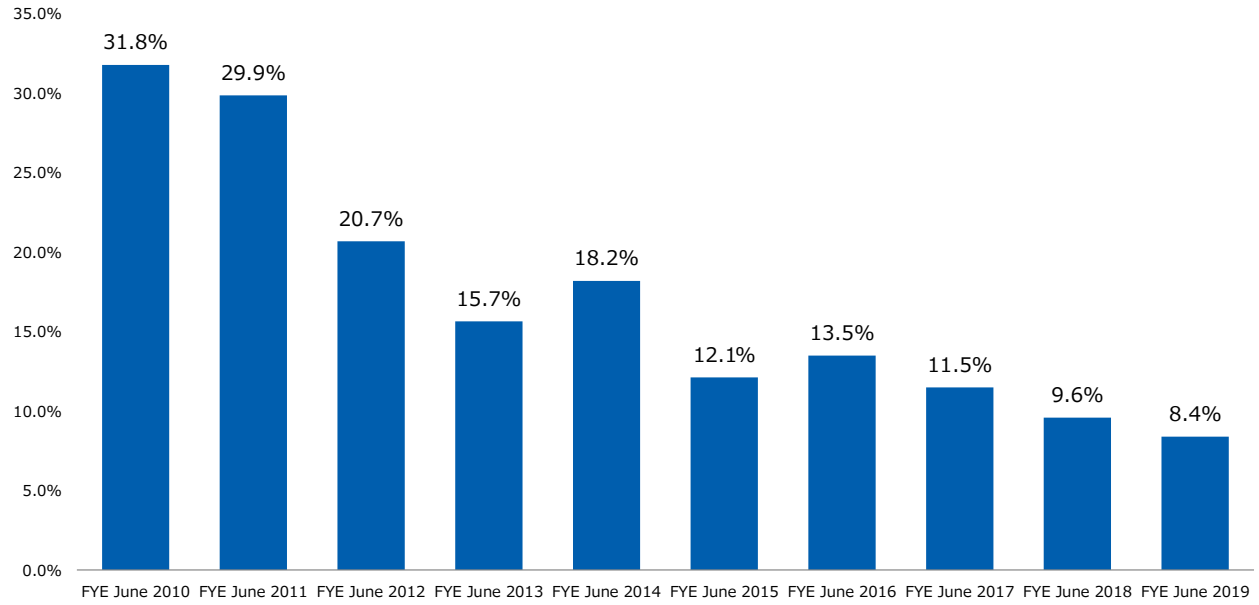
Trends in the Turnover Rate of Regular Employees in Japan

- **The turnover rate of regular employees in Japan in the third quarter declined from 8.1% in the same period of previous fiscal year to 7.2% (down 0.9% points) on an annualized basis.**

Q3 turnover rate for regular employees in Japan (annualized)



[Reference] Trends of turnover rate of regular employees in Japan (annual records)



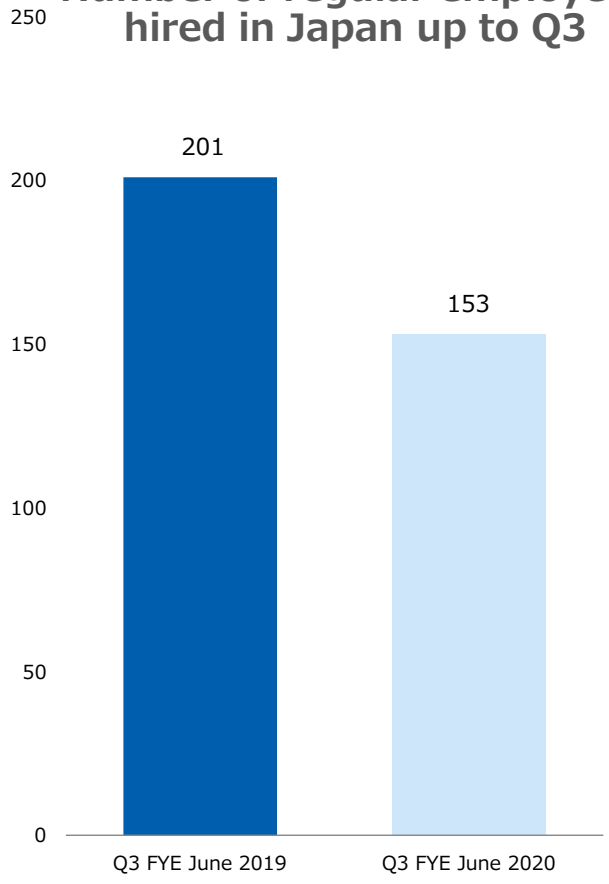
* Excluding the head office.
* Including training facilities (LogiTHcut Professional Stylist School).

Number of Employees in Japan (Stylists)

- Recruitment of regular employees in Japan up to Q3 decreased by 48 YoY due to the return to the normal pace after the effects of listing in the same period of the previous fiscal year.
- The number of employees in Japan saw a net increase of 177 (147 regular employees and 30 part-time employees) in one year.

Unit: person

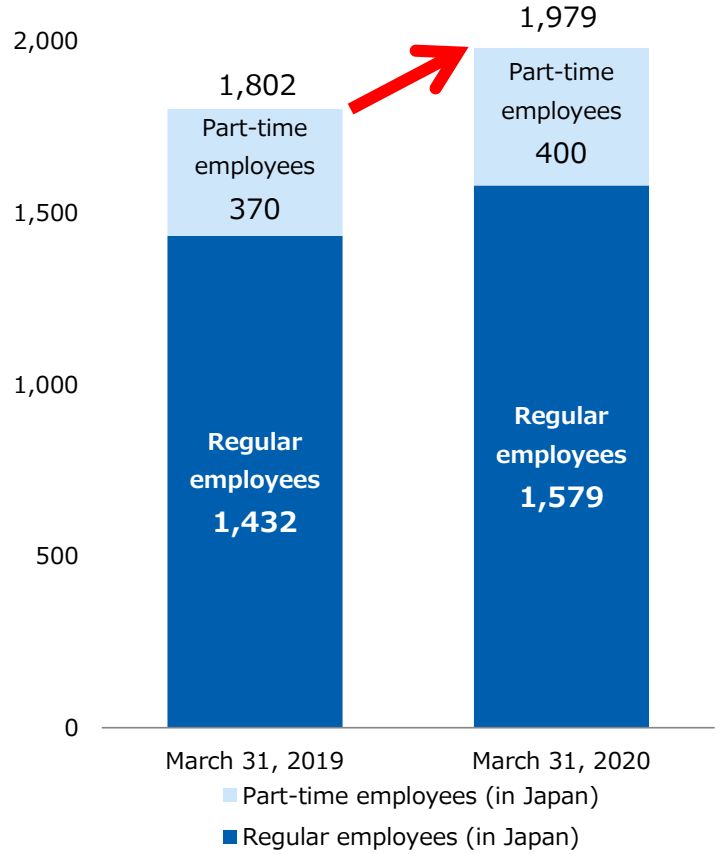
Number of regular employees hired in Japan up to Q3



* Excluding transfers from outsourced salons. Excluding the head office.
Including training facilities (LogiTHcut Professional Stylist School).

Unit: person

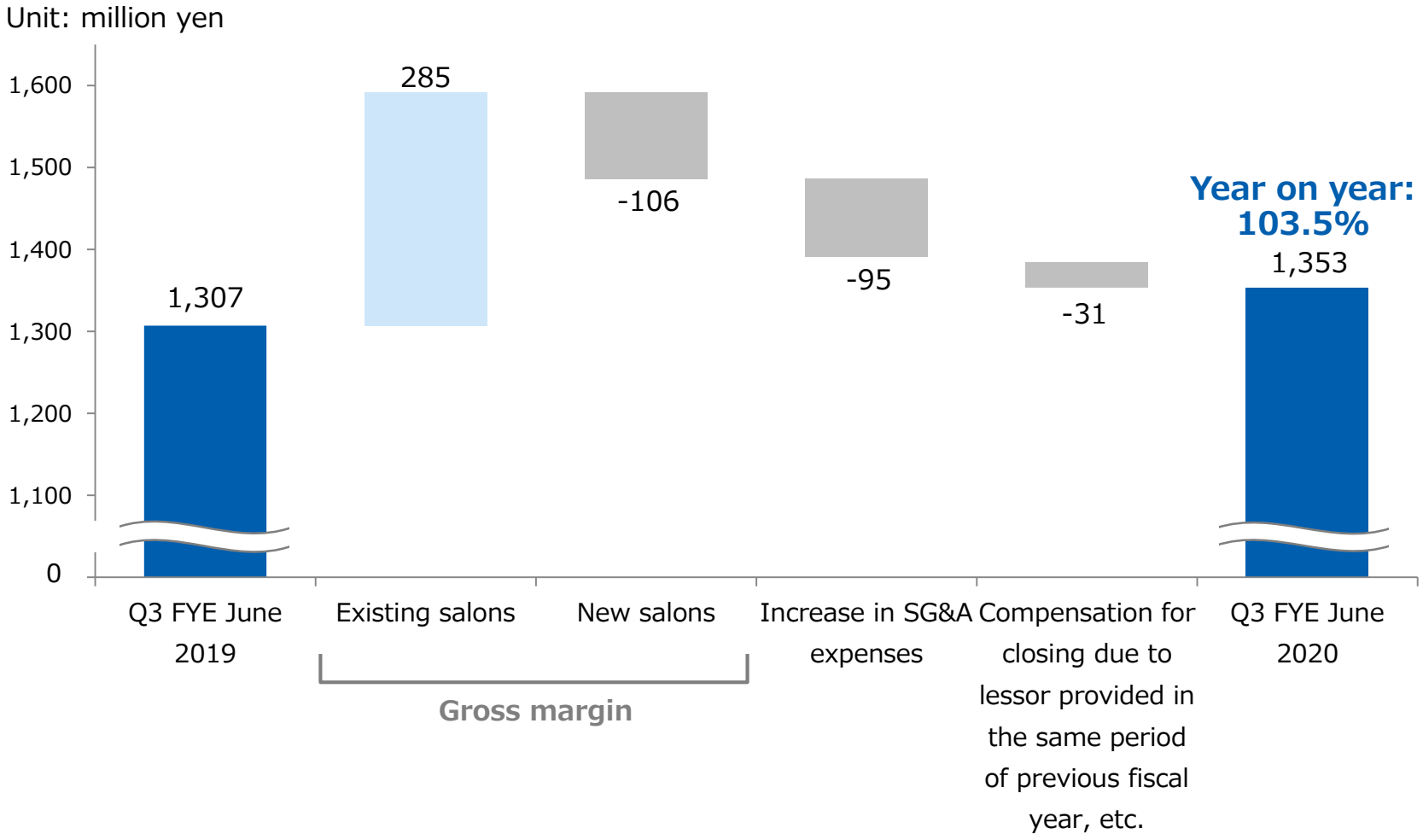
Number of employees in Japan as of March 31, 2020



* Including transfers from outsourced salons. Excluding the head office.
Including training facilities (LogiTHcut Professional Stylist School).

Analysis of Changes in Operating Profit

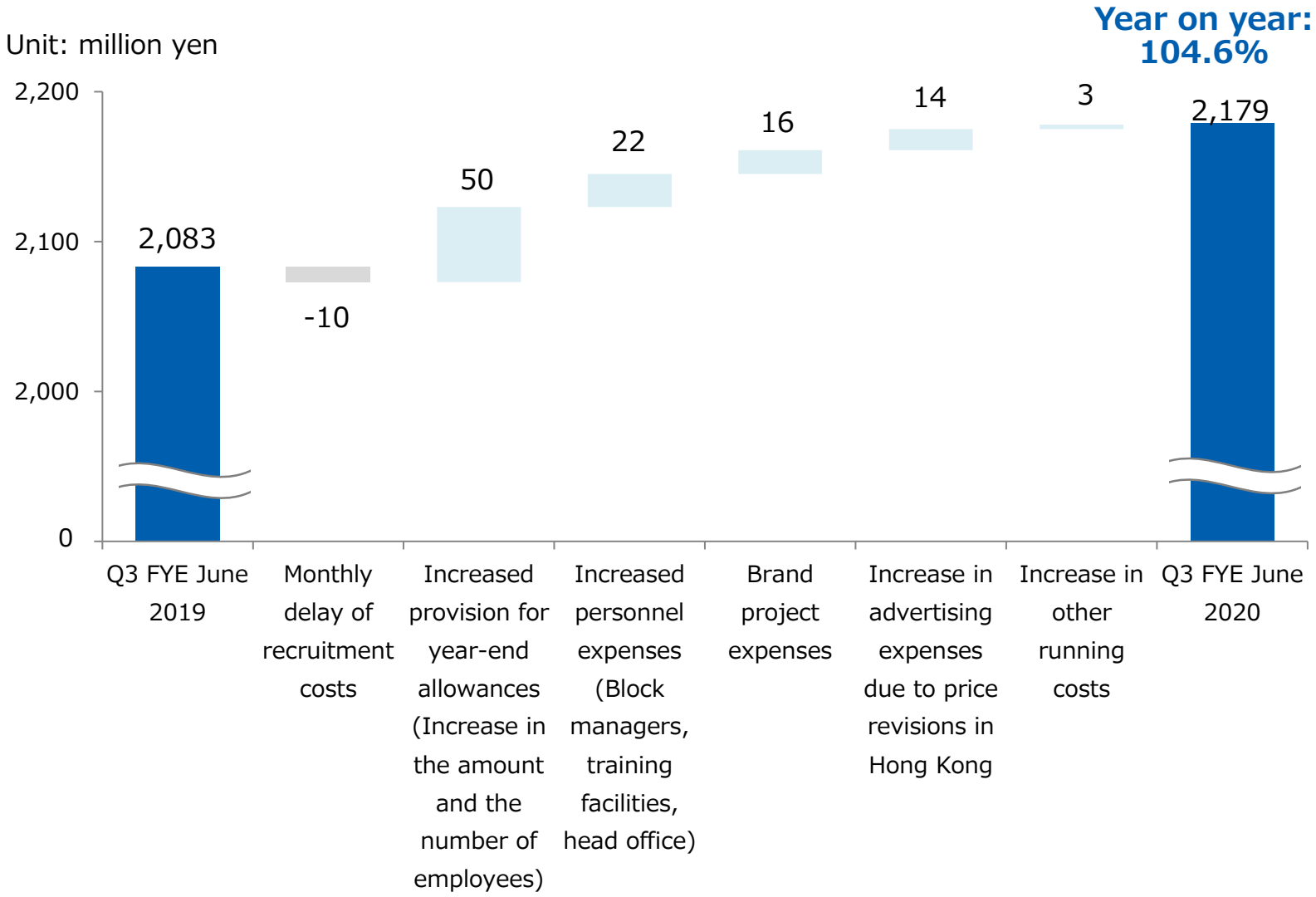
– **Operating profit increased by 45 million yen due to an increase in gross margin despite an increase in SG&A expenses**



* New salons are those less than 13 months since opening

Analysis of Changes in SG&A Expenses

- **SG&A expenses increased due to an increase in the provision for year-end allowances, which was increased as part of improvement in working conditions, brand project expenses, and an increase in advertising expenses associated with price revisions in Hong Kong.**



Overview of Consolidated Group Earnings for Q3 FYE June 2020

Consolidated statement of profit or loss

Unit: million yen	Q3 FYE June 2019		Q3 FYE June 2020			
	Actual	Sales ratio	Actual	Sales ratio	Changes	Year on year
Revenue	**15,212**	**100.0%**	**16,162**	**100.0%**	**949**	**106.2%**
Cost of sales	-11,843		-12,613		-770	106.5%
Gross profit	**3,369**	**22.2%**	**3,548**	**22.0%**	**179**	**105.3%**
Other operating income	41		8		-33	
Selling, general and administrative expenses	-2,083		-2,179		-95	104.6%
Other operating expenses	-19		-23		-3	
Operating profit	**1,307**	**8.6%**	**1,353**	**8.4%**	**45**	**103.5%**
Finance income	11		12		1	113.3%
Finance costs	-68		-114		-45	166.8%
Profit before tax	**1,250**	**8.2%**	**1,252**	**7.7%**	**1**	**100.1%**
Income tax expense	-415		-422		-6	101.6%
Profit	**834**	**5.5%**	**829**	**5.1%**	**-5**	**99.4%**

Overview of Consolidated Group Finance for Q3 FYE June 2020

Consolidated statement of financial position

Unit: million yen	End-Q4 FYE June 2019	End-Q3 FYE June 2020	Changes
Total current assets	**3,982**	**3,494**	**-488**
Cash and cash equivalents	2,489	2,370	-118
Trade and other receivables	1,160	796	-363
Inventories	116	126	9
Other	215	200	-15
Total non-current assets	**20,299**	**25,935**	**5,636**
Property, plant and equipment	2,327	1,934	-392
Right-of-use assets	-	5,936	5,936
Goodwill	15,430	15,430	-
Other financial assets	1,773	1,839	66
Deferred tax assets	519	543	24
Other	248	250	2
Total assets	**24,282**	**29,430**	**5,147**
Total liabilities	**14,484**	**18,960**	**4,475**
Trade and other payables	273	348	75
Interest-bearing liabilities	11,253	10,741	-512
Lease obligations	465	5,936	5,470
Other	2,491	1,933	-558
Total equity	**9,797**	**10,469**	**672**
Total liabilities and equity	**24,282**	**29,430**	**5,147**

"Lease assets" in the previous fiscal year were included in "Right-of-use assets" in the current fiscal year due to the revision of accounting standards for leases (IFRS).

"Right-of-use assets" such as salon rent were included due to the revision of accounting standards for leases (IFRS).

Decrease due to repayments of long-term borrowings

"Lease obligations" such as salon rent were included due to the revision of accounting standards for leases (IFRS).

Decrease due to payments of corporation and consumption taxes payable in previous fiscal year and year-end allowances, etc.

Record of profit (829 million yen)
Dividends of surplus (-237 million yen)

Overview of Consolidated Group Finance for Q3 FYE June 2020

Consolidated statement of cash flows

Unit: million yen

	Q3 FYE June 2019	Q3 FYE June 2020	Changes
Cash flows from operating activities	**1,236**	**3,052**	**1,816**
Profit before tax	1,250	1,252	1
Depreciation and amortization	577	2,392	1,815
Decrease (increase) in trade and other receivables	-69	401	470
Interest paid	-61	-104	-42
Income taxes paid	-523	-821	-297
Other	62	-67	-130
Cash flows from investing activities	**-801**	**-652**	**149**
Purchase of property, plant and equipment	-678	-533	144
Purchase of intangible assets	-24	-21	2
Other	-98	-96	2
Free cash flows	**434**	**2,400**	**1,965**
Cash flows from financing activities	**-480**	**-2,518**	**-2,038**
Net increase (decrease) in short-term borrowings	300	-	-300
Repayments of long-term borrowings	-525	-525	-
Dividends paid	-221	-237	-15
Repayments of lease obligations	-150	-1,930	-1,779
Other	116	173	57
Net increase (decrease) in cash and cash equivalents	**-39**	**-118**	**-78**
Cash and cash equivalents at end of period	**1,978**	**2,370**	**392**

- Depreciation and amortization: Depreciation of right-of-use assets increased due to revision of accounting standards for leases (IFRS) (1,813 million yen)
- Decrease (increase) in trade and other receivables: Difference in the timing of receivables collection due to bank holiday at period-end
- Income taxes paid: Increased payments due to an increase in taxable income of QB Net in Japan
- Other (cash flows from operating activities): Increased consumption tax payable due to an increase in taxable sales
- Purchase of property, plant and equipment: Decrease in the number of renovated salons in Japan
- Dividends paid: Dividends per share increased from 18 yen to 19 yen
- Repayments of lease obligations: Repayments of lease obligations such as salon rent increased due to the revision of accounting standards for leases (IFRS) (-1,797 million yen).

I Results for Q3 FYE June 2020

II Impact of Spread of Novel Coronavirus on Earnings of the Company

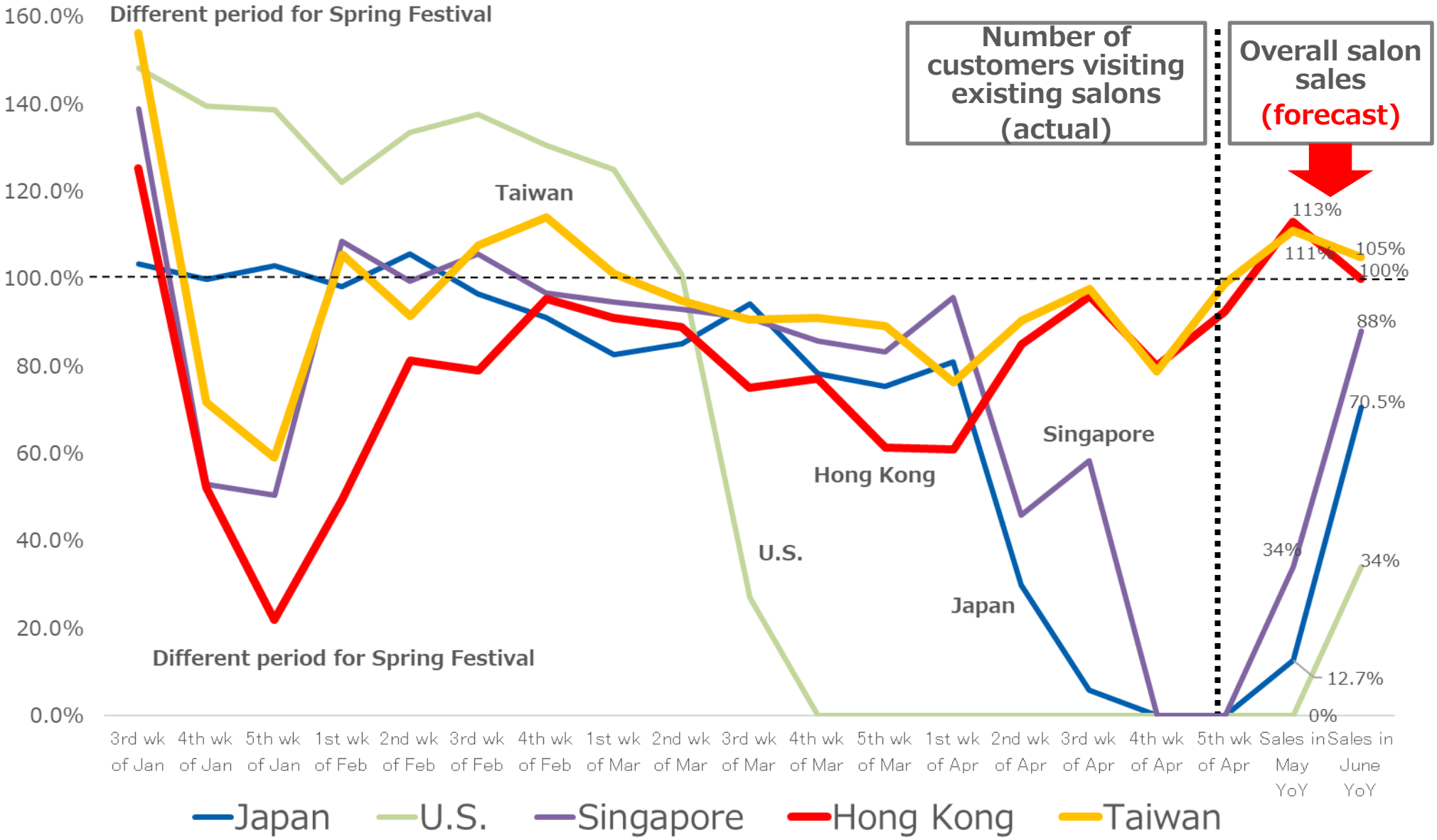
Developments in Japan Following the Spread of the Novel Coronavirus

Developments in the society		The Company (in Japan)	
Feb 27	Government requested temporary closure of public elementary, junior high and high schools.	Feb 29	Multiple developers notified of shorter operating hours.
Feb 28	Governor of Hokkaido announced state of emergency.	Mar 6	Reduced operating hours for 203 salons.
Mar 11	WHO declared pandemic.	Mar 12	Reduced operating hours for 207 salons, and temporarily closed 1 salon.
Mar 25	The Tokyo metropolitan government requested work from home on weekdays and refraining from nonessential and nonurgent outings on weekends.	Mar 28	Reduced operating hours for 89 salons, temporarily closed 47 salons.
Apr 7	The government declared state of emergency for 7 prefectures.	Apr 10	Temporarily closed 442 salons (about 76%) in 7 prefectures.
Apr 16	The government declared state of emergency for all prefectures.	Apr 18	Temporarily closed all salons in Japan.
May 4	The government extended the declaration of state of emergency until May 31.	Apr 23 Apr 24 Apr 28	Concluded commitment line agreements for 3 billion yen. (Apr 23 MUFG Bank, Apr 24 Mizuho Bank, Apr 28 Sumitomo Mitsui Banking Corporation, for 1 billion yen, respectively)
May 14	The government partially lifted the declaration of state of emergency (39 prefectures).	May 13 May 14 May 15 May 16 May 18 May19-May 25	Reopened 7 salons (Iwate, Miyagi, Shizuoka). Reopened 2 salons (Miyagi, Kumamoto). Reopened 9 salons (Aomori, Shizuoka, Mie, Kagawa, Ehime). Reopened 1 salon (Fukushima). Reopened 68 salons (22 prefectures). Scheduled to reopen 154 salons (at present). (Scheduled to resume in order)

Developments in Overseas Following the Spread of the Novel Coronavirus

Developments in the society	The Company (overseas)
Jan 30 WHO declared state of emergency.	The number of customers had been decreasing since around the Spring Festival (Jan 25-Jan 27). In particular, the decline in Hong Kong was significant.
Feb 8 Compulsory quarantine for all persons entering Hong Kong from mainland China.	
Mar 11 WHO declared pandemic.	
Mar 22 Stay home order (Lockdown) in New York State.	Mar 20 Temporarily closed 4 New York salons.
Mar 29 Hong Kong banned the gathering of more than 4 people, shut down entertainment facilities, and restricted restaurants.	Mar 24 Closed the salon at Hong Kong Airport (Business suspension order). Other salons were open as usual.
Apr 1 Taiwan required people to wear masks on public transportation. Apr 7 Singapore issued a circuit breaker. Apr 22 Singapore ordered stay home (Lockdown).	Apr 7 Continued operations at all salons in Singapore with reduced operating hours. Apr 22 Temporarily closed all salons in Singapore.
	May 12 Reopened salons in Singapore (with 4 salons temporarily closed).

Year-on-Year Number of Customers Visiting Salons in Each Country and Year-on-Year Overall Salon Sales from May to June (Forecast)



* The number of customers visiting existing salons are compared weekly by matching the days of week. The period for the Spring Festival was different: Feb. 5-7 for last year while Jan. 25-27 for this year.
* Sales in May-June YoY (forecast) include those of new salons.

FYE June 2020: Revised Full-Year Earnings Forecast

Unit: million yen	Full year FYE June 2020 Initial forecast	Revised forecast	Changes	Percentage changes
Revenue	22,342	18,672	-3,671	-16.4%
Operating profit	2,200	194	-2,006	-91.2%
Profit before tax	2,112	47	-2,065	-97.8%
Profit	1,403	49	-1,354	-96.5%
Basic earnings per share	112.42 yen	3.88 yen		
Dividends per share	19.00 yen	0.00 yen		

Due to temporary closures, etc., because of the novel coronavirus

Earnings forecast revised
No dividend payment

FYE June 2020: Assumptions for Full-Year Earnings Forecast

In Japan/ Overseas	Assumptions
Japan	[April] Revenue was 27.6% of that in the same month of the previous fiscal year mainly due to the temporary closure of all salons from April 18. [May] With the partial lifting of the state of emergency declaration announced on May 14, about 280 temporarily suspended salons are expected to gradually reopen, mainly in areas where the declaration was lifted. [June] All salons are scheduled to reopen on June 1. The number of customers visiting the salon after the reopening was calculated based on the track records before the temporary closures affected by the novel coronavirus, taking into account the reduced operating hours. Regarding personnel expenses for salon staff, salaries are paid at the same level as regular months to prevent a decrease in income due to temporary closures and shortened operating hours. Same payments are also expected in May and June.
Overseas	[Singapore] All salons were temporarily closed from April 22 to May 11 due to the government's quarantine measures. 32 salons reopened from May 12, with the exception of 4 salons. [Hong Kong] Impact of the spread of the novel coronavirus has subsided. Revenue in April was 98.1% of that in the same month of previous fiscal year. Revenue in May and June is expected to be higher than in the previous fiscal year [Taiwan] Impact of the spread of the novel coronavirus has subsided. Revenue in April was 89.4% of that in the same month of previous fiscal year. Revenue in May and June is expected to be higher than in the previous fiscal year [U.S.] All 4 salons closed from March 20 due to lockdown in New York. They are expected to reopen in mid-June.

Three Basic Policies for One Year Going Forward

(i) Place the top priority on the safety of human life and implement thorough measures to prevent infection.

(ii) Create new business opportunities through proactive innovation using digital technology.

(iii) Secure additional funds and strengthen cash flows to prepare for a recurrence of the novel coronavirus outbreak this year.

Initiatives for Resuming Business: Counter-measures for the “Three Cs” (Closed Spaces, Crowded Places, and Close Contact)

– Closed spaces

[Space sterilization] Installation of ultrasonic sprayer to spray molecular hypochlorous acid water

[Ventilation] Installation of circulators and hybrid fans for periodic ventilation

Hybrid fan



Ultrasonic sprayer







– Crowded places

[Waiting seat] Seating with space in between

[Waiting system] Analog version waiting-order registration system, queuing system, reservation system

[Kids' space] Closed

[Haircut chair] Droplet prevention sheet

Analog version waiting-order registration system



Droplet prevention sheet



– Close contact

[During treatment] Wearing mask and/or face guard, discarding disposable combs, no handing over, and disinfecting





Delivery tray

Initiatives for Resuming Business: Concept of the QB HOUSE Queuing System

– Current challenges, solutions, and future vision

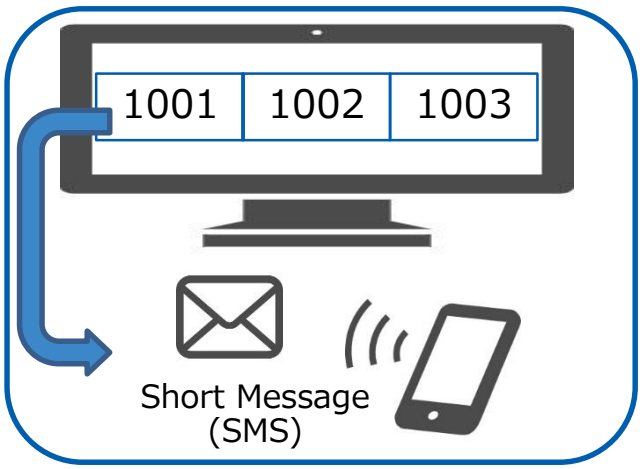
Gap (Challenge)



People have to wait their turn for haircuts at a waiting chair in the salon.

→ Leading to waiting in close contact in a crowded place for long periods of time.

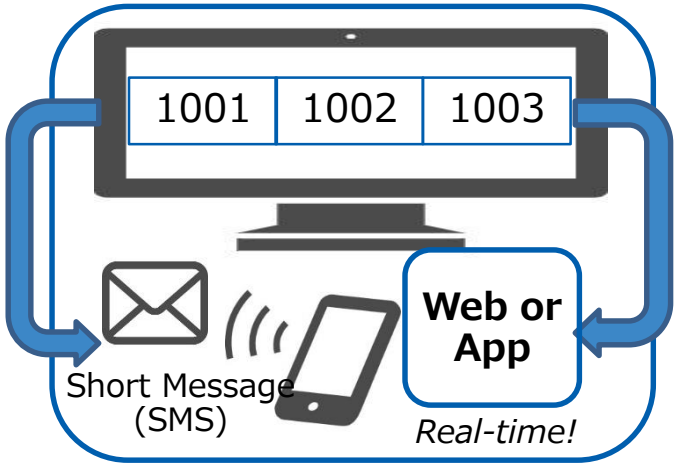
Solution (Solution)



Show the turn for haircuts using salon monitor and short messages (SMS)

→ People can wait for their turn around or outside the salon.

Future (Future vision)



In addition to showing the turn using a salon monitor and short messages (SMS), people can check their turn on the web or an app.

Initiatives for Resuming Business: Concept of the QB HOUSE Queuing System

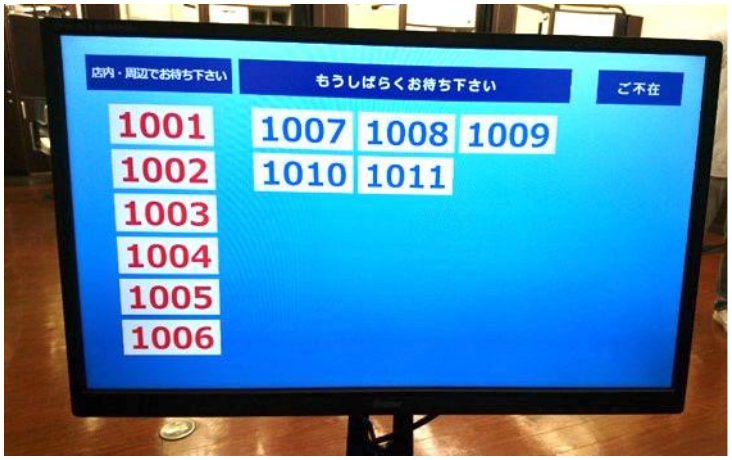
- Test the QB HOUSE queuing system at the Ginza salon
  → Full-scale deployment (scheduled)

Buy a ticket from a ticket vending machine

(To wait outside the salon) Select the ticket number on the tablet and enter mobile phone number

Notification by short message when customer's turn for haircut is getting closer

Waiting-order display monitor



Mobile phone number entry screen



Initiatives for Resuming Business: New App Reservation System at QB PREMIUM and FaSS

– We plan to introduce a new app reservation system at QB PREMIUM and FaSS

Get a reservation number with new smartphone app (advance payment settlement)

(Visit to the salon and treatment) Record details of treatment and photographs in an electronic chart

(After the treatment) Customer enters stylist rating

Reservation & Charging



Reservation Management



Questionnaire (Waiting time)



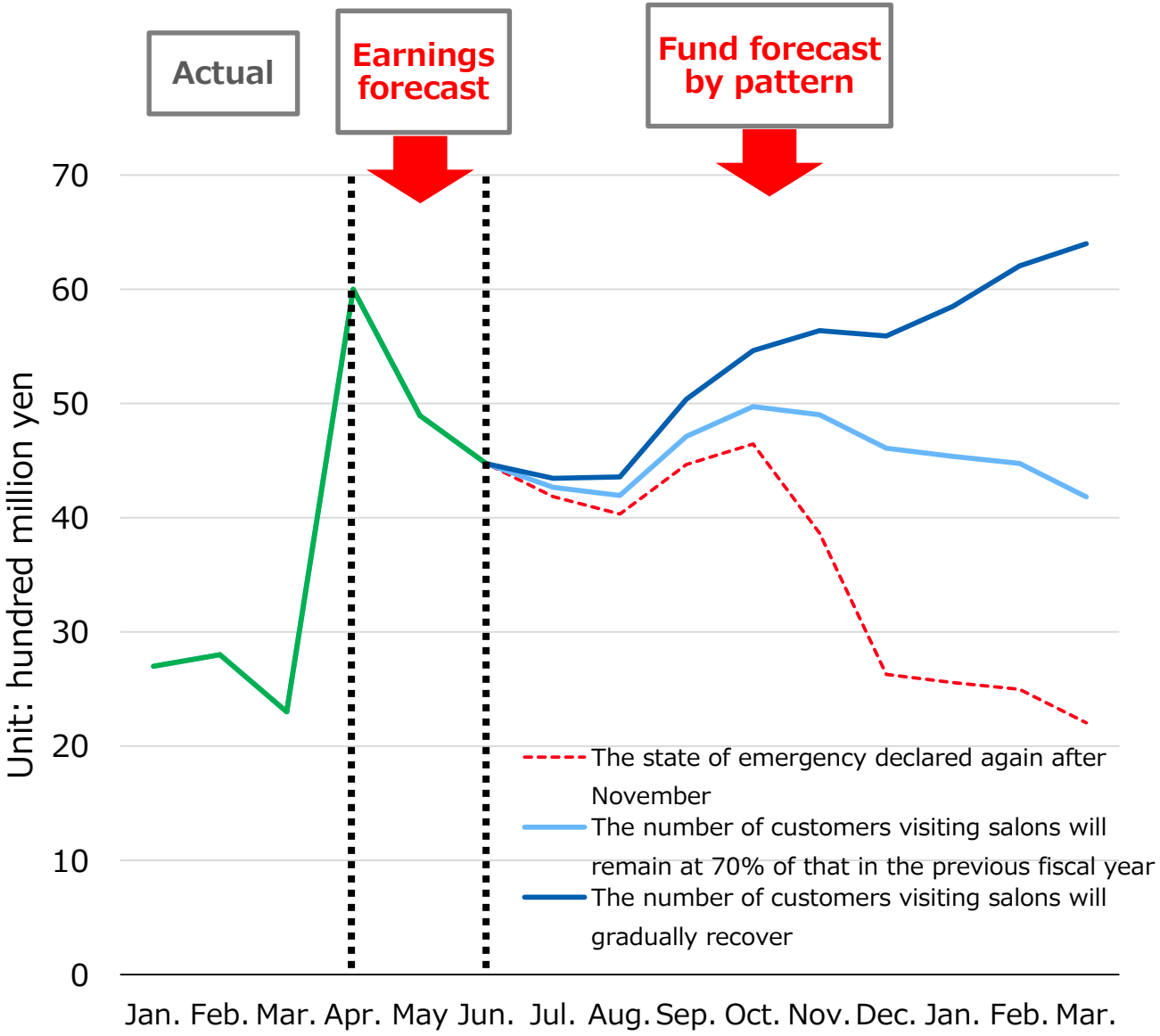
Treatment & Haircut Records



Aggregation and Analysis



Funding Situation (Consolidated)



Financing 4 billion yen through execution of commitment line agreements and overdraft agreements.

With 6 billion yen in cash on hand, we will secure the funds, which are 3.8 times our usual consolidated monthly expenses of about 1.6 billion yen.

To prepare for the risk of a declaration of a state of emergency again due to recurrent spread of infections, we plan to conclude new commitment line agreements worth 4 billion yen by the end of May.

Assumptions of financing

- Assumptions for earnings forecast are used for May and June.
- Overseas sales are assumed to remain at 90% of those in the previous fiscal year.
- The number of customers in Japan follows the three patterns below:
  - (i) Will gradually recover, and in March next year return to 100% of that in the previous fiscal year.
  - (ii) Will remain at 70% of that in the previous fiscal year.
  - (iii) A state of emergency will be declared again in November-December (assuming the same level as in April-May).

FYE June 2020: Summary of the Full-Year Plan

Japan

- **Full-year estimate of 22 new QB HOUSE salons and 1 new QB PREMIUM salon against the plan of 25 new salons for the year (full-year estimate of underachieving by 2 salons against the plan due to the novel coronavirus).**
- We are preparing a new salon with the new design and logo determined by the brand project.
- FaSS: We are considering the plan of 1 new salon for the year from the perspective of employment.
- We launched a recruitment and retention project in the first half of the fiscal year to secure more stylists.
- To prepare for the expansion of training facilities (LogiTHcut Professional Stylist School), the number of trainers and other personnel on the teaching side will be increased.

Overseas

- In Hong Kong, we have already opened 4 new salons against the plan of 4 salons per year. **QB PREMIUM at Hong Kong Airport has been temporarily closed since March 24 (Business suspension order).**
- **In Singapore, all salons were closed from April 22 to May 11 because the government issued a circuit breaker on April 7. Business resumed on May 12 (with 4 salons temporarily closed), while the circuit breaker is expected to be lifted in June.**
- In Taiwan, full-year estimate of 3 new salons against the plan of 3 new salons for the year.
- **In the U.S., full-year estimate of 1 new salon against the plan of 2 new salons for the year. 4 salons in New York have been temporarily closed since March 20. They are expected to reopen around mid-June.**

Dividends

Since the Company anticipates a significant decline in profit in the face of a continued crisis situation due to the high risk of a recurrence of the novel coronavirus outbreak, we would like to secure as much cash on hand as possible to ensure financial stability. Accordingly, we regret to inform you that we will pay no dividend for the fiscal year under review.

We sincerely apologize to our shareholders. In order to adapt to an environment that has changed significantly in the wake of the recent crisis, we will strive to quickly restructure our strategy focusing on long-term sustainability and growth potentials, to realize stable dividends.

President CEO　Yasuo Kitano

This document has been created for the purpose of disclosure of information on the Company and its subsidiaries and does not constitute a solicitation to sell or buy.

The document contains forward looking statements related to the QB Group that are based on our assumptions and judgment made on the basis of information currently available to the Company and may include known and unknown risks, uncertainties and other factors. Due to such risks, uncertainties and other factors, the Company’s actual results or financial position may differ materially from any future performance or financial position expressed or implied by these forward-looking statements.