Consolidated Financial Results for the Three Months Ended November 30, 2021 [Japanese GAAP]

January 7, 2022

Company name: CURVES HOLDINGS Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange Section 1
Stock code: 7085
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Scheduled date of filing quarterly securities report: January 12, 2022
Scheduled date of commencing dividend payments: –
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended November 30, 2021 (September 1, 2021 to November 30, 2021)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
November 30, 2021	6,460	13.0	493	–	536	–	315	–
November 30, 2020	5,719	(22.0)	(10)	–	(103)	–	(143)	–

(Note) Comprehensive income: Three months ended November 30, 2021: 462 million yen [–%]
Three months ended November 30, 2020: (363) million yen [–%]

	Earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
November 30, 2021	3.37	–
November 30, 2020	(1.53)	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
November 30, 2021	34,877	9,156	26.3
August 31, 2021	36,284	9,163	25.3

(Reference) Equity: As of November 30, 2021: 9,156 million yen
As of August 31, 2021: 9,163 million yen

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended August 31, 2021	–	0.00	–	5.00	5.00
Fiscal year ending August 31, 2022	–				
Fiscal year ending August 31, 2022 (Forecast)		3.50	–	3.50	7.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2022 (September 1, 2021 to August 31, 2022)

(% 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
First half	13,050	9.7	1,400	60.6	1,380	106.2	899	158.8	9.58
Full year	26,550	7.6	2,500	54.1	2,450	42.7	1,598	41.5	17.03

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Changes in significant subsidiaries during the three months ended November 30, 2021 (changes in specified subsidiaries resulting in changes in scope of consolidation): No
Newly added: ― (Name:) Excluded: ― (Name:)

(2) Accounting policies adopted specially for the preparation of 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) 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 shares)
1) Total number of issued shares at the end of the period (including treasury shares):
November 30, 2021: 93,857,493 shares
August 31, 2021: 93,857,493 shares

2) Total number of treasury shares at the end of the period:
November 30, 2021: 121 shares
August 31, 2021: 121 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):
Three months ended November 30, 2021: 93,857,372 shares
Three months ended November 30, 2020: 93,857,372 shares

* This summary of the quarterly financial results is outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

(Note on forward-looking statements, etc.)

The financial results forecast and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. Such forward-looking statements are not intended to represent a commitment on the part of the Company to achieve them. Actual results may vary significantly due to various factors. See “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” in the section, “1. Qualitative Information on Quarterly Financial Results for the Period under Review,” on page 4 of the attached material for the assumptions used in the financial results forecast and precautions for using the financial results forecast.

(How to obtain supplementary briefing material on the financial results)

The Company will post supplementary briefing material on the financial results for this quarter on TDnet and the Company’s website (https://www.curvesholdings.co.jp/) on Tuesday, January 11, 2022.

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review 2
(1) Explanation of Operations Results 2
(2) Explanation of Financial Position 3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information 4
2. Quarterly Consolidated Financial Statements and Primary Notes 6
(1) Quarterly Consolidated Balance Sheets 6
(2) Quarterly Consolidated Statements of Income and Comprehensive Income 8
(3) Notes to Quarterly Consolidated Financial Statements 10
(Notes on going concern assumption) 10
(Notes in the case of significant changes in shareholders' equity) 10
(Changes in accounting policies) 10
(Additional information) 10

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

(1) Explanation of Operations Results

The Group (the Company and consolidated subsidiaries, hereinafter referred to as the "Group") has been striving to contribute to the extension of health life expectancy through its core business, Curves, a 30-minute fitness club for women. The Group has endeavored to enhance the satisfaction of its members and expand membership by strengthening customer services as "community-based health infrastructure" that contributes to solving social issues.

It is the Group's understanding that the market environment during and after the COVID-19 pandemic will change dramatically in the following two ways:

(i) Growth of the health market: The pandemic forced people to focus on their lives and health, and the trend toward taking care of their own health will gain momentum over the medium- to long-term, promoting substantial growth of the disease-prevention and health market.

(ii) Growing demand for contactless services: Extending beyond the end of the COVID-19 pandemic, consumer sentiment, society and the economy will remain "scared" by COVID-19, and qualitative changes will occur, such as an increase in demand for non-contact services.

In this management environment, the Group aims to achieve a business recovery and establish business models in the new management environment by the end of December 2022. It is pursuing strategies positioning the fiscal year ending August 31, 2022 (from September 1, 2021, to August 31, 2022) as the fiscal year for ensuring that such goals are achieved.

The net increase in the number of members, the most important indicator of the Group's business recovery, was 54K from 693K as of the end of the previous fiscal year and totaled 748K (including online members).

In soliciting new members during the first three months of the fiscal year under review (from September 1 to November 30, 2021), the Group ran a free trial campaign, word-of-mouth marketing, which is one of its strengths, and a media mix of TV and online ads. In addition to the strong results of marketing that targets younger seniors (50 to 64 years old), which has been the Group's priority strategy since the previous fiscal year, membership of older seniors (65 years old and above) is beginning to recover thanks to the easing of pressure to stay at home in response to the increasing vaccination rates.

As a result, the increase in membership during the first three months of the fiscal year under review exceeded the pre-Covid-19 level and reached a quarterly record high.

The Group's efforts to take comprehensive measures to prevent COVID-19 infections and raise customer satisfaction by improving and maintaining service quality has enabled it to reduce the monthly rate of membership termination to a level below the pre-COVID-19 level.

The Group proceeded with the closure and merging of the clubs that have been severely affected by COVID-19, and approximately 70% of the members of closed and merged clubs have moved to other clubs.

Accordingly, the number of Curves facilities (excluding Men's Curves) and membership in Japan as of November 30, 2021 were as follows.

Number of Curves facilities (excluding Men's Curves) and membership in Japan

	As of August 31, 2021	As of November 30, 2021			* Reference: Numbers before COVID-19 As of February 29, 2020
			Changes from end of previous fiscal year		
Number of facilities	1,958 facilities	1,953 facilities	A decrease of 5 facilities	(0.3)%	2,014 facilities
Of which, number of corporate operated facilities	75 facilities	75 facilities	–	–	65 facilities
Number of franchisee facilities	1,883 facilities	1,878 facilities	A decrease of 5 facilities	(0.3)%	1,949 facilities
Membership	693K	748K	54K	7.8%	832K

(Notes) 1. In the first quarter of the fiscal year under review, the number of new club opening was 6 and the number of clubs closed and merged was 11.
2. Curves membership in Japan include the number of members of online fitness program, Ouchi de Curves (Curves at Home).

There were seven Men's Curves facilities for men.

In overseas business, the Group considers Europe where it acquired the franchiser operations in July 2019 to be its priority market. As of the end of the first three months of the fiscal year under review (September 30, 2021 (a two-month lag in the calculation of consolidated results due to difference in fiscal year end)), the number of Curves facilities in Europe (UK, Italy, Spain, and five other countries) stood at 154, all of which are franchise outlets and resumed operation.

Selling, general and administrative expenses decreased 182 million yen year on year, primarily due to the absence of financial support provided to franchisees subject to business suspension and a decrease in temporary expenses for the development of Ouchi de Curves (Curves at Home), an online fitness program, despite active spending for marketing.

As a result, net sales for the first three months of the fiscal year under review were 6,460 million yen (up 13.0% year on year), leading to operating profit of 493 million yen (an operating loss of 10 million yen in the same period of the previous fiscal year). Ordinary profit was 536 million yen (an ordinary loss of 103 million yen in the same period of the previous fiscal year) due to the generation of foreign exchange gains at Curves International, Inc., which did not have an impact on changes in cash. Profit attributable to owners of parent was 315 million yen (a loss attributable to owners of parent of 143 million yen in the same period of the previous fiscal year) mainly due to the posting of income taxes - current of 170 million yen.

Since the Group operates in a single business segment, the Curves business, the segment information is omitted.

(2) Explanation of Financial Position

(Assets)

Total assets as of November 30, 2021 decreased by 1,407 million yen, compared to the end of the previous fiscal year to 34,877 million yen (down 3.9% from the end of the previous fiscal year).

Current assets decreased by 1,194 million yen to 13,766 million yen (down 8.0% year on year). This was mainly due to a decrease of 1,688 million yen in cash and deposits.

Property, plant and equipment increased by 23 million yen to 529 million yen (up 4.7% year on year).

Intangible assets decreased by 114 million yen to 20,013 million yen (down 0.6% year on year). This was mainly due to decreases of 52 million yen in trademark right and 44 million yen in other intangible assets.

Investments and other assets decreased by 122 million yen to 567 million yen (down 17.7% year on year).

Total non-current assets decreased by 213 million yen to 21,110 million yen (down 1.0% year on year).

(Liabilities)

Current liabilities decreased by 617 million yen to 8,312 million yen (down 6.9% year on year). This was primarily due to a decrease of 587 million yen in income taxes payable.

Non-current liabilities decreased by 782 million yen to 17,408 million yen (down 4.3% year on year). This was mainly due to a decrease of 772 million yen in long-term borrowings.

Total liabilities decreased by 1,400 million yen to 25,720 million yen (down 5.2% year on year).

(Net assets)

Net assets decreased by 6 million yen to 9,156 million yen (down 0.1% year on year). This was mainly due to a decrease of 153 million yen in retained earnings resulting from the recording of profit attributable to owners of parent of 315 million yen, which was partly offset by the payment of dividends of 469 million yen.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The Group aims to achieve a business recovery and establish business models in the new management environment by the end of December 2022. It is pursuing strategies positioning the fiscal year ending August 31, 2022 (from September 1, 2021, to August 31, 2022) as the year for ensuring that such goals are achieved.

In the first three months of the fiscal year under review, the Group achieved a record high quarterly increase in membership while maintaining the rate of membership termination below the pre-COVID-19 level. It did this by raising customer satisfaction through improved service quality pursued even during the pandemic and successfully instituting marketing strategies. Meanwhile, the Group's first priority, an early recovery of membership, was yet to be achieved and the business environment continues to be unclear and unstable. The Group recognizes that in order to early achieve business recovery and establish business models in the new management environment in these circumstances, the following measures continue to be important.

(i) Further improve customer satisfaction and protect and foster the Group's operating base, including the stabilization of franchisee management.

(ii) Recover membership by strengthening marketing and actively using funds.

(iii) Quickly get new business models such as the online fitness program, Ouchi de Curves (Curves at Home) on track.

Consequently, the Group plans to continue to strengthen its marketing and other strategic investments.

The Group's outlook for the full-year consolidated results for the fiscal year ending August 31, 2022 has not changed since the announcement on October 8, 2021. The Group expects net sales of 26,550 million yen (up 7.6% year on year), operating profit of 2,500 million yen (up 54.1% year on year), ordinary profit of 2,450 million yen (up 42.7% year on year), and profit attributable to owners of parent of 1,598 million yen (up 41.5% year on year).

Details of the outlook for the full-year consolidated results are provided below.

Assumptions about the Business Environment

The financial forecasts have been prepared on the assumption of a case in which the impact of the COVID-19 pandemic gradually eases thanks to an increase in the vaccination rate, progress in medical systems for COVID-19 treatment, and other improvements, and gradual resumption of normal daily life while still taking preventive measures.

While another surge in infections caused by new variants, a decrease in hospital availability, and other changes may cause a significant impact on the social and economic activities again, the financial forecasts in this report do not assume such a case.

Domestic Business

- The Group plans to open 25 new facilities and to close and merge 50 franchisee facilities that have been significantly affected by COVID-19 during the fiscal year ending August 31, 2022. The number of facilities is forecast to be 1,933 at the end of the period, a net decrease of 25 facilities.
- The number of members was 832K as of February 29, 2020, decreased to 545K (excluding absent members)

by May 31, 2020, due to the pandemic, and recovered to 693K by August 31, 2021. During the fiscal year ending August 31, 2022, the Group expects a recovery in new membership as a result of appealing promotional campaigns carried out three times in the year and other efforts to achieve an early recovery. It forecasts that the number of members at the end of the fiscal year will be 798K (including online members).

- The number of subscriptions and sales volume of merchandise sales to members are expected to rise in line with the increase in membership.
- To achieve business recovery and establish business models in the new management environments by the end of 2022 (December 31, 2022), the quick recovery of membership is a priority issue. To this end, the Group plans to actively spend on marketing and continue its strategic investment in new business development.

Overseas Business

- The Group's fitness clubs in Europe, a key area of focus (UK, Italy, Spain, etc.), are resuming business activities and the number of members is also recovering. The Group will develop and implement strategies adapted to the changing management environment while experimenting with new business models including the sale of online fitness programs, gradually starting from regions where the social and economic impact has subsided. For this reason, the Group forecasts that the full-year operating result will continue to be a deficit.

Any further revisions to the financial results forecast necessitated by changes in the business environment due to future COVID-19 conditions and other factors will be promptly disclosed.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2021	As of November 30, 2021
Assets		
Current assets		
Cash and deposits	9,760,075	8,071,725
Notes and accounts receivable - trade	3,857,456	3,737,626
Merchandise	1,092,413	1,439,174
Raw materials and supplies	4,249	4,677
Other	423,056	683,050
Allowance for doubtful accounts	(176,103)	(169,408)
Total current assets	14,961,146	13,766,845
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	208,262	213,337
Vehicles, tools, furniture and fixtures, net	297,468	315,913
Total property, plant and equipment	505,730	529,250
Intangible assets		
Goodwill	1,346,271	1,341,493
Trademark right	17,431,010	17,378,920
Software	815,317	801,691
Other	535,473	491,472
Total intangible assets	20,128,072	20,013,578
Investments and other assets		
Investment securities	60,200	31,840
Leasehold and guarantee deposits	291,474	294,628
Deferred tax assets	288,275	194,466
Other	53,529	50,755
Allowance for doubtful accounts	(3,561)	(3,868)
Total investments and other assets	689,917	567,822
Total non-current assets	21,323,720	21,110,652
Total assets	36,284,867	34,877,497

(Thousands of yen)

	As of August 31, 2021	As of November 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,690,879	1,978,066
Current portion of long-term borrowings	3,090,000	3,090,000
Accounts payable - other	868,646	598,370
Accrued expenses	324,313	287,884
Income taxes payable	694,617	106,645
Provision for bonuses	238,117	130,495
Provision for point card certificates	69,880	80,459
Provision for shareholder benefit program	19,810	–
Deposits received	1,731,552	1,788,761
Other	202,056	251,328
Total current liabilities	8,929,876	8,312,013
Non-current liabilities		
Long-term borrowings	14,330,000	13,557,500
Deferred tax liabilities	3,728,604	3,718,491
Asset retirement obligations	132,778	132,828
Total non-current liabilities	18,191,383	17,408,819
Total liabilities	27,121,259	25,720,833
Net assets		
Shareholders' equity		
Share capital	848,666	848,666
Capital surplus	828,666	828,666
Retained earnings	6,988,449	6,835,078
Treasury shares	(76)	(76)
Total shareholders' equity	8,665,706	8,512,336
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	26,294	7,744
Foreign currency translation adjustment	471,607	636,583
Total accumulated other comprehensive income	497,902	644,328
Total net assets	9,163,608	9,156,664
Total liabilities and net assets	36,284,867	34,877,497

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

Three Months Ended November 30, 2021

(Thousands of yen)

	For the three months ended November 30, 2020	For the three months ended November 30, 2021
Net sales	5,719,499	6,460,861
Cost of sales	3,211,711	3,631,189
Gross profit	2,507,788	2,829,671
Selling, general and administrative expenses	2,518,556	2,336,374
Operating profit (loss)	(10,768)	493,297
Non-operating income		
Interest income	32	43
Foreign exchange gains	–	41,607
Subsidy income	14,738	9,944
Other	953	5,084
Total non-operating income	15,724	56,679
Non-operating expenses		
Interest expenses	17,034	13,961
Foreign exchange losses	91,067	–
Other	22	2
Total non-operating expenses	108,124	13,963
Ordinary profit (loss)	(103,168)	536,013
Extraordinary losses		
Loss on retirement of non-current assets	0	643
Total extraordinary losses	0	643
Profit (loss) before income taxes	(103,168)	535,370
Income taxes - current	108,373	170,415
Income taxes - deferred	(68,343)	49,037
Total income taxes	40,030	219,453
Profit (loss)	(143,198)	315,916
Profit (loss) attributable to owners of parent	(143,198)	315,916

Quarterly Consolidated Statement of Comprehensive Income

Three Months Ended November 30, 2021

(Thousands of yen)

	For the three months ended November 30, 2020	For the three months ended November 30, 2021
Profit (loss)	(143,198)	315,916
Other comprehensive income		
Valuation difference on available-for-sale securities	–	(18,550)
Foreign currency translation adjustment	(220,548)	164,976
Total other comprehensive income	(220,548)	146,426
Comprehensive income	(363,747)	462,342
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(363,747)	462,342
Comprehensive income attributable to non-controlling interests	–	–

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 dated March 31, 2020; hereinafter, "Revenue Recognition Accounting Standard"), etc. at the beginning of the first three months of the fiscal year under review. Under this standard, revenue is recognized, when the Company transfers the control of a promised good or service to a customer, in an amount that the Company expects to receive in exchange for such good or service.

The Company applies the Accounting Standard for Revenue Recognition, etc. pursuant to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. This has no impact on the beginning balance of retained earnings. In addition, there is no impact on profit and loss in the first three months of the fiscal year under review.

(Application of accounting standard for fair value measurement, etc.)

The Company has decided to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter the "Fair Value Measurement Accounting Standard"), etc. from the beginning of the first three months under review and to continue to apply the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. according to the provisional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application has no impact on the quarterly consolidated financial statements.

(Additional information)

There are no significant changes to our assumptions regarding the spread of COVID-19 pandemic and the time it will end that we stated in the securities report of the previous fiscal year as additional information.