

Summary of (Consolidated) Financial Statements for the First Three Quarters of Fiscal Year Ending December 31, 2021 (Japanese Standards)

November 12, 2021

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 Quarterly Results Briefing: No

(Rounded down to nearest million yen)

1. Consolidated Results for the First Three Quarters of FY2021 (January 1, 2021 to September 30, 2021)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First three quarters of FY2021	48,148	(17.8)	(2,291)	—	(1,831)	—	(3,230)	—
First three quarters of FY2020	58,587	(38.2)	(2,618)	—	(2,747)	—	(13,737)	—

(Note) Comprehensive income First three quarters of FY2021: (3,225) million yen (–%)
 First three quarters of FY2020: (13,696) million yen (–%)

	Profit per share		Diluted profit per share	
	Yen		Yen	
First three quarters of FY2021	(35.33)		—	
First three quarters of FY2020	(150.28)		—	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
Q3 of FY2021	44,980		23,973		53.2	
FY2020	63,523		27,575		42.2	

(For reference) Shareholders' equity Q3 of FY2021: 23,929 million yen FY2020: 26,813 million yen

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen				
FY2020	—	—	—	0.00	0.00
FY2021	—	—	—	—	—
FY2021 (forecast)	—	—	—	0.00	0.00

(Note) Revision to the dividend forecast publicized most recently: No

3. Results forecast for FY2021 (from January 1, 2021 to December 31, 2021)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Full year	74,000	(10.8)	(1,500)	—	(1,300)	—

(Note) Revision to the forecast publicized most recently: No

Notes

- (1) Important changes in subsidiaries in the first three quarters under review: No
(changes in specified subsidiaries resulting in changes in scope of consolidation)
New: – company Excluded: – company

- (2) Application of accounting specific to the preparation of quarterly consolidated financial statements: Yes

- (3) Changes in accounting policy and changes or restatement of accounting estimates
- | | |
|---|----|
| (i) Changes in accounting policy due to revisions to accounting standards etc.: | No |
| (ii) Changes in accounting policy other than those in (i): | No |
| (iii) Changes in accounting estimates: | No |
| (iv) Restatement of accounting estimates: | No |

- (4) Number of issued shares (common shares)

(i) Number of issued shares at the end of period (including treasury stock):	Q3 of FY2021	93,335,103
	FY2020	93,335,103
(ii) Number of shares of treasury stock at the end of period:	Q3 of FY2021	1,918,369
	FY2020	1,918,349
(iii) Average number of issued shares during period (from the beginning of fiscal year):	First three quarters of FY2021	91,416,741
	First three quarters of FY2020	91,416,793

This summary of quarterly consolidated financial statements falls outside the scope of the quarterly review by certified public accountants or audit corporations.

Explanation on the proper use of results forecasts and other special notes

Forward-looking statements, including revisions to results, in this document are based on information that the Group has obtained and certain assumptions that the Group believes to be reasonable. Actual results may differ significantly due to a variety of factors.

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1. Qualitative Information on Consolidated Results

(1) Explanation of operating results

During the first three quarters of the consolidated fiscal year under review, the outlook for the Japanese economy remained unclear due to the COVID-19 pandemic resulting in the ongoing tight restrictions on economic activities resulting from local and national governments declaring states of emergency to control the flow of people.

In the retail industry, in which Laox Co., LTD. (the “Company”) operates its core businesses, the business environment remained severe due to the interruption of business, the reduction of operating hours and other requirements that have been imposed on retailers as a result of the multiple states of emergency that have been declared, despite a year-on-year upward trend in the industry as a whole. Also, conditions for inbound businesses are not expected to recover any time soon given continued restrictions on travel to Japan from abroad. In this environment, the Laox Group worked continuously to improve profitability through full-scale cost reduction while reinforcing its business foundations through the pursuit of specialization. The Company enhanced its product lines, which include Asian food, Asian cosmetics and Asian sundries for domestic customers unable to travel overseas during the COVID-19 pandemic. It opened the Laox Kyoto Kawaramachi OPA store in July while closing some stores in its Domestic Retail Business to further improve cash flow.

In the Chinese market, which has maintained strong growth even during the pandemic, the Company has steadily implemented steps to continue its future growth strategy by establishing joint ventures in Jinan, Shandong Province, and Hainan Island in China, and preparing to establish a joint venture also in the Macao Special Administrative Region which offers a number of tourist attractions including Chinese World Heritage sites and integrated resort facilities.

The Company sold its shares in OGITSU Co., Ltd., MODE ET JACOMO Co., Ltd., and Kowa Sogyo Co., Ltd., which operate a shoe business in the Life & Fashion Business, to ITL Holdings Co., Ltd., in an effort to improve the Group’s business structure.

Based on the above, consolidated net sales for the first three quarters of the fiscal year under review decreased 17.8% year on year to 48,148 million yen mainly due to a decrease in sales from the Domestic Retail Business, in which stores were forced to suspend operations or faced difficulties in the attraction of customers due to the COVID-19 pandemic, and a decrease in real estate projects in the Asset Business. Nevertheless, the structural reforms that have continued from the previous year contributed to a significant improvement in the Group’s profit structure and helped reduce losses to a substantial degree. Operating loss was 2,291 million yen (a loss of 2,618 million yen in the same period of the previous year), ordinary loss was 1,831 million yen (a loss of 2,747 million yen in the same period of the previous year), and loss attributable to owners of parent was 3,230 million yen (a loss of 13,737 million yen in the same period of the previous year).

The operating results of each business segment are detailed below.

The business segments reported as reporting segments have been revised in the first quarter of the fiscal year under review, and a comparative analysis of the first three quarters of the fiscal year under review is based on the segments after the revision.

(Domestic Retail Business)

In the Domestic Retail Business, the Company developed stores using the findings of initiatives that have continued from the previous year to attract domestic consumers as its main target while improving its profit structure by closing some stores amid the ongoing conditions in which the number of foreign customers was essentially zero due to the pandemic. The Kyoto Kawaramachi OPA store worked to enhance customers’ everyday lives, provide opportunities to discover new things, and create new value by providing limited merchandise such as presale products and items available for the first time in Japan. The Akihabara Main Store worked to attract customers through its unique operations, such as the holding of exclusive events and the improvement of advertisements on social media services linked to events.

As a result, consolidated net sales for the first three quarters of the fiscal year under review decreased 52.8% year on year to 2,627 million yen due to a fall in the number of customers at the stores primarily owing to the recommendations that people refrain from leaving their homes in addition to there being essentially zero foreign customers due to the pandemic. Still, the segment loss decreased significantly to 587 million yen (a loss of 1,138 million yen in the same period of the previous year), mainly reflecting the structural reforms that were implemented in the previous year, the drastic reform of unprofitable stores, and comprehensive measures taken to reduce costs, including negotiations for rent reduction, as well as the improvement of the margin mix of in-store products, on which the segment had been working since the beginning of the year.

(Overseas Business)

The Overseas Business segment continued to prepare to meet demand for outbound tourism and develop new markets in the fast growing markets of China and Southeast Asia to accelerate new business development as part of the segment's structural reforms amid difficulties in visiting Japan due to the pandemic. In the business targeting the Chinese market, demand for small household appliances, cosmetics, and game consoles was high and sales were growing steadily. However, infection control was increased following the discovery of new COVID-19 infections in the third quarter (July - September) of the fiscal year under review and, as a result, the business was affected by delays in international distribution and other consequences, causing net sales to fall year on year.

Meanwhile, the Company steadily accelerated the development of new businesses such as opening of a specialty store in Jinan in Shandong Province, China, and preparation for the operation of a bonded warehouse to improve the function of supporting Japanese companies entering or operating businesses across China in addition to the preparation for a new business in Hainan Island, China.

As a result, segment net sales for the first three quarters of the fiscal year under review decreased 0.0% year on year, to 13,665 million yen. Segment profit decreased 87.0% year on year to 32 million yen due to an increase in promotion and distribution expenses and strategic investment in personnel expenses.

(Life & Fashion Business)

In the gift sales business in the Life & Fashion Business segment, the Company continued to develop product categories, including the enhancement of items for private consumption, such as confections and specialty gourmet products, and prepared for the expansion of the confectionery business from formal gifts to casual gifts, which is a new development.

Net sales from the Midyear Gift sale, an important event in the third quarter of the fiscal year under review, remained strong at stores across Japan. The Midyear Gift event remained strong in e-commerce sales as well.

While sales of Buddhist service and return gifts were sluggish given the impact of voluntary restraint and other impacts of the COVID-19 pandemic, the earnings structure significantly improved thanks to a distribution reform and the thorough reduction of selling, general and administrative expenses, on which the Company had continuously worked since the previous fiscal year.

As a result, segment net sales for the first three quarters of the fiscal year under review stood at 28,642 million yen, down 13.5% year on year, due in part to the impact of the share transfer of the shoe business. Segment profit was 6 million yen (a segment loss of 295 million yen in the same period of the previous year) as a result of thorough cost reduction and earnings structure reform.

(Asset Business)

The Asset Business continued to streamline the commercial facilities under its management and sell idle properties of the Group. However, commercial facilities and restaurants operated by the Company were forced to suspend business or reduce business hours due to national and local governments declaring states of emergency. They were also impacted by unseasonable weather. Consequently, the number of visitors to the stores did not increase. Further, Laox Media Solutions Co., Ltd., which operates events related to World Heritage sites and classic performing arts in Japan, suffered decreased sales due to the postponement and prolonged suspension of events.

As a result, net sales for the first three quarters of the fiscal year under review decreased 48.5% year on year to 3,212 million yen and the segment loss was 709 million yen (a loss of 541 million yen in the same period of the previous year) due primarily to a decrease in the number of real estate projects, as well as a substantial decrease in the number of visitors to the stores owing to the COVID-19 pandemic and unseasonable weather.

(2) Explanation of financial conditions

(Assets)

Total assets at the end of the third quarter of the fiscal year under review amounted to 44,980 million yen (63,523 million yen at the end of the previous fiscal year). The decrease in total assets was attributable primarily to decreases of 1,891 million yen in cash and deposits, 7,016 million yen in notes and accounts receivable - trade, 4,262 million yen in inventories, and 3,606 million yen in investments and other assets.

(Liabilities)

Total liabilities came to 21,006 million yen (35,947 million yen at the end of the previous fiscal year). The decrease in liabilities was a result mainly of decreases of 5,305 million yen in notes and accounts payable - trade, 348 million yen in electronically recorded obligations - operating, 4,289 million yen in short-term borrowings, 1,259 million yen in the current portion of long-term borrowings, and 1,423 million yen in other non-current liabilities.

(Net assets)

Total net assets came to 23,973 million yen (27,575 million yen at the end of the previous fiscal year). A decrease in net assets was largely a result of posting a loss attributable to owners of parent of 3,230 million yen.

(3) Explanation of future predictive information such as consolidated results forecasts, etc.

No change has been made to the consolidated results forecasts announced on August 13, 2021. The results forecasts have been prepared based on information currently available to the Company and may differ from the actual results depending on various factors that will arise in the future.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	FY2020 (As of December 31, 2020)	Third quarter of FY2021 (As of September 30, 2021)
Assets		
Current assets		
Cash and deposits	12,857	10,965
Notes and accounts receivable - trade	16,579	9,563
Inventories	8,388	4,125
Other	6,865	6,427
Allowance for doubtful accounts	(312)	(178)
Total current assets	44,377	30,903
Non-current assets		
Property, plant and equipment	6,459	5,600
Intangible assets	2,365	1,785
Investments and other assets		
Other	11,030	7,917
Allowance for doubtful accounts	(772)	(1,265)
Total investments and other assets	10,257	6,651
Total non-current assets	19,082	14,038
Deferred assets	62	38
Total assets	63,523	44,980

(Million yen)

	FY2020 (As of December 31, 2020)	Third quarter of FY2021 (As of September 30, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,618	4,313
Electronically recorded obligations - operating	2,218	1,869
Short-term borrowings	5,837	1,547
Current portion of long-term borrowings	1,271	12
Income taxes payable	489	759
Provisions	505	551
Asset retirement obligations	50	388
Other	8,618	7,149
Total current liabilities	28,610	16,590
Non-current liabilities		
Long-term borrowings	658	117
Provisions	98	100
Retirement benefit liability	1,470	1,219
Asset retirement obligations	1,514	807
Other	3,594	2,171
Total non-current liabilities	7,337	4,416
Total liabilities	35,947	21,006
Net assets		
Shareholders' equity		
Share capital	23,000	23,000
Capital surplus	19,303	19,599
Retained earnings	(13,547)	(16,777)
Treasury shares	(2,419)	(2,419)
Total shareholders' equity	26,335	23,401
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(5)	(4)
Foreign currency translation adjustment	471	543
Remeasurements of defined benefit plans	11	(12)
Total accumulated other comprehensive income	477	527
Share acquisition rights	16	5
Non-controlling interests	744	38
Total net assets	27,575	23,973
Total liabilities and net assets	63,523	44,980

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income
Quarterly consolidated statement of income
First three quarters

	(Million yen)	
	First three quarters of FY2020 (From January 1 to September 30, 2020)	First three quarters of FY2021 (From January 1 to September 30, 2021)
Net sales	58,587	48,148
Cost of sales	44,215	36,969
Gross profit	14,372	11,178
Selling, general and administrative expenses	16,990	13,470
Operating loss	(2,618)	(2,291)
Non-operating income		
Interest income	164	134
Foreign exchange gains	–	413
Other	69	80
Total non-operating income	233	629
Non-operating expenses		
Interest expenses	100	75
Rent expenses on land and buildings	34	38
Other	228	55
Total non-operating expenses	363	168
Ordinary loss	(2,747)	(1,831)
Extraordinary income		
Gain on sale of non-current assets	1	195
Other	276	119
Total extraordinary income	277	314
Extraordinary losses		
Impairment losses	757	–
Loss on structural reforms	8,574	1,265
Loss on store closings	1,110	180
Provision for loss on contracts	–	231
Other	1,088	245
Total extraordinary losses	11,531	1,924
Loss before income taxes	(14,001)	(3,440)
Income taxes	(252)	(165)
Loss	(13,748)	(3,274)
Loss attributable to non-controlling interests	(11)	(44)
Loss attributable to owners of parent	(13,737)	(3,230)

Quarterly consolidated statement of comprehensive income
First three quarters

(Million yen)

	First three quarters of FY2020 (From January 1 to September 30, 2020)	First three quarters of FY2021 (From January 1 to September 30, 2021)
Loss	(13,748)	(3,274)
Other comprehensive income		
Valuation difference on available-for-sale securities	41	3
Foreign currency translation adjustment	(3)	62
Remeasurements of defined benefit plans, net of tax	8	(26)
Share of other comprehensive income of entities accounted for using equity method	6	9
Total other comprehensive income	52	49
Comprehensive income	(13,696)	(3,225)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(13,685)	(3,180)
Comprehensive income attributable to non-controlling interests	(10)	(44)

(3) Notes to the quarterly consolidated financial statements

(Notes on going concern assumption)

Not applicable

(Note to significant changes in shareholders' equity)

Not applicable

(Application of accounting specific to the preparation of quarterly consolidated financial statements)

Tax expenses for the Company and some of its consolidated subsidiaries are calculated by rationally estimating an effective tax rate for profit before income taxes for the fiscal year including the first three quarters under review after the application of tax effect accounting and multiplying profit/loss before income taxes for the first three quarters under review by the estimated effective tax rate.

(Segment information, etc.)

[Segment information]

I. First three quarters of FY2020 (from January 1 to September 30, 2020)

1. Information concerning monetary amount of sales and profit or loss of each reporting segment

(Million yen)

	Reporting segment				Total	Amount of adjustment Note: 1	Amount reported in quarterly consolidated statement of income Note: 2
	Domestic Retail Business	Overseas Business	Life & Fashion Business	Asset Business			
Sales							
Sales to external clients	5,567	13,669	33,106	6,244	58,587	–	58,587
Internal sales or transfers between segments	45	–	153	28	227	(227)	–
Total	5,613	13,669	33,260	6,272	58,815	(227)	58,587
Segment profit (loss)	(1,138)	248	(295)	(541)	(1,727)	(891)	(2,618)

(Notes) 1. Segment loss adjustment of 891 million yen includes elimination of inter-segment transactions of 115 million yen and whole company expenses not divided into each reporting segment of 1,006 million yen. Whole company expenses mainly consist of personnel expenses and general management expenses not belonging to reporting segments.

2. Segment profit (loss) is adjusted to operating loss in the quarterly consolidated statement of income.

2. Information concerning impairment loss or goodwill, etc. of non-current assets in each reporting segment

(Important impairment loss relating to non-current assets)

With respect to non-current assets the investment amounts of which are not expected to be fully recovered, their book values have been reduced to recoverable amounts, and the reductions have been posted as impairment losses in each segment of Domestic Retail Business, Overseas Business, Life & Fashion Business and Asset Business.

In the first three quarters of the fiscal year under review, the posted amounts of such impairment losses came to 1,736 million yen for Domestic Retail Business, 94 million yen for Overseas Business, 296 million yen for Life & Fashion Business, 411 million yen for Asset Business, and 39 million yen for the whole company, respectively. Impairment losses posted by Domestic Retail Business and Life & Fashion Business do not include 1,822 million yen, which is posted as loss on structural reforms in the quarterly consolidated statement of income.

II. First three quarters of FY2021 (from January 1 to September 30, 2021)

1. Information concerning monetary amount of sales and profit or loss of each reporting segment

(Million yen)

	Reporting segment				Total	Amount of adjustment Note: 1	Amount reported in quarterly consolidated statement of income Note: 2
	Domestic Retail Business	Overseas Business	Life & Fashion Business	Asset Business			
Sales							
Sales to external clients	2,627	13,665	28,642	3,212	48,148	–	48,148
Internal sales or transfers between segments	26	7	79	2	116	(116)	–
Total	2,654	13,673	28,722	3,215	48,265	(116)	48,148
Segment profit (loss)	(587)	32	6	(709)	(1,258)	(1,033)	(2,291)

(Notes) 1. Segment loss adjustment of 1,033 million yen includes elimination of inter-segment transactions of 83 million yen and whole company expenses not divided into each reporting segment of 1,116 million yen. Whole company expenses mainly consist of personnel expenses and general management expenses not belonging to reporting segments.

2. Segment profit (loss) is adjusted to operating loss in the quarterly consolidated statement of income.

2. Information about assets in each reporting segment

In the second quarter of the fiscal year, the Company sold its shares in MODE ET JACOMO Co., Ltd., Kowa Sogyo Co., Ltd. and OGITSU Co., Ltd., which are consolidated subsidiaries, and excluded these companies and four other subsidiaries from the scope of consolidation.

As a result, at the end of the second quarter of the fiscal year under review, the amount of assets for the reporting segment decreased 4,944 million yen in Life & Fashion Business from the level at the end of the previous fiscal year.

3. Matters concerning changes in reporting segments, etc.

Starting from the first quarter of the fiscal year under review, in response to changes in the business environment caused mainly by the COVID-19 pandemic, the Group sought to bolster the profitability of its core retail businesses and strengthen its business foundations through the pursuit of specialization. In doing so, it worked to adopt more appropriate disclosure of management information while also revising the Group-wide classification for financial performance management. As a result, it has decided to redefine its reporting segments as Domestic Retail Business, Overseas Business, Life & Fashion Business and Asset Business.

Segment information for the first three quarters of the previous consolidated fiscal year presented herein has been prepared according to the revised classification.

3. Other

Significant events, etc. concerning the going concern assumption

Laox Group posted an operating loss in three consecutive fiscal years, resulting in a situation that may cause significant doubt about the going concern assumption. However, the Group holds cash and deposits of 10,965 million yen as of the end of the third quarter of the fiscal year under review, thereby securing necessary working capital. In addition, the Group is taking the following measures to resolve this significant event.

- The Domestic Retail Business is soliciting voluntary retirement and promptly putting store employees on leave and reducing costs by closing unprofitable stores and reducing various fixed expenses amid the continuing pandemic induced restrictions on people entering Japan, which has significantly decreased the number of overseas travelers to Japan which are major customers of the business. The segment will develop stores with new concepts offering product lines that focus on food, increase the merchandise provided to meet customer demand in the areas of existing stores, renew sales floors, and take other measures to expand the target customers with the goal of increasing sales.
- The rapidly growing Overseas Business will improve its product supply system and supply chains to meet demand for products made in Japan in the Chinese market to reach customers who have visited Japan in the past and facilitate their repeat purchasing on the Company's shopping website. In addition to the large e-commerce platforms, T-mall Global, Suning.com, and Kaola.com, in China, the segment will operate a Laox flagship store on Lazada, the largest e-commerce platform in Southeast Asia, to increase its revenue base in China and Southeast Asia. The Overseas Business will also improve its efforts to acquire new customers through live commerce and other means.
- Amid the decline in the gift sales business in the Life & Fashion Business segment due to the postponement and cancellation of ceremonies such as weddings and nationwide vendors which constituting major sales channels suspending operations due to the pandemic, the segment is implementing structural reforms including a reform of distribution, the liquidation of unprofitable businesses and thorough cost reduction including the reduction of SG&A expenses. Beyond just demand for mid year and year end gifts, the segment will increase the development of original merchandise focusing on confections to increase its market share and meet demand for private and casual gifts.
- The real estate business in the Asset Business segment will continue to work to increase profitability by streamlining the existing facilities it operates and selling idle properties. Further, the segment will increase the real estate agency and trading transactions that started in the latter half of the fiscal year 2019 to steadily accumulate profit from brokerage and trading.
- With the goal of increasing synergy across the Group, it will adjust the number of employees for more efficient organizational management, reduce personnel expenses and SG&A expenses according to the revised number of employees, and improve total costs to build a system that ensures profitability. The Group will also establish a reform project team across the Group's functions to resolve its business issues.

Based on the above, the Group believes that there is no material uncertainty regarding the going concern assumption.