

Consolidated Financial Results for the Three Months Ended November 30, 2020 [Japanese GAAP]



January 8, 2021

Company name: CURVES HOLDINGS Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange Section 1

Stock code: 7085

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

Representative: Takeshi Masumoto, Representative Director and President

Contact: Shinya Matsuda, Director and General Manager, Administration Division

Tel: +81-3-5418-9922

Scheduled date of filing quarterly securities report: January 13, 2021

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, 2020 (September 1, 2020 to November 30, 2020)

(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, 2020 | 5,719 | (22.0) | (10) | - | (103) | - | (143) | - |
| November 30, 2019 | 7,335 | - | 1,603 | - | 1,592 | - | 1,099 | - |

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

Three months ended November 30, 2019: 1,111 million yen [- %]

| | Earnings per share | Diluted earnings per share |
|--------------------|--------------------|----------------------------|
| Three months ended | Yen | Yen |
| November 30, 2020 | (1.53) | - |
| November 30, 2019 | 13.36 | - |

(Note) Changes from the previous corresponding period for three months ended November 30, 2019 are not available due to the quarterly consolidated statements having started to be published since the 1st quarter of FY 8/2020.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|-------------------|--------------|-------------|--------------|
| As of | Million yen | Million yen | % |
| November 30, 2020 | 35,716 | 7,309 | 20.5 |
| August 31, 2020 | 36,837 | 8,142 | 22.1 |

(Reference) Equity: As of November 30, 2020: 7,309 million yen

As of August 31, 2020: 8,142 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, 2020 | - | 0.00 | - | 5.00 | 5.00 |
| Fiscal year ending August 31, 2021 | - | | | | |
| Fiscal year ending August 31, 2021 (Forecast) | | 0.00 | - | 3.00 | 3.00 |

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2021 (September 1, 2020 to August 31, 2021)

(% 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 | 11,100 | (23.1) | 0 | (100.0) | (27) | - | (34) | - | (0.25) |
| Full year | 23,500 | (6.3) | 1,000 | (14.3) | 940 | (19.3) | 610 | (20.2) | 6.51 |

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

* Notes:

(1) Changes in significant subsidiaries during the three months ended November 30, 2020 (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: No

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, 2020: 93,857,493 shares

August 31, 2020: 93,857,493 shares

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

November 30, 2020: 121 shares

August 31, 2020: 121 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

Three months ended November 30, 2020: 93,857,372 shares

Three months ended November 30, 2019: 82,298,284 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. Please refer to “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information,” on page 4 of the attached material for the assumptions used in the financial results forecast, as well as 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 Friday, January 15, 2021.

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 | 5 |
| (1) Quarterly Consolidated Balance Sheets | 5 |
| (2) Quarterly Consolidated Statements of Income and Comprehensive Income | 7 |
| (3) Notes to Quarterly Consolidated Financial Statements | 9 |
| (Notes on going concern assumption) | 9 |
| (Notes in the case of significant changes in shareholders' equity) | 9 |
| (Additional information) | 9 |

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 creation of a society with a healthy and long 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 a “community-oriented health infrastructure” and “social issue-solving business” that contribute to solving the issues of a super-aging society.

The Group's understanding is that, as the COVID-19 pandemic continues, the market environment will change dramatically in the following two ways:

(i) Growth of health market: "secondary health impacts" are being recognized as a social issue and the tendency to take care of one's own health will gain momentum in the medium and long term. This represents a golden opportunity for the health market to grow.

(ii) Growing demand for contactless services: Even when the COVID-19 pandemic comes to an end, consumer sentiment, society and the economy will remain "scared" by COVID-19 and demand for non-contact services will increase further.

Under such operating conditions, the Group aims to achieve business recovery and establish business models for the new management environments by the end of 2022, in other words, in around two years' time, and has positioned the fiscal year ending August 31, 2021 (from September 1, 2020 to August 31, 2021) as the fiscal year for getting firmly on track towards this goal.

During the three months of the fiscal year under review (from September 1, 2020 to November 30, 2020), the Group successfully ran a membership drive to acquire new members as well as the “Return to Workout Campaign” for absentee members. In October in particular, we used media mix marketing with strategic investment in TV advertising. Meanwhile, as an initiative in response to COVID-19, the Group launched an online fitness program “Ouchi de Curves” (Curves at home) in September and has been leveraging this program to bring back members who were absent under the Special Absentee Program. As a result, total active memberships excluding absentee members have recovered to 689K members with a net growth of 88K members, reflecting not only a recovery in new members acquisition but also a strong return of absentee members.

Meanwhile, since the previous fiscal year, the Group has continuously provided financial aids to franchisees, which support the Group's business foundations to strengthen their revenue structure and has also proceeded as planned with the closure and merging of those clubs severely affected by COVID-19. In the process, more than 65% of the active members (excluding absentee members) of the closed clubs have transferred to neighboring clubs to continue exercise.

Accordingly, the number of Curves facilities (excluding Men's Curves) and membership in Japan as of November 30, 2020 were as follows.

1. Number of Curves facilities in Japan

(Percentage figures represent changes from the end of the previous fiscal year)

| | As of August 31, 2020 | As of November 30, 2020 | |
|---|-----------------------|-------------------------|--------|
| Number of facilities | 2,020 facilities | 2,000 facilities | (1.0)% |
| Of which, number of corporate operated facilities | 70 facilities | 75 facilities | 7.1% |
| Number of franchisee facilities | 1,950 facilities | 1,925 facilities | (1.3)% |

2. Curves membership in Japan

| | As of August 31, 2020 | As of November 30, 2020 | |
|---|-----------------------|-------------------------|---------|
| Active memberships excluding absentee members | 600K | 689K | 14.8% |
| Absentee members | 99K | 43K | (56.8)% |
| Total membership | 700K | 732K | 4.6% |

(Note) All absentee members under Special Absentee Program have had their monthly dues for the applicable period refunded in full.

With regard to “Men's Curves” for men, the Group opened the sixth location in October.

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, 2020 (two-month lag due to difference in fiscal year end)), the number of Curves facilities in Europe (UK, Italy, Spain and five other countries) stood at 169.

As a result, net sales for the three months ended November 30, 2020 were 5,719 million yen (down 22.0% year on year), leading to an operating loss of 10 million yen (compared with operating profit of 1,603 million yen in the same period of the previous fiscal year). The Group posted an ordinary loss of 103 million yen (compared with ordinary profit of 1,592 million yen in the same period of the previous fiscal year) due to foreign exchange losses. Loss attributable to owners of parent was 143 million yen (compared with profit attributable to owners of parent of 1,099 million yen in the same period of the previous fiscal year) mainly due to the recording of income taxes - current of 108 million yen.

The Ad Fund (collected from franchisees) that was included in net sales up to the previous fiscal year is not included in net sales as from the current quarter. When compared with net sales for the previous corresponding period excluding the ad fund sales, net sales for the current quarter are 12.8% down year-on-year. This change was necessitated due to a revision in the franchise agreement to the effect any excess of advertising expenses Curves Japan has expended over the total ad funds actually collected from franchisees would not be additionally charged to franchisees, but be treated as expenses in the SGA expenses.

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, 2020 decreased by 1,121 million yen, compared to the end of the previous fiscal year to 35,716 million yen (down 3.0% from the end of the previous fiscal year).

Current assets decreased by 479 million yen to 14,795 million yen (down 3.1% year on year). This was mainly due to a decrease of 667 million yen in cash and deposits.

Property, plant and equipment increased by 5 million yen to 331 million yen (up 1.7% year on year).

Intangible assets decreased by 676 million yen to 20,112 million yen (down 3.3% year on year). This was mainly due to decreases of 572 million yen in trademark right, 71 million yen in other intangible assets and 44 million yen in goodwill.

Investments and other assets increased by 29 million yen to 476 million yen (up 6.6% year on year).

Total non-current assets decreased by 641 million yen to 20,920 million yen (down 3.0% year on year).

(Liabilities)

Current liabilities increased by 287 million yen to 7,550 million yen (up 4.0% year on year). This was mainly due to increases of 103 million yen in notes and accounts payable - trade and 245 million yen in in accounts payable - other, offsetting a decrease of 102 million yen in provision for bonuses.

Non-current liabilities decreased by 576 million yen to 20,856 million yen (down 2.7% year on year). This was mainly due to decreases of 460 million yen in long-term borrowings and 122 million yen in deferred tax liabilities.

Total liabilities decreased by 288 million yen to 28,406 million yen (down 1.0% year on year).

(Net assets)

Net assets decreased by 833 million yen to 7,309 million yen (down 10.2% year on year). This mainly resulted from the recording of a loss attributable to owners of parent of 143 million yen and a decrease of 612 million yen in retained earnings due to dividends paid of 469 million yen.

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

The Group aims to achieve business recovery and establish business models for the new management environments by the end of 2022, in other words, in around 2 years' time.

The current fiscal year (from September 1, 2020 to August 31, 2021) is positioned as the fiscal year for getting firmly on track for accomplishing this goal and, during the three months ended November 30, 2020, the Group achieved greater than anticipated membership growth. However, since the impact of COVID-19 on society and the economy is still unclear, consolidated financial results forecast for the fiscal year ending August 31, 2021 announced on October 9, 2020 are currently unchanged and the disclosed forecasts are based on the assumptions described below.

(Japan)

- The Group plans to open 20 new facilities, and to close or merge 100 franchisee facilities that are significantly affected by COVID-19. The number of facilities is forecast to be 1,940 at the end of the fiscal year ending August 31, 2021, at a net decrease of 80 facilities.
- The membership decreased to 600K active members as of August 31, 2020, down from 830K as of February 29, 2020, reflecting the impact of COVID-19. This resulted in a significant decrease in base income including royalty fee income. The number of new members is expected to recover from the latter half of the fiscal year ending August 31, 2021, and the expected number of active members at the end of the fiscal year is 660K.
- Number of subscriptions and sales volume of merchandise sales to members are expected to rise in line with the increase in membership.
- Contribution to profit by new businesses such as the online fitness program "Ouchi de Curves" is not reflected in the forecast.
- Quantitative and qualitative changes in the market are accelerating, such as the spread of secondary health impacts caused by COVID-19, increasing health awareness to "take care of one's own health" and growing demand for contactless services. The Group will steadily develop strategies to identify and capture this potential market. The Group plans to push forward with strategic investment in business development and marketing in an aim to increase membership including membership of the online fitness program "Ouchi de Curves" from the fiscal year ending August 31, 2022 onward.

(Overseas)

- In the focus area Europe (the United Kingdom, Italy, Spain, etc.), approximately 70% of facilities have resumed operations from June after the lockdown was lifted, and membership is on the path to recovery. However, the situation is expected to remain unpredictable. The Group plans to formulate and implement strategies adapted to the new business environment, while experimenting with new business models including provision of online fitness, gradually starting from regions where socio-economic conditions have quieted down.

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, 2020 | As of November 30, 2020 |
|--|-----------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 9,533,587 | 8,866,298 |
| Notes and accounts receivable - trade | 3,243,741 | 3,299,664 |
| Merchandise | 1,511,593 | 1,434,157 |
| Raw materials and supplies | 6,116 | 6,668 |
| Other | 1,127,615 | 1,339,639 |
| Allowance for doubtful accounts | (147,384) | (151,048) |
| Total current assets | 15,275,269 | 14,795,379 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 220,379 | 230,637 |
| Vehicles, tools, furniture and fixtures, net | 105,807 | 101,105 |
| Total property, plant and equipment | 326,187 | 331,743 |
| Intangible assets | | |
| Goodwill | 1,392,773 | 1,348,127 |
| Trademark right | 17,997,264 | 17,424,281 |
| Software | 666,101 | 678,176 |
| Other | 733,374 | 662,235 |
| Total intangible assets | 20,789,513 | 20,112,821 |
| Investments and other assets | | |
| Investment securities | 20,000 | 20,000 |
| Leasehold and guarantee deposits | 253,498 | 266,436 |
| Deferred tax assets | 155,771 | 171,801 |
| Other | 21,166 | 21,677 |
| Allowance for doubtful accounts | (3,492) | (3,548) |
| Total investments and other assets | 446,943 | 476,366 |
| Total non-current assets | 21,562,644 | 20,920,930 |
| Total assets | 36,837,913 | 35,716,310 |

(Thousands of yen)

| | As of August 31, 2020 | As of November 30, 2020 |
|--|-----------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 1,562,764 | 1,666,659 |
| Current portion of long-term borrowings | 1,840,000 | 1,840,000 |
| Accounts payable - other | 919,875 | 1,165,480 |
| Accrued expenses | 291,399 | 335,365 |
| Income taxes payable | 364,394 | 362,408 |
| Provision for bonuses | 223,835 | 121,059 |
| Provision for point card certificates | 44,320 | 50,906 |
| Provision for shareholder benefit program | 30,622 | - |
| Deposits received | 1,653,990 | 1,754,345 |
| Other | 331,404 | 254,032 |
| Total current liabilities | 7,262,606 | 7,550,256 |
| Non-current liabilities | | |
| Long-term borrowings | 17,420,000 | 16,960,000 |
| Deferred tax liabilities | 3,887,324 | 3,765,055 |
| Asset retirement obligations | 125,377 | 131,427 |
| Total non-current liabilities | 21,432,701 | 20,856,482 |
| Total liabilities | 28,695,308 | 28,406,739 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 848,666 | 848,666 |
| Capital surplus | 828,666 | 828,666 |
| Retained earnings | 6,328,053 | 5,715,567 |
| Treasury shares | (76) | (76) |
| Total shareholders' equity | 8,005,310 | 7,392,825 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustment | 137,294 | (83,254) |
| Total accumulated other comprehensive income | 137,294 | (83,254) |
| Total net assets | 8,142,605 | 7,309,570 |
| Total liabilities and net assets | 36,837,913 | 35,716,310 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

Three Months Ended November 30, 2020

(Thousands of yen)

| | For the three months ended November 30, 2019 | For the three months ended November 30, 2020 |
|--|---|---|
| Net sales | 7,335,597 | 5,719,499 |
| Cost of sales | 4,304,172 | 3,211,711 |
| Gross profit | 3,031,424 | 2,507,788 |
| Selling, general and administrative expenses | 1,428,249 | 2,518,556 |
| Operating profit (loss) | 1,603,175 | (10,768) |
| Non-operating income | | |
| Interest income | 63 | 32 |
| Foreign exchange gains | 6,259 | - |
| Subsidy income | 314 | 14,738 |
| Other | 1,527 | 953 |
| Total non-operating income | 8,166 | 15,724 |
| Non-operating expenses | | |
| Interest expenses | 14,710 | 17,034 |
| Foreign exchange losses | - | 91,067 |
| Other | 3,839 | 22 |
| Total non-operating expenses | 18,549 | 108,124 |
| Ordinary profit (loss) | 1,592,792 | (103,168) |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 98 | 0 |
| Total extraordinary losses | 98 | 0 |
| Profit (loss) before income taxes | 1,592,693 | (103,168) |
| Income taxes - current | 507,246 | 108,373 |
| Income taxes - deferred | (14,100) | (68,343) |
| Total income taxes | 493,145 | 40,030 |
| Profit (loss) | 1,099,547 | (143,198) |
| Profit (loss) attributable to owners of parent | 1,099,547 | (143,198) |

Quarterly Consolidated Statement of Comprehensive Income

Three Months Ended November 30, 2020

(Thousands of yen)

| | For the three months ended November 30, 2019 | For the three months ended November 30, 2020 |
|--|---|---|
| Profit (loss) | 1,099,547 | (143,198) |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 11,742 | (220,548) |
| Total other comprehensive income | 11,742 | (220,548) |
| Comprehensive income | 1,111,290 | (363,747) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 1,111,290 | (363,747) |
| 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.

(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.