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October 12, 2022

Consolidated Financial Results for the Six Months Ended August 31, 2022 (Under Japanese GAAP)

Company name: STUDIO ALICE Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 2305
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 Scheduled date to file quarterly securities report: October 13, 2022
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended August 31, 2022 (from March 1, 2022 to August 31, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
August 31, 2022	16,381	(6.7)	87	(94.6)	87	(94.7)	(141)	–
August 31, 2021	17,559	28.8	1,624	–	1,652	–	849	–

Note: Comprehensive income For the six months ended August 31, 2022: ¥(101) million [–%]
 For the six months ended August 31, 2021: ¥1,293 million [–%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
August 31, 2022	(8.31)	–
August 31, 2021	50.05	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
August 31, 2022	41,851	28,232	64.4
February 28, 2022	43,170	29,568	65.6

Reference: Equity
 As of August 31, 2022: ¥26,959 million
 As of February 28, 2022: ¥28,301 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2022	–	0.00	–	70.00	70.00
Fiscal year ending February 28, 2023	–	0.00			
Fiscal year ending February 28, 2023 (Forecast)			–	70.00	70.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending February 28, 2023 (from March 1, 2022 to February 28, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending February 28, 2023	45,000	10.6	6,600	9.7	6,600	9.4	3,750	3.8	220.80

Note: Revisions to the consolidated earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of August 31, 2022	17,185,650 shares
As of February 28, 2022	17,185,650 shares

- (ii) Number of treasury shares at the end of the period

As of August 31, 2022	201,706 shares
As of February 28, 2022	201,657 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended August 31, 2022	16,983,979 shares
Six months ended August 31, 2021	16,983,999 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Explanation regarding appropriate use of earnings forecasts, and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual results, etc. may differ substantially from these forecasts due to various factors.

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1. Qualitative information on quarterly financial statements

(1) Explanation on operating results

During the first six months of the fiscal year ending February 28, 2023, the Japanese economy was affected by the rapid spread of variants of the novel coronavirus disease (COVID-19) from the beginning of the year, as well as rising prices for crude oil and raw materials caused by the situation in Russia and Ukraine, the rapid weakening of the yen due to monetary tightening in the U.S., and other factors. As a result, the outlook remains uncertain.

Under these circumstances, in the core Photography Business of STUDIO ALICE Co., Ltd. (the “Company”) and its subsidiaries (collectively, the “Group”), we have continued to operate our stores while thoroughly following measures to prevent the spread of COVID-19. However, the number of concluded contracts for photography decreased year on year due to the impact of the spread of the extremely infectious omicron variant (the sixth and seventh waves of infections), particularly during the seventh wave where there was an increase in cases of infections among children.

As a result, net sales for the period under review amounted to ¥16,381 million (down 6.7% year on year), and with regard to profits, due to the impact of net sales decreasing year on year, as well as due to an increase in depreciation accompanying the increase in clothing investment for the “Furiho” coming-of-age ceremony photography and long-sleeved kimono rental service, which is currently being promoted strongly by the Group, an increase in cost of sales year on year due to higher prices for raw materials and heating and lighting expenses, and other factors, operating profit was ¥87 million (down 94.6%), ordinary profit was ¥87 million (down 94.7%), and loss attributable to owners of parent was ¥141 million (compared with profit attributable to owners of parent of ¥849 million in the same period of the previous fiscal year).

Operating results of each segment are as follows:

Photography Business

In the Photography Business, we thoroughly followed measures to prevent the spread of COVID-19 while promoting the “Early Shichi-Go-San Commemorative Photograph Campaign” (Shichi-Go-San, a festival day for boys aged three and five, and girls aged three and seven), “Shichi-Go-San Outing Kimono Rental Reservation” and other services, and continuing to focus on winning bookings for our “Furiho” coming-of-age ceremony photography and long-sleeved kimono rental service.

With regard to the status of kids photo studios in Japan, we relocated one store, withdrew from five stores, and conducted renovations, including relocating plots within shopping centers, at 25 stores.

As a result, the number of stores as of August 31, 2022 was 465 kids photo studios in Japan (456 directly operated and nine franchise stores), and two kids photo studios at our Korean subsidiary, for a total of 467 stores.

As a result of the above, net sales in the Photography Business in the reportable segment amounted to ¥16,353 million (down 6.8% year on year) and segment profit was ¥149 million (down 91.2% year on year).

Clothes Manufacturing & Wholesale Business

In the Clothes Manufacturing & Wholesale Business, at our consolidated subsidiary KyotoHosho. Co., Ltd. and its subsidiary Shanghai Hosho Apparel Co., Ltd., we continued efforts to further improve production efficiency for clothes for the Company in order to reduce costs, while also focusing on reducing procurement costs for clothing and accessories related to the “Furiho” service, which is being promoted strongly by the Group.

As a result of the above, net sales in the Clothes Manufacturing & Wholesale Business in the reportable segment amounted to ¥1,032 million (down 52.1% year on year) and segment profit was ¥4 million (down 98.1%).

(2) Status of financial position**(i) Status of assets**

Total assets as of August 31, 2022 amounted to ¥41,851 million, a decrease of ¥1,319 million from the end of the previous fiscal year.

Current assets stood at ¥21,871 million, a decrease of ¥1,047 million from the end of the previous fiscal year, mainly due to a decrease in cash and deposits.

Non-current assets were ¥19,979 million, a decrease of ¥271 million from the end of the previous fiscal year, mainly due to a decrease in buildings and structures, net.

(ii) Status of liabilities

Total liabilities as of August 31, 2022 amounted to ¥13,618 million, an increase of ¥16 million from the end of the previous fiscal year.

Current liabilities stood at ¥8,431 million, an increase of ¥328 million from the end of the previous fiscal year, mainly due to an increase in short-term borrowings.

Non-current liabilities were ¥5,187 million, a decrease of ¥312 million from the end of the previous fiscal year, mainly due to a decrease in long-term lease obligations included in “other.”

(iii) Status of net assets

Total net assets as of August 31, 2022 amounted to ¥28,232 million, a decrease of ¥1,335 million from the end of the previous fiscal year. This was mainly due to the recording of loss attributable to owners of parent and appropriation of surplus (payment of dividends) in the previous fiscal year.

(iv) Status of cash flows

Cash and cash equivalents (hereinafter, “cash”) as of August 31, 2022 amounted to ¥16,622 million, a decrease of ¥2,082 million from the end of the previous fiscal year. The respective statuses of cash flows and their contributing factors during the six months ended August 31, 2022 are as follows:

Cash flows from operating activities

Net cash used in operating activities amounted to ¥34 million (¥2,606 million of net cash provided in the same period of the previous fiscal year). This was mainly due to a decrease of ¥448 million in accrued consumption taxes and ¥1,334 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥2,082 million (¥2,753 million of net cash used in the same period of the previous fiscal year). This was mainly due to disbursements of ¥2,089 million related to renovations and equipment additions in existing photo studios.

Cash flows from financing activities

Net cash provided by financing activities amounted to ¥4 million (¥1,699 million of net cash provided in the same period of the previous fiscal year) This was mainly due to net increase of ¥1,400 million in short-term borrowing and ¥1,188 million in dividends paid.

(3) Explanation on consolidated earnings forecasts and other forward-looking statements

With respect to the consolidated earnings forecasts, there are no revisions to the consolidated earnings forecasts stated in “Consolidated Financial Results for the Fiscal Year Ended February 28, 2022” released on April 12, 2022.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of February 28, 2022	As of August 31, 2022
Assets		
Current assets		
Cash and deposits	19,165,761	17,082,853
Notes and accounts receivable - trade	844,434	1,207,389
Inventories	1,607,333	1,846,265
Other	1,312,754	1,744,919
Allowance for doubtful accounts	(11,351)	(10,352)
Total current assets	22,918,932	21,871,075
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,201,638	6,987,642
Other, net	6,133,688	6,139,156
Total property, plant and equipment	13,335,327	13,126,799
Intangible assets	997,620	941,435
Investments and other assets		
Leasehold and guarantee deposits	3,192,218	3,173,078
Other	2,951,105	2,963,190
Allowance for doubtful accounts	(224,712)	(224,537)
Total investments and other assets	5,918,611	5,911,731
Total non-current assets	20,251,559	19,979,965
Total assets	43,170,491	41,851,041
Liabilities		
Current liabilities		
Accounts payable - trade	300,462	391,457
Short-term borrowings	–	1,400,000
Income taxes payable	1,484,335	212,038
Provision for bonuses	205,794	388,326
Provision for point card certificates	107,260	123,340
Other	6,004,652	5,915,933
Total current liabilities	8,102,506	8,431,096
Non-current liabilities		
Retirement benefit liability	1,203,656	1,230,117
Asset retirement obligations	1,654,160	1,634,390
Other	2,641,876	2,323,129
Total non-current liabilities	5,499,692	5,187,637
Total liabilities	13,602,199	13,618,733

(Thousands of yen)

	As of February 28, 2022	As of August 31, 2022
Net assets		
Shareholders' equity		
Share capital	1,885,950	1,885,950
Capital surplus	2,055,449	2,055,449
Retained earnings	24,215,835	22,840,731
Treasury shares	(276,464)	(276,578)
Total shareholders' equity	27,880,770	26,505,552
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	266,180	245,874
Foreign currency translation adjustment	154,772	208,112
Total accumulated other comprehensive income	420,952	453,986
Non-controlling interests	1,266,569	1,272,768
Total net assets	29,568,292	28,232,308
Total liabilities and net assets	43,170,491	41,851,041

(2) Quarterly consolidated statement of income and consolidated statement of comprehensive income
Quarterly consolidated statement of income

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Net sales	17,559,744	16,381,062
Cost of sales	12,853,063	13,131,980
Gross profit	4,706,680	3,249,081
Selling, general and administrative expenses	3,081,967	3,161,112
Operating profit	1,624,713	87,968
Non-operating income		
Interest income	751	744
Dividend income	10,090	10,571
Rental income from buildings	11,259	10,897
Compensation income	18,593	408
Subsidy income related to COVID-19	15,812	1,697
Incentives for establishment of business facilities	–	11,002
Miscellaneous income	9,468	13,521
Total non-operating income	65,976	48,843
Non-operating expenses		
Interest expenses	11,119	12,573
Loss on cancellation of store rent contracts	15,465	–
Foreign exchange losses	11,009	34,852
Miscellaneous losses	503	1,401
Total non-operating expenses	38,098	48,826
Ordinary profit	1,652,591	87,985
Extraordinary income		
Gain on sale of non-current assets	173	256
Total extraordinary income	173	256
Extraordinary losses		
Loss on sale and retirement of non-current assets	236	–
Loss on abandonment of non-current assets	125,219	52,467
Impairment losses	37,324	63,442
Loss related to COVID-19	44,638	–
Total extraordinary losses	207,418	115,909
Profit (loss) before income taxes	1,445,345	(27,667)
Income taxes - current	611,439	115,456
Income taxes - deferred	(40,023)	(8,126)
Total income taxes	571,416	107,329
Profit (loss)	873,929	(134,996)
Profit attributable to non-controlling interests	23,935	6,220
Profit (loss) attributable to owners of parent	849,993	(141,217)

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Profit (loss)	873,929	(134,996)
Other comprehensive income		
Valuation difference on available-for-sale securities	399,893	(20,327)
Foreign currency translation adjustment	20,123	53,340
Total other comprehensive income	420,016	33,013
Comprehensive income	1,293,946	(101,983)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,270,010	(108,182)
Comprehensive income attributable to non-controlling interests	23,935	6,199

(3) Quarterly consolidated statement of cash flows

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	1,445,345	(27,667)
Depreciation	1,703,010	1,908,395
Amortization of goodwill	399	559
Increase (decrease) in allowance for doubtful accounts	(5,174)	(1,174)
Increase (decrease) in provision for bonuses	153,156	182,340
Increase (decrease) in retirement benefit liability	29,875	26,461
Interest and dividend income	(10,842)	(11,315)
Interest expenses	11,119	12,573
Foreign exchange losses (gains)	78	(2,277)
Loss (gain) on sale of non-current assets	63	(256)
Loss on abandonment of non-current assets	125,219	52,467
Impairment losses	37,324	63,442
Decrease (increase) in trade receivables	(328,850)	(356,779)
Decrease (increase) in inventories	452,704	(216,950)
Increase (decrease) in trade payables	74,584	88,430
Increase (decrease) in accrued consumption taxes	(217,059)	(448,722)
Increase (decrease) in advances received	370,521	454,395
Decrease (increase) in other current assets	(384,833)	(419,746)
Increase (decrease) in other current liabilities	(10,854)	(18,098)
Other, net	79,254	15,215
Subtotal	3,525,045	1,301,292
Interest and dividends received	10,199	10,673
Interest paid	(11,119)	(12,573)
Income taxes paid	(917,192)	(1,334,309)
Net cash provided by (used in) operating activities	2,606,931	(34,916)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,521,869)	(1,824,458)
Proceeds from sale of property, plant and equipment	2,291	491
Purchase of intangible assets	(177,596)	(219,444)
Payments of leasehold and guarantee deposits	(53,208)	(45,137)
Proceeds from refund of leasehold and guarantee deposits	63,797	70,052
Other, net	(67,008)	(64,164)
Net cash provided by (used in) investing activities	(2,753,592)	(2,082,660)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,650,000	1,400,000
Proceeds from sale and leaseback transactions	1,756,883	940,241
Repayments of finance lease obligations	(858,318)	(1,146,599)
Purchase of treasury shares	(47)	(113)
Dividends paid	(849,200)	(1,188,879)
Net cash provided by (used in) financing activities	1,699,315	4,648
Effect of exchange rate change on cash and cash equivalents	3,967	30,019
Net increase (decrease) in cash and cash equivalents	1,556,622	(2,082,908)
Cash and cash equivalents at beginning of period	13,181,317	18,705,243
Cash and cash equivalents at end of period	14,737,939	16,622,334

(4) Notes to quarterly consolidated financial statements**Notes on premise of going concern**

Not applicable

Additional information

Although the Group operates its stores after scrupulously implementing measures to prevent the spread of infection, because infections by the omicron variant have spread even among children in elementary school and younger, the number of photography cancellations has increased compared to typical years, which has impacted operating results. However, the number of infections is on a declining trend as of the date of filing. The Group assumes that the operating results will not be affected in the third quarter onward, which includes the Shichi-Go-San season, and the Group makes accounting estimates in relation to impairment losses associated with non-current assets, the recoverability of deferred tax assets, and other issues.

Future results based on actual figures may differ from these estimates and assumptions.

Notes when there are significant changes in amounts of equity

Not applicable

Notes - Changes in accounting policiesApplication of Accounting Standard for Revenue Recognition, etc.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations effective from the beginning of the first quarter of the fiscal year ending February 28, 2023, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. As a result, the Company has reviewed the time when performance obligations are satisfied for some photography transactions. In addition, to provide for the usage of points awarded to customers, a future expected usage amount was previously recorded as a provision for point card certificates, and a provision for point card certificates was recorded as selling, general and administrative expenses. However, for points awarded to customers accompanying product sales, if those points provide a customer with a material right, the Company has changed to a method where the awarded points are identified as a performance obligation and the recognition of the revenue is deferred.

The effect of this change on the quarterly consolidated financial statements for the six months ended August 31, 2022 was immaterial.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the current fiscal year was added to or deducted from the opening balance of retained earnings of the first quarter of the current fiscal year, and thus the new accounting policy was applied from such opening balance.

As a result, the opening balance of retained earnings decreased by ¥45,007 thousand.

Due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations, part of the “provision for point card certificates” under current liabilities of the consolidated balance sheet as of the end of the previous fiscal year has been included in “other” under current liabilities as contract liabilities from the quarterly consolidated balance sheet as of the end of the first quarter of the current fiscal year. In accordance with the transitional treatment provided for in paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation. Furthermore, the information on disaggregation of revenue from contracts with customers during the first six months of

the previous fiscal year has not been disclosed as allowed by the transitional treatment provided for in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020).

Application of Accounting Standard for Fair Value Measurement, etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending February 28, 2023, and it has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional measures provided for in paragraph 19 of the Accounting Standard for Fair Value Measurement, and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019).

There is no impact on the quarterly consolidated financial statements.

Segment information, etc.*Segment information*

I. Six months ended August 31, 2021

1. Disclosure of sales and profit for each reportable segment

(Thousands of yen)

	Reportable segment			Adjustments (Note 1)	Amount recorded on the quarterly consolidated statement of income (Note 2)
	Photography Business	Clothes Manufacturing & Wholesale Business	Total		
Net sales					
Sales to external customers	17,529,660	30,084	17,559,744	–	17,559,744
Intersegment sales or transfers	13,681	2,125,587	2,139,269	(2,139,269)	–
Total	17,543,342	2,155,672	19,699,014	(2,139,269)	17,559,744
Segment profit	1,700,645	266,848	1,967,493	(342,780)	1,624,713

Notes: 1. The segment profit adjustment of ¥(342,780) thousand includes adjustments for non-current assets, etc. of ¥(224,470) thousand and corporate expenses not allocated to either reportable segment of ¥(118,309) thousand. Corporate expenses are mainly general and administrative expenses, which are not attributable to the reportable segments.

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

2. Information about impairment losses of non-current assets or goodwill, etc. for each reportable segment

Significant impairment losses on non-current assets

In the Photography Business segment, the Company recorded impairment losses for stores. The amount of such impairment loss recorded was ¥37,324 thousand for the six months ended August 31, 2021.

Significant change in the amount of goodwill

The information is omitted as it is immaterial.

Significant gain on bargain purchase

Not applicable

II. Six months ended August 31, 2022

1. Disclosure of sales and profit for each reportable segment

(Thousands of yen)

	Reportable segment			Adjustments (Note 1)	Amount recorded on the quarterly consolidated statement of income (Note 2)
	Photography Business	Clothes Manufacturing & Wholesale Business	Total		
Net sales					
Sales to external customers	16,340,024	41,037	16,381,062	–	16,381,062
Intersegment sales or transfers	13,281	991,816	1,005,097	(1,005,097)	–
Total	16,353,305	1,032,854	17,386,160	(1,005,097)	16,381,062
Segment profit	149,620	4,952	154,572	(66,603)	87,968

- Notes: 1. The segment profit adjustment of ¥(66,603) thousand includes adjustments for non-current assets, etc. of ¥61,169 thousand and corporate expenses not allocated to either reportable segment of ¥(127,773) thousand. Corporate expenses are mainly general and administrative expenses, which are not attributable to the reportable segments.
2. Segment profit is adjusted to operating profit in the quarterly consolidated statement of income.

2. Information about impairment losses of non-current assets or goodwill, etc. for each reportable segment

Significant impairment losses on non-current assets

In the Photography Business segment, the Company recorded impairment losses for stores. The amount of such impairment loss recorded was ¥63,442 thousand for the six months ended August 31, 2022.

Significant changes in the amount of goodwill

The information is omitted as it is immaterial.

Significant gain on bargain purchase

Not applicable

3. Other

Significant events regarding premise of going concern

Not applicable