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

January 14, 2022

Company name: Valuence Holdings Inc.
Stock exchange listing: Tokyo Stock Exchange
Securities code: 9270
URL: https://www.valuence.inc/
Representative: (Title) Representative Director (Name) Shinsuke Sakimoto
Contact: (Title) Director and CFO (Name) Shinichiro Sato (TEL) +81-3-4580-9983

Scheduled date for filing quarterly securities report: January 14, 2022
Scheduled date for commencing dividend payments: —
Preparation of supplementary quarterly financial results briefing materials: Yes
Holding of quarterly financial results briefing: Yes (For institutional investors and analysts)

(Amounts of less than one million yen are truncated.)

1. Consolidated financial results for the three months ended November 30, 2021 (September 1, 2021 to November 30, 2021)

(1) Consolidated operating results (cumulative) (% indicates year-over-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended November 30, 2021	13,254	12.1	197	(57.5)	169	(62.4)	45	(79.1)
Three months ended November 30, 2020	11,823	1.8	464	(37.8)	450	(37.8)	217	(53.5)

Note: Comprehensive income: Three months ended November 30, 2021 73 million yen [-65.5%] Three months ended November 30, 2020 214 million yen [-54.9%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended November 30, 2021	3.44	3.42
Three months ended November 30, 2020	16.53	16.28

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio
	Million yen	Million yen	%
As of November 30, 2021	20,493	7,053	33.4
As of August 31, 2021	18,727	7,270	38.0

(Reference only) Equity Three months ended November 30, 2021 6,847 million yen Fiscal year ended in August 2021 7,115 million yen

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended in August 2021	—	0.00	—	25.00	25.00
Fiscal year ending in August 2022	—				
Fiscal year ending in August 2022 (forecast)		0.00	—	25.00	25.00

Note: Revision to the dividend forecast announced most recently: None

3. Consolidated financial results forecast for the fiscal year ending in August 2022 (September 1, 2021 to August 31, 2022)

(% indicates year-over-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	64,300	22.4	1,800	54.0	1,700	74.0	920	26.9	70.00

Note: Revision to the financial results forecast announced most recently: None

* Notes

(1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in the changes in the scope of consolidation): None

(2) Accounting treatments adopted specially for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatements

1) Changes in accounting policies due to application of new or revised accounting standards: Yes
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: None
4) Retrospective restatements: None

(Note) For details, please refer to "2. Quarterly consolidated financial statements and major notes (3) Notes on quarterly consolidated financial statements (Changes in accounting policies)" on page 10 of the attached materials.

(4) Number of shares of common stock issued

1) Number of shares issued at the end of the period (including treasury stock)	As of November 30, 2021	13,334,420 shares	Fiscal year ended in August 2021	13,326,170 shares
2) Number of shares of treasury stock at the end of the period	As of November 30, 2021	200,127 shares	Fiscal year ended in August 2021	134,384 shares
3) Average number of shares of common stock during the period (cumulative)	Three months ended November 30, 2021	13,172,591 shares	Three months ended November 30, 2020	13,145,150 shares

* These quarterly financial results are not subject to quarterly review procedures to be performed by certified public accountants or an audit firm.

* Explanation on appropriate use of financial results forecasts and other matters of note

Financial results forecasts and other forward-looking statements provided in these materials are based on information available to the Company and certain other assumptions deemed reasonable as of the date of publication of this document, and do not represent any guarantee that the Company will achieve these results. Actual financial results and other aspects of business performance may differ significantly from these forecasts owing to various factors. Please refer to "1. Qualitative information on quarterly financial results (3) Explanation of consolidated financial results forecast and other forward-looking information" on page 5 of the attached materials for conditions forming the basis for financial results forecasts, notes regarding the use of financial results forecasts, and other information.

■ Table of contents of the attached materials

1. Qualitative information on quarterly financial results

(1) Explanation of business results

The Company Group is currently promoting efforts to achieve the VG1000 mid-term management plan for the period through the fiscal year ending in August 2025. The Company Group aims to transform itself into a recurring revenue model to achieve sustainable growth by becoming a Global Reuse Platformer, providing partners (“partner” referring hereinafter to a reuse business operator in an auction) around the world with one-stop support in the buying and selling of luxury brand items.
In the fiscal year ending in August 2022, the second year of the mid-term management plan, the Company Group will continue to make proactive investments as it did in the previous fiscal year and will increase expenses related to system development, operation, and maintenance in addition to advertising and personnel expenses. In terms of system development, the Company Group plans to develop AI for purchasing and sales channel selection, develop customer management infrastructure, and develop for the launch of fulfillment services.　Thus, the amortization costs for system development and the costs for operating and maintaining systems, including existing systems, are expected to increase..
As a result of the implementation of the above plan as scheduled, the Company Group’s consolidated financial results for the three months under review were as follows. Effective from the three months under review, the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc., have been applied. With regard to the application of the Accounting Standard or Revenue Recognition, etc., in accordance with the transitional treatment prescribed in the provisions of Paragraph 84 of the Accounting Standard for Revenue Recognition, the new accounting policy has not been applied retrospectively for the first quarter of the previous fiscal year. For details, please refer to “2. Quarterly consolidated financial statements and major notes (3) Notes on quarterly consolidated financial statements (Changes in accounting policies).”

Net sales	13,254 million yen	(Up 12.1% from the previous corresponding period)
Operating profit	197 million yen	(Down 57.5% from the previous corresponding period)
Ordinary profit	169 million yen	(Down 62.4% from the previous corresponding period)
Profit attributable to owners of parent	45 million yen	(Down 79.1% from the previous corresponding period)

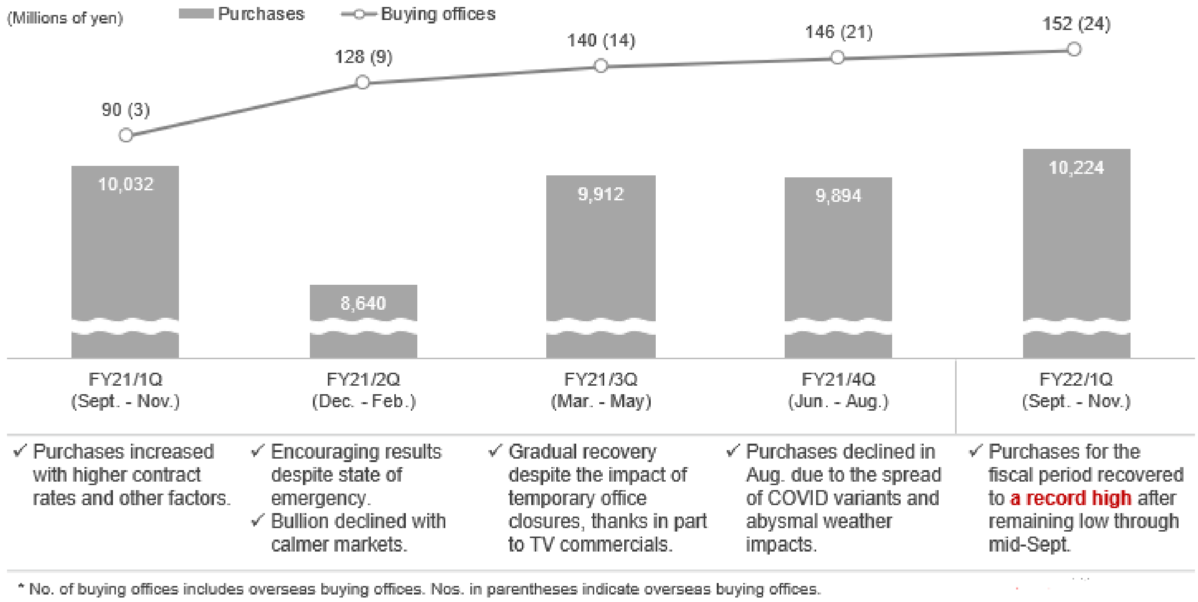
The Company Group has only one business segment—reuse business involving brand name products, antiques, works of art, and other items. Thus, information by segment is omitted.

Specific initiatives in the three months under review were as follows.
First, as a measure to enhance buying operations, the Company Group opened 3 new offices in Japan. For overseas offices, it opened one office in Germany and two offices in Malaysia in collaboration with partners. As a result, the total number of buying offices of the Company Group as a whole as of the end of the three months under review was 128 stores in Japan and 24 stores overseas. For openings of domestic offices in the fiscal year ending in August 2022, the Company Group does not plan to significantly expand the office network in order to focus on improving purchasing efficiency by increasing purchases per office. Overseas, the Company Group continues to consider the regions and timing of new office openings in cooperation with partners while closely monitoring the status of infection of COVID-19. In addition, the Company Group has started full-scale support for the purchase operations of “i’m green,” consultation service for purchasing and receipt operated by Isetan Mitsukoshi. In addition to purchases through the Company Group’s buying offices, the Group aims to further expand buying operations by strengthening alliances with other companies.
Turning to purchases, the number of customers served and purchases decreased due to the rapid increase in the number of people infected with COVID-19 from August to mid-September. However, from mid-September onward, the number of customers served and purchases recovered due to the decrease in the number of infected people and the effect of TV commercials that aired in September. As a result, purchases exceeded that of the first quarter of the previous fiscal year, which was not affected by the state of emergency declaration, and reached a record high.

Quarterly trends in purchases and the number of buying offices are as follows.

Purchases and Buying Offices

With respect to selling operations, although purchases reached a record high, net sales decreased because the



Company Group secured inventory for measures to strengthen retailing from the second quarter onward, including new store openings, in addition to low inventory at the beginning of the period.

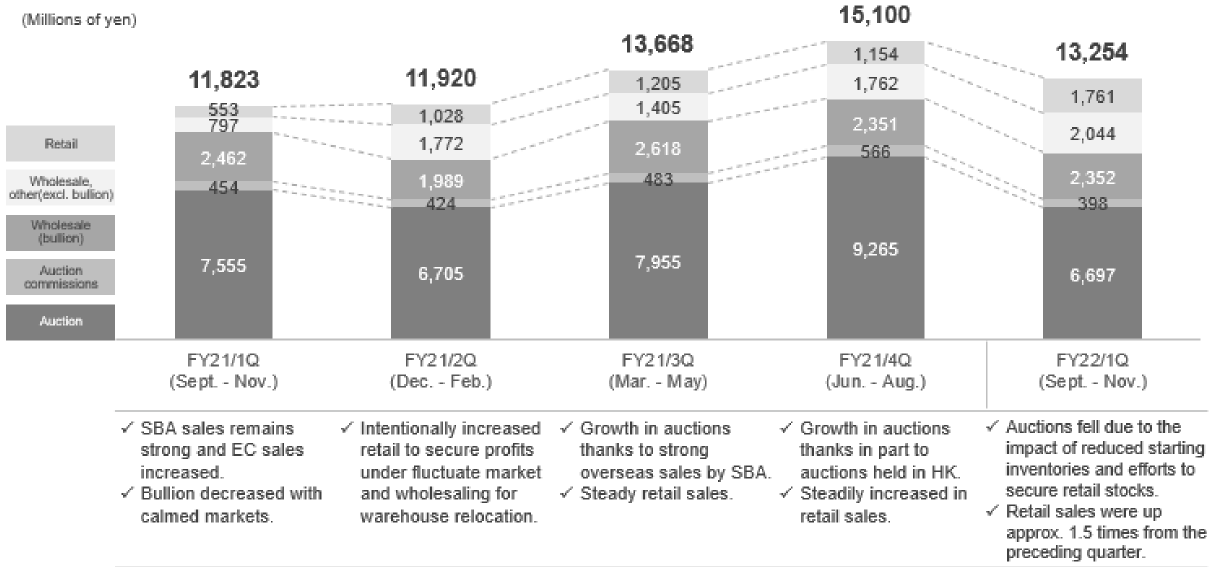
From November, the number of times the STAR BUYERS AUCTION (“SBA”) is held has increased from twice a month to every day from Wednesday to Saturday, with new items being displayed during the held days. The Company Group believes that this change will shorten the inventory turnover period and thus reduce the risk of market fluctuations. As the closing time for bidding is set based on Japan time, there are some issues such as the closing time for bidding overseas being late at night or early in the morning due to time zone differences, but the Company Group is making adjustments to optimize operations.

In addition, as the Company Group will undertake more consignment sales under the retail brand ALLU in the fulfillment service that it plans to develop, the Company Group is improving its sales capabilities by expanding its retail inventory. This resulted in a strong 52.5% increase in retail sales from the immediately preceding quarter.

As mentioned above, by increasing the number of SBA held while expanding retail, the Company Group is working to optimize the balance of the sales between SBA and retail while preventing the overall inventory turnover period from becoming longer.

Quarterly net sales by channel (toB and toC) are as follows.

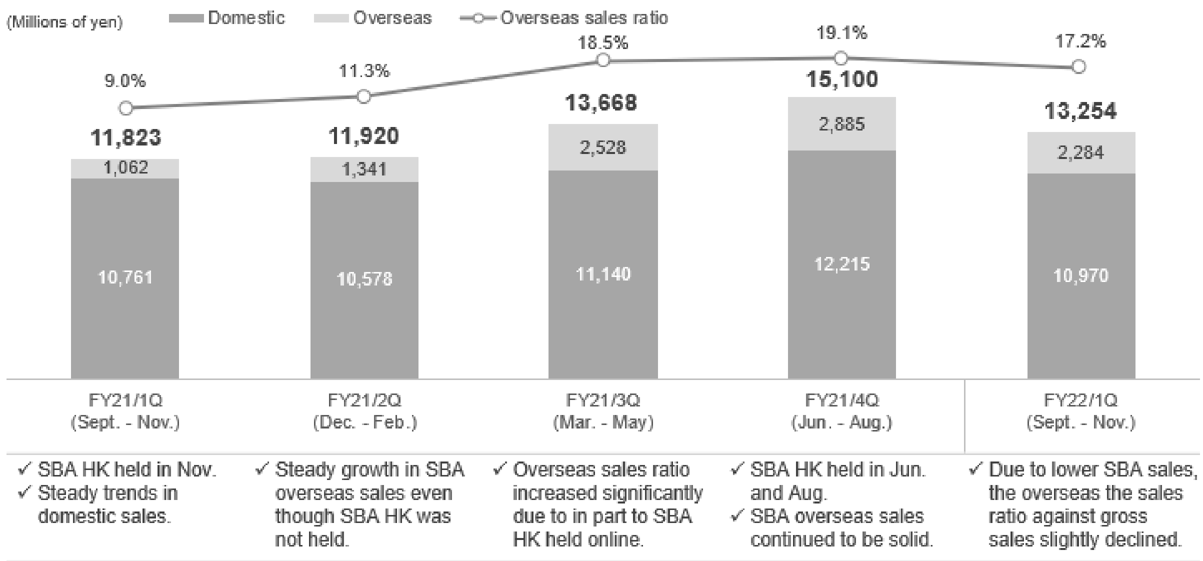
Net Sales by Channel (toB, toC)



In the Company's mainstay SBA channel, the number of partners increased from 1,239 companies (938 in domestic and 301 overseas) at the end of the previous consolidated fiscal year to 1,426 companies (1,089 in domestic and 337 overseas). In addition to steady expansion of the number of overseas partners against the backdrop of the recovery in overseas economies, the trend of yen depreciation in the exchange rate since the previous fiscal year continued and the number of overseas participants in SBA also increased. Although the number of successful bids from overseas was steady, the ratio of overseas sales to total sales decreased in conjunction with the decrease in net sales of SBA as a whole due to the impact of the decrease in inventory at the beginning of the period and the retention of retail inventory. As a result, the ratio of overseas sales to total net sales was 17.2% in the three months under review.

Quarterly net sales (in domestic and overseas) are as follows.

Net Sales (Domestic, Overseas)



(2) Explanation of financial conditions

(Assets)
As of the end of the three months under review, current assets were 14,810 million yen, up 1,401 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in inventory, which was low at the beginning of the period, due to strong purchasing, and an increase of 617 million yen in merchandise as a result of the appropriation to retail inventory, and an increase of 245 million yen in cash and deposits due to an increase of borrowings to fund purchases, etc., in line with business expansion. Non-current assets were 5,682 million yen, up 365 million yen from the end of the previous consolidated fiscal year, mainly due to the acquisition of property, plant, and equipment in connection with the opening of new retail stores, etc., and an increase in guarantee deposits. As a result, total assets were 20,493 million yen, up 1,766 million yen from the end of the previous consolidated fiscal year.

(Liabilities)
Current liabilities as of the end of the three months under review were 12,330 million yen, up 2,028 million yen from the end of the previous consolidated fiscal year, mainly due to an increase of 2,259 million yen in short-term loans payable to secure funds for purchases on the one hand, and a decrease of 166 million yen in income taxes payable due to payment of income taxes on the other. Non-current liabilities were 1,109 million yen, down 45 million yen from the end of the previous consolidated fiscal year, mainly due to a decrease of 66 million yen in provision for directors' retirement benefits, despite an increase of 29 million yen in asset retirement obligations. As a result, total liabilities were 13,440 million yen, up 1,983 million yen from the end of the previous consolidated fiscal year.

(Net assets)
Net assets as of the end of the three months under review were 7,053 million yen, down 217 million yen from the end of the previous consolidated fiscal year, mainly due to an increase of 1 million yen both in capital stock and capital surplus as a result of the exercise of stock acquisition rights on the one hand, and a decrease of 299 million yen in retained earnings as a result of dividend payments and the application of the revenue recognition standard on the other.

(3) Explanation of consolidated financial results forecast and other forward-looking information

No changes have been made to the consolidated financial results forecast for the fiscal year ending in August 2022 announced on October 14, 2021.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (August 31, 2021)	Three months under review (November 30, 2021)
Assets		
Current assets		
Cash and deposits	8,270,558	8,516,558
Accounts receivable - trade	260,438	460,440
Merchandise	3,921,002	4,538,980
Other	1,093,433	1,490,043
Allowance for doubtful accounts	(135,830)	(195,265)
Total current assets	13,409,602	14,810,756
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	1,857,866	1,858,290
Other (net)	629,478	857,902
Total property, plant and equipment	2,487,345	2,716,192
Intangible assets		
Other	437,848	492,544
Total intangible assets	437,848	492,544
Investments and other assets		
Guarantee deposits	1,224,529	1,287,919
Other	1,168,578	1,187,853
Allowance for doubtful accounts	(680)	(1,535)
Total investments and other assets	2,392,427	2,474,238
Total non-current assets	5,317,621	5,682,975
Total assets	18,727,224	20,493,732

(Unit: thousand yen)

	Previous consolidated fiscal year (August 31, 2021)	Three months under review (November 30, 2021)
Liabilities		
Current liabilities		
Accounts payable - trade	119,801	236,405
Short-term loans payable	8,340,494	10,599,707
Current portion of long-term loans payable	101,018	58,019
Income taxes payable	268,516	102,432
Provision for bonuses	325,234	415,714
Asset retirement obligations	24,680	5,207
Other	1,122,245	913,314
Total current liabilities	10,301,990	12,330,800
Non-current liabilities		
Long-term loans payable	211,250	207,500
Provision for directors' retirement benefits	66,595	—
Asset retirement obligations	648,412	677,854
Other	228,924	224,540
Total non-current liabilities	1,155,182	1,109,895
Total liabilities	11,457,173	13,440,695
Net assets		
Shareholders' equity		
Capital stock	1,144,576	1,146,179
Capital surplus	1,180,011	1,181,614
Retained earnings	4,978,670	4,678,691
Treasury shares	(213,079)	(213,215)
Total shareholders' equity	7,090,178	6,793,270
Accumulated other comprehensive income		
Foreign currency translation adjustment	25,435	53,851
Total accumulated other comprehensive income	25,435	53,851
Share acquisition rights	154,436	205,915
Total net assets	7,270,051	7,053,037
Total liabilities and net assets	18,727,224	20,493,732

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income

For the three months ended November 30

(Unit: thousand yen)

	Previous three-month period (from September 1, 2020 to November 30, 2020)	Three months under review (from September 1, 2021 to November 30, 2021)
Sales	11,823,642	13,254,226
Cost of sales	8,712,972	9,688,254
Gross profit	3,110,670	3,565,971
Selling, general and administrative expenses	2,646,561	3,368,897
Operating profit	464,109	197,074
Non-operating income		
Interest income	0	0
Gain on valuation of derivatives	―	1,861
Benefits	9,670	―
Subsidy income	―	1,250
Other	3,772	1,709
Total non-operating income	13,442	4,821
Non-operating expenses		
Interest expenses	9,565	13,148
Commission fee	379	339
Foreign exchange losses	5,667	71
Loss on extinguishment of share-based remuneration expenses	7,172	947
Share of loss of entities accounted for using equity method	―	17,382
Other	4,335	467
Total non-operating expenses	27,119	32,356
Ordinary profit	450,432	169,538
Extraordinary income		
Gain on bargain purchase	69,486	―
Total extraordinary income	69,486	―
Extraordinary losses		
Impairment loss	―	8,898
Loss on cancellation of rental contracts	6,596	―
Total extraordinary losses	6,596	8,898
Profit before income taxes	513,322	160,640
Income taxes - current	358,612	155,623
Income taxes - deferred	(62,645)	(40,341)
Total income taxes	295,967	115,282
Profit	217,354	45,358
Profit attributable to owners of the parent	217,354	45,358

Quarterly consolidated statement of comprehensive income

For the three months ended November 30

(Unit: thousand yen)

	Previous three-month period (from September 1, 2020 to November 30, 2020)	Three months under review (from September 1, 2021 to November 30, 2021)
Profit	217,354	45,358
Other comprehensive income		
Foreign currency translation adjustment	(3,236)	28,415
Total other comprehensive income	(3,236)	28,415
Comprehensive income	214,118	73,773
Comprehensive income attributable to:		
Owners of the parent	214,118	73,773

(3) Notes on quarterly consolidated financial statements

(Notes regarding going concern assumptions)

Not applicable

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

Not applicable

(Change in scope of consolidation or equity method application)

As of the end of the three months under review, Valuence Art & Antiques Inc. has been excluded from the scope of consolidation as it was dissolved through an absorption-type merger with Valuence Japan Inc.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company Group has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, the "Accounting Standard for Revenue Recognition"), etc., from the beginning of the three months under review. It recognizes revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer. As a result, the Company Group has changed its method of recognizing net sales and cost of sales to one that recognizes the amount excluding the amount equivalent to net sales and cost of sales of merchandise that is expected to be returned as net sales and cost of sales.

In addition, the Company Group has applied the alternative treatment prescribed in Paragraph 98 of the Guidance on Accounting Standard for Revenue Recognition and recognizes revenue at the time of shipment for domestic sales of merchandise when the period between the time of shipment and the time when control of the merchandise is transferred to the customer is normal.

With respect to the application of the Accounting Standard for Revenue Recognition, etc., the Company Group has followed the transitional treatment prescribed in the provisions of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying the new accounting policy prior to the beginning of the three months under review has been added to or deducted from retained earnings at the beginning of the three months under review, and the new accounting policy has been applied from the balance at the beginning of the three months under review.

In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year using the new presentation method. In addition, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), disaggregated information on revenue from contracts with customers for the first quarter of the previous fiscal year is not provided.

As a result, the balance of retained earnings at the beginning of the term decreased by 15,541 thousand yen since the cumulative effect was reflected in net assets at the beginning of the three months under review.

Compared with the previous method, this change decreased net sales by 51,123 thousand yen, cost of sales by 44,513 thousand yen, and operating profit, ordinary profit, and profit before income taxes by 6,609 thousand yen in the three months under review.

In addition, 24,247 thousand yen of returned assets are included in other under current assets, and 31,957 thousand yen of refund liabilities are included in other under current liabilities.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company Group has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter, the "Accounting Standard for Fair Value Measurement"), etc., from the beginning of the three months under review, and the new accounting policies set forth by the Accounting Standard for Fair Value Measurement, etc., will be applied prospectively in accordance with the transitional treatment set forth 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).

This change has no impact on the quarterly consolidated financial statements.

(Additional information)

There are no significant changes to the assumptions provided under “(Additional Information)” in the Securities Report for the previous consolidated fiscal year concerning accounting estimates related to the effect of the spread of COVID-19.

(Important subsequent events)

(Issue of stock acquisition rights as stock options)

At a Board of Directors’ meeting held on November 25, 2021, the Company passed a resolution concerning the issue of stock acquisition rights to employees of the Company and to Directors and employees of the Company’s subsidiaries, as well as to Directors of the Company’s affiliates, and issued the stock acquisition rights on December 24, 2021.

(1) Purpose of and reason for granting the stock acquisition rights

The stock acquisition rights were issued to employees of the Company, Directors, and employees of the Company’s subsidiaries, and Directors of the Company’s affiliates in order to strengthen the motivation to contribute to medium- to long-term growth in Group corporate value through actions consistent with the interests of shareholders.

(2) Guidelines on issuing stock acquisition rights

1) Date of the issue of stock acquisition rights

December 24, 2021

2) Classification and number of eligible individuals

Employees of the Company	six persons	260 units
Directors of the Company’s subsidiaries	two persons	120 units
Employees of the Company’s subsidiaries	nine persons	340 units
Directors of the Company’s affiliates	three persons	75 units

3) Number of stock acquisition rights issued

795 units

4) Amount to be paid per stock acquisition right

121,110 yen per stock acquisition right (1,211.1 yen per share)

The paid-in amount per stock acquisition right shall be the fair value of the stock acquisition rights, calculated by a fair method, including the Black-Scholes model, as of the date of allocation of the stock acquisition rights.

This paid-in amount shall be offset against the same amount of compensation claims of the allottees against the Company (or, with respect to Directors and employees of the Company’s subsidiaries and Directors of the Company’s affiliates, compensation claims granted by the Company’s subsidiaries or the Company’s affiliates to such persons, which the Company assumes).

5) Class and number of shares to be subject to stock acquisition rights

79,500 shares of Company’s common stock

6) Payment upon exercise of stock acquisition rights

314,800 yen per stock acquisition right (3,148 yen per share)

7) The increase in capital and capital reserves on the issue of shares through the exercise of the stock acquisition rights

a. The increase in capital on issue of shares through the exercise of the stock acquisition rights shall be equal to one-half of the Maximum Amount of Increase in Stated Capital calculated in accordance with Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction less than one yen resulting from such calculation shall be rounded up.

b. The increase in capital reserves on the issue of shares through the exercise of the stock acquisition rights shall be the Maximum Amount of Increase in Stated Capital under a. above minus the amount of the increase in capital described under a. above.

8) Conditions on the exercise of stock acquisition rights

a. A holder of the stock acquisition rights must be a Director, Auditor, or employee of the Company or a Director, Auditor, or employee of an affiliate of the Company (referring to an affiliate as defined in the Ordinance on the Terminology, Forms, and Preparation Methods of Financial Statements, etc.) at the time of exercise of the stock acquisition rights, unless he or she has resigned upon the termination of his or her term of office, retired upon mandatory retirement age, or has other good reason to be exempt from this condition.

b. An heir to a holder of the stock acquisition rights may not exercise the stock acquisition rights.

c. Stock acquisition rights may not be exercised if the exercise of stock acquisition rights would cause the Company's total number of shares issued to exceed its authorized total number of shares to be issued at that time.

d. A stock acquisition right may not be exercised fractionally.

e. A stock acquisition right may not be exercised in violation of the Agreement on Stock Acquisition Rights.

9) Period during which the stock acquisition rights may be exercised

From November 26, 2023, to November 24, 2031 (or the preceding banking business day if November 24, 2031, is not a banking business day)

10) Restrictions on acquisition of stock acquisition rights through a transfer

Approval by resolution of the Company Board of Directors is required to acquire stock acquisition rights through a transfer.