Consolidated Financial Results for the Nine Months Ended September 30, 2022 [Japanese GAAP]

November 11, 2022

Company name:	Golf Digest Online Inc.	
Stock exchange listing:	Tokyo	
Code number:	3319	
URL:	https://www.golfdigest.co.jp	
Representative:	Nobuya Ishizaka	President and CEO
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Scheduled date of filing quarterly securities report: November 14, 2022
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: No

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

1. Consolidated Financial Results for the Nine Months Ended September 30, 2022 (January 01, 2022 to September 30, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2022	33,205	13.8	921	(23.5)	1,026	(15.9)	1,446	82.8
September 30, 2021	29,187	21.6	1,205	510.6	1,221	358.5	791	-

(Note) Comprehensive income: Nine months ended September 30, 2022: ¥ 2,000 million [115.5%]
Nine months ended September 30, 2021: ¥ 928 million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2022	79.29	79.26
September 30, 2021	43.30	43.30

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
September 30, 2022	36,591	9,162	25.0	502.23
December 31, 2021	21,851	7,411	33.9	405.17

(Reference) Equity: As of September 30, 2022: ¥ 9,142 million
As of December 31, 2021: ¥ 7,403 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	-	4.00	-	5.50	9.50
Fiscal year ending December 31, 2022	-	4.00	-		
Fiscal year ending December 31, 2022 (Forecast)				5.50	9.50

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2022(January 01, 2022 to December 31, 2022)

(% indicates changes from the previous corresponding period.)

	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	46,500	17.4	1,590	(6.8)	1,090	(36.5)	1,280	23.6	68.28

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

Since the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29), etc. are applying from the beginning of the fiscal year ending December 31, 2022, the above forecasts reflect the amounts after the application of the accounting standard, etc. However in the calculation for each of percentages, the accounting standard, etc. do not apply to the amounts in the same period of the previous year. Assuming that the accounting standard, etc. applied from the beginning of the fiscal year ending December 31, 2021, the rate of changes for Net sales to the previous year are as follows:

Net Sales: 23.3%

The application of the accounting standard is insignificant on Operating profit, Ordinary profit, and Profit attributable to owners of parent.

* Notes:

(1) Changes in significant subsidiaries during the nine months ended September 30, 2022
(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: Yes
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

(4) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
September 30, 2022: 18,274,000 shares
December 31, 2021: 18,274,000 shares

2) Total number of treasury shares at the end of the period:
September 30, 2022: 70,393 shares
December 31, 2021: 390 shares

3) Average number of shares during the period:
Nine months ended September 30, 2022: 18,241,020 shares
Nine months ended September 30, 2021: 18,273,655 shares

* Consolidated financial results (Japanese GAAP) are not subject to audit.

* Summaries for relevant use of forecasts and other specific affairs

The forward-looking statements described in this document including results forecasts, etc., are based on information currently available to Golf Digest Online Inc. and certain assumptions that are deemed to be reasonable as of the date of the release of this document. Golf Digest Online Inc. makes no warranty as to the achievability of the forecasts. For the basis of presumption of the results forecast, please refer to “1.Qualitative Information on Third Quarter Consolidated Results (3) Overview of Consolidated Earnings Forecast on page 2 of the attached document.

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1. Qualitative Information on Third Quarter Consolidated Results

(1) Overview of Operating Results

During the first nine months under review (January 1, 2022 to September 30, 2022), the coronavirus ("COVID-19") situation gradually improved and consumption activity slowly returned to normal. However, economic uncertainty increased, chiefly due to the rapid depreciation of the yen and disruption in global supply chains as well as increasing concern over global inflation against the backdrop of the Russia-Ukraine war.

In the environment surrounding the Internet, markets such as those for e-commerce and Internet-related services continued to expand. Meanwhile, digital technologies, notable examples of which are those for IoT and AI, continued to evolve, advancing digitization in numerous fields. In the golf market, the demands of golfers were changing day by day, including the permeation of a play style adapted to the new lifestyle required given the influence of COVID-19.

In this environment, the Golf Digest Online Group (the “GDO Group”) offered greater playing comfort and pleasure to golfers as a group of IT service providers specializing in golf, with overwhelming information content and the capacity to provide specialized golf services as its strengths. Furthermore, with the aim of meeting new demand and creating new demand for golf, in accordance with the basic policy of the mid-term strategic plan "LEAD THE WAY" announced in February 2021, GOLFTEC Enterprises LLC ("US GOLFTEC"), which is a consolidated subsidiary, acquired SkyTrak on August 31, 2022. For details, please refer to the "Notice Notice regarding Asset Purchase by Consolidated Subsidiary and Borrowing of Funds" released on August 10, 2022.

As a result, the Group recorded net sales of 33,205 million yen (up 13.8% year on year) during the first nine months under review (January 1, 2022 to September 30, 2022). Meanwhile, the Group posted operating profit of 921 million yen (down 23.5%), mainly due to expenses for the acquisition of SkyTrak and upfront expenses for the additional acquisition of equity interest in US GOLFTEC, and ordinary profit of 1,026 million yen (down 15.9%), primarily owing to the recording of foreign exchange gains. In addition, the Group posted extraordinary income of 844 million yen (compared to 20 million yen in the same period of the previous year) including a gain on the forgiveness of debt recorded by the U.S.-based subsidiary (For details, please see Notice Regarding Posting of Extraordinary Income (gain on forgiveness of debt recorded by the U.S.-based subsidiary) published on February 15, 2022). Consequently, profit attributable to owners of parent stood at 1,446 million yen (up 82.8% year on year).

From the first quarter of the fiscal year under review, the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; the "Revenue Recognition Accounting Standard"), etc. began to be adopted. For details, please see 2. Quarterly Consolidated Financial Statements (4) Notes to the Consolidated Financial Statements (Changes in accounting policies).

The results in each main segment are as follows.

Domestic segment

During the first nine months under review, the domestic segment recorded net sales of 19,943 million yen (down 2.9% year on year) due to the adoption of the Revenue Recognition Accounting Standard from the beginning of the first quarter of the fiscal year under review. Meanwhile, segment profit came to 1,248 million yen (up 1.8% year on year), reflecting an increase in the share of M&A expenses borne by the domestic segment offset by the successful reduction of other SGA expenses and other measures.

Overseas segment

During the first nine months under review, the overseas segment posted net sales of 13,262 million yen (up 53.4% year on year), reflecting successful efforts to tap into strong golf-related demand, including the active opening of corporate centers from the previous fiscal year. Meanwhile, the segment loss was 326 million yen (compared to a segment loss of 21 million yen a year before), chiefly owing to expenses for the acquisition of SkyTrak and upfront expenses for additional acquisition of equity interest in US GOLFTEC.

(2) Overview of Financial Position

Total assets as of September 30, 2022 increased 14,739 million yen from the end of the previous fiscal year, to 36,591 million yen. Liabilities totaled 27,429 million yen at the end of the fiscal year under review, increasing 12,989 million yen from the end of the previous fiscal year. Total net assets as of the same date increased 1,750 million yen from the end of the previous fiscal year, to 9,162 million yen.

In terms of the balances of accounts for main items, merchandise, goodwill, contract liabilities ("Provision for point card certificates" and "Deferred revenue" the previous fiscal year) and long-term borrowings increased by 2,485 million yen, 9,671 million yen, 1,560 million yen, and 8,126 million yen, respectively. Retained earnings increased by 1,264 million yen.

(3) Overview of Consolidated Earning Forecast

On September 22, 2022, the Group revised the consolidated results forecasts for the fiscal year ending December 31, 2022 announced on February 15, 2022. Please refer to the “Notice of Revision to Full-Year Financial Forecast” dated September 22, 2022 for details.

Quarterly Consolidated Financial Statements

Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31,2021	As of September 30,2022
Assets		
Current assets		
Cash and deposits	2,904,770	1,981,294
Accounts receivable - trade	2,689,067	3,188,483
Merchandise	3,219,906	5,705,193
Work in process	601	3,088
Supplies	72,934	145,101
Other	1,671,120	2,232,299
Allowance for doubtful accounts	(15,871)	(18,083)
Total current assets	10,542,529	13,237,377
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,378,001	6,581,778
Other	2,212,636	3,453,336
Accumulated depreciation	(2,775,756)	(3,978,220)
Total property, plant and equipment	3,814,880	6,056,894
Intangible assets		
Goodwill	4,059,538	13,730,546
Other	2,431,668	2,597,590
Total intangible assets	6,491,206	16,328,136
Investments and other assets		
Other	1,009,821	976,028
Allowance for doubtful accounts	(6,925)	(6,925)
Total investments and other assets	1,002,895	969,102
Total non-current assets	11,308,982	23,354,133
Total assets	21,851,512	36,591,511
Liabilities		
Current liabilities		
Accounts payable - trade	2,244,851	3,606,704
Short-term borrowings	2,025,715	2,541,183
Current portion of long-term borrowings	-	952,919
Income taxes payable	258,382	151,659
Deferred revenue	4,751,412	-
Contract liabilities	-	6,311,920
Provision for bonuses	140,000	3,800
Provision for point card certificates	322,183	19,197
Provision for shareholder benefit program	29,782	20,279
Provision for loss on litigation	69,012	-
Other	3,780,084	4,237,192
Total current liabilities	13,621,424	17,844,857
Non-current liabilities		
Long-term borrowings	-	8,126,271
Provision for retirement benefits for directors (and other officers)	109,002	118,005
Provision for share awards for directors (and other officers)	-	10,929
Asset retirement obligations	286,779	322,297
Other	422,934	1,006,952
Total non-current liabilities	818,715	9,584,455
Total liabilities	14,440,140	27,429,313

(Thousand yen)

	As of December 31,2021	As of September 30,2022
Net assets		
Shareholders' equity		
Share capital	1,458,953	1,458,953
Capital surplus	2,447,104	2,447,104
Retained earnings	3,466,545	4,731,081
Treasury shares	(422)	(80,253)
Total shareholders' equity	7,372,180	8,556,885
Accumulated other comprehensive income		
Foreign currency translation adjustment	31,654	585,556
Total accumulated other comprehensive income	31,654	585,556
Share acquisition rights	7,536	19,756
Total net assets	7,411,371	9,162,198
Total liabilities and net assets	21,851,512	36,591,511

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the nine months)

(Thousand yen)

	For the nine months ended September 30,2021	For the nine months ended September 30,2022
Net sales	29,187,467	33,205,876
Cost of sales	16,852,495	21,552,886
Gross profit	12,334,971	11,652,989
Selling, general and administrative expenses	11,129,557	10,731,311
Operating profit	1,205,413	921,678
Non-operating income		
Interest income	84	488
Foreign exchange gains	1,012	377,386
Rental income from real estate	10,939	9,592
Compensation income	6,367	-
Other	8,396	12,527
Total non-operating income	26,800	399,995
Non-operating expenses		
Interest expenses	9,813	37,563
Financing expenses	-	257,018
Other	1,009	108
Total non-operating expenses	10,822	294,691
Ordinary profit	1,221,391	1,026,982
Extraordinary income		
Gain on sale of non-current assets	-	157
Gain on differences between the asset retirement obligation balance and the actual retirement costs	19,114	110
Gain on forgiveness of debts	-	843,719
Gain on reversal of share acquisition rights	1,611	322
Total extraordinary income	20,725	844,309
Extraordinary losses		
Loss on retirement of non-current assets	48,939	36,621
Other	-	2,429
Total extraordinary losses	48,939	39,050
Profit before income taxes	1,193,178	1,832,242
Income taxes - current	354,832	400,623
Income taxes - deferred	47,071	(14,763)
Total income taxes	401,903	385,860
Profit	791,274	1,446,381
Profit attributable to owners of parent	791,274	1,446,381

Quarterly Consolidated Statements of Comprehensive Income (For the nine months)

(Thousand yen)

	For the nine months ended September 30,2021	For the nine months ended September 30,2022
Profit	791,274	1,446,381
Other comprehensive income		
Foreign currency translation adjustment	136,919	553,901
Total other comprehensive income	136,919	553,901
Comprehensive income	928,194	2,000,283
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	928,194	2,000,283

(3) Notes to Consolidated Financial Statements

（Going Concern Assumption）

Not applicable.

（Significant Changes in Shareholders' Equity）

None

(Changes in accounting policies)

(Application of Revenue Recognition Accounting Standard, etc.)

The Group began applying the Revenue Recognition Accounting Standard (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter. Under this standard, the Group recognizes the amount of revenue as that which it expects to be entitled to in exchange for promised goods or services to the customer, and the recognition is made at the time of the transfer of the control of the said goods or services to the customer.

Major changes attributable to the application of the Revenue Recognition Accounting Standard and related measures are as follows.

（1）Sales with return rights

Regarding golf clubs and golf-related goods sold by the Group, the Group repurchases items and accepts returns under certain conditions The Group has changed its previous method of processing repurchases as the purchase of used items when repurchasing and canceling net sales and the cost of sales when receiving returns. Now, the Group will deduct the expected amounts of returns from revenues according to rules on variable consideration, as sales with return rights, and post this amount as refund liabilities, while recognizing assets pertaining to rights to collect products to be returned.

（2）Principal/agent

For transactions in which the role of the Group in the sale of goods or provision of services to customers is that of an agent, the Group has changed its previous method of recognizing the total amount of consideration received from customers as revenue to the method of recognizing revenue at the net amount after deducting the amount paid to third parties from the total consideration.

（3）Revenue recognition related to the Group's point system

In conjunction with the point system operated by the Group, it has changed the past method of posting expenses that it bears in association with the future use of points as provisions. Now, if such points offer important rights to customers, the Group will identify provided points as obligation that it should fulfill, and defer the posting of revenue until goods or various types of services are provided through the use of points.

（4）Consideration to be paid to customers

The Group has changed the previous method of posting expenses pertaining to coupons that customers may use to purchase goods and various types of services that the Group provides. Now, these expenses are treated as consideration to be paid to customers and therefore reduced from net sales.

The Revenue Recognition Accounting Standard is applied according to the provisional measures stipulated in the proviso in Paragraph 84 of the standard. With respect to the application of a new accounting policy, it is applied to the balance of retained surplus at the beginning of the first quarter of the fiscal year under review. This balance of retained surplus is obtained through calculation using the cumulative amount of the impact from retrospective application of the new accounting policy to periods prior to the beginning of the first quarter, either by adding it to or deducting it from the retained surplus.

However, applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the Group does not retroactively apply the new accounting policy to the contracts almost all of whose revenue was recognized in compliance with the conventional method before the beginning of the first quarter of the fiscal year under review. In addition, the Group accounts for all contract changes made prior to the beginning of the first quarter of the fiscal year under review by applying the method prescribed in (1) of Paragraph 86 of the Revenue Recognition Accounting Standard based on the contract terms, after reflecting all contract changes, and added or subtracted their cumulative effect to or from retained earnings at the beginning of the first quarter of the fiscal year under review.

As a result, net sales for the nine months of the fiscal year under review decreased by 1,738,379 thousand yen, and cost of sales by 947,737 thousand yen. Operating profit, ordinary profit and profit before income taxes declined by 24,644 thousand yen each. In addition, the beginning balance of retained earnings decreased 1,790 thousand yen.

As a result of the application of the Revenue Recognition Accounting Standard, the Group has decided to present part of the advances received and the provision for point card certificates, which was presented in current liabilities on the consolidated balance sheet for the previous fiscal year, by including them in contract liabilities starting from the first quarter of the fiscal year under review.

In accordance with the transitional measures stipulated in paragraph 89-2 of the standard, the reported amounts for the previous fiscal year and for the first nine months of the previous year thereof have not been reclassified to conform with the current classifications.

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

We started to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter the "Fair Value Measurement Accounting Standard") at the beginning of the first quarter of the fiscal year under review. Accordingly, we have decided to continue to apply the new accounting policies specified in the Fair Value Measurement Accounting Standard and related measures according to the provisional treatment prescribed in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application of the Fair Value Measurement Accounting Standard and others mentioned above have no impact on quarterly consolidated financial statements.

(Additional information)

(Additional acquisition of equity interest in consolidated subsidiary)

At a meeting of its Board of Directors held on September 22, 2022, the Company resolved that GDO Sports, Inc. (Headquarters: California, US; "GDOS"), a wholly owned subsidiary of the Company based in the US, would additionally acquire a 37.0% equity interest in its subsidiary GolfTEC Enterprises, LLC (Headquarters: Colorado, US; "US GOLFTEC") from GTE Step1 HoldCo LLC (Headquarters: Colorado, US), making US GOLFTEC into a 97.0%-owned subsidiary of GDOS.

1. Reason for the additional acquisition of equity interest

Uniquely offering lessons and golf club fittings customized to suit each individual based on three levels of data—swing data, ball and golf club data, and user profile data—derived from world-leading technology, US GOLFTEC, a consolidated subsidiary of the Company, has over 230 locations in six countries including the US as well as Canada and the Southeast Asian region and provides over 1.5 million lessons annually by over 900 accredited coaches.

The US golf market has seen new technology and the COVID-19 situation impact golfing habits and the way people enjoy golf, and there has been an increase in ways to enjoy golf outside the golf course as well as golf becoming a closer part of players' lives.

Under this environment, US GOLFTEC, under the basic policy of the Company's mid-term strategic plan

“LEAD THE WAY” announced in February 2021, has adopted a growth strategy focused on expanding locations and is engaging in its business operations to achieve such strategy. With its sights on further growth and expansion, US GOLFTEC has adopted its concept “GOLFTEC ANYWHERE,” aimed at offering more golfers world-class know-how to improve their performance for all scenes and locations based on its conventional one-on-one lessons.

Since the Company’s acquisition of 60.0% of US GOLFTEC’s equity interest, making US GOLFTEC a subsidiary of the Company in July 2018, and up to today, the Company and GTE Step1 HoldCo LLC, a joint venture partner of US GOLFTEC, have steadily expanded the business while establishing a favorable partnership. As a result, US GOLFTEC, which was in a state of insolvency when it became a subsidiary of the Company, is expected to resolve its insolvency during the 2022 fiscal year. To accelerate the long-term expansion of profits by realizing the “GOLFTEC ANYWHERE” concept, the Company has now decided to increase GDOS's equity interests in US GOLFTEC.

2. Outline of subsidiary in which the investment will be made

(1) Name: GolfTEC Enterprises, LLC

(2) Location: 67 Inverness Drive East, Suite 175, Englewood, Colorado 80112, U.S.A.

(3) Business activities: Operation of IT-based golf lesson service business at a total of 232 facilities, as of end of June 2022, under direct control or as a franchise, mainly in the United States and Canada

(4) Financial information for the fiscal year ended December 31, 2021

Consolidated net sales: 108.6 million USD

Consolidated total assets: 76.6 million USD

Consolidated net assets: -4.6 million USD

Amount of capital: approx. 17.1 million USD

(5) Established: October 24, 2001

3. Overview of the party from which equity interest is acquired

(1) Name: GTE Step1 HoldCo LLC

(2) Location: 67 Inverness Drive East, Suite 175, Englewood, Colorado 80112, U.S.A.

(3) Business activities: Management of equity interest in GolfTEC Enterprises, LLC

(4) Established: May 23, 2018

4. Acquisition cost and status of equity interest

(1) Equity interest before additional acquisition: 60.0%

(2) Additionally acquired equity interest: 37.0%

(3) Acquisition cost: approx. 85.7 million USD (approx. 12.2 billion JPY) *1 USD = 142 JPY

(4) Equity interest after additional acquisition: 97.0%

5. Schedule

(1) Board of Directors resolution: September 22, 2022

(2) Conclusion of the agreement: September 22, 2022

(3) Effective date of additional acquisition of equity interest: November 30, 2022 (plan)

6. Funding method

The additional acquisition of equity interest will be funded through the issuance of Class A class shares to Fivestar Mezzanine No.2 Investment Limited Partnership and borrowing from main banks.

(Issuance of preferred shares)

At a meeting of its Board of Directors held on September 22, 2022, the Company resolved to issue Class A Preferred Shares by way of third-party allotment. The funds raised will be used to cover the cost of the additional acquisition of equity interest in US GOLFTEC described in "Additional acquisition of equity interest in consolidated subsidiary" in this additional information.

The third-party allotment is conditional upon approval at an Extraordinary General Meeting of Shareholders of the Company to be held on November 24, 2022. Details of the third-party allotment are as shown below.

1. Outline of the issuance of Class A class shares

(1)	Payment date	November 25, 2022
(2)	Number of new shares to be issued	60,000 Class A preferred shares
(3)	Issue price	100,000 yen per share
(4)	Total amount to be paid in	6,000,000,000 yen
(5)	Offering or allotment method (Scheduled allottees)	All the Class A Preferred Shares will be allotted to Fivestar Mezzanine No.2 Investment Limited Partnership by way of third-party allotment.
(6)	Other	(1) Preferred dividend Shareholders of the Class A Preferred Shares (“Class A Preferred Shareholders”) are entitled to receive dividends in preference to shareholders of common shares ("Common Shareholders"). The amount of preferred dividend will be calculated by prorating the value obtained by multiplying 100,000 yen by the preferred dividend rate. The preferred dividend rate is initially 6.50% per annum, to which 0.5% per annum will be added for each year that passes after the payment date. If there is a shortfall in preferred dividends in any given business year, such shortfall amount will accumulate in the following or subsequent business years. The Class A Preferred Shares are non-participatory, and Class A Preferred Shareholders may not receive common dividends in addition to such preferred dividends. (2) Redemption right The Class A Preferred Shares are redeemable for cash. Under the conditions of issuance of the Class A Preferred Shares, a Class A Preferred Shareholder may, in principle, at any time on or after the payment date make a demand that the Company acquire all or part of the Class A Preferred Shares for cash (a “Redemption Demand”), but pursuant to the provisions of the Investment Agreement the cases in which the Scheduled Allottee is entitled to make a Redemption Demand are limited to when the date November 25, 2027 has passed or where other certain grounds are met. The amount of cash to be delivered to a Class A Preferred Shareholder who exercises the redemption right attached to the Class A Preferred Shares is the amount per Class A Preferred Share equal to the paid-in amount plus the accumulated unpaid preferred dividends and preferred dividends prorated amount as of the pro rata calculation record date which is the date on which the Redemption Demand becomes effective. (3) Mandatory redemption The Class A Preferred Shares are subject to mandatory redemption for cash at the option of the Company. The Company may acquire all or part of the Class A Preferred Shares upon the arrival of a date prescribed separately by the Board of Directors of the Company (the “Mandatory Redemption Date”) which is not earlier than November 25, 2022 (and excluding the period from November 25, 2024 to May 24, 2025). The amount of cash to be delivered to Class A Preferred Shareholders when the Company exercises the mandatory redemption option attached to the Class A Preferred Shares is the amount per Class A Preferred Share equal to the paid-in amount plus the accumulated unpaid preferred dividends and preferred dividends prorated amount as of the pro rata calculation record date which is the Mandatory Redemption Date. (4) Voting rights The Class A Preferred Shares are non-voting shares under the Companies Act, and Class A Preferred Shareholders do not have voting rights at shareholders meetings except as otherwise prescribed by law. (5) Transfer restriction

	The Class A Preferred Shares are not subject to restrictions on transfer, but pursuant to the provisions of the Investment Agreement the consent of the Company is required for any transfer of the Class A Preferred Shares. The Company executed the Investment Agreement with the Scheduled Allottee on September 22, 2022. The capital increase by third-party allotment is subject to the condition that the proposal on the capital increase by third-party allotment and the proposal on partial amendments to the Articles of Incorporation are approved as proposed at the Extraordinary General Meeting of Shareholders. Under the Investment Agreement, the payment for the Class A Preferred Shares by the Scheduled Allottee is subject to conditions such as that the proposal on the capital increase by third-party allotment and the proposal on partial amendments to the Articles of Incorporation are approved as proposed at the Extraordinary General Meeting of Shareholders.

(Reduction of share capital and legal capital surplus)

At a meeting of its Board of Directors held on September 22, 2022, the Company resolved to reduce the amount of its share capital and legal capital surplus in respect of the full amount by which the share capital and legal capital surplus will increase as a result of the incorporation of the paid-in amount for the Class A Preferred Shares into the share capital and legal capital surplus, effective as of the payment date for the issuance of Class A Preferred Shares by way of the third-party allotment (the “Reduction in Amount of Share Capital, Etc.”).

1. Purpose of Reduction in Amount of Share Capital, Etc.

At a meeting of its Board of Directors held on September 22, 2022, the Company decided to reduce the amounts of share capital and legal capital surplus and to transfer the amount to other capital surplus.

The Reduction in Amount of Share Capital, Etc. will be conditional upon the capital increase by third-party allotment described in "Issuance of preferred shares" in this additional information becoming effective.

2. Amount of Reduction in Amount of Share Capital, Etc.

(1) Amount by which share capital is to be reduced
3,000,000,000 yen

(2) Amount by which legal capital surplus is to be reduced
3,000,000,000 yen

(3) After implementing the Reduction in Amount of Share Capital, Etc. as described above in accordance with the provisions of Article 447, Paragraph 1, and Article 448, Paragraph 1, of the Companies Act, the Company will transfer the entire amounts by which the share capital and legal capital surplus are reduced to other capital surplus. The Reduction in Amount of Share Capital, Etc. is a process of transferring share capital and legal capital surplus to the accounts of other capital surplus in the net assets section of the Company’s balance sheet and will not change the amount of consolidated net assets of the Company, and there will be no impact on the Company’s consolidated financial results.

3. Schedule

Board of Directors resolution September 22, 2022
Announcement to creditors for submitting their objections September 26, 2022
Deadline for creditors’ objections October 26, 2022
Effective date November 25, 2022 (plan)

(Segment Information, etc.)

(Segment information)

1. Information on net sales and amount of profit or loss by each reported segment

Previous consolidated cumulative third quarter (From January 1, 2021 to September 30 2021)

(Thousands of yen)

	Reported segment			Adjustment (Note) 1	Amount booked in the consolidated financial statements (Note) 2
	Domestic	Overseas	Total		
Net sales					
Net sales to external customers	20,543,843	8,643,623	29,187,467	—	29,187,467
Internal sales or transferred amount between segments	–	52,998	52,998	(52,998)	–
Total	20,543,843	8,696,622	29,240,466	(52,998)	29,187,467
Segment profit or loss	1,226,717	(21,304)	1,205,413	—	1,205,413

Note:

1. Adjustments to segment sales are eliminations between segments

2. Segment profit or loss (-) are consistent with operating profit in the consolidated Statements of Income.

Consolidated cumulative second quarter (From January 1, 2022 to September 30, 2022)

(Thousands of yen)

	Reported segment			Adjustment (Note) 1	Amount booked in the consolidated financial statements (Note) 2
	Domestic	Overseas	Total		
Net sales					
Net sales to external customers	19,943,785	13,262,090	33,205,876	–	33,205,876
Internal sales or transferred amount between segments	–	35,081	35,081	(35,081)	–
Total	19,943,785	13,297,172	33,240,957	(35,081)	33,205,876
Segment profit or loss	1,248,353	(326,675)	921,678	–	921,678

Note:

1. Adjustments to segment sales are eliminations between segments

2. Segment profit is consistent with operating profit in the consolidated statements of income.

2. Matters Concerning Changes in Reportable Segment and Others

As stated in (Changes in accounting policies), the Company began applying the Revenue Recognition Accounting Standard, etc., and changed the method of accounting in connection with revenue recognition from the first quarter of the fiscal year under review. Accordingly, the Company changed the method of calculating profits and losses for its business segments.

As a result of said change, the sales of the Domestic segment for the consolidated cumulative third quarter decreased by 1,738,379 thousand yen and segment income decreased by 24,644 thousand yen compared with the previous method.