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Consolidated Financial Results for the Nine Months Ended May 31, 2023 [Japanese GAAP]

July 14, 2023

Company name: Valence Holdings Inc. Stock exchange listing: Tokyo Stock Exchange
 Securities code: 9270 URL: <https://www.valence.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: July 14, 2023 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 nine months ended May 31, 2023 (September 1, 2022 to May 31, 2023)

(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	%
Nine months ended May 31, 2023	53,673	20.9	1,340	43.5	1,238	40.9	640	74.1
Nine months ended May 31, 2022	44,399	18.7	934	105.0	879	240.5	367	(20.0)

Note: Comprehensive income: Nine months ended May 31, 2023 596 million yen [26.4%] Nine months ended May 31, 2022 471 million yen [(3.6)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended May 31, 2023	49.70	49.41
Nine months ended May 31, 2022	27.97	27.80

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio
	Million yen	Million yen	%
As of May 31, 2023	28,709	8,407	28.1
As of August 31, 2022	23,249	7,853	32.4

(Reference only) Equity: As of May 31, 2023 8,054 million yen As of August 31, 2022 7,536 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 2022	—	0.00	—	25.00	25.00
Fiscal year ending in August 2023	—	0.00	—		
Fiscal year ending in August 2023 (forecast)				30.00	30.00

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

3. Consolidated financial results forecast for the fiscal year ending in August 2023 (September 1, 2022 to August 31, 2023)

(% 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	75,000	18.3	2,500	32.4	2,350	31.2	1,240	27.9	96.12

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: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatements: None

(4) Number of shares of common stock issued

1) Number of shares issued at the end of the period (including treasury shares)

As of May 31, 2023	13,427,550 shares	As of August 31, 2022	13,335,620 shares
As of May 31, 2023	496,530 shares	As of August 31, 2022	483,653 shares
Nine months ended May 31, 2023	12,890,557 shares	Nine months ended May 31, 2022	13,155,752 shares

2) Number of shares of treasury shares at the end of the period

3) Average number of shares of common stock during the period

* 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.

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1. Qualitative information on quarterly financial results

(1) Explanation of business results

The reuse industry in which the Company Group operates is expected to continue to grow. The size of the reuse market increased by 11.7% year on year to 2,698.8 billion yen in 2021 and is expected to reach 3.5 trillion yen in 2025 (source: “2022 Estimate of the Reuse Industry’s Market Size (2021 Edition)” published by The Japan Journal of Remodeling (September 2022)).

The Company Group aims to become a “Circular Design Company” by 2030, with “Circular Design for the Earth and Us” as the Company Group’s purpose. This commitment is based on the awareness that it is critical for the Company Group to enhance sustainability, including that for the Earth’s environment, and establish a medium- to long-term competitive edge.

The Company Group had formulated and announced in October 2020 the VG1000 mid-term management plan, which covers the period through the fiscal year ending in August 2025. As the second year of the mid-term management plan, the fiscal year ended in August 2022, came to a close, the plan has been revised into “VG1000 ver2.0”, which was announced in October 2022. The Company Group will advance its business with strategies to expand the existing CtoBtoB model worldwide, to shore up retail sales for both domestic and global markets, and to transform into a recurring revenue model through enhanced relationships with customers and partners. The period covered by the existing mid-term management plan is positioned as a period for forward-looking outlays to implement and enhance all the functions necessary for a leap forward in the fiscal year ending in August 2026 and beyond. Even so, the Company Group aims to achieve profit growth while making those investments under the plan.

The Company Group positions the fiscal year ending in August 2023 as the year for prioritizing investments in human resources in particular. The Company Group plans not only to staff up in preparation for the reacceleration of office openings and business expansion, but also to make proactive investments in human resources, including programs for employees to improve their capabilities and learn new skills.

As a result of the business activities based on the above plan, the Company Group’s consolidated financial results for the nine months under review were as follows.

(Unit: million yen)

	Previous nine-month period (from September 1, 2021 to May 31, 2022)	Nine months under review (from September 1, 2022 to May 31, 2023)	Year-on-year change	
			Amount	Percentage
Net sales	44,399	53,673	9,274	20.9%
Operating profit	934	1,340	406	43.5%
Ordinary profit	879	1,238	359	40.9%
Profit attributable to owners of parent	367	640	272	74.1%

With regard to purchases, the Company Group took efficient steps to increase customer traffic, such as new office openings and web marketing. Furthermore, with an aim to further expand purchasing, the Company Group is strengthening efficient purchases through alliances with other industries. As a result of these initiatives, purchases during the nine months under review totaled 40,689 million yen (up 4,314 million yen, or 11.9%, from the previous corresponding period).

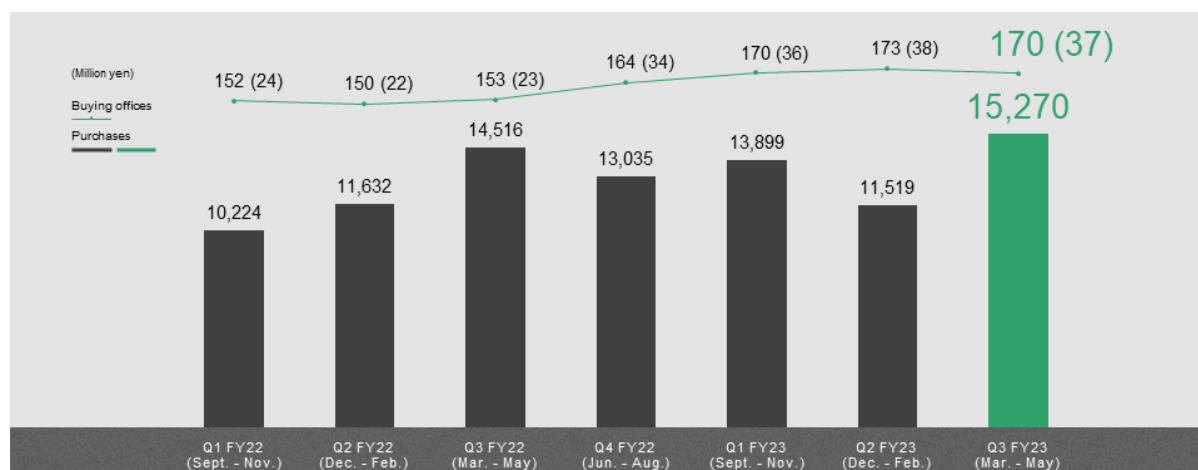
With regard to buying office development, the Company Group has been implementing initiatives to maximize office efficiency, including closing unprofitable offices, while building a more convenient office network through new office openings and office relocations. As a result, the total number of buying offices of the Company Group as a whole as of the end of the nine months under review amounted to 133 offices in Japan and 37 offices overseas.

Purchases for the third quarter of the current fiscal year totaled 15,270 million yen (up 753 million yen, or 5.2%, from the previous corresponding period), reaching a record high. Results are becoming strong, especially in watches and bullion, with factors such as the watch market, which trended downward after peaking in February 2022, stopping the decline and on a recovery trend, and the bullion market reaching a record high price.

The above purchases do not include purchases made by YONE MOTORS CORPORATION.

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

Purchases and Buying Offices



*1 No. of buying offices includes overseas buying offices. Nos. in parentheses indicate overseas buying offices.

*2 Excludes purchases made by YONE MOTORS CORPORATION, which have been on the consolidated PL since Q3 FY23.

With respect to selling operations, net sales in each sales channel, including the Company Group's own auction, the STAR BUYERS AUCTION ("SBA"), were favorable.

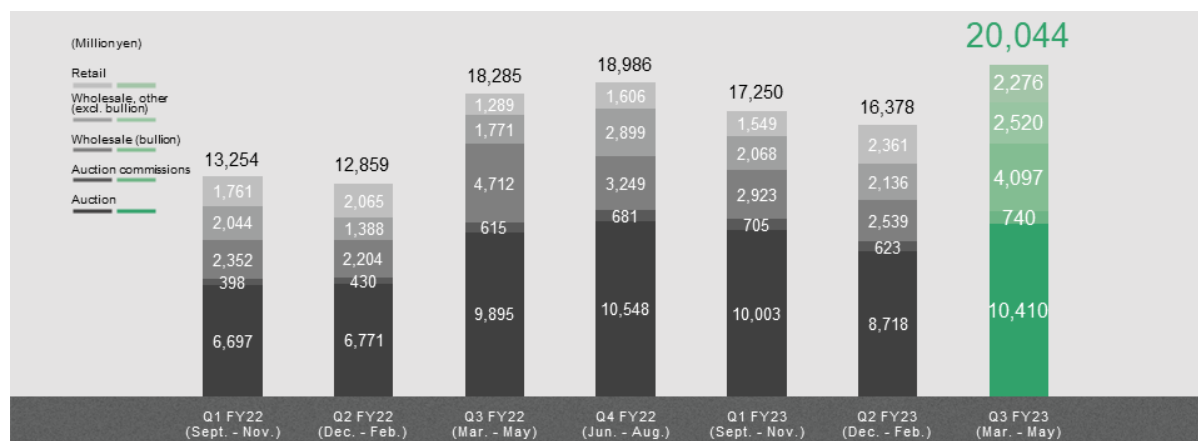
Not only domestic partners but also many overseas partners participate in the SBA, and its recognition as a global platform specializing in luxury brand items has increased. As a result, net sales from Auction totaled 29,132 million yen (up 5,768 million yen, or 24.7%, from the previous corresponding period) during the nine months under review. In addition, winning bids on consignments at Auction grew following the decision to provide free-of-charge listing of consigned items along with starting to provide new SaaS functionality from March 2023. Consequently, net sales from Auction commissions amounted to 2,068 million yen (up 623 million yen, or 43.2%, from the previous corresponding period) during the nine months under review.

As retail measures, the Company Group sought to shore up retail sales by deepening its relationships with customers in addition to raising awareness of the ALLU brand, through efforts such as the opening of ALLU Shinsaibashi in December 2022 and holding ALLU Auctions every quarter from January 2023. As a result, retail net sales amounted to 6,186 million yen (up 1,069 million yen, or 20.9%, from the previous corresponding period) during the nine months under review.

In addition, net sales for the third quarter of the current fiscal year amounted to 20,044 million yen (up 1,758 million yen, or 9.6%, from the previous corresponding period), a record high. Sales increased for each channel due to strong purchases, and net sales from Auction and net sales from Retail amounted to 10,410 million yen (up 515 million yen, or 5.2%, from the previous corresponding period) and 2,276 million yen (up 986 million yen, or 76.5%, from the previous corresponding period), respectively. Also, winning bids on consignments at Auctions grew significantly, and net sales from Auction commissions were 740 million yen (up 124 million yen, or 20.2%, from the previous corresponding period)

Quarterly net sales by channel are as follows.

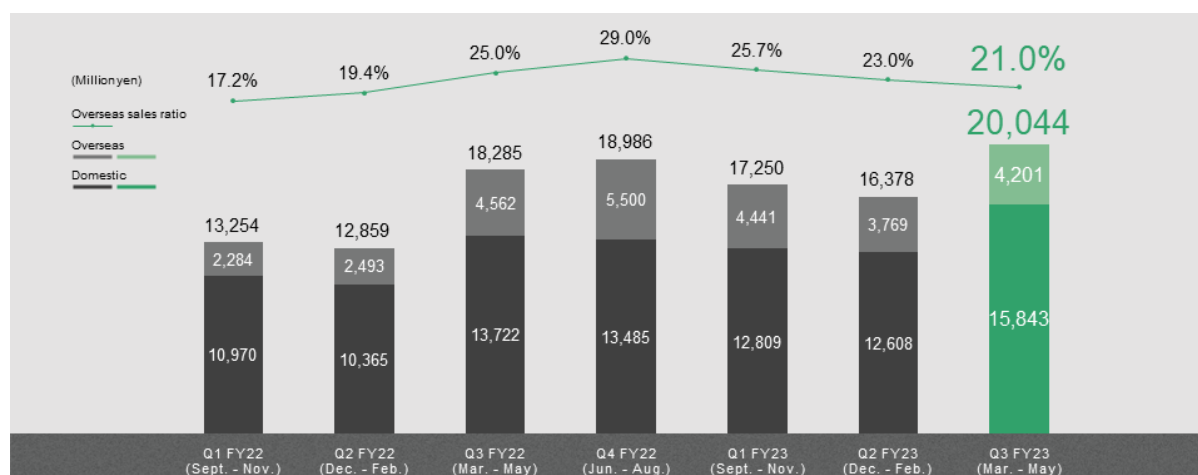
Net Sales by Channel



* Sales of YONE MOTORS CORPORATION are included in wholesale, other (excl. bullion).

In the third quarter of the current fiscal year, domestic net sales reached 15,843 million yen (up 2,120 million yen, or 15.5%, from the previous corresponding period) mainly due to an increase in net sales from retail with the recovery in inbound demand and an increase in the number of domestic partners winning bids on our auctions. In addition, the ratio of overseas sales to total net sales was 21.0%, trending to a high level. Quarterly net sales (in domestic and overseas) are as follows.

Net Sales (Domestic, Overseas)



The gross profit margin for the nine months under review was 26.8% (up 0.9 percentage points from the previous corresponding period), mainly owing to a decrease in the wholesale (bullion) proportion from the previous nine-month period in addition to significant recovery due to the growth in net sales from retail from the recovery in inbound demand and winning bids on consignments at our auctions.

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.

(2) Explanation of financial conditions

(Assets)

As of the end of the nine months under review, total current assets were 20,267 million yen, up 3,463 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 879 million yen in cash and deposits following fund raising and an increase of 2,248 million yen in merchandise including the impact of making YONE MOTORS CORPORATION a subsidiary. Total non-current assets were 8,441 million yen, up 1,996 million yen from the end of the previous consolidated fiscal year, mainly due to an increase of 989 million yen in property, plant and equipment resulting from the new opening of a store, the relocation of the head office, etc., an increase of 666 million yen in goodwill associated with making YONE MOTORS CORPORATION a subsidiary, and an increase of 400 million yen in other intangible assets, including software and software in progress resulting from system development. As a result, total assets were 28,709 million yen, up 5,459 million yen from the end of the previous consolidated fiscal year.

(Liabilities)

Total current liabilities as of the end of the nine months under review were 15,864 million yen, up 1,544 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 498 million yen in short-term loans payable due to fund raising, an increase of 200 million yen in current portion of bonds payable, an increase of 463 million yen in current portion of long-term loans payable, and an increase in other current liabilities such as accrued expenses caused by the free rent contract of new offices. Total non-current liabilities were 4,437 million yen, up 3,362 million yen from the end of the previous consolidated fiscal year, mainly due to an increase of 700 million yen in bonds payable and an increase of 2,327 million yen in long-term loans payable. As a result, total liabilities were 20,301 million yen, up 4,906 million yen from the end of the previous consolidated fiscal year.

(Net assets)

Total net assets as of the end of the nine months under review were 8,407 million yen, up 553 million yen from the end of the previous consolidated fiscal year. This was mainly due to a decrease due to dividend payments, offset by an increase of 319 million yen in retained earnings due to the recording of profit attributable to owners of parent and an increase of 242 million yen in capital stock and capital surplus following the issuance of new shares.

(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 2023 announced on April 14, 2023.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (August 31, 2022)	Nine months under review (May 31, 2023)
Assets		
Current assets		
Cash and deposits	7,807,795	8,687,281
Accounts receivable - trade	605,782	593,583
Merchandise	6,329,008	8,577,671
Consumption taxes refund receivable	1,378,773	1,331,515
Other	959,575	1,397,519
Allowance for doubtful accounts	(276,876)	(319,938)
Total current assets	16,804,058	20,267,632
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	2,149,422	3,002,793
Other (net)	697,049	832,747
Total property, plant and equipment	2,846,472	3,835,540
Intangible assets		
Goodwill	—	666,242
Other	852,375	1,252,609
Total intangible assets	852,375	1,918,852
Investments and other assets		
Shares of subsidiaries and associates	265,142	260,621
Guarantee deposits	1,604,581	1,472,940
Other	877,876	954,270
Allowance for doubtful accounts	(806)	(297)
Total investments and other assets	2,746,795	2,687,535
Total non-current assets	6,445,643	8,441,928
Total assets	23,249,702	28,709,560

(Unit: thousand yen)

	Previous consolidated fiscal year (August 31, 2022)	Nine months under review (May 31, 2023)
Liabilities		
Current liabilities		
Accounts payable – trade	244,150	341,265
Short-term loans payable	11,900,793	12,399,088
Current portion of bonds payable	–	200,000
Current portion of long-term loans payable	88,440	551,667
Income taxes payable	395,198	124,410
Provision for bonuses	256,992	358,240
Asset retirement obligations	166,864	72,307
Other	1,267,925	1,817,408
Total current liabilities	14,320,364	15,864,386
Non-current liabilities		
Bonds payable	–	700,000
Long-term loans payable	306,090	2,633,509
Asset retirement obligations	585,770	877,719
Other	183,508	226,149
Total non-current liabilities	1,075,369	4,437,377
Total liabilities	15,395,734	20,301,764
Net assets		
Shareholders' equity		
Capital stock	1,146,335	1,219,780
Capital surplus	1,256,619	1,425,798
Retained earnings	5,602,463	5,921,868
Treasury shares	(668,240)	(668,432)
Total shareholders' equity	7,337,177	7,899,014
Accumulated other comprehensive income		
Foreign currency translation adjustment	199,386	155,342
Total accumulated other comprehensive income	199,386	155,342
Share acquisition rights	317,403	353,439
Total net assets	7,853,967	8,407,796
Total liabilities and net assets	23,249,702	28,709,560

(2) Quarterly consolidated statements of income and comprehensive income
(Quarterly consolidated statement of income)
(For the nine months ended May 31)

(Unit: thousand yen)

	Previous nine-month period (from September 1, 2021 to May 31, 2022)	Nine months under review (from September 1, 2022 to May 31, 2023)
Net sales	44,399,431	53,673,711
Cost of sales	32,893,402	39,272,480
Gross profit	11,506,028	14,401,230
Selling, general and administrative expenses	10,571,875	13,060,686
Operating profit	934,153	1,340,544
Non-operating income		
Interest income	62	267
Gain on valuation of derivatives	4,990	2,420
Subsidy income	3,000	14,058
Other	16,925	16,102
Total non-operating income	24,979	32,848
Non-operating expenses		
Interest expenses	44,769	56,761
Foreign exchange losses	11,145	41,658
Share of loss of entities accounted for using equity method	18,789	4,521
Other	4,871	31,527
Total non-operating expenses	79,576	134,469
Ordinary profit	879,556	1,238,923
Extraordinary income		
Gain on forgiveness of debts	-	95,870
Total extraordinary income	-	95,870
Extraordinary losses		
Impairment loss	59,016	165,015
Office relocation expenses	-	63,335
Total extraordinary losses	59,016	228,350
Profit before income taxes	820,540	1,106,443
Income taxes - current	482,713	507,742
Income taxes - deferred	(30,161)	(42,003)
Total income taxes	452,552	465,739
Profit	367,988	640,704
Profit attributable to owners of parent	367,988	640,704

(Quarterly consolidated statement of comprehensive income)
(For the nine months ended May 31)

(Unit: thousand yen)

	Previous nine-month period (from September 1, 2021 to May 31, 2022)	Nine months under review (from September 1, 2022 to May 31, 2023)
Profit	367,988	640,704
Other comprehensive income		
Foreign currency translation adjustment	103,989	(44,044)
Total other comprehensive income	103,989	(44,044)
Comprehensive income	471,977	596,659
Comprehensive income attributable to:		
Owners of parent	471,977	596,659

(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)

YONE MOTORS CORPORATION has been newly included in the scope of consolidation as the Company acquired all of its shares during the second quarter of the current fiscal year.

In addition, the newly established VALUENCE INTERNATIONAL MEA TRADING L.L.C has been newly included in the scope of consolidation since the third quarter of the current fiscal year.

(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)

Not applicable