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Consolidated Financial Report for the Second Quarter of The Fiscal Year Ending March 31, 2024 (Japanese GAAP)

November 14, 2023

Company: Chikaranomoto Holdings Co., Ltd. Tokyo Stock Exchange
 Stock Code: 3561
 URL: <http://www.chikaranomoto.com/>
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 Scheduled Date of Q2 report submission November 14, 2023
 Preparation of Supplementary Explanation Material for Financial Results: Yes
 Presentation Meeting for Financial Results (for institutional investors and analysts): No

1. Q2 Financial Year Ending March 31, 2024 (April 1, 2023 – September 30, 2023) (Rounded down to the nearest Million JPY)

(1) Results of Consolidated Operations (% indicates variance from the previous fiscal year)

	Revenue		Operating Income		Ordinary Income		Income Attributable to the Company	
	Million JPY	%	Million JPY	%	Million JPY	%	Million JPY	%
Q2 FY2023-24	14,879	27.3	1,350	68.9	1,491	60.4	1,032	48.7
Q2 FY2022-23	11,691	33.5	799	204.3	929	272.6	694	580.3

Note: Comprehensive Income Q2 FY2023-24 1,290 Million JPY (37.3%) Q2 FY2022-23 939 Million JPY (252.3%)

	Quarterly earnings per share	Quarterly Earnings per share after adjusting for dilution
	JPY	JPY
Q2 FY2023-24	34.42	34.19
Q2 FY2022-23	25.33	25.04

(2) Consolidated Financial Position

	Total Assets	Net Equity	Equity Ratio
	Million JPY	Million JPY	%
Q2 FY2023-24	16,644	8,339	50.1
FY2022-23	17,477	7,640	43.7

Reference : Shareholders' Equity Q2 FY2023-24 8,339 Million JPY FY2022-23 7,640 Million JPY

2 . Dividends

	Dividends per share (annual)				
	Q1	Q2	Q3	Q4	Total
	JPY	JPY	JPY	JPY	JPY
FY2022-23	-	0.00	-	15.00	15.00
FY2023-24	-	7.00			
FY2023-24 (Forecast)			-	7.00	14.00

Note: Changes from previously announced dividends projection: None

3 . Forecast of Consolidated Operating Performance for the FY 2023-24 (April 1, 2023 to March 31, 2024)

(% indicates variance from the previous year)

	Revenue		Operating Income		Ordinary Income		Income Attributable to the Company		Earnings per share
	Million JPY	%	Million JPY	%	Million JPY	%	Million JPY	%	JPY
FY2023-24	31,500	20.6	3,100	35.9	3,250	40.0	2,250	38.2	74.67

Note: Changes from previously announced projection: Yes

Notes

- (1) Changes in key subsidiaries during the period (Changes regarding specific companies accompanying changes in the scope of consolidation): None
- (2) Changes in accounting policies, accounting estimates, and restatement of error corrections:
 - 1) Changes in accounting policies arising from revision of accounting standards: None
 - 2) Changes in accounting policies due to reasons other than 1): None
 - 3) Changes in accounting estimates: None
 - 4) Restatement of prior period financial statements after error correction: None
- (3) Number of Shares Issued (Common stock)

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

② Number of treasury stock at end of period

③ Average number of shares during the period

Q2 FY2023-24	30,134,400 shares	As of March 31, 2024	30,075,400 Shares
Q2 FY2023-24	155,941 Shares	As of March 31, 2024	87,041 Shares
Q2 FY2023-24	30,002,210 Shares	Q2 FY2022-23	27,422,667 Shares

Note: The total number of treasury shares at the end of period includes those treasury shares held under the Board Benefit Trust (at the end of Q2 FY2023-24 73,100 shares) and the Employee Stock-ownership Program (ESOP) (at the end of Q2 FY2023-24 82,700 shares and at the end of the previous fiscal year 86,900 shares). Also, these treasury shares are excluded from the calculation of the average number of shares during the period (at the end of Q2 FY2023-24 98,315 shares and at the end of Q2 FY2022-23 89,371 shares).

These consolidated financial reports (Tanshin) are exempt from the audit procedures by certified public accountants or audit firms.

Cautionary Statement on the forecast of consolidated financial performance and other notes

(Cautions concerning forward-looking statements)

Performance forecasts presented herein are based on the information available to Chikaranomoto Holdings Co., Ltd. and its subsidiaries (the "Company") as of the date of this document. Accordingly, there remains the possibility that the actual performance results may differ from projections.

(Supplementary Explanation Material)

Supplementary Explanation Material are available via TDnet on the same day.

Qualitative Information regarding the current quarterly financial results: The following forward-looking statements are based on the information available to the Company at the end of the second quarter of the current consolidated financial period.

Summary of Operating Results:

As for the overall economic environment during the second quarter of the current consolidated financial period, there were upwards pressure on raw materials and energy prices caused by Russia-Ukraine situation, rising wages around the world due to shortage of working population, and unease about economic momentum due to potential fiscal tightening to battle the persistent inflationary trends, leading to an uncertain economic outlook.

In the restaurant industry where the company operates, domestically, there are signs of gradual economic recovery thanks to legal downgrading of the status of Covid-19, leading to more active movement of people and recovery of inbound tourism due to lifting of entry requirements. On the other hand, hardships remain due to increased raw materials and energy costs, wage increases, continuously weakened Yen and general inflationary trends of prices of goods. Internationally, similar trends of increased prices of raw materials and energy due to geopolitical instabilities can be seen, as well as concerns over potential down trend of economies due to fiscal tightening to tame inflation.

Under such circumstances, the Company stays true to its principle of "Keep Changing to Remain Unchanged," domestically, collaborated with various parties to enhance its brand image and received much media attention, while periodically introducing seasonal menu items, participating in various events around the country, and received much media attention which all led to an increase in the number of customers. Additionally, the Company continues its pursuit of operational efficiency by introducing various digital transformation initiatives such as mobile and tablet ordering systems, to improve its margins. In order to overcome the pressures of increasing costs, the Company has also implemented an upward price revision starting July, similarly to the previous fiscal year. In October, the signature items Shiromaru Classic, Akamaru Modern and Karaka went through drastic changes, a first in 8 years' time, to continue to excite customers.

Similar initiatives are in the International segment, as it introduced limited-time offers and enhanced side-dishes including desserts, overhauling its grand menu in some markets to continue to attract customers, while adjusting its selling prices to overcome increasing costs, introducing digital transformation measures, in order to improve its margins. In the Merchandising segment, the Company continues to strengthen its B2B sales of IPPUDO-branded products in Japan while expanding its export sales of plant-based IPPUDO products abroad.

At the end of the first quarter, there were 279 stores including licensed stores (Japan 142, International 137, both segments increasing three stores from the end of last fiscal year).

As such, the revenue for the first quarter was 14,879 million yen (an increase of 27.3% from the same period of the previous year), operating profit 1,350 million yen (increase of 68.9%), ordinary profit 1,491 million yen (increase of 60.4%), and the profit attributable to owners of parent of 1,032 million yen (increase of 48.7%).

Segment Results

(Domestic Store Operations)

Within this segment, the Company opened 7 IPPUDO stores, while closing 2 IPPUDO stores, 2 Ramen Express, resulting in a total of 142 stores at the end of the quarter (a net increase of 3). Thanks to government downgrading the public health risk of Covid-19, there were more footfall in many markets as well as an overall recovery of inbound tourism, contributing to better sales. The Company promoted its plant-based products at G7 Hiroshima Summit, collaborated with a well-known ramen store in Osaka called "Human Beings Everybody Noodle-kind" to create much buzz in the media and on social media, creating long queues that helped increase customer visits even after the event. Margins continue to improve thanks to store optimization helped by digital transformation initiatives. As such, the revenue for the first quarter totaled 6,612 million yen (an increase of 23.7% compared to the same period of the previous fiscal year), and operating profit resulted in 609 million yen (increase of 225.8%).

(International Store Operations)

There were 2 openings in France, 1 in Malaysia, 1 in China, 1 in Taiwan, 1 in Indonesia and 1 in the Philippines, while 2 stores closed in Hong Kong, 1 in Malaysia, and 1 in China, resulting in 137 stores at the end of the quarter (a net increase of 3 stores). During the current quarter of the consolidated financial period (1 January to 31 March 2023), there were upwards pressure on raw materials and energy prices, as well as wages and logistics costs caused by inflationary economies, each area adjusted its selling prices and offerings, ensuring healthy margins. The Company also aimed to increase customer visits by introducing new menu items including desserts, while optimizing store operations with the help of digital transformation initiatives. As such, the revenue for the segment totaled 6,711 million yen (increase of 33.9%), and operating profit resulted in 745 million yen (increase of 30.4%).

(Merchandising segment)

In this segment domestically, the company started selling "Hiyadashi Tonkotsu" (Cold Tonkotsu) and "Tonkotsu Ramen" in convenience stores in Japan, benefitted from continuing strong performance of IPPUDO Plant-Based Ramen "Pla-ton" on key international flights, and, by using by-product wastes during its noodle manufacturing, started selling "Kaedama-Ale" a beer brewed from noodle-making materials during its production. It continues to strengthen its B2B sales of IPPUDO branded products both by expanding its product line-up and increasing more sales channels. Its export business continues to grow, and its revenue for the quarter totaled 1,556 million yen (increase of 16.9%) and operating profit 195 million yen (decrease of 1.1%), due to some raw materials costs rising during the period.

Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	6,744,454	5,143,356
Notes and accounts receivable - trade	687,797	862,496
Inventories	420,203	500,437
Other	1,039,804	1,110,885
Allowance for doubtful accounts	△966	△1,267
Total current assets	8,891,293	7,615,908
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,380,822	4,597,244
Machinery, equipment and vehicles, net	217,926	243,813
Land	525,025	659,411
Leased assets, net	11,505	8,254
Construction in progress	52,994	62,151
Other, net	300,422	329,407
Total property, plant and equipment	5,488,696	5,900,283
Intangible assets		
Goodwill	107,608	105,212
Other	49,590	51,602
Total intangible assets	157,199	156,814
Investments and other assets		
Investment securities	46,340	66,630
Long-term loans receivable	11,438	11,300
Deferred tax assets	925,471	837,119
Leasehold and guarantee deposits	1,720,897	1,816,843
Other	257,685	260,492
Allowance for doubtful accounts	△21,361	△21,361
Total investments and other assets	2,940,472	2,971,025
Total non-current assets	8,586,368	9,028,123
Total assets	17,477,661	16,644,031

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	765,420	791,746
Short-term borrowings	2,500,000	40,000
Current portion of bonds payable	9,000	—
Current portion of long-term borrowings	1,181,342	1,241,868
Lease liabilities	6,941	4,173
Accounts payable - other	792,314	852,294
Income taxes payable	231,569	409,545
Provision for share awards	5,117	2,874
Reserve for interlocking type of monetary benefit	582	—
Provision for bonuses	101,361	126,596
Asset retirement obligations	50,917	29,354
Other	1,076,299	1,100,499
Total current liabilities	6,720,867	4,598,954
Non-current liabilities		
Long-term borrowings	1,736,667	2,184,172
Lease liabilities	5,395	4,497
Provision for share awards for directors (and other officers)	—	27,284
Provision for share awards	18,125	38,494
Reserve for interlocking type of monetary benefit	5,798	5,090
Retirement benefit liability	173,387	175,882
Asset retirement obligations	962,346	1,028,776
Other	214,970	240,881
Total non-current liabilities	3,116,691	3,705,080
Total liabilities	9,837,559	8,304,035
Net assets		
Shareholders' equity		
Share capital	3,117,571	3,125,388
Capital surplus	2,948,599	2,956,417
Retained earnings	1,261,541	1,843,012
Treasury shares	△96,432	△251,323
Total shareholders' equity	7,231,279	7,673,495
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,798	20,565
Foreign currency translation adjustment	405,023	645,936
Total accumulated other comprehensive income	408,822	666,501
Total net assets	7,640,101	8,339,996
Total liabilities and net assets	17,477,661	16,644,031

(2) Consolidated Statement on Profit and Loss and Comprehensive Income Consolidated Statement of Income

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	11,691,545	14,879,956
Cost of sales	3,433,854	4,356,725
Gross profit	8,257,691	10,523,230
Selling, general and administrative expenses	7,457,834	9,172,249
Operating profit	799,856	1,350,981
Non-operating income		
Interest income	1,490	2,264
Dividend income	580	1,180
Share of profit of entities accounted for using equity method	6,813	—
Foreign exchange gains	101,108	134,812
Lease income	67,661	63,250
Other	56,134	32,017
Total non-operating income	233,788	233,525
Non-operating expenses		
Interest expenses	28,896	30,404
Rental costs	59,711	56,392
Other	15,315	6,579
Total non-operating expenses	103,923	93,376
Ordinary profit	929,722	1,491,129
Extraordinary income		
Gain on sale of non-current assets	26,399	209
Subsidy income	55,695	—
Gain on reversal of asset retirement obligations	40,109	3,499
Other	3,975	—
Total extraordinary income	126,179	3,709
Extraordinary losses		
Loss on retirement of non-current assets	199	627
Impairment losses	99,603	48,608
Other	11,885	—
Total extraordinary losses	111,689	49,235
Profit before income taxes	944,212	1,445,603
Income taxes - current	166,750	318,454
Income taxes - deferred	82,901	94,549
Total income taxes	249,652	413,003
Profit	694,560	1,032,600
Profit attributable to owners of parent	694,560	1,032,600

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit	694,560	1,032,600
Other comprehensive income		
Valuation difference on available-for-sale securities	△1,913	16,766
Foreign currency translation adjustment	246,946	240,912
Total other comprehensive income	245,033	257,678
Comprehensive income	939,594	1,290,279
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	939,594	1,290,279
Comprehensive income attributable to non-controlling interests	—	—