

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.



August 13, 2024

Consolidated Financial Results for the Three Months Ended June 30, 2024 (Under Japanese GAAP)

Company name: KAPPA-CREATE CO., LTD.
 Listing: Tokyo Stock Exchange PRIME
 Securities code: 7421
 URL: <http://www.kappa-create.co.jp>
 Representative: Tsuyoshi Yamakado, President and Representative Director
 Inquiries: Nobuo Takei, General Manager, Finance & Accounting
 Telephone: +81-45-224-7095
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on financial results: None
 Holding of financial results briefing: None

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

1. Consolidated financial results for the three months ended June 30, 2024 (From April 1, 2024 to June 30, 2024)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes)

	Revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2024	17,826	1.5	102	(24.7)	144	(20.9)	152	40.5
June 30, 2023	17,562	4.5	136	—	182	—	108	—

Note: Comprehensive income For the three months ended June 30, 2024: 162 million yen [52.0%]
 For the three months ended June 30, 2023: 106 million yen [— %]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2024	3.09	—
June 30, 2023	2.20	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2024	30,283	10,024	32.9	201.66
June 30, 2023	30,191	10,108	33.2	203.30

Reference: Equity

As of June 30, 2024: 9,950 million yen
 As of June 30, 2023: 10,031 million yen

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	—	0.00	—	5.00	5.00
Fiscal year ending March 31, 2025	—				
Fiscal year ending March 31, 2025 (Forecast)		—	—	—	—

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

Note: Dividends for the fiscal year ending March 2025 have not yet been determined.

3. Earnings forecast of consolidated financial results for the fiscal year ending March 31, 2025 (From April 1, 2024 to March 31, 2025)

(% indicate increases or decreases compared to the previous period)

	Revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	74,061	2.6	1,832	8.2	1,827	6.4	1,410	1.0	28.58

* Notes

(1) Significant changes in the scope of consolidation during the current quarter: None

Newly included: None companies (—)

Excluded: None companies (—)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other than(i): None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

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

As of June 30, 2024	49,414,578 shares
As of March 31, 2024	49,414,578 shares

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

As of June 30, 2024	71,597 shares
As of March 31, 2024	71,597 shares

(iii) Average number of shares outstanding during the period (cumulative quarterly total)

Three months ended June 30, 2024	49,342,981 shares
Three months ended June 30 2023	49,336,981 shares

* Review of the Japanese-language originals of the attached quarterly consolidated financial statements by certified public accountants or audit corporations: Yes (voluntary)

* Explanation for the appropriate use of performance forecasts and other special notes:

(Caution regarding statements on the future)

The performance forecasts and other forward-looking statements contained in this document are based on information currently available to the company and on certain assumptions that the company considers reasonable, and actual performance may differ significantly due to various factors. Please refer to "1. Qualitative Information Regarding the Current Quarterly Financial Results (3) Explanation of Consolidated Earnings Forecast and Other Future Forecast Information" on page 4 of the attached document for matters related to performance forecasts.

○ Contents of Attached Documents

1. Qualitative Information Regarding the Current Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Earnings Forecast and Other Future Forecast Information	4
2. Quarterly Consolidated Financial Statements and Major Notes	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	7
Quarterly Consolidated Statement of Income	7
First Quarter of cumulative Consolidated Period	7
Quarterly Consolidated Statement of Comprehensive Income	8
First Quarter of cumulative Consolidated Period	8
(3) Notes on Quarterly Consolidated Financial Statements	9
(Method of Preparing Quarterly Consolidated Financial Statements)	9
(Notes on Quarterly Consolidated Balance Sheet)	9
(Notes on Segment Information, etc.)	9
(Notes on Significant Changes in the Amount of Shareholders' Equity)	10
(Notes on the Going Concern Assumption)	10
(Notes on Quarterly Consolidated Statement of Cash Flows)	10

1. Qualitative Information Regarding the Current Quarterly Financial Results

(1) Explanation of Operating Results

During the first quarter of the current cumulative consolidated period, the Japanese economy was on a recovery track, with consumer spending picking up thanks to wage increases at companies and the effects of various government policies. However, the outlook remains uncertain, with the yen continuing to weaken, and geopolitical risks such as the prolonged Russia-Ukraine situation and the Israel-Palestine situation causing soaring raw material and energy prices, as well as price hikes that exceed wage increases.

In the food service industry, the economy is on a recovery track thanks to the expansion of inbound consumption and an upturn in consumer trends, but the business environment remains tough due to rising raw material and energy prices and continued cost increases caused by labor shortages. In addition, rising prices have led to consumers focusing on saving money and lifestyle changes have led to the creation of diverse values.

In this environment, guided by our company motto of "our customers' joy is our joy," we have been working on creating robust existing stores, investing in growth, and sustainability as the pillars of our management strategy, and as a result, during the first quarter of the current consolidated cumulative period, revenue was 17,826 million yen (up 1.5% year on year), operating profit was 102 million yen (down 24.7% year on year), ordinary profit was 144 million yen (down 20.9% year on year), and profit attributable to owners of parent was 152 million yen (up 40.5% year on year).

Next, we would like to report an overview of each business segment.

< Conveyor belt Sushi business >

• Our company management strategy

Amid a tough business environment characterized by continuing price hikes and an escalating diversification of values, our company aims to realize our company motto and to enhance revenue, contribute to the sustainable development of society, and improve our corporate value by focusing on three pillars of our management strategy: ① Creation of robust existing stores, ② Growth investment, and ③ Sustainability.

① Creation of robust existing stores

We recognize that strengthening the profitability of existing stores is important for sustained improvement of its corporate value, and is therefore promoting the following initiatives.

1) Increased frequency of visits

We have sought to improve customer loyalty by reviewing the specifications of some strategic products and selling "Premium Salad Gunkan," which reproduces the original taste of "Salad Gunkan," a very popular product in Nagano Prefecture, where the company was founded. We are also responding to diverse consumer needs by distributing complimentary cards for active seniors and expanding our lunch sets, which are available from 594 yen including tax at some stores. At our stores, we are working to improve the value of our customer experience by focusing on training sashimi-cutting masters and service masters who promote the improvement of sashimi-cutting and customer service skills.

2) New customer acquisition

We have been working on price appeal through fairs where we sell our most popular ingredient, "tuna," for 99 yen per piece including tax, and fairs where we sell high-quality ingredients such as "sea urchin" and "throat seaperch" for 110 yen including tax. We also held fairs called "Kappa's Hokkaido Festival" and "Kappa's Kyushu and Okinawa Festival," promoting the value of enjoying the feeling of traveling and enjoying local gourmet food, and have been disseminating information about this through TV commercials featuring celebrities.

In addition, we are selling products made in collaboration with Kakunoshin, the world's most "serious about meat" company, as well as cheese sweets created under the supervision of PATISSIER SHIMA, and are running collaborative campaigns with popular content such as BLUE LOCK and Theatrical Compilation Bocchi the Rock! Re:/Re:Re: in order to meet diverse consumer needs.

Furthermore, in order to increase awareness of our stores, we installed lead signs in 21 stores during the

first quarter of this consolidated fiscal year, and have confirmed the effect of increasing revenue.

3) Capital investment

Regarding capital investment, we invested in the renovation of 16 existing stores during the first quarter of the current cumulative consolidated period. In the renovated stores, we have introduced high-speed lanes for ordering, automated guidance systems, self-checkout registers, "smartphone ordering" that allows customers to use their own smartphones instead of touch panels, and lockers for takeout only, thereby strengthening our services to improve customer convenience and reduce labor at the stores.

② Growth investment

We are working to grow our business by reviewing our store portfolio to match customer demand and by making capital investments that will lead to improved customer satisfaction and productivity.

1) New store openings

Our company has opened stores mainly on roadside locations, but in order to respond to changes in the nation's demographics, we are working to optimize store locations by opening stores in front of train stations in the three major metropolitan areas and closing or relocating unprofitable stores. During the first quarter of the current cumulative consolidated period, we completed contracts to open six stores. In addition, we closed six stores due to the expiration of their lease agreements, resulting in a total of 287 stores at the end of the first quarter of the current consolidated fiscal year.

2) DX ・ AI utilization

During the first quarter of the current cumulative consolidated period, we introduced new automated guidance systems to six stores (total of 272 stores) and self-checkouts to one store (total of 230 stores) in an effort to improve customer convenience and store productivity.

③ Sustainability

Based on our company motto, "Our customers' joy is our joy," our basic policy as a bearer in the food infrastructure is to contribute to the sustainable development of society and to increase our corporate value.

1) Contribution to Global environment, Local communities and Society

We have created a new "Sustainable Menu" category and are working to reduce food waste by selling products that use cuts from beef ribs when they are produced, next-generation food products that use soy meat, and products that make full use of Sushi ingredients that are cut in-store every day.

We have also invested in equipment to increase the efficiency of our air conditioning equipment, which has reduced power consumption and we will continue to work to reduce CO2 emissions.

2) Human capital investment

We have implemented a 6% wage increase and are working to improve employee motivation and secure excellent human resources.

In addition, we are enhancing hierarchical training and career advancement training, which had been stalled due to the coronavirus pandemic, and promoting the development of the next generation of human resources, from part-time workers to directors.

As a result of the above, revenue for the conveyor belt Sushi business amounted to 14,622 million yen (up 3.6% from the same quarter last year).

<Delicatessen business>

In the Delicatessen business, we passed on the increased costs of raw materials and labor costs to our customers, but revenue was sluggish due to consumers refraining from purchasing goods as a result of rising prices. In the dessert business, revenue increased 30% year on year by acquiring new customers. We will further utilize multiple sales channels to capture demand. In terms of production at our factories, productivity has exceeded that of the same quarter last year due to the introduction of labor-saving equipment and improvements in takt time. In terms of product development, we will continue to work with each business partner to respond to diversifying consumer needs and thereby increase revenue.

As a result of the above, revenue for the Delicatessen business were 3,203 million yen (down 7.1% compared to the same quarter last year).

(2) Explanation of Financial Position

(Assets)

Total assets for the first quarter of the current cumulative consolidated period were 30,283 million yen, an increase of 91 million yen compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease of 119 million yen in cash and deposits, a decrease of 326 million yen in accounts receivable, an increase of 36 million yen in buildings and structures, an increase of 235 million yen in machinery, equipment and vehicles, an increase of 183 million yen in tools, furniture and fixtures, and an increase of 48 million yen in deferred tax assets.

(Liabilities)

Total liabilities for the first quarter of the current cumulative consolidated period were 20,259 million yen, an increase of 175 million yen compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease of 231 million yen in accounts payable, an increase of 371 million yen in accounts payable-other and long-term accounts payable-other, and an increase of 10 million yen in lease obligations (due within one year) and lease obligations.

(Net assets)

Net assets for the first quarter of the current cumulative consolidated period were 10,024 million yen, down 83 million yen from the end of the previous consolidated fiscal year. This was mainly due to a decrease in retained earnings due to dividend payments of 246 million yen and quarterly profit attributable to owners of parent of 152 million yen.

(3) Explanation of Consolidated Earnings Forecast and Other Future Forecast Information

There are no changes to the consolidated earnings forecast for the full fiscal year announced in the "Consolidated Financial Results for the Fiscal Year Ended March 2024" on May 9, 2024.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Millions of yen)

	Previous consolidated fiscal year (March 31, 2024)	First quarter of the current consolidated fiscal year (June 30, 2024)
Assets		
Current assets		
Cash and deposits	7,937	7,817
Accounts receivable	3,586	3,260
Goods and Products	363	374
Raw materials and supplies	386	383
Others	931	1,249
Allowance for doubtful accounts	(1)	(0)
Total current assets	13,204	13,083
Non-current asset		
Property, plant and equipment		
Buildings and structures	26,187	26,223
Machinery and vehicles	7,136	7,372
Tools, equipment and fixtures	9,187	9,370
land	1,645	1,645
Leased asset	1,006	731
Construction in progress	25	78
Accumulated depreciation	(33,275)	(33,335)
Total property, plant and equipment	11,912	12,087
Intangible assets	143	139
Investments and other assets		
Investment securities	857	858
Security and guarantee deposits	3,436	3,434
Deferred tax asset	571	619
Others	60	57
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	4,923	4,968
Total non-current assets	16,979	17,194
Deferred Assets		
Bond issuance costs	7	5
Total deferred assets	7	5
Total assets	30,191	30,283

(Unit: Millions of yen)

	Previous consolidated fiscal year (March 31, 2024)	First quarter of the current consolidated fiscal year (June 30, 2024)
Liabilities		
Current Liabilities		
Accounts payable	3,278	3,047
Long-term borrowings due within one year	1,980	1,980
Bonds due within one year	490	490
Accounts payable - other	2,426	2,883
Accrued expenses	1,569	1,614
Lease obligations	—	2
Income taxes payable	188	46
Provision for bonuses	103	68
Provision for sales promotion expenses	133	214
Store closing loss reserve	31	26
Others	946	1,073
Total current liabilities	11,148	11,449
Non-current Liabilities		
Corporate bonds	100	100
Long-term borrowings	4,890	4,890
Long-term accounts payable - other	2,334	2,247
Lease Obligation	—	7
Asset Retirement Obligations	1,496	1,464
Others	114	101
Total non-current liabilities	8,935	8,810
Total Liabilities	20,083	20,259
Net assets		
Shareholders' equity		
Share Capital	100	100
Capital Surplus	8,585	8,585
Retained earnings	1,425	1,331
Treasury Share	(60)	(60)
Total shareholders' equity	10,050	9,956
Accumulated other comprehensive income		
Unrealized gains on other securities	1	1
Deferred gains (losses) on hedges	(20)	(7)
Total accumulated other comprehensive income	(18)	(5)
Non-controlling interests	76	73
Total net assets	10,108	10,024
Total liabilities and net assets	30,191	30,283

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(First Quarter of cumulative Consolidated Period)

(Unit: Millions of yen)

	Previous First quarter of cumulative consolidated period (From April 1, 2023 to June 30, 2023)	Current First quarter cumulative consolidated period (From April 1, 2024 to June 30, 2024)
Revenue	17,562	17,826
Cost of sales	8,433	8,496
Gross Profit	9,128	9,330
Selling, general and administrative expenses	8,992	9,228
Operating profit	136	102
Non-operating income		
Interest income	5	4
Dividend income	55	55
Rent received	53	54
Vending machine revenue	7	6
Sponsorship income	1	1
Miscellaneous income	18	11
Total non-operating income	141	134
Non-operating expenses		
Interest expense	40	45
Interest expense on bond	2	1
Cost of rental revenue	46	40
Miscellaneous losses	5	4
Total non-operating expenses	94	92
Ordinary Profit	182	144
Extraordinary profit		
Gain on sales of property, plant and equipment	—	1
Reversal of provision for loss on store closings	—	4
Total extraordinary profit	—	6
Extraordinary losses		
Loss on disposal of property plant and equipment	23	3
Total extraordinary losses	23	3
Profit before taxes and other adjustments	159	147
Corporate, inhabitants and enterprise taxes	44	46
Corporate tax adjustments	6	(48)
Total corporate tax, etc.	51	(1)
Quarterly Profit	107	148
Quarterly losses attributable to non-controlling interests	(0)	(3)
Quarterly profit attributable to owners of parent	108	152

(Quarterly Consolidated Statement of Comprehensive Income)
(First Quarter of cumulative Consolidated Period)

(Unit: Millions of yen)

	Previous First quarter of cumulative Consolidated Period (From April 1, 2023 to June 30, 2023)	Current First quarter of cumulative Consolidated Period (From April 1, 2024 to June 30, 2024)
Quarterly Profit	107	148
Other comprehensive income		
Unrealized gains on other securities	1	0
Deferred gains (losses) on hedges	(2)	12
Total other comprehensive income	(0)	13
Quarterly Comprehensive Income	106	162
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	107	165
Quarterly comprehensive income attributable to non-controlling interests	(0)	(3)

(3) Notes on Quarterly Consolidated Financial Statement

(Method of Preparing Quarterly Consolidated Financial Statement)

The quarterly consolidated financial statements have been prepared in accordance with Article 4, Paragraph 1 of the Tokyo Stock Exchange Inc.'s Standards for Preparation of Quarterly Financial Statements, etc. and accounting standards for quarterly financial statements generally accepted in Japan (however, the omissions set forth in Article 4, Paragraph 2 of the Standards for Preparation of Quarterly Financial Statements, etc. have been applied).

(Notes on Quarterly Consolidated Balance Sheet)

(Contingent liabilities)

(Litigation, etc.)

On October 21, 2022, the Company was indicted together with the former director and employee under the double penalty provisions of the Unfair Competition Prevention Act for alleged violations of the Unfair Competition Prevention Act by the former director and employee regarding the trade secrets of competitors. The former director was found guilty on May 31, 2023, and the sentences have been finalized. The company and the employee were found guilty by the Tokyo District Court on February 26, 2024 (the Company was fined 30 million yen, and the employee were fined 2 million yen), but the company and the employee are dissatisfied and have appealed to the Tokyo High Court. Future developments may affect the company's future consolidated performance, but at this point it is impossible to predict the outcome of the final judgment, and it is difficult to reasonably estimate the amount of the impact, so it is not reflected in the quarterly consolidated financial statements.

In addition, a lawsuit was filed by Hama Sushi Co., Ltd. on December 27, 2023 in the Tokyo District Court against the company, seeking payment of 511 million yen in damages. Future developments may affect our consolidated earnings; however, as it is difficult to reasonably estimate the amount of such impact at this time, it has not been reflected in our quarterly consolidated financial statements.

(Notes on Segment Information, etc.)

I. Previous first quarter cumulative consolidated period (from April 1, 2023 to June 30, 2023)

1. Information regarding the amount of revenue and profit(loss) for each reportable segment

(Unit: Millions of yen)

	Conveyor belt Sushi business	Delicatessen business	Total
Revenue			
Revenue to external customers	14,111	3,450	17,562
Internal revenue or transfers between segments	—	46	46
Total	14,111	3,496	17,608
Segment profit	110	0	111

2. Difference between the total amount of profit (losses) of reportable segments and the amount recorded in the quarterly consolidated statement of income, and the main details of the difference (items related to difference adjustment)

(Unit: Millions of yen)

Profit	Amount
Total of reportable segments	111
Elimination of inter-segment transactions	25
Operating profit on quarterly consolidated statement of income	136

II. Current First Quarter Cumulative Consolidated Period (from April 1, 2024 to June 30, 2024)

1. Information Regarding Revenue and profit(loss) Amounts by Reportable Segment

(Unit: Millions of yen)

	Conveyor belt Sushi business	Delicatessen business	Total
Revenue			
Revenue to external customers	14,622	3,203	17,826
Internal revenue or transfers between segments	—	84	84
Total	14,622	3,288	17,911
Segment profit (loss)	116	(30)	86

2. Difference between the total amount of profit (loss) of reportable segments and the amount recorded in the quarterly consolidated statement of income, and the main details of the difference (items related to difference adjustment)

(Unit: Millions of yen)

Profit	Amount
Total of reportable segments	86
Elimination of inter-segment transactions	16
Operating profit on quarterly consolidated statement of income	102

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Notes on the Going Concern Assumption)

Not applicable.

(Notes on Quarterly Consolidated Statement of Cash Flows)

We have not prepared a quarterly consolidated statement of cash flows for the first quarter of the cumulative current consolidated period. However, depreciation expenses (including amortization expenses related to intangible assets) for the first quarter of the cumulative current consolidated period are as follows:

(Unit: Millions of yen)

	Previous first quarter of cumulative consolidated period (From April 1, 2023 to June 30, 2023)	Current first quarter of cumulative consolidated period (From April 1, 2024 to June 30, 2024)
Depreciation expense	515	555