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February 7, 2024

Consolidated Financial Results for the Nine Months Ended December 31, 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>
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 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 nine months ended December 31, 2024 (From April 1, 2024 to December 31, 2024)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes)

	Revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2024	55,025	1.6	757	(22.2)	789	(22.4)	709	(12.1)
December 31, 2023	54,149	3.0	973	—	1,017	—	806	—

Note: Comprehensive income For the nine months ended December 31, 2024: 722 million yen [(9.3)%]
 For the nine months ended December 31, 2023: 796 million yen [— %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2024	14.37	—
December 31, 2023	16.35	—

(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
December 31, 2024	32,921	10,594	32.0	213.33
December 31, 2023	30,191	10,108	33.2	203.30

Reference: Equity

As of December 31, 2024: 10,527 million yen

As of December 31, 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	—	0.00			
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 currently been undecided.

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

(Percentages indicate year-on-year changes)

	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

Note: Revisions to the most recently announced earnings forecast: None

* **Notes**

- (1) Significant changes in the scope of consolidation during the current quarter: None
Newly included: 1 company (KAPPA-CREATE KOREA CO., LTD.)
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)

For the nine months ended December 31, 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

For the nine months ended December 31, 2024	65,642 shares
As of March 31, 2024	71,597 shares

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

For the nine months ended December 31, 2024	49,346,186 shares
For the nine months ended December 31, 2023	49,340,166 shares

- * Review of the Japanese-language originals of the attached quarterly consolidated financial statements by certified public accountants or an audit firm: None

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

(Regarding the review by a certified public accountant or auditing firm of the attached quarterly consolidated financial statements)

We plan to disclose Consolidated Financial Results for the Nine Months Ended December 31, 2024 with the review report attached after the review is completed.

Scheduled disclosure date: February 14, 2025

(Caution regarding statements of the future)

The earnings 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 results 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 earnings forecasts.

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1. Qualitative Information Regarding the Current Quarterly Financial Results

(1) Explanation of Operating Results

During the current third quarter consolidated cumulative period, the Japanese economy remained on a recovery trend as consumption trends picked up, thanks in part to wage increases at various companies and the effects of various policies. However, the outlook remains uncertain, with the yen continuing to weaken, and geopolitical risks such as the prolonged Russia-Ukraine situation and 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, based on our company motto of "our customers' joy is our joy," we have been working on Creation of robust existing stores, Growth investment, and Sustainability as the pillars of our management strategy, and our revenue and average amount spent per customer have remained steady.

On the other hand, the gross profit margin in the conveyor belt Sushi business decreased by 0.1% year on year due to the impact of rising raw material prices, especially for rice, tuna, seaweed, etc. During the current third quarter consolidated cumulative period, revenue was 55,025 million yen (1.6% increase compared to the same period last year), operating profit was 757 million yen (22.2% decrease compared to the same period last year), ordinary profit was 789 million yen (22.4% decrease compared to the same period last year), and profit attributable to owners of parent was 709 million yen (12.1% decrease compared to the same period last 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 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 are responding to diverse consumer needs through a variety of measures, including the sale of products in line with seasonal events, a campaign to preset meal vouchers by lottery, a plan to preset brand rice "Haenuki from Yamagata" to the first-come customers at each store, an expansion of high-value-added products that are full of luxury that are different from everyday use, and an improvement of lunch sets that are available from 650 yen including tax and are available only at some stores. In addition, this information is promoted using LINE on the app and in some stores, and the app regularly offers half-price draft beer and others to create an incentive for customers to visit the stores.

At our stores, we focus on nurturing sashimi-cutting masters and service masters who will promote the improvement of sashimi-cutting masters and service masters techniques, thereby working to continually improve our NPS® (Net Promoter Score) ratings and enhance the value of our customer experience.

2) New customer acquisition

We have been working on price appeal by offering Hokkaido salmon roe, scallops, fresh sea urchin, and the queen of tuna, medium fatty tuna, for a limited time only at 110 yen including tax. We have also sought to differentiate ourselves from other companies by developing unique products that other companies do not have, such as the tuna fair that uses "red vinegar rice", which was developed independently for the first time

at Kappa Sushi, and limited-time-only products that are in harmony with the local area at newly opened stores. We have also been disseminating information about these products through television commercials and social media.

Other products sold include "Sapporo Miso Ramen" supervised by Okami Soup, a miso ramen specialty store that has been featured on TV and has become a hot topic; chocolate sweets supervised by "Théobroma", developed by world-renowned chocolatier Tsuchiya Koji; and innovative "acai sweets" made with acai, which is popular among young people, especially Generation Z. In an effort to attract a customer base with diverse values, the store sells such products.

In addition, during the third quarter cumulative consolidated period, we installed new lead signs at 54 stores, and confirmed the effect of increasing revenue by expanding awareness of stores.

3) Capital investment

Regarding capital investment, two stores were renovated during the current third quarter consolidated fiscal year, bringing the total number of existing stores renovated during the current third quarter consolidated cumulative period to 22. The renovated stores 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 orders, strengthening services that improve customer convenience and reduce store labor.

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

In the past, our company mainly opened roadside stores, but in order to respond to changes in the nation's demographics, we are optimizing store locations by opening stores in front of train stations in the three major metropolitan areas and closing and relocating unprofitable stores. During the current third quarter consolidated fiscal year, we opened a total of four stores, including stores in front of train stations in the area around Akihabara Station, stores in Joetsu City, Niigata Prefecture and Miyako City, Iwate Prefecture as part of a dominant strategy, and stores in Nonoichi City, Ishikawa Prefecture as part of new trade area development. As a result, the number of stores at the end of the current third quarter consolidated fiscal year was 294.

2) DX · AI utilization

During the current third quarter consolidated fiscal year, we introduced new automated guidance systems to six stores (total of 281 stores) and self-checkout registers to five stores (total of 239 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 established a new category called "Sustainable Menu", and have been selling products such as "YUKI-EBI" (the supreme domestic shrimp raised by the complete land-based aquaculture of KAIKO YUKINOYA), "TOTTORI KOTOURA GRAN SALMON" (land-based aquaculture), and "TSUKIMI IKURA®" (sakuramasu salmon roe) (produced using a rare, sustainable aquaculture method that connects the mountains and the sea, established by the venture company Smolt, which was founded by researchers from Miyazaki University, and which utilizes the university's research seeds), as well as soy meat and other sustainable food products. We also sold collaborative products with Sugiyo, a food processing manufacturer on the Noto Peninsula, and worked to support the recovery efforts following the 2024 Noto Peninsula earthquake.

In some stores, we are promoting our contribution to the global environment by reducing CO2 emissions by installing energy-saving equipment such as chargers for electric vehicles in the parking lots and air

transport fans to improve air-conditioning efficiency and reduce power consumption.

2) Human capital investment

We are promoting the implementation of an action plan to continuously improve employee engagement surveys and scores, thereby improving productivity by raising employee motivation. We have also launched a DEI (Diversity, Equity & Inclusion) Promotion Committee, and are working to secure excellent human resources by holding seminars by external lecturers and formulating and implementing a roadmap for promoting DEI (Diversity, Equity & Inclusion). Regarding flexible employee who can choose the working style according to their life stage, we have posted information on our website and are working to create an environment where employee can work continuously for a long time.

In addition, we are also working to enhance our hierarchical and career advancement training, which had been stalled due to coronavirus, and are 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 increased 2.9% year-on-year to 44,848 million yen.

<Delicatessen business>

In the Delicatessen business, revenue continued to decline due to the continued decline in consumer confidence caused by rising food prices in general, but revenue improvement measures, mainly implemented by business partners, contributed to a recovery to 101% of the same month of the previous year in December 2024. In particular, the dessert business has progressed smoothly, and revenue increased 25% year-on-year during the current third quarter consolidated fiscal year. In the future, in order to further recover revenue, we will not only promote price absorption of rising raw material prices, but also promote the development of high-added-value products that can increase customers' purchasing desire. In terms of food safety, all factories are FSSC22000 certified factories, which is a food safety system, and we will strive to improve our performance based on a thorough quality control system that provides safe and secure products to customers.

As a result of the above, revenue for the Delicatessen business were 10,177 million yen (down 3.8% from the same period last year).

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the current third quarter consolidated fiscal year were 32,921 million yen, up 2,729 million yen from the end of the previous consolidated fiscal year, this was mainly due to an increase of 721 million yen in cash and deposits, an increase of 730 million yen in machinery, equipment and vehicles, and an increase of 595 million yen in tools, furniture and fixtures.

(Liabilities)

Total liabilities at the end of the current third quarter consolidated fiscal year were 22,326 million yen, up 2,242 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 725 million yen in accounts payable, an increase of 1,510 million yen in long-term borrowings and due within one year of, a decrease of 290 million yen in bonds and bonds due within one year, and an increase of 249 million yen in long-term accounts payable-other and accounts payable-other.

(Net assets)

Net assets at the end of the current third quarter consolidated fiscal year were 10,594 million yen, up 486 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in retained earnings due to dividend payments of 246 million yen and profit attributable to owners of parent of 709 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 31, 2024" on May 9, 2024.

2. Quarterly Consolidated Financial Statement and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Millions of yen)

	Previous consolidated fiscal year (March 31, 2024)	Current third quarter consolidated fiscal year (December 31, 2024)
Assets		
Current assets		
Cash and deposits	7,937	8,658
Accounts receivable	3,586	3,664
Goods and Products	363	634
Raw materials and supplies	386	634
Others	931	1,016
Allowance for doubtful accounts	(1)	(0)
Total current assets	13,204	14,607
Non-current asset		
Property, plant and equipment		
Buildings and structures	26,187	27,314
Machinery and vehicles	7,136	7,867
Tools, equipment and fixtures	9,187	9,783
land	1,645	1,645
Leased asset	1,006	137
Construction in progress	25	1
Accumulated depreciation	(33,275)	(33,880)
Total property, plant and equipment	11,912	12,868
Intangible assets	143	113
Investments and other assets		
Investment securities	857	860
Security and guarantee deposits	3,436	3,634
Deferred tax asset	571	643
Others	60	194
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	4,923	5,329
Total non-current assets	16,979	18,311
Deferred Assets		
Bond issuance costs	7	2
Total deferred assets	7	2
Total assets	30,191	32,921

(Unit: Millions of yen)

	Previous consolidated fiscal year (March 31, 2024)	Current third quarter consolidated fiscal year (December 31, 2024)
Liabilities		
Current Liabilities		
Accounts payable	3,278	4,004
Long-term borrowings due within one year	1,980	2,480
Bonds due within one year	490	300
Accounts payable - other	2,426	2,700
Accrued expenses	1,569	1,666
Lease obligation	—	2
Income taxes payable	188	139
Provision for bonuses	103	44
Provision for sales promotion expenses	133	212
Store closing loss reserve	31	9
Others	946	727
Total current liabilities	11,148	12,288
Non-current Liabilities		
Corporate bonds	100	—
Long-term borrowings	4,890	5,900
Long-term accounts payable - other	2,334	2,309
Lease Obligation	—	6
Asset Retirement Obligations	1,496	1,648
Others	114	174
Total non-current liabilities	8,935	10,038
Total Liabilities	20,083	22,326
Net assets		
Shareholders' equity		
Share Capital	100	100
Capital Surplus	8,585	8,591
Retained earnings	1,425	1,887
Treasury Share	(60)	(55)
Total shareholders' equity	10,050	10,523
Accumulated other comprehensive income		
Unrealized gains on other securities	1	3
Deferred gains (losses) on hedges	(20)	(1)
Currency Translation Adjustment Accounts	—	2
Total accumulated other comprehensive income	(18)	4
Non-controlling interests	76	66
Total net assets	10,108	10,594
Total liabilities and net assets	30,191	32,921

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(Third Quarter Cumulative Consolidated Period)

(Unit: Millions of yen)

	Previous Third quarter cumulative consolidated period (From April 1, 2023 to December 31, 2023)	Current Third quarter cumulative Consolidated period (From April 1, 2024 to December 31, 2024)
Revenue	54,149	55,025
Cost of sales	26,135	26,373
Gross Profit	28,014	28,652
Selling, general and administrative expenses	27,040	27,895
Operating profit	973	757
Non-operating income		
Interest income	16	14
Dividend income	75	75
Rent received	169	156
Vending machine revenue	23	21
Sponsorship income	7	2
Miscellaneous income	47	46
Total non-operating income	339	316
Non-operating expenses		
Interest expense	133	148
Interest expense on bond	6	2
Cost of rental revenue	135	114
Foreign exchange losses	—	2
Miscellaneous losses	20	15
Total non-operating expenses	295	283
Ordinary Profit	1,017	789
Extraordinary profit		
Gain on sales of property, plant and equipment	1	1
Reversal of provision for loss on store closings	30	6
other	—	9
Total extraordinary profit	31	17
Extraordinary losses		
Loss on disposal of property plant and equipment	54	11
Litigation-related losses	—	30
Total extraordinary losses	54	41
Profit before taxes and other adjustments	994	766
Corporate, inhabitants and enterprise taxes	133	139
Corporate tax adjustments	52	(72)
Total corporate tax, etc.	185	66
Quarterly Profit	808	699
Quarterly profit(losses) attributable to non- controlling interests	2	(9)
Quarterly profit attributable to owners of parent	806	709

(Quarterly Consolidated Statement of Comprehensive Income)
(Third Quarter Cumulative Consolidated Period)

(Unit: Millions of yen)

	Previous Third quarter of cumulative consolidated period (From April 1, 2023 to December 31, 2023)	Current Third quarter cumulative Consolidated period (From April 1, 2024 to December 31, 2024)
Quarterly Profit	808	699
Other comprehensive income		
Unrealized gains on other securities	2	2
Deferred gains (losses) on hedges	(14)	18
Currency Translation Adjustment Accounts	—	2
Total other comprehensive income	(12)	23
Quarterly Comprehensive Income	796	722
(breakdown)		
Quarterly comprehensive income attributable to owners of parent	794	732
Quarterly comprehensive income attributable to non-controlling interests	2	(9)

(3) Notes on Quarterly Consolidated Financial Statements

(Method of Preparing Quarterly Consolidated Financial Statements)

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.)

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

(Notes on Quarterly Consolidated Statement of Income)

*Litigation-related losses

The Company was indicted on suspicion of violating the Unfair Competition Prevention Act, and received a judgment from the Tokyo High Court imposing a fine of 30 million yen on the company in that lawsuit.

Based on that judgment, the company has recorded a litigation-related loss as an extraordinary loss.

(Notes on Segment Information, etc.)

[Segment Information]

I. Previous third quarter cumulative consolidated period (from April 1, 2023 to December 31, 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	43,574	10,574	54,149
Internal Revenue or transfers between segments	—	213	213
Total	43,574	10,788	54,363
Segment profit	869	51	920

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	920
Elimination of inter-segment transactions	52
Operating profit on quarterly consolidated statement of income	973

II. Current third quarter Cumulative Consolidated Period (from April 1, 2024 to December 31, 2024)

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	44,848	10,177	55,025
Internal Revenue or transfers between segments	—	260	260
Total	44,848	10,437	55,286
Segment profit (loss)	779	(70)	709

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	709
Elimination of inter-segment transactions	48
Operating profit on quarterly consolidated statement of income	757

(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 current third quarter consolidated cumulative period. However, depreciation expenses (including amortization expenses related to intangible assets) for the current third quarter cumulative consolidated period are as follows:

(Unit: Millions of yen)

	Previous third quarter cumulative consolidated period (From April 1, 2023 to December 31, 2023)	Current third quarter cumulative consolidated period (From April 1, 2024 to December 31, 2024)
Depreciation expense	1,643	1,694