



株式会社 アイケー

FY2021 May Financial Results Briefing Materials

TSE 1st: 2722

I.K Co., Ltd.
July 13, 2021

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- 02 FY2021 Financial Results
- 03 FY2022 Performance Forecasts
- 04 Future strategies
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Group Business Structure Diagram

BtoBtoC

Co-op

Wholesale to nationwide Co-op and is IK's founding business. Currently the top share in overall Group sales

Mail-order

Wholesale to department store mail-order and online mail-order companies

Retail Store

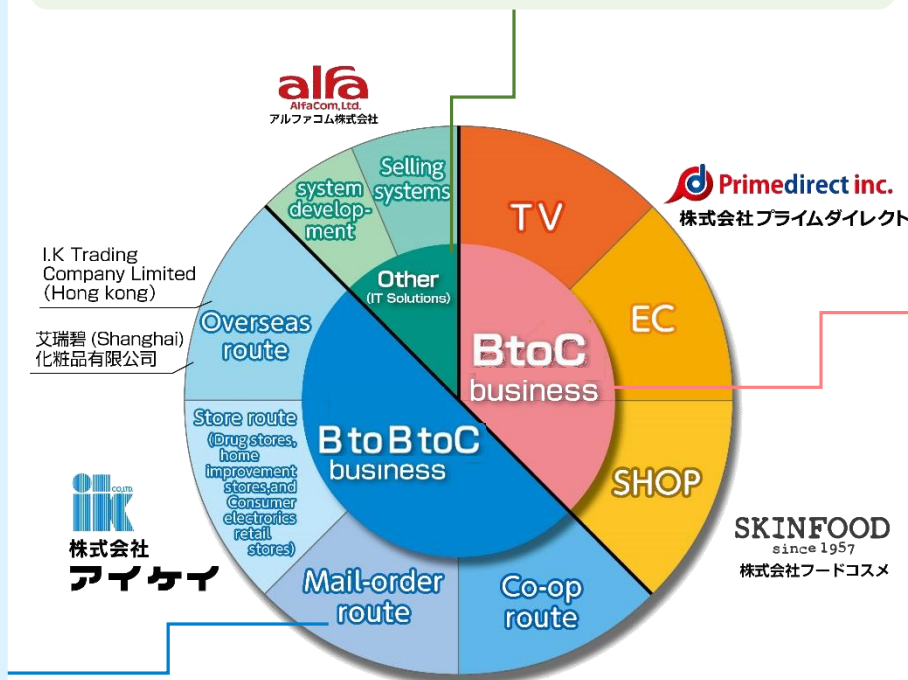
Wholesale to retail stores such as drugstores and variety stores

Overseas

Sales of cosmetics, mainly in China and Southeast Asia. Founded subsidiaries in both China and Hong Kong in 2017

IT Solutions

Sales and development of IT products, centering on chat system 「M-Talk」 and call recording system 「Voistore」



BtoC

TV

Sales of in-house developed products through TV shopping. It is a highly profitable market and the pillar of the Group's growth business. Aim to secure stable profits throughout the year by creating multi-genre hit products

EC

Subscription and Recurring sales on self-owned EC sites. By strengthening the subscription type in particular, we aim to secure stable profits

SHOP

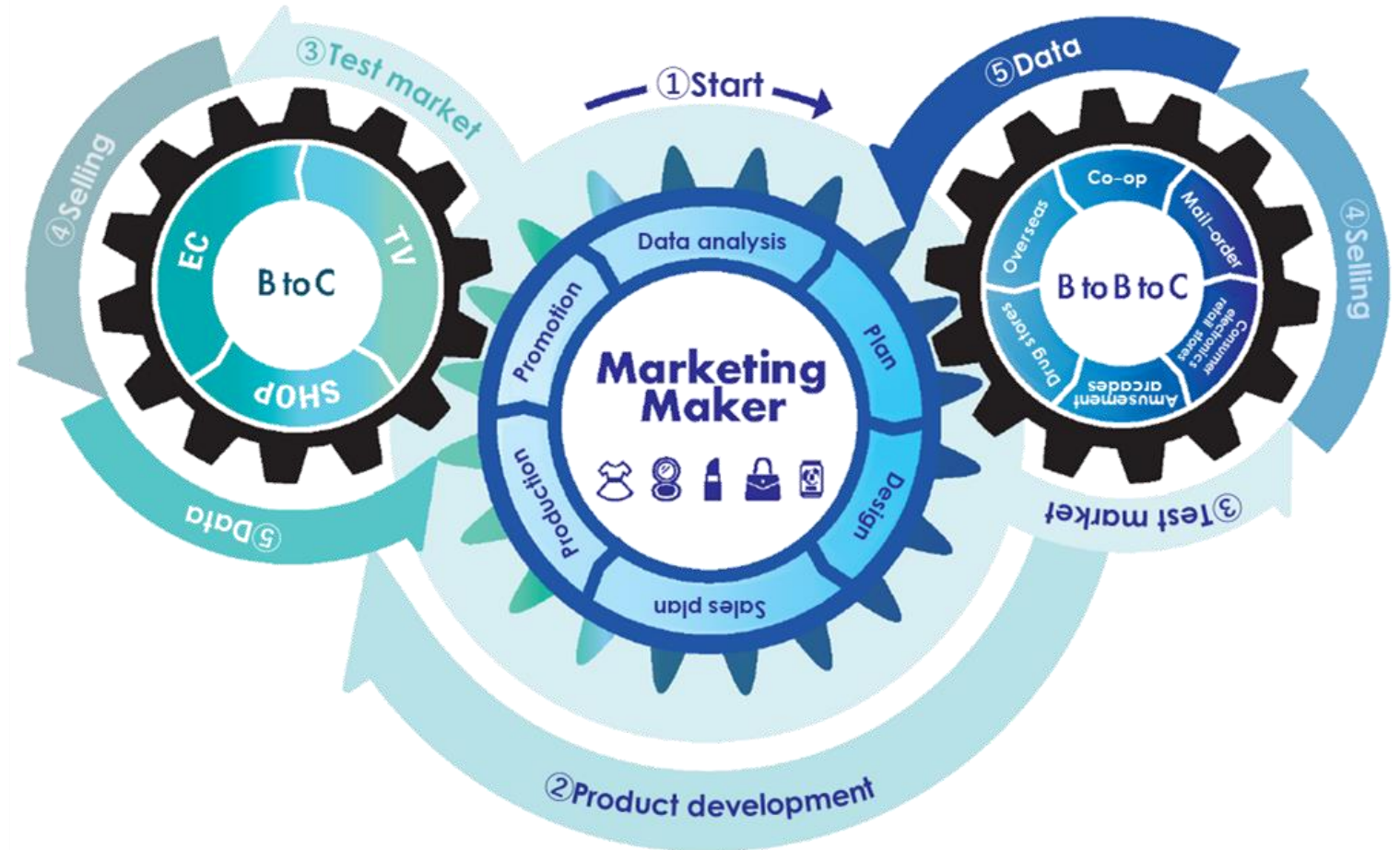
Sales of cosmetics in self-owned retail stores of Korean cosmetics brands "SKINFOOD" and "OLIVE YOUNG." Currently 23 stores, mainly in urban department stores nationwide

Marketing Manufacturer Concept Diagram

Marketing Manufacturer

I.K Co., Ltd is a “**Marketing Manufacturer**” that conducts integrated business activities including **product planning, manufacturing, sales and distribution** through its original promotion strategy.

By continuing to rotate both axes of “**BtoC**” and “**BtoBtoC**” sales, we rotate the gears of product development, the core of this concept. We call such a business model a “**Marketing Manufacturer**.”



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Annual Performance Highlight

Unit: Million Yen (YoY)

Increased Sales and Profit for 2 consecutive years

- ◆ Sales increased by 12.3% YoY (33.6% increase for TV, 7.8% for Co-op, 5.9% for Mail-order)
- ◆ Operating profit increased by 19.4% (17.0% decrease for BtoC, 83.3% increase for BtoBtoC)
- ◆ BtoC operating profit decreased by 17.0% due to an increase in the number of test marketing on TV shopping
- ◆ Income attributable to owners of parent has decreased due to extraordinary losses* of 173 million yen

Impact from COVID19

- ◆ The demand for "stay at home" and the rise in public attention to "health" and "safe/secure" due to the spread of COVID19 has led to increased sales and profit in TV shopping, EC, Co op, and mail orders
- ◆ On the other hand, wholesales to retail stores and sales of SKINFOOD cosmetics stores decreased significantly
- ◆ As non-store channels account for more than 80% of sales, the overall sales and profit increased

Sales 20,754 (+12.3%)

Gross Profit 10,613 (+19.3%)

Operating Profit 705 (+19.4%)

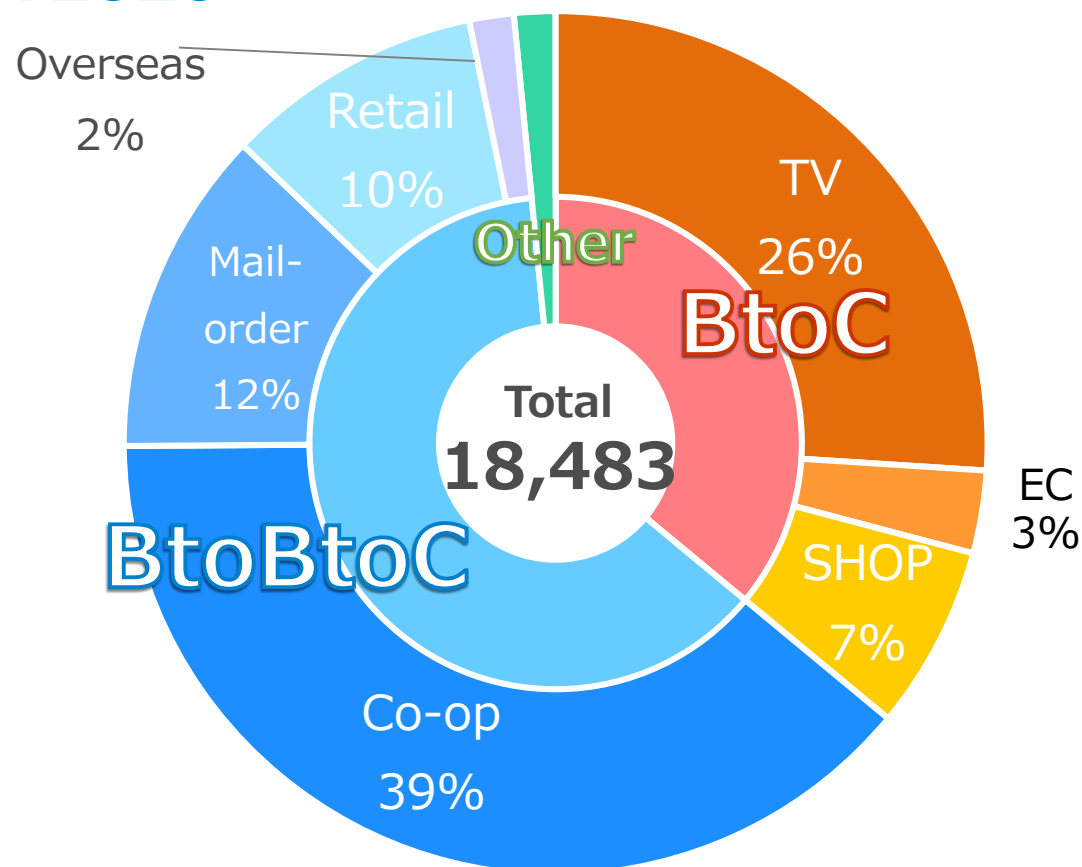
Income attributable to owners of parent 321 (▲16.3%)

*A total of 173 million yen in extraordinary losses, including impairment losses of 58 million yen, customer compensation expenses of 41 million yen, provision for customer compensation expenses of 17 million yen, provision for surcharges of 47 million yen, etc.

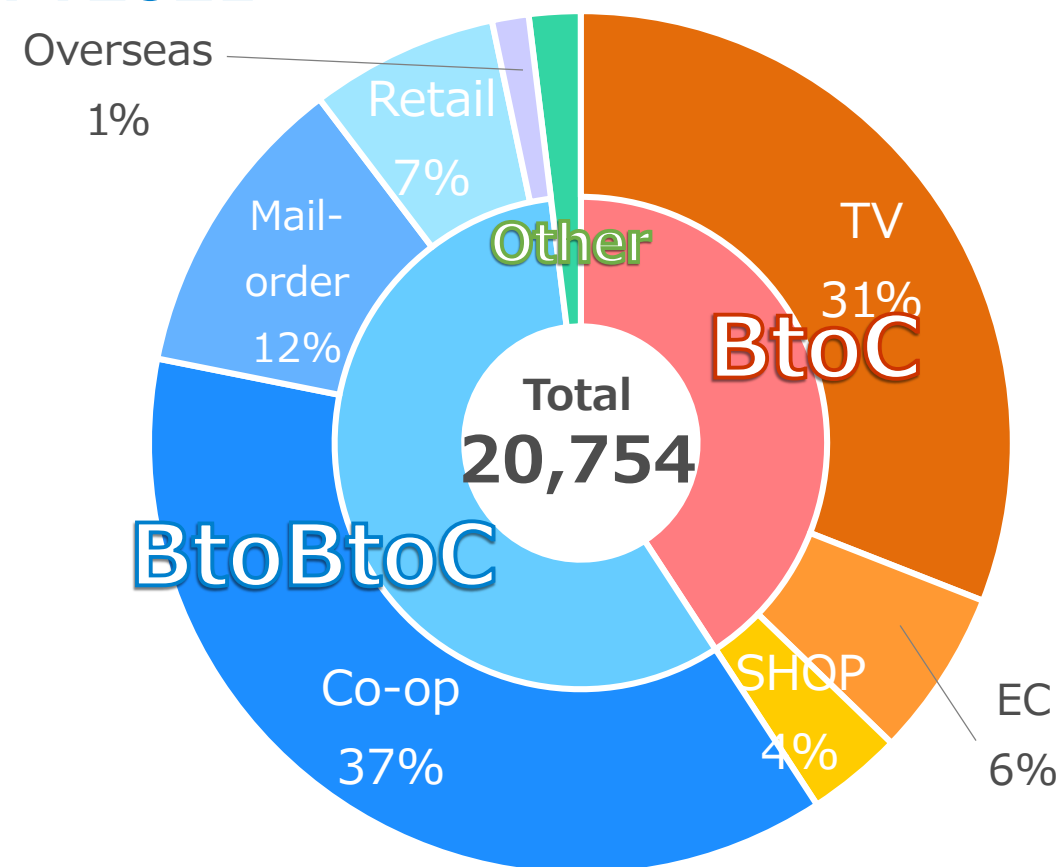
Breakdown of Sales by Channel

The share of BtoC sales in overall sales have risen to 40% due to the TV shopping sales share rising to 31%. Sales in SHOP and retail stores decreased due to the impact of COVID19. Sales of Co-op and mail orders increased, but their shares decreased.

FY2020



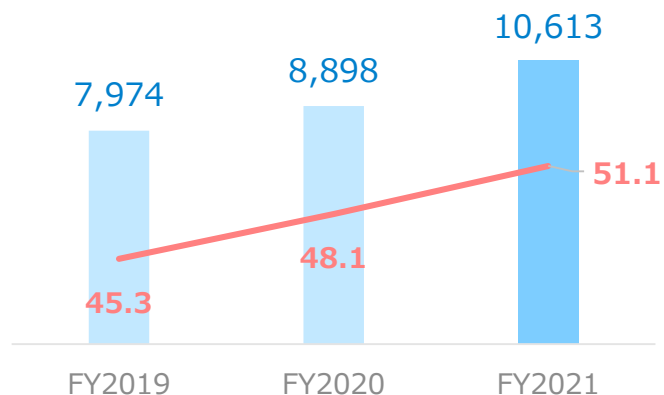
FY2021



Key Management Indicators / Financial Status

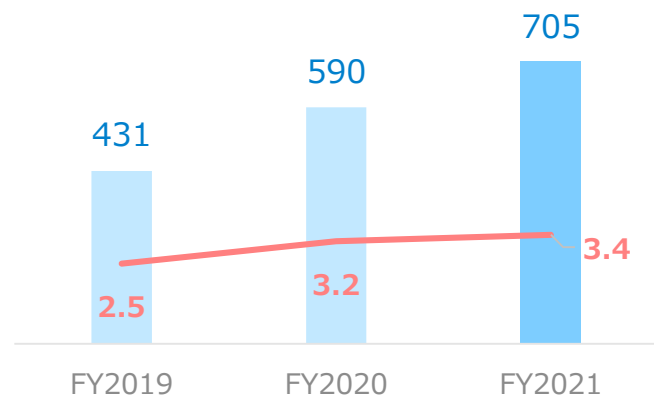
Gross Profit Margin

(Million Yen, %)



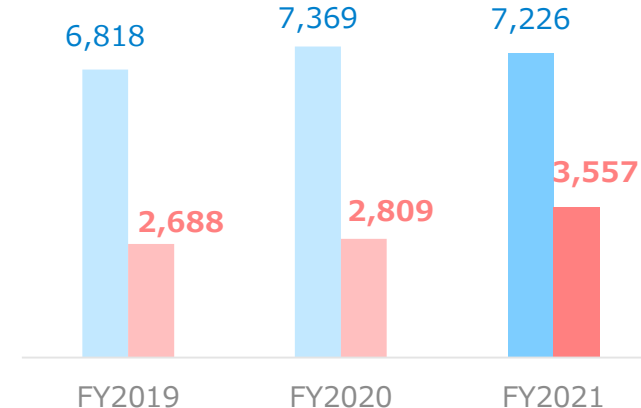
Operating Profit Margin

(Million Yen, %)



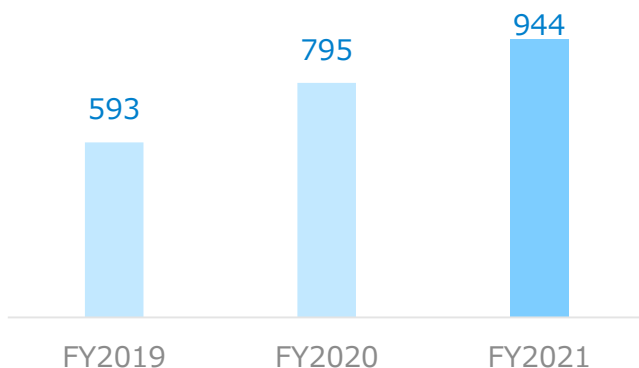
Total Assets/Total Equity

(Million Yen)



Adjusted EBITDA※

(Million Yen)



※ Adjusted EBITDA
EBITDA (Operating Profit + Depreciation) + M&A related fee

CCC※

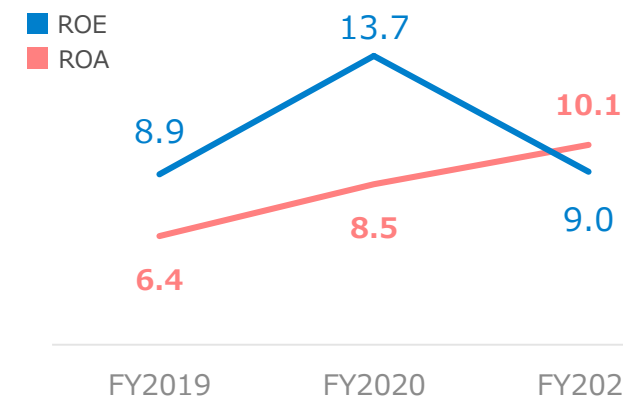
(Days)

FY2019	FY2020	FY2021
95.8	88.3	83.4

※ CCC (Cash・Conversion・Cycle)
Inventory Cycle Term + Accounts Receivable Cycle
Term – Accounts Payable Cycle Term

ROA/ROE

(%)



FY2021 4Q Annual Performance

4Q Consolidated Performance

- ◆ Sales and gross profit decreased for by YoY and QoQ
- ◆ SG&A increased but sales were unaffected due to an increase in the number of test marketing on TV shopping
- ◆ Decrease in TV sales efficiency of existing hit products such as “STEP 8” and “AIR YAWN” is also the cause

Annual Consolidated Performance

- ◆ Annual sales were a record high 20.7 billion yen
- ◆ Promising sales of TV shopping in 2Q and 3Q was the main contributing factor
- ◆ Increased sales in the profitable TV business contributed to the increase of sales and profit
- ◆ Income attributable to owners of parent has decreased due to extraordinary losses* of 173 million yen

Million Yen	FY2021 4Q (March 2021 ~ May 2021)			FY2021 (June 2020 ~ May 2021)		
	Result	YoY	QoQ	Result	FY2020	YoY
Sales	4,339	▲6.1%	▲18.5%	20,754	18,483	+12.3%
Gross Profit	2,062	▲6.7%	▲24.0%	10,613	8,898	+19.3%
margin(%)	47.5%			51.1%	48.1%	+3.0pt
SG&A	2,180	+8.2%	▲10.1%	9,908	8,307	+19.3%
ratio(%)	50.2%			47.7%	45.0%	+2.7pt
Operating Profit	▲117	— %	— %	705	590	+19.4%
margin(%)	— %			3.4%	3.2%	+0.2pt
Income attributable to owners of parent	▲101	— %	— %	321	384	▲16.3%
ratio(%)	— %			1.5%	2.1%	▲0.6pt

※A total of 173 million yen in extraordinary losses, including impairment losses of 58 million yen, customer compensation expenses of 41 million yen, provision for customer compensation expenses of 17 million yen, provision for surcharges of 47 million yen, etc.

Consolidated Sales, Operating Profit, PB Ratio Trends

Unit: Million Yen, %

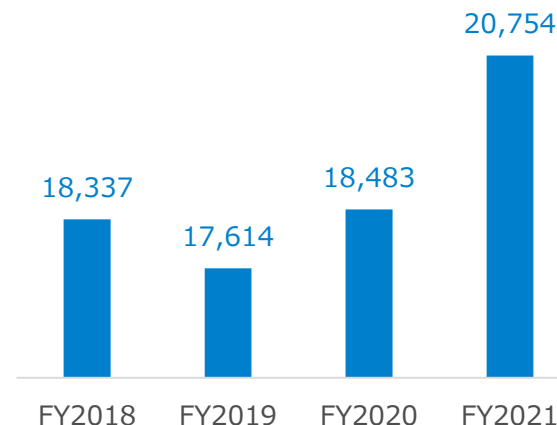
Consolidated Performance Trends

- ◆ Increased both sales and operating profit for 2 consecutive years
- ◆ Increased sales of Speed Heat through TV shopping in 2Q and 3Q was a contributing factor
- ◆ FY2021 sales continued to exceed QoQ until 4Q

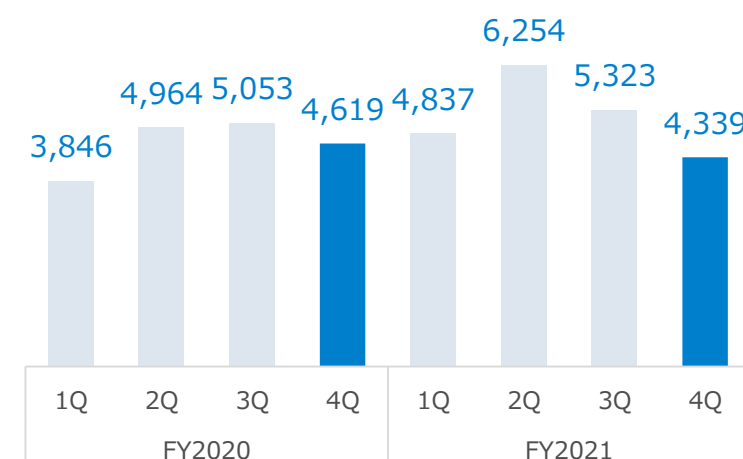
Private Brand Ratio Trends

- ◆ PB ratio has increased for 3 consecutive years
- ◆ Record high 65.4% this year
- ◆ The sales of PB products through TV was a major contributing factor
- ◆ We aim for 80% PB by enhancing sales through TV

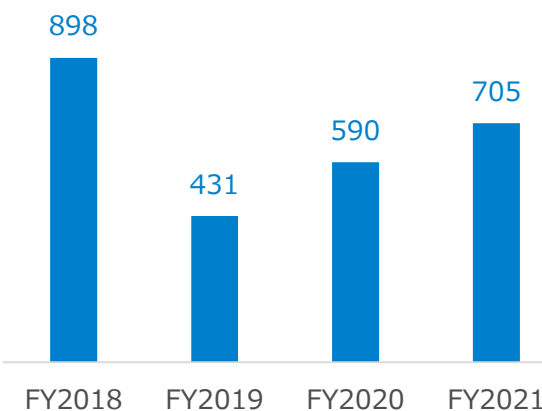
Sales Trends



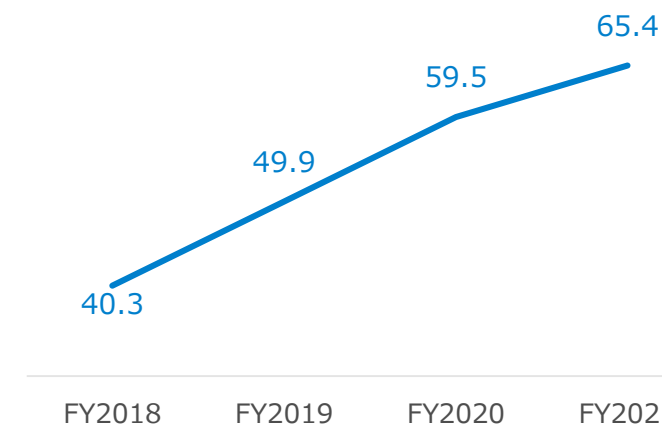
Quarterly Sales Trends



Operating Profit Trends



PB Ratio



Financial Results by Segment

Increased Sales in all Segments

- ◆ Increased sales in all segments
- ◆ Operating profit decreased in BtoC business due to decreased sales through TV in 4Q. Profit increased for BtoBtoC and other channels, resulting in an overall increase.
- ◆ Profit increased due to improved profit margins

Increased Sales in BtoBtoC Food Business

- ◆ Increased sales in Co-op due to a rise in the number of members
- ◆ Increase sales in Co-op and Mail-order due to the demand for self-quarantine
- ◆ Although cosmetics sales have decreased, the increased food sales have significantly contributed to the overall increase in sales and profit
- ◆ Significant decrease in retail sales for cosmetics

Million Yen	BtoC	BtoBtoC	Other	Consolidated
Sales (YoY)	8,467 +27.2%	11,885 +3.0%	402 +40.0%	20,754 +12.3%
Gross Profit (YoY)	5,943 +32.4%	4,530 +4.7%	144 +56.8%	10,613 +19.3%
Gross Profit Margin (YoY)	70.2% +2.7pt	38.1% +0.6pt	35.9% +3.8pt	51.1% +3.0pt
Operating Profit (YoY)	298 ▲17.0%	324 +83.3%	52 +1472.9%	705 +19.4%
Operating Profit Margin (YoY)	3.5% ▲1.9pt	2.7% +1.2pt	13.0% +11.9pt	3.4% +0.2pt

Selling, General and Administrative Expenses by Segment

Increase in Advertising Costs

- ◆ Advertising Costs were 4.306 billion yen, a YoY increase of 21.5%, due to expansions of broadcasting slots for TV in 2Q and 3Q
- ◆ Sales ratio of advertising costs increased by 1.6pt to 20.8% due to increased test market products in 4Q

Reform and Increased Costs in Logistics

- ◆ Logistic costs are continuously rising
- ◆ Due to increased TV sales, the shipping of large products have increased, resulting in the increase of logistic costs ratio
- ◆ After recruiting a logistic specialist in 1Q and reforming the logistic system and warehouse operations, the sales ratio was minimalized to an increase of 1.0pt to 8.4%

Million Yen	BtoC	BtoBtoC	Other	Consolidated
Labor Costs	500	936	63	1,500
Ratio to Sales (YoY)	5.9% (▲1.6pt)	7.9% (▲0.0pt)	15.9% (▲6.0pt)	7.2% (▲0.8pt)
Advertising Costs	3,022	1,278	3	4,306
Ratio to Sales (YoY)	35.7% (+2.8pt)	10.8% (▲1.1pt)	0.8% (▲0.7pt)	20.8% (+1.6pt)
Logistic Costs	702	1,041	0	1,744
Ratio to Sales (YoY)	8.3pt (+2.0pt)	8.8pt (+0.6pt)	0.0% (▲0.0pt)	8.4% (+1.0pt)
Other	1,418	949	24	2,356
Ratio to Sales (YoY)	16.8% (+1.4pt)	8.0% (+0.0pt)	6.1% (▲1.3pt)	11.4% (+1.0pt)
SG&A	5,644	4,206	91	9,908
Ratio to Sales (YoY)	66.7% (+4.6pt)	35.4% (▲0.6pt)	22.8% (▲8.0pt)	47.7% (+2.8pt)

BtoC Business

Unit: Million Yen

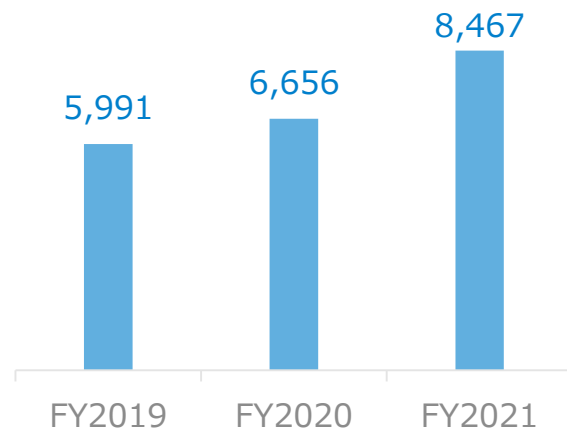
Increased Sales for TV Shopping Route

- ◆ Hit products such as “Speed Heat,” “STEP 8,” and “AIR YAWN” account for the majority of overall sales
- ◆ Sales and sales efficiency have increased for Speed Heat in FY2021 with an annual MR3.6
- ◆ 12 test marketing products for FY2021
- ◆ Operating Profit has decreased due to the expansion of test marketing in 4Q
- ◆ Sales efficiency for STEP 8 and AIR YAWN has peaked out

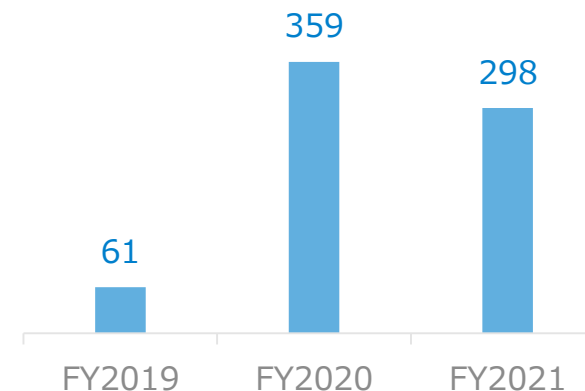
Impact of COVID19 on Retail

- ◆ Retail sales for SKINFOOD cosmetics decreased by 38.3% due to self-quarantine
- ◆ Launched PB cosmetics OLIVE YOUNG in 2Q
- ◆ OLIVE YOUNG sales have excelled in pop-up stores and EC

Sales Trends



Operating Profit



Sales of Key Products

Million Yen	FY2021	FY2020	YoY
Speed Heat	2,902	1,080	+168.7%
STEP 8	1,687	2,027	▲ 16.8%
AIR YAWN	1,651	294	+461.6%

※ Sales listed above are TV shopping sales only

BtoBtoC Business

Unit: Million Yen

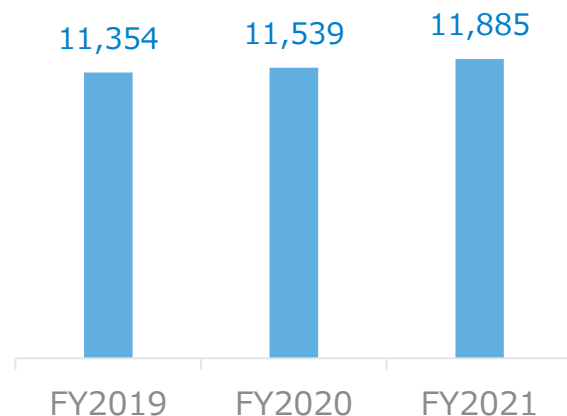
Increased Sales and Profit for Co-op and Mail-order

- ◆ Sales increase Co-op 7.8%, Mail-order 5.9%
- ◆ Demand increased for Co-op due to its image of "Safe/Secure" during COVID19
- ◆ "Mini-bubble" for Co-op business as people await for Co-op membership
- ◆ Increased sales for sundry health products
- ◆ For Cosmetics, makeup sales decreased, and skincare continued to slightly decrease
- ◆ By strengthening sales for food products, sales and profit increased significantly due to decreased demand for eating outside
- ◆ Although Co-op is under critical logistic conditions, sales expanded significantly due to IK-made mail-order product slots that undertakes logistics as well

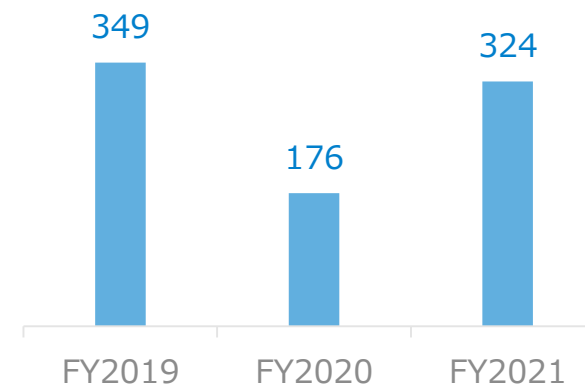
Impact of COVID19 on Wholesale to Retail/Overseas

- ◆ Wholesale to retail stores decreased by 18.3% due to self-quarantine
- ◆ Hit collaborations with Anime and Characters
- ◆ Lack of local visits and lack of communication between subsidiaries due to COVID19 negatively affected sales in China

Sales Trends



Operating Profit



Sales by Genre

Million Yen	FY2021	FY2020	YoY
Sundries	3,322	3,254	+2.1%
Cosmetics	4,344	4,891	▲ 11.2%
Food	4,217	3,394	+24.2%

※ Sales listed above are overall BtoBtoC sales only

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Change in Business Segment Naming

From FY2022 May, IK Group has changed the names of its business segments as follows.

Past Segments

BtoC Business

TV, EC, SHOP business



BtoBtoC Business

Co-op•Mail-order,
Retail, Overseas Business



Other

IT Solution Business



New Segments

Direct Marketing Business

TV, EC, SHOP business

Sales Marketing Business

Co-op•Mail-order, Retail, Overseas Business

IT Solution Business

Performance Forecasts Summary

Unit: Million Yen

Sales

22,000 Million Yen (+6.0%)

Operating Profit

880 Million Yen (+24.8%)

Ordinary Profit

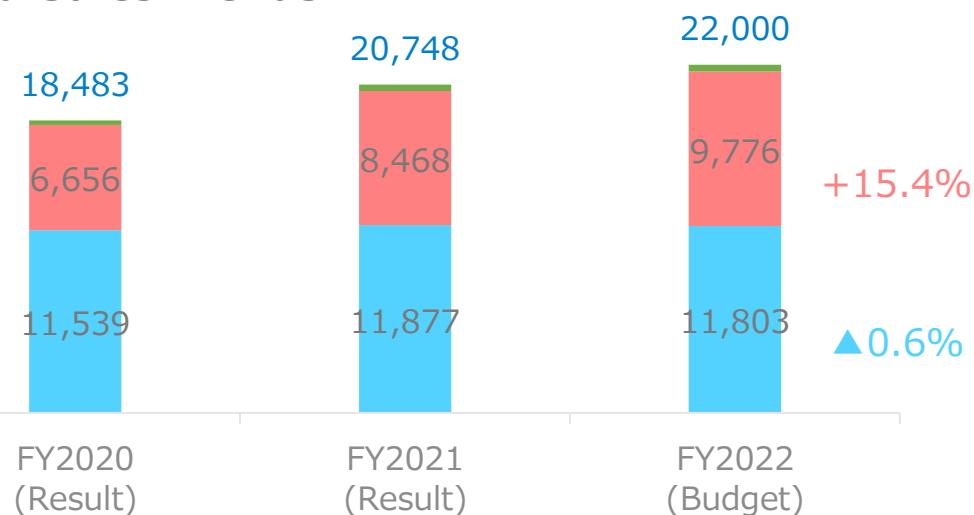
870 Million Yen (+19.2%)

Income attributable to owners of parent

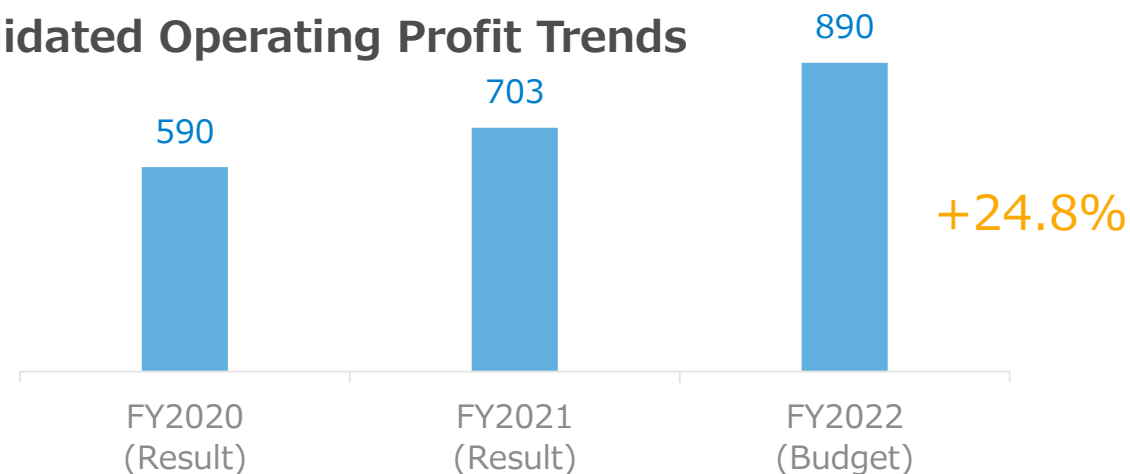
550 Million Yen (+71.3%)

Consolidated Sales Trends

■ Sales Marketing
■ Direct Marketing
■ IT Solution



Consolidated Operating Profit Trends



Performance Forecasts

Sales

- ◆ For BtoC, we plan to increase sales by 15.4% in consideration of continued investment in TV shopping and increased sales in retail
- ◆ For BtoBtoC, irregular demands that arose from COVID19 seems to have settled down. However wholesales to retail are expected to re-expand, and a minimal change of a decrease in sales by 0.6% is expected.

Operating Profit and Other

- ◆ For BtoC, we will launch new hit products that were tested in the previous year to improve profitability by optimizing TV slots
- ◆ For BtoBtoC, in addition to stable Co-op profits, we expect increased profit in retail wholesales and overseas market, which were affected by COVID19

Shareholder Return

- ◆ Active investment in growth businesses, aiming for 20% dividend payout ratio

Million Yen	FY 2021		FY 2022		
	Result	Ratio to Sales	Budget	Ratio to Sales	YoY
Sales	20,754	100.0	22,000	100.0	+6.0%
Operating Profit	705	3.4	880	4.0	+24.8%
Ordinary Profit	730	3.5	870	4.0	+19.2%
Income attributable to owners of parent	321	1.5	550	2.5	+71.3%
Dividend per share	12円		12円		

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Future Strategies

Diversification that started with wholesale to **Co-op**, then to **Mail-order companies** and **Retail stores** with a **Sales Marketing model**, then to **TV** and **EC** with a **Direct Marketing model**, and also to **Overseas market** targeting mainly China

Recent/Future Business Model

Current/Past Business Model

Co-op Route



- Catalogs
- Joint-purchases
- Flyers

Retail Route



- Variety Shops
- Drugstores

Mail-order Route



- Catalog (mainly department stores)
- Flyers

SHOP



- SKINFOOD (Exclusive distributor contract in Japan)

Innovative IK Group diversification that is not restricted by past business models



TV Route



- Entering the **TV Shopping** Industry

Co-op Route



- Catalogs
- Joint-purchases
- Flyers

Mail-order Route



- Catalog
- Flyers
- **E-commerce**
- **TV wholesale**

EC Route



- **Subscription**
- EC specialized products
- Synergy with TV

Overseas Route



- Cross-border EC
- **Founded subsidiary in China**
- Wholesale to Chinese Retail

Retail Route



- Variety Shops
- Drugstores
- **Home-improvement store**
- **Electronics store**

SHOP

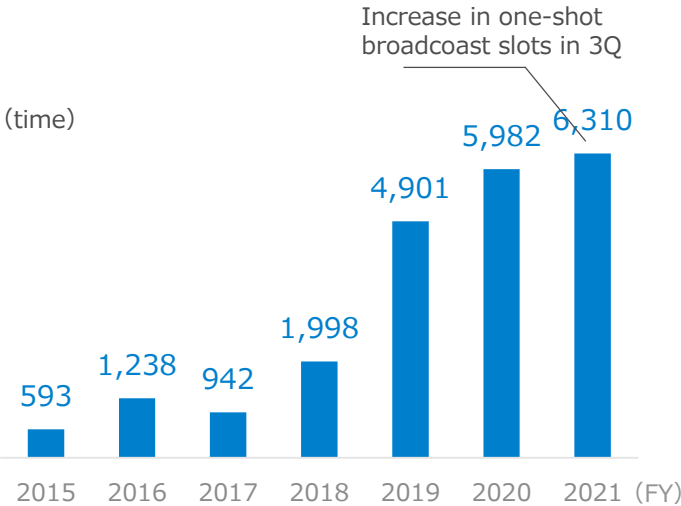


- SKINFOOD
- **OLIVE YOUNG**
- **E-commerce**

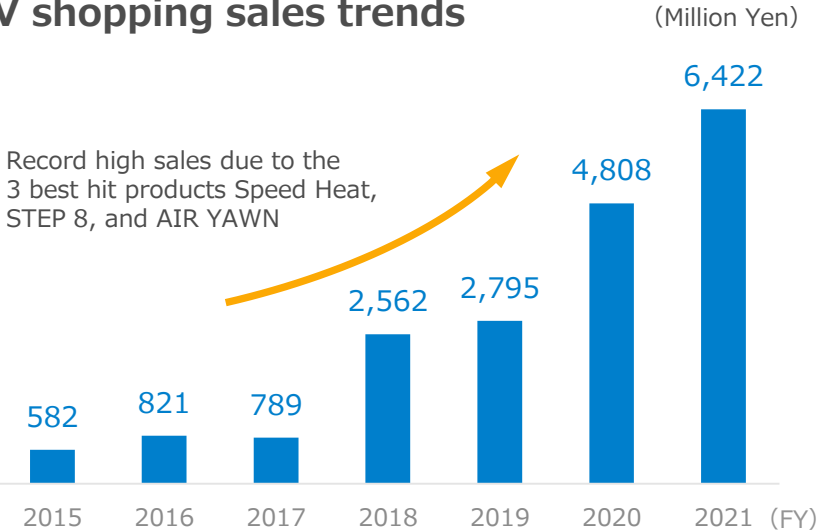
Future Trends of TV Shopping

MR, the unit of sales efficiency for TV shopping, has risen on average for **three consecutive years**, and the number of products over MR2 is also increasing. The target audience for TV shopping is **50's~70's**, and is expected to continue increasing over the next few years. Although the younger generation is viewing less TV, the **demand from the target audience** is not expected weaken in the future. We plan to continue selling **5 to 6 hit products** regularly in order to optimize TV shopping slots. We will continue to invest in this **growth business** for the group.

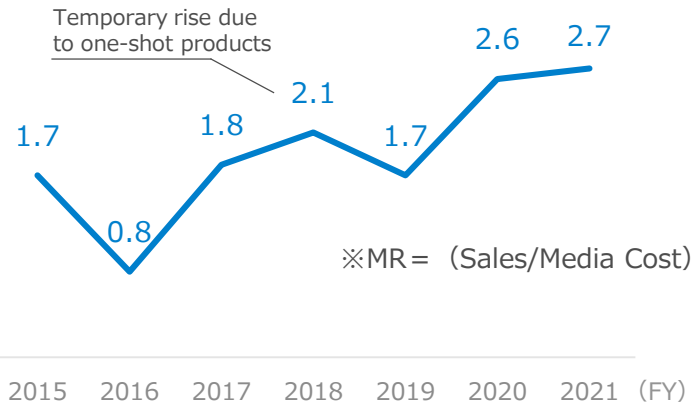
Trend of broadcast time



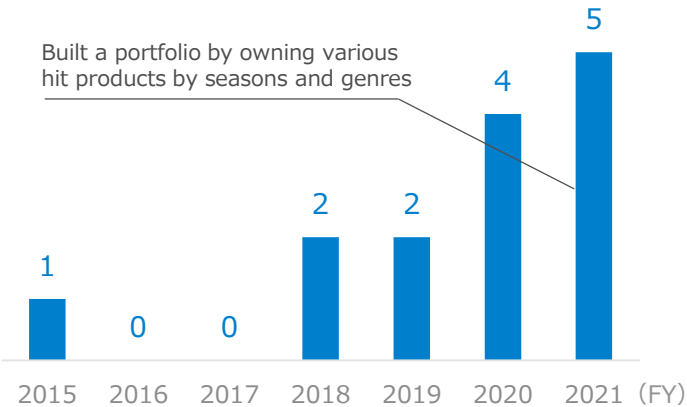
TV shopping sales trends



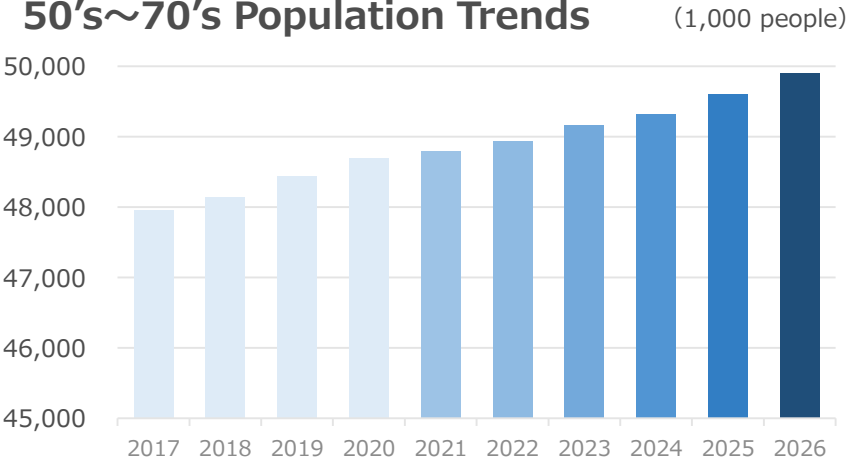
Annual MR Trends



Number of products with over MR2



50's~70's Population Trends



※ Reference: Statistics Bureau, Ministry of Internal Affairs and Communications
"Population of unknown age and nationality proportionally distributed (reference table)"

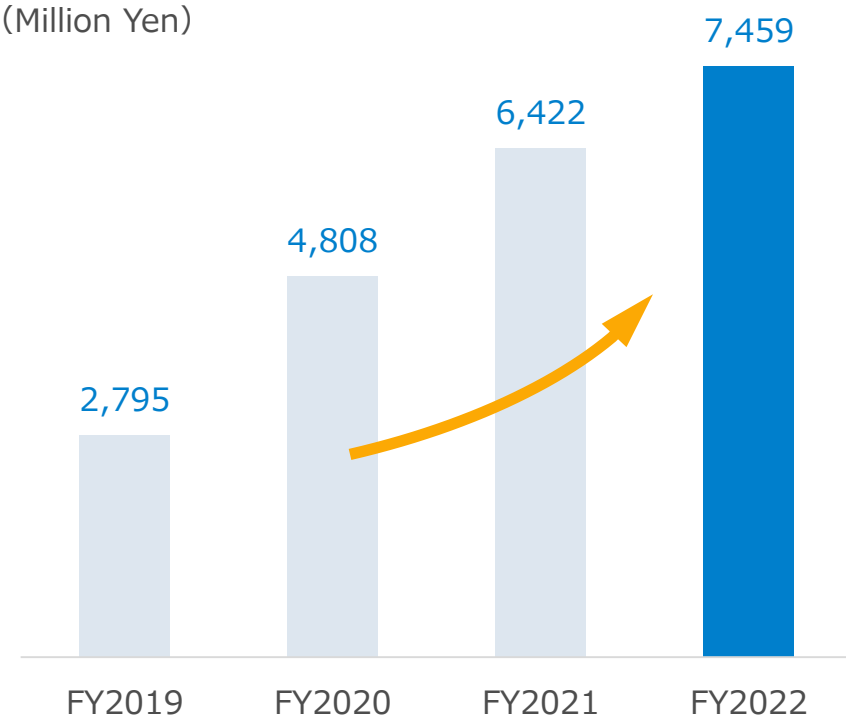
TV Shopping

In order to increase ad placement, a new series will be added to Speed Heat, which was a big hit last year. In addition, in order to create new hit items, we will expand the TV slot for products that have succeeded in test marketing and will stabilize our growing expansion with multiple items.

Sales Trends

(Million Yen)

+16.1%



Key Strategies

- ◆ Create hit items by **test marketing 10~12 items** per year
- ◆ **Maximize the response** by optimizing TV slots according to the product categories and recreating the videos of existing products.

Sales Expansion of Speed Heat New Series

- ◆ Plan to exceed YoY broadcasting amount for Speed Heat Vest, a big hit product last year, by launching a new series this autumn



Develop Subscription Products

- ◆ LTV measures to develop new regular products and increase the continuation rate※



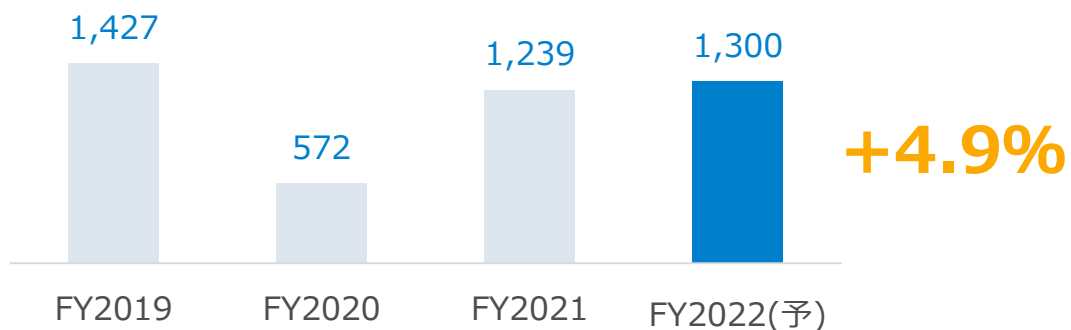
※LTV: Acronym for Life Time Value

EC Business

- As an ordering tool for TV shopping, we aim to maximize profits while measuring **synergies with TV**. In addition, from this term, we will establish a department dedicated to EC, start **EC-specialized promotions and product developments**, and make a full-scale entry into the EC market.

Sales Trends

(Million Yen)



Key Strategies

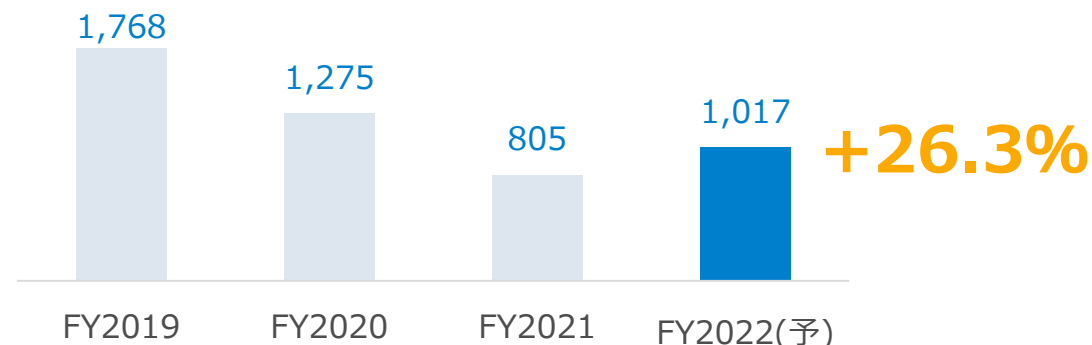
- ◆ Optimize as an ordering tool for TV shopping
- ◆ Implementation of **EC specialized promotions** on products being broadcasted on TV shopping; sales expansion via Rakuten / Amazon
- ◆ As a **stock-type business** in EC, we will start launching new products around autumn.

SHOP Business

- In the SHOP business, in addition to SKINFOOD, we will focus on selling "OLIVE YOUNG," which was launched last year. We also aim to expand store sales while the flow of customers is gradually recovering.

Sales Trends

(Million Yen)



Key Strategies

- ◆ **Mutual customer transfer** between SKINFOOD stores and websites
- ◆ **OLIVE YOUNG** PB cosmetics official store opening
- ◆ Start test sales of **combined Korean cosmetics brand format**

Co-op・Mail-order・Retail・Overseas

For sales marketing business, we aim to secure stable profits for the entire group. In the previous year, the Co-op / Mail-order business grew due to the demand for “stay-home”, but in the future will move towards stable growth.

Sales Trends

(Million Yen)

Overseas

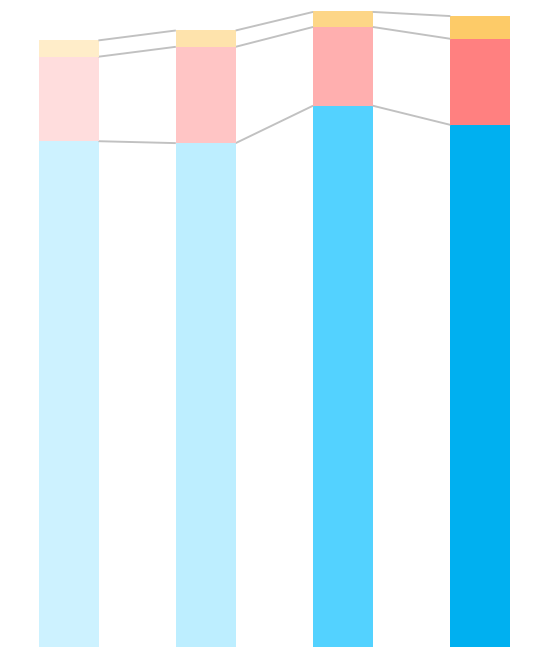
422 million yen (+48.6%)

Retail

1,600 million yen (+9.6%)

Co-op・Mail-order

9,781 million yen (▲3.5%)



FY2019 FY2020 FY2021 FY2022

Stay alert of Co-op “mini-bubbles”

Due to the influence of COVID19, the food genre expanded mainly in the previous year. However, it is expected to shift to sundries / cosmetics genre in the future, and we aim for a stable overall growth.

In particular, we aim for synergy with the TV business and expand sales to Co-op and Retail, centering on hit products through TV shopping, resulting in increased sales and profit of PB products.

Rebuild Retail Business

Maintain the current number of stores and strengthen sales at existing stores to improve sales efficiency.

Expand sales of genres other than makeup such as "Cocoegg" and "hair removal milk". Wholesale hit products from TV and Co-op directly to stores measuring synergies within the group.

Rebuild Overseas Business

The director in charge will travel to China to rebuild business operations. Reform of EC sales channels by strengthening promotions in EC channels such as T-mall and RED.

Develop new business opportunities in mainland China & officially launch "Cocoegg" in China.

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- 02 FY2021 Financial Results
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- 04 Future strategies
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Company Overview



Company Name	I.K Co., Ltd.
Headquarters	5th floor of KDX Nagoya Station Building, 3-26-8 Meieki, Nakamura-ku, Nagoya-shi, Aichi-ken
Corporate Officers	Hiroshi Iida, Chairman & CEO Shogo Nagano, President & COO
Established	May 1982
Capital	620 million yen
Employees	241
Stock Exchange Listings	Tokyo and Nagoya (First section) code 2722

History



1982 May	I.K Trading LLC founded
1983 Apr.	Started business with Aichi CO-OP Union
1990 Apr.	Changed company name to I.K Co., Ltd.
2001 Dec.	I.K Co.,Ltd. listed on the JASDAQ market
2005 Dec.	Launched private brand 「Lowcalo Life」
2009 Jun.	Founded Food Cosmetic Co., Ltd.
2010 Dec.	Made AlfaCom, Ltd. a subsidiary
2013 Feb.	Launched make-up brand 「LB」
2014 Sep.	Made Primedirect Inc. a subsidiary
2017 Aug.	Founded I.K Trading Company Limited. a subsidiary
2017 Nov.	Founded LB(SHANGHAI)COSMETICS Co.,Ltd. (indirect ownership 60%)
2018 Feb.	Listed on the Second Section of Tokyo and Nagoya Stock Exchange market
2020 Dec.	Listed on the First Section of Tokyo and Nagoya Stock Exchange market

Company Products

Cosmetics



Sundries



Food



The forecasts and future outlook statements contained in this material and this briefing are based on our judgment and assumption from the information currently available. Due to the uncertainties inherent in the judgments and assumptions, also the changes in business operations and internal/external circumstances, the actual results may differ substantially from the forecasts, and we do not guarantee the certainty of any content regarding those future forecasts. In addition, this material is for the purpose of providing information, and does not solicit any action.